



CALIFORNIA

State Budget

2006-07

Introduction

The 2006 Budget Act signed by Governor Schwarzenegger fulfills the two principal budget priorities he put forth in his May Revision—improving the state’s fiscal health by: (1) paying down debt and building a reserve; and (2) fully funding education—while also providing critical funding for law enforcement, disaster preparation and services for abused and neglected children.

The Budget sets aside an unprecedented amount to address the state’s debt—a combined total of more than \$4.9 billion, or 4.7 percent of total General Fund resources available, by establishing a budget reserve of \$2.1 billion and early debt repayments of \$2.8 billion (See Figure INT-01).

At the same time, the Budget provides a record level of funding for the state’s K-12 schools and community colleges, fully funding the Proposition 98 guarantee. The Budget provides \$55.1 billion in education spending under Proposition 98, an increase of \$8.1 billion, or 17 percent compared to the 2004 Budget Act, which was Governor Schwarzenegger’s first budget. This funding increases total per-pupil spending from \$9,977 in 2004-05 to \$11,264 in this Budget, an increase of \$1,287 or 13 percent. With this infusion of new funding, the Budget funds several of the Governor’s education priorities, including restoration

of funding for arts and music, physical education, student counselors in grades 7-12, and a new, targeted preschool initiative.

The Budget also provides significant new resources to protect the public, as follows:

- \$256 million (\$163 million General Fund) to improve services to abused and neglected children.
- \$214 million (\$180 million General Fund) to improve the capacity of hospitals to handle disaster and epidemic related surges in demand for hospital care.
- \$196 million General Fund for law enforcement initiatives, including funding to help police departments cover the costs of booking fees, enhancements to law enforcement subventions, funding for methamphetamine eradication, funding for sexual assault felony enforcement grants to local governments, and grants to help county sheriffs and probation officers manage mentally ill offenders.

In addition, the Budget makes a substantial investment in improving California's transportation system. It provides \$1.4 billion to fully fund Proposition 42 for the second consecutive year, and it provides an additional \$1.4 billion for the early repayment of past loans from Proposition 42, for a total of \$2.8 billion. Of the \$1.4 billion repayment, \$446 million is designated for cities and counties for local road and street maintenance that would otherwise not be funded. Finally, the Budget provides \$250 million for deferred maintenance in the state park system.

Since the release of the May Revision, each of Wall Street's three main credit rating agencies has upgraded California's credit rating, citing the state's economic performance, revenue

Figure INT-01
Total Budget Set Asides
(Dollars in Millions)

Total Available Resources	
General Fund Reserve	\$1,630
Budget Stabilization Account	472
Total Available Resources	<u>\$2,102</u>
Debt Pre-Payments and Repayments	
Proposition 42 Prepayment	\$1,415 *
Transfer to Budget Stabilization Account (to Retire ERBs)	472
Special Fund Loans Repayment and Pre-payment	347
Pre-payment and Repayment of Reimbursements to Local Governments for State Mandated Programs**	296
Proposition 98 Settle-Up Pre-payment*	150
Flood Control Subventions Pre-payment*	100
GO Bonds Debt Pre-payment	32
Total Debt Pre-payments and Repayments	<u>\$2,812</u>
Total Budget Set Asides	\$4,914

* Includes \$200 million pre-payment from a special fund.

** Excludes school districts.

growth, and continuing progress in reducing the operating deficit. The 2006 Budget Act keeps California on a fiscally prudent path that provides a substantial reserve and pays down debt, while fully funding education and strengthening public safety.

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Preparing for Natural and Intentional Disasters

Natural and Intentional Disaster Prevention and Preparedness

The Budget includes \$39.9 million (\$29.8 million General Fund and \$10.1 million other funds) and 75 positions to enhance statewide emergency preparedness, mitigation, and response activities. The state will also leverage available federal funds to increase our security. This commitment will enable the creation of rapid response medical forces, improve disease detection and response capabilities, and increase safeguards for California's food supply and agricultural industries.

Health Care Surge Capacity

While pandemic influenza or a moderate event cannot be predicted with certainty, available medical and scientific information indicate that all Californians must prepare for the possibility that avian flu could mutate into a form that can be transmitted from human to human, and ultimately spread rapidly. Further, the State must be prepared for a moderate event that can potentially impact thousands of Californians.

In an effort to address the state's needs during a moderate event or pandemic influenza, the Budget includes \$18.3 million General Fund and 3 positions to allow the Emergency Medical Services Authority (EMSA) to purchase and manage three mobile field hospitals that could be rapidly deployed for emergency medical response in the immediate aftermath of a disaster. The mobile field hospitals will be fully supplied with all requisite medical equipment and supplies to provide emergency medical treatment following a disaster.

Preparing for Natural and Intentional Disasters

Each hospital will have enough bed capacity to provide medical services for up to 200 disaster victims. The hospitals will be strategically placed so that the EMSA can respond rapidly to a disaster that occurs in any area of the state.

The Budget includes \$195.8 million (\$161.3 million General Fund) and 8.5 positions to enable the Department of Health Services (DHS) to increase patient care capacity. The ability of the health care system to “surge” to meet the demands of responding to an emergency event also depends on the availability of beds, supplies and equipment, and staff. This Budget includes funding for the purchase of the following:

- 3.7 million courses of antivirals purchased at a discounted price made possible by an offer of 25 percent federal matching funds in addition to the 68,000 courses provided for emergency preparedness.
- 2,400 ventilators and durable machines, which can operate on battery power and without compressed oxygen, and will be disseminated according to local needs.
- More than 50 million masks for healthcare workers as they care for patients during an influenza pandemic.
- Supplies and equipment for alternate care sites to increase the number of general medical-surgical and intensive care beds available throughout the state.
- Development of state guidance on standards of care, licensing, reimbursement, hospital surge plan templates, and standardized training curricula and exercises for surge response.

State and Local Response

The Budget includes an increase of \$29 million (\$21.3 million General Fund) and 33 new positions to support California’s public health system’s capacity to respond to natural and intentional disasters, including bioterrorism, outbreaks of infectious diseases, and other threats to public health.

Funding will allow the DHS and local public health systems to strengthen responses to public health emergencies, including pandemic influenza, reinforce laboratory infrastructure and staffing, and expand disease surveillance. While these efforts in many instances are targeted toward an influenza pandemic, the infrastructure being developed will be capable of responding to other natural and intentional disasters that jeopardize public health. The Budget includes funding for the following:

Preparing for Natural and Intentional Disasters

- \$17.4 million (\$11.7 million General Fund) for local health departments to support local activities related to the prevention of a pandemic influenza outbreak.
- \$4.2 million General Fund to strengthen the state's laboratory infrastructure, provide staffing resources to conduct more efficient testing, increase laboratory surge capacity, conduct influenza-specific testing, and establish predoctoral and postdoctoral training programs to provide a qualified pool of candidates to replace local public health laboratory directors as they retire.
- \$3.4 million (\$2.1 million General Fund) to expand state efforts and assist local agencies in how to plan, respond, train for, and recover from disasters and terrorist incidents that could result from chemical and radiological contamination of food, water, and the environment.
- \$1.5 million General Fund to purchase 68,000 courses of antivirals that California will need during a pandemic.
- \$1.3 million General Fund to expand and maintain state and local capacity to conduct communicable disease surveillance, which is the basis for disease detection and response to outbreaks or bioterrorism events.
- \$465,000 (\$407,000 General Fund) to strengthen pandemic influenza planning efforts, conduct epidemiologic investigations of influenza and respiratory disease outbreaks, and provide epidemiologic and statistical support to the infectious disease laboratories.
- \$359,000 federal funds to conduct exercises of pandemic influenza response plans and procedures, collaborate with local health departments, tribal entities, military installations, health care entities, and Metropolitan Medical Response System entities and expand the hardware capacity of the California Health Alert Network system.
- \$350,000 federal funds to cross train existing state staff to increase the state's capacity to respond to a major disaster. The DHS will train existing frontline public health field investigators to more effectively respond to anticipated infectious disease events.
- The Budget also includes \$103.8 million federal funds, as California continues to receive grants from the Centers for Disease Control and Prevention and the Health Resources and Services Administration under the 2002 Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act.

Department of Food and Agriculture

The Budget Act includes \$5.2 million (\$3.6 million General Fund) and 23 positions to protect the state's economy and natural resources, and rapidly detect and respond in the event of a disease outbreak or infestation. This funding includes a personal protection program for first responders to plant and animal disease outbreaks, rural-urban community outreach and disease surveillance programs to educate localities about risks and prevention, and expanded laboratory capacity for rapid testing and technical expertise.

Warning Center Staffing

The Budget Act includes an increase of \$492,000 General Fund and 7 positions for the California State Warning Center, operated by the Office of Emergency Services, to ensure that the Center has sufficient staff for 24-hour coverage and can adequately perform notifications when emergencies arise.

Department of Fish and Game

The Budget Act includes \$1.1 million General Fund and 14 positions in the Department of Fish and Game to detect avian influenza in wild birds in California. A particularly virulent strain of avian influenza has been detected in birds in several regions of Asia, Africa and Europe, raising concerns that the virus could be carried to the state by migratory birds, and could mutate into a form easily transmittable among human beings.

Emergency Medical Services Authority

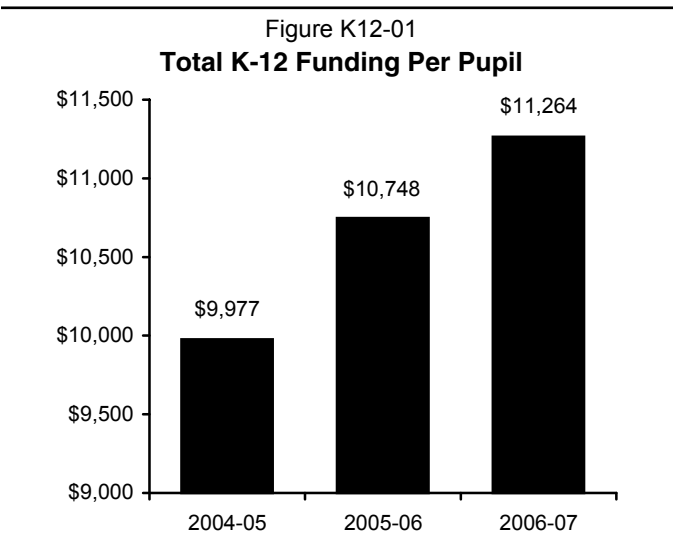
A supplemental appropriations bill, Chapter 26, Statutes of 2006, provided \$2.3 million (\$1.6 million General Fund) to allow the Emergency Medical Services Authority to purchase personal protective equipment for 1,500 ambulances. This equipment will provide ambulance personnel with a greater level of protection against chemical, biological, radiological, and nuclear events and will enable them to be deployed to offer public assistance during a disaster.

The Budget also includes \$1.8 million federal funds for the development, implementation, and administration of three emergency medical disaster response teams to be known as the California Medical Assistance Teams (CalMATs). The CalMATs will consist of 360 volunteer medical personnel that will be under state control on a contingency basis, in order to provide immediate emergency medical response during and immediately after a catastrophic disaster.

K thru 12 Education

The Budget Act of 2006 includes a significant increase in funding for California’s schools. New funding provides additional resources for restoration of arts and music, physical education, career technical education, preschool expansion, after-school programs and school counselors for grades 7 through 12. The Budget also includes a significant increase in discretionary funding which allows schools to address local needs.

The total funding from all sources available to kindergarten through grade 12 (K-12) education increases by \$2.9 billion over the revised 2005 Budget bringing total funding to \$67.1 billion in for the 2006-07 fiscal year. The 2005-06 revised per pupil funding of \$10,748 represents an increase of \$423 from the 2005 Budget Act level of \$10,325. Funding per pupil from all sources for 2006-07 is \$11,264, an increase of \$516 from the revised 2005-06 level. (see Figure K12-01).



Proposition 98 Guarantee

Total Proposition 98 funding in 2006-07 for K-12 and community colleges is budgeted at \$55.1 billion, which reflects a 3.3 percent increase over the revised estimate for 2005-06.

The General Fund comprises approximately 75 percent of the total, or \$41.3 billion (see Figure K12-02).

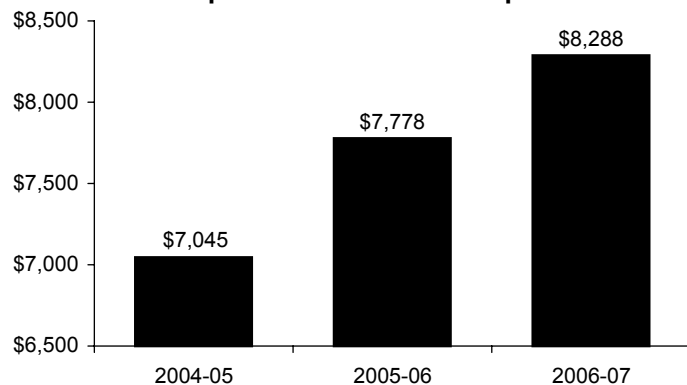
Figure K12-02
Proposition 98
(Dollars in Thousands)

	2004-05	2005-06	2006-07
General Fund	\$34,034,274	\$38,420,035	\$41,294,823
Local Revenue	13,020,472	13,626,441	13,826,507
Total Funded Guarantee	\$47,054,746	\$52,046,476	\$55,121,330
Settlement Agreement	1,620,928	1,298,944	
Total Guarantee	\$48,675,674	\$53,345,420	\$55,121,330

The \$55.1 billion Proposition 98 funding level for 2006-07 also includes an increase of \$426 million associated with the full implementation of Proposition 49. Beginning in 2006-07, Proposition 49 will increase state funding for the After-School Education and Safety Program to \$550 million per year.

The estimated Proposition 98 per pupil funding, as shown in Figure K12-03, rises to \$8,288 in 2006-07, representing an increase of \$510 from the revised 2005-06 level. Total Proposition 98 General Fund allocations of \$37.1 billion for K-12 education are 40 percent of the General Fund budget which is subject to the state appropriations limit.

Figure K12-03
Proposition 98 K-12 Per Pupil



Furthermore, to resolve the pending lawsuit regarding Proposition 98 funding, the Administration has agreed to calculate the Proposition 98 guarantee consistent with the legislative intent language contained in Chapter 213, Statutes of 2004. As a result, the state will pay \$2.9 billion in settle-up funding, comprised of approximately

\$1.6 billion and \$1.3 billion to count toward the Proposition 98 guarantees for 2004-05 and 2005-06, respectively. In order to provide resources to offset the cost for the initial years of the settlement schedule, the Administration is proposing legislation to authorize the refinancing of the Golden State Tobacco Securitization Corporation's 2003A bonds. This refinancing involves a new structure for using the tobacco settlement payments in a way that will generate additional proceeds of \$900 million for the state without jeopardizing payments to the existing bondholders.

In 2004-05 the total Proposition 98 funding was \$48.7 billion. This total includes the funds that are to be provided as part of the settlement agreement, of which the General Fund share was \$35.7 billion. The total Proposition 98 funding for 2005-06 is now estimated at \$53.3 billion, which again includes funds that are to be provided as part of the settlement agreement. The settlement agreement reflects a 9.6 percent increase over 2004-05. The General Fund share in 2005-06 is \$39.7 billion. This funding level has been adjusted for changes in attendance and costs for apportionment programs.

Expenditure Highlights

The Budget Act includes significant new one-time and ongoing education initiatives.

Arts and Music Block Grant

The 2006-07 Budget includes \$105 million Proposition 98 General Fund for an annual Arts and Music Block Grant program. These funds will be distributed to school districts, charter schools and county offices of education to support standards aligned instruction in kindergarten through grade twelve. The funds will be available for hiring additional staff, staff development, purchasing materials, books, supplies and equipment. The funding will be allocated at an equal amount per pupil, with a minimum of \$2,500 for school sites with twenty or fewer students and a minimum of \$4,000 per site with more than twenty students.

Physical Education Grants

The Budget includes \$40 million Proposition 98 General Fund for ongoing incentive grants for school districts to hire more credentialed physical education teachers in elementary and middle schools. These funds will help schools address the rising incidence of obesity and its negative effects by ensuring that schools have trained physical education experts to provide the required number of instructional minutes in physical education. These funds will be used to hire credentialed staff to help kids develop healthy life-long exercise habits. Grants

of \$35,000 will be made available to approximately 1,100 schools serving any of grades kindergarten through eight.

Arts, Music and Physical Education One-time Equipment Grants

The Budget also includes \$500 million Proposition 98 General Fund on a one-time basis for the purchase of arts, music and/or physical education supplies and equipment. With these resources, schools will be able to make significant investments in items such as musical instruments, kilns, photographic equipment and multi-media design equipment. Further, this significant investment of resources will allow schools to make meaningful investments in order to improve and expand the infrastructure of physical education programs to help address the rising incidence of obesity. Grants will be allocated to school districts, charter schools and county offices of education on an equal amount per pupil, based on the number of pupils in kindergarten and grades one through twelve, with a minimum funding level of \$2,500 for small schools.

Supplemental School Counseling Program

The Budget includes \$200 million ongoing Proposition 98 General Fund to increase the number of school counselors that serve seventh through twelfth grade students. These funds are intended to supplement, not supplant, existing counseling resources and improve the counselor to student ratio for these grades. These new counselors will provide students with information on all educational and vocational options available to them and serve students who have failed or are at risk of failing the California High School Exit Examination, as well as students who are at risk of not graduating due to insufficient credits.

Targeted Preschool Initiative

The Budget provides \$50 million Proposition 98 General Fund to expand preschool programs to serve four-year olds. This expansion will also include quality reforms designed to promote family literacy. Funding for this purpose will be pursuant to legislation.

The Budget also provides an increase of \$50 million one-time Proposition 98 General Fund in the Child Care Facilities Revolving Fund to address facility needs for preschool expansion, pursuant to current law.

K-12/Community College Career Technical Education

The Budget includes \$100 million for public schools and community colleges, including \$20 million in ongoing funding to support the second year of the Governor's Career Technical

Education Initiative, which is aimed at improving collaboration between the community colleges and K-12 career technical programs. The activities in this program are primarily designed to reinvigorate career education in public schools to ensure that students have greater choices and access to the skills needed for the increasingly demanding technical jobs required for the economy of today and tomorrow. As such, much of the core ongoing funding is intended for partnerships at the local level between K-12 and community colleges which focus on improving curriculum, course sequencing and articulation within specific career sectors that have been identified as critical to regional industries and employers that support the state's economy.

In addition to the ongoing funds, the Budget provides \$80 million in one-time funding in separate legislation to purchase state-of-the-art equipment for programs in public schools (\$40 million) and community colleges (\$40 million). Eligible K-12 entities include school districts, adult education programs, regional occupational centers and programs, as well as charter schools and county offices of education that offer appropriate programs. Of this amount, \$2.5 million is earmarked to support a targeted K-12 nursing career pathway program. These one-time funds complement the ongoing resources by ensuring that students have access to the latest equipment utilized by technicians in today's workplace to ensure students will be employable in a promising career upon high school graduation or will be ready to smoothly transition to higher skill levels in that career sector at the community colleges.

Professional Development for Teachers of English Learners

The Budget includes \$25 million Proposition 98 General Fund to provide ongoing additional professional development opportunities for teachers of English Learners. The training will be provided through the Mathematics and Reading Professional Development Program model pursuant to legislation.

Low-Performing School Enrichment Block Grant (Teacher and Principal Recruitment and Retention)

The Budget includes \$50 million one-time Proposition 98 General Fund for the Low-Performing School Enrichment Block Grant to improve the recruitment and retention of teachers and principals. These funds will be available to schools in the bottom three deciles of the Academic Performance Index. The funds will be available to improve the educational environment and culture through activities including: (1) assuring a safe, clean school environment for teaching and learning; (2) providing support services for students and teachers; (3) activities, including differential pay, focused on the recruitment and retention of teachers who meet the definitions of a highly qualified teacher and of highly skilled principals;

(4) small group instruction; and (5) providing time for teachers and principals to collaborate focusing on improving academic outcomes for students.

Instructional Materials, School Libraries and Education Technology Grants

The Budget includes \$100 million in one-time Proposition 98 funds for the purchase of instructional materials, school and classroom library materials and one-time technology costs. High-quality instructional materials for every student are a fundamental building block of a strong educational program and are required under the Williams settlement. These resources will help schools fill gaps in their instructional material programs and replace lost textbooks. Further, school libraries play a vital role in promoting academic achievement and providing instructional support. The resources provided in the Budget will help to replenish and refresh both school and classroom library materials. In addition to the purchase of books and materials, these funds are available for the purchase of one-time education technology which provides schools with many options for enhancing instruction through the use of electronic multimedia materials. Grants will be allocated to school districts and county offices of education on an equal amount per pupil based on the number of pupils in kindergarten through grade 12.

Mathematics Teacher Pilot Program

The Budget includes \$1.8 million Proposition 98 General Fund one-time for a pilot program to establish essential links between higher education and secondary-level math programs. The goal of the Mathematics Teacher Pilot program is to improve the level of mathematics instruction in California by both ensuring that there are quality math instructors in secondary schools to increase student proficiency in mathematics and by encouraging upper-level college math majors to enter the teaching profession in districts most in need.

Major Program Adjustments

The Budget Act includes the following significant changes to major education programs:

Enrollment Growth

The Budget provides \$112.4 million for K-12 enrollment growth increases. Because statewide K-12 enrollment growth is projected to be negative for 2006-07, growth costs were limited to certain programs with targeted populations, such as Economic Impact Aid (\$29.3 million) and Adult Education (\$15.1 million).

Cost-Of-Living Adjustments

The Budget includes over \$2.6 billion to provide a 5.92 percent cost-of-living adjustment (COLA) to K-12 programs. Included in this amount are funding for school apportionments (\$1.9 billion), special education (\$184.3 million) and K-3 class size reduction (\$182.5 million).

Revenue Limits

Revenue limit funding constitutes the basic funding source for classroom instruction.

The Budget provides a net increase of \$2.3 billion to school district and county office of education revenue limits, which includes the decrease due to anticipated average daily attendance declines, the increase due to the COLA factor and an adjustment to account for revised local revenues. This figure also incorporates the cost of eliminating the deficit factor and the proposed increase in equalization funding discussed below.

Deficit Reduction

The Budget includes \$308.6 million to completely eliminate the deficit factor for school district and county offices of education revenue limits. This funding compensates local education agencies for reduced COLAs provided in prior years and provides an ongoing source of general purpose funding.

Equalization

The Budget includes \$350 million for school district revenue limit equalization to address the disparity in base general-purpose funding levels across school districts. These funding disparities are rooted in historical changes to property tax law and result in less funding being provided to some districts than is provided to other, equally situated school districts. The \$350 million proposed for 2006-07 will erase close to three-quarters of the remaining disparity.

K-12 Education Mandates

The Budget provides approximately \$957 million in Proposition 98 General Fund to fund K-12 mandate costs. Of that amount, \$927 million is for the purpose of paying off prior year claims. This largely eliminates the accumulated debt the state has incurred from deferring mandate payments.

Charter Schools

The Budget provides a \$32.9 million increase for the charter school categorical block grant to fully fund the provisions of Chapter 359, Statutes of 2005. Charter schools will also receive \$9 million to fund facility leasing costs for schools that serve low-income student populations.

Economic Impact Aid

The Budget includes a \$350 million Proposition 98 General Fund augmentation to the Economic Impact Aid Program to help close the achievement gap of English learner and economically disadvantaged students. The funds will support additional programs and services for these students.

School Nutrition Program

The Budget includes \$3 million one-time Proposition 98 General Fund to meet an increased demand for School Breakfast Program startup and expansion grants. These grants will allow more schools to participate in the School Breakfast Program and the California Fresh Start Pilot Program, which will result in more students receiving nutritious breakfasts that include more fruit and vegetable choices.

Child Care Programs

The Budget provides an increase of \$67 million Proposition 98 General Fund to offset increased caseload costs associated with adjusting the income eligibility ceiling for child care services to reflect 75 percent of the current state median income. Corresponding legislation would require the State Department of Education to update the existing family fee schedule for families that are newly eligible to receive, or will continue to receive, child care services under the adjusted income eligibility ceiling. This legislation would also require that fees not exceed 10 percent of a family's monthly income.

After-School Programs

In 2002, California voters approved Proposition 49, significantly expanding access to before and after-school programs. Proposition 49 also established funding priorities and expanded program activities to include computer training, fine arts and physical fitness. In 2005-06, the state After-School Education and Safety (ASES) Program was funded at \$121.6 million, serving more than 100,000 children annually. Beginning in 2006-07, Proposition 49 will provide an increase of \$428 million over that funding level.

Other Major Budget Adjustments

The Budget Act includes other major budget adjustments outlined below.

One-Time Discretionary Block Grant

The Budget includes \$533.5 million one-time Proposition 98 General Fund for a discretionary block grant, of which 75 percent is for school site programs and the remaining 25 percent can be used to address district wide issues. School site councils can use their portion of the funds for programs including, but not limited to, the following: instructional materials, classroom and lab supplies, arts and music supplies, physical education equipment, school and library materials, education technology, deferred maintenance, professional development and efforts to close the achievement gap. School districts may also put their portion of these funds to uses such as home-to-school transportation or outstanding one-time fiscal obligations, as well as most of the programs indicated above.

English Learner Supplemental Instructional Materials

The Budget includes \$30 million one-time Proposition 98 General Fund to provide supplemental instructional materials for English learners in grades kindergarten through twelve. Schools must use the funds to purchase supplemental materials that will accelerate pupils as rapidly as possible to grade level proficiency in speaking, reading and writing English.

District Fiscal Solvency Plans

The Budget provides \$10 million for local education agencies with outstanding obligations to create a plan for meeting those obligations. These plans would be reviewed by county superintendents of schools as part of the budget development process and help ensure the long-term solvency of school districts.

CALPADS-CSIS Transition

The Budget includes \$31 million (\$20 million from the Educational Telecommunication Fund and \$11 million one-time Proposition 98 General Fund) to prepare schools for the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). These funds are available for three years so that all districts may upgrade hardware and software to improve their ability to collect and analyze pupil data to help ensure data integrity and a smooth, effective transition to the new statewide longitudinal student data base. The Budget also includes \$2.6 million over three years for the California School Information Services (CSIS) to support districts in their transition to CALPADS.

Teacher Database System

The Budget includes \$938,000 from federal Title II Improving Teacher Quality carryover funds for development of the statewide Teacher Database System. The amount proposed will allow the Department of Education and the Commission on Teacher Credentialing to begin development of the system by issuing a request for proposals and by beginning initial data management activities necessary for successful implementation of the database.

California High School Exit Exam

The Budget includes \$5.1 million Proposition 98 General Fund to develop two additional administrations of the California High School Exit Examination (CAHSEE) to accommodate students who attend school at non-traditional times, such as evenings and weekends, and provide students with additional opportunities to pass the examination.

The Budget also includes \$75.1 million Proposition 98 General Fund for the CAHSEE Supplemental Instruction Program to provide additional supplemental instruction to pupils who have failed or are at risk of failing the CAHSEE. Funds will be used for services such as hiring additional teachers and purchasing, scoring and reviewing diagnostic assessments. It is intended that these funds supplement, not supplant, the existing Supplemental Instruction Program funds. Of the funds provided, \$5.5 million will be available on a one-time basis to purchase intervention materials tailored to the individual needs of students who have failed or at risk of failing the CAHSEE.

Foster Youth Services

The Budget includes an \$8.2 million Proposition 98 General Fund augmentation for the Foster Youth Services Program. The additional funding will be available to school districts for services such as mentoring, tutoring, transitional services, vocational training and other services designed to enhance the educational prospects of foster children.

Oral Health Assessment for Kindergartners

The Budget includes \$4.4 million Proposition 98 General Fund for schools to administer a new requirement that children entering kindergarten receive an oral health assessment to determine their current oral health and to instill good dental hygiene practices. Specifically, parents with children entering kindergarten will be required to present proof that their child has received an oral health assessment by a licensed dentist or other licensed or registered oral health professional.

School Gardens

The Budget includes \$15 million Proposition 98 Reversion Account to revitalize the School Garden Program so that students can experience the important educational benefits that come from growing fruits, vegetables and plants.

English Learner Research on Best Practices

The Budget provides \$20 million one-time Proposition 98 General Fund to research best practices for English learners. The funding would be used for a three-year pilot project to identify existing best practices regarding curriculum, instruction and staff development for teachers of English language learners and for promoting English acquisition and development. The project will be evaluated for its effectiveness at the conclusion of the three-year study.

Other K-12 Agencies

The Budget Act also includes adjustments to the following education related agencies.

California State Library

The Budget provides a \$7 million General Fund increase to the Public Library Foundation (PLF) program and an additional \$7 million General Fund increase for the transaction-based Interlibrary Loan and Direct Loan Program. The augmentation to the PLF will enhance base support for local libraries, allowing for longer hours of operation, the purchase of more books or expenditures for other local priorities. The increase to the Interlibrary and Direct Loan programs will allow local libraries to recoup costs incurred when libraries share resources with other library districts, thereby encouraging efficient resource allocation.

California Commission on Teacher Credentialing and Other Credentialing Reforms

The Budget includes \$1.3 million Proposition 98 General Fund to provide for a rate increase for the Paraprofessional Teacher Training Program. Funding for each paraprofessional seeking a teaching credential will increase from \$3,000 to \$3,500. This program helps increase the number of highly qualified teachers in our classrooms by helping to offset the costs of tuition, fees and books for paraprofessionals who have agreed to complete a teacher preparation program and work in a California classroom. The rate has not been increased since 1997.

Further, \$18 million Proposition 98 General Fund is included to establish a new Certificated Mentor Teacher Program to encourage successful, experienced teachers to mentor and support new teachers just entering the field, to increase the duration and intensity of the

Alternative Certification (Intern) Program and to increase the Intern per participant rate from \$2,500 to \$4,000. An additional \$1.7 million in federal Title II grant funding is available for evaluations of the Intern program, beginning teacher induction programs and special education teacher preparation credentialing. The combined use of these funds will help the state move toward a more efficient and streamlined teacher credentialing process to ensure we reach the goal of a fully credentialed, highly qualified teacher in every classroom.

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's Community Colleges (CCC). The 2006-07 Budget marks the second 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 \$19.1 billion from all revenue sources. UC funding totals \$5.1 billion, including \$3.1 billion General Fund. (See Figure HED-01). The amount budgeted from the General Fund reflects an 8.4 percent increase from the 2005-06 budget. CSU funding totals approximately \$4.0 billion, including \$2.8 billion General Fund. The amount budgeted from General Fund for CSU is 7.4 percent above the 2005-06 budget. Community College funding totals over \$8.7 billion, including approximately \$6.2 billion from General Fund and Proposition 98 sources, of which more than \$4.3 billion is from the General Fund alone. The amount budgeted from General Fund and Proposition 98 for CCC is 12.8 percent above the 2005 Budget Act.

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 support. In addition, the budget buys out

Figure HED-01
Higher Education Expenditures
General Fund, Lottery Funds, State School Fund,
Local Revenues and Student Fees
(Dollars in Millions)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Change from 2005-06	
							Dollar	Percent
University of California ^{1/}								
Total Funds	\$4,482.6	\$4,418.5	\$4,516.1	\$4,514.7	\$4,827.2	\$5,107.5	\$280.3	5.8%
General Fund	3,322.7	3,150.0	2,868.1	2,698.7	2,838.7	3,076.7	\$238.0	8.4%
California State University ^{1/}								
Total Funds	3,433.2	3,525.9	3,651.4	3,586.3	3,848.2	4,042.4	\$194.2	5.0%
General Fund	2,680.7	2,697.1	2,625.7	2,475.8	2,597.5	2,788.9	\$191.4	7.4%
Community Colleges								
Total Funds	6,457.1	6,613.5	6,697.8	7,300.8	8,319.6	8,736.7	\$417.1	5.0%
General Fund & P98 ^{3/}	4,701.1	4,894.9	4,505.3	5,031.9	5,752.3	6,192.0	\$439.7	7.6%
Student Aid Commission (GF)								
Total Funds	558.8	594.0	689.3	776.5	824.8	882.3	\$57.5	7.0%
General Fund	544.0	569.0	658.8	595.4	738.4	846.8	\$108.4	14.7%
Other Higher Education ^{2/}								
Total Funds	207.5	180.6	199.4	301.1	307.8	335.4	\$27.6	9.0%
General Fund	192.3	165.0	179.6	274.9	280.4	308.1	\$27.7	9.9%
Total Funds	\$15,139.2	\$15,332.5	\$15,754.0	\$16,479.4	\$18,127.6	\$19,104.3	\$976.7	5.4%
General Fund	\$11,440.8	\$11,476.0	\$10,837.5	\$11,076.7	\$12,207.3	\$13,212.5	\$1,005.2	8.2%

^{1/} For purposes of this table, expenditures for the University of California (UC) and California State University (CSU) have been adjusted to include the offsetting general purpose income. 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.

the scheduled fee increases to ease the financial burden on students and their families.

In particular, the Budget reflects the following:

- **Fee Levels**—Given the improved revenue picture, the budget buys out the scheduled fee increases to maintain fees at the 2005-06 level. Undergraduate fees will remain at \$6,141 for UC and \$2,520 for CSU. Fees for UC graduate students will remain at \$6,897. Fees for CSU teacher preparation students will remain at \$2,922 and fees for all other CSU graduate students will remain at \$3,102. Accordingly, the Budget backfills the potential loss of new fee revenue to the public higher education segments by including \$75 million in additional funding for UC, \$54.4 million for CSU, and \$1.4 million for Hastings College of the Law.

- 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 5,149 students. For CSU, the increase is 8,490 students.
- Basic Budget Support—The Budget provides a 3 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 third year in a row, the Budget provides historic new investments in this higher education segment, including funding for substantial enrollment growth, a large cost-of-living adjustment, a mid-year fee reduction, expansion of many programs on a one-time basis made possible by an increase in the current year Proposition 98 guarantee, and major ongoing investments that include fully funding equalization and increasing non-credit funding for programs that prepare adults who lack basic skills to advance in the workforce and prepare for technical careers. The equalization and non-credit increases are the subjects of pending legislation in the 2005-06 legislative session. In total, this Budget provides General Fund and Proposition 98 related increases of over \$700 million compared to the 2005-06 Budget Act, consisting of approximately \$261 million in one-time resources primarily from the revised current year Proposition 98 guarantee and a \$440 million increase in 2006-07 over the revised current year level. These increases are detailed in the traditional highlights for the Community Colleges below.

Student fees at CCC will be reduced in 2006-07, from \$26/unit to \$20/unit, effective with the Spring 2007 semester. At \$20/unit, CCC fees will 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, consistent with the Governor's initiative begun last year. The Budget provides \$100 million consisting of \$20 million in ongoing funds in the Community Colleges, \$40 million in one time funds for new career technical education equipment for Community Colleges, and similarly, \$40 million for new equipment for public high schools as reflected in the K-12 Education section.

The ongoing funds seek 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. Funding may be targeted in areas such as tech-prep faculty and counselor in-service projects, career advancement academies for young adults without high school diplomas, tech-prep teacher pipeline pilot projects, and other investments focused on ensuring that students have access to programs that provide the necessary technical training and skills for emerging industries. The one-time funds will complement the ongoing resources by ensuring students in both segments will have state-of-the-art equipment necessary for developing skills needed in the workplace of today and tomorrow.

Nurse Education Initiative

The Budget continues to provide new investments to address the statewide nursing shortage in all three higher education segments and financial aid programs. Included are augmentations to address faculty recruitment to support previously funded nursing expansions in the Community Colleges and four year segments, additional increases for undergraduate nursing slots in the budget year and start-up costs for a significant increase in undergraduate nursing programs at CSU for the following fiscal year, additional resources for Community Colleges to address nursing program attrition as well as funding to establish on-line nursing faculty and clinical placement registries, and recruitment incentives for nursing graduates needed to help meet clinical nursing position needs for state agencies administered by the Student Aid Commission, contingent on enactment of legislation. These additions are further detailed in the respective traditional highlights for each segment or agency. Finally, it is noted that \$2.5 million of the ongoing career technical education funding addressed above is specifically reserved to support a K-12 nursing career pathway program for school districts to develop sequenced, standards-based curriculum and related costs for nursing career programs.

University of California

The Budget provides total funding from all sources of \$5.1 billion for UC, an increase of \$280.3 million or 5.8 percent above the 2005-06 level. This funding level includes \$3.1 billion General Fund, reflecting an increase of \$238.0 million or 8.4 percent above the 2005-06 level.

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

- \$80.5 million increase (3 percent) for basic budget support.
- \$51.0 million increase (2.5 percent) for enrollment growth.
- \$75 million increase to backfill the governing board's proposed student fee increases of 8 percent for undergraduate, 10 percent for graduate, and an average of 5 percent for professional students.
- \$19.3 million to continue funding for Student Academic Preparation and Education Programs.
- \$6 million for labor research and education.
- \$4 million for substance abuse research.
- \$14 million in one-time funds for costs associated with sustaining UC Merced operations in 2006-07 for a total funding level of \$24 million.
- \$963,000 for the expansion of entry-level master's degree programs and traditional master's degree programs in nursing.
- \$375,000 increase to expand the Science and Math Teacher Initiative initiated in the 2005 Budget to the remaining three campuses.
- \$180,000 increase for a new cohort of 12 students for the PRIME Program which targets prospective medical doctors for underserved populations.
- The Budget reflects a current year reduction of \$3.8 million related to a shortfall in enrollments due primarily to reductions in the number of non-resident students, pursuant to legislative provisional language in the 2005 Budget Act that requires the Director of Finance to revert enrollment growth funding to the General Fund if enrollment targets are not met.

California State University

The Budget provides total funding from all sources of \$4.0 billion for CSU, an increase of \$194.2 million or 5 percent above the 2005-06 level. This funding level includes \$2.8 billion General Fund, an increase of \$191.4 million or 7.4 percent above the 2005-06 level.

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

- \$75.7 million increase (3 percent) for basic budget support consistent with the Compact.
- \$61.3 million increase (2.5 percent) for enrollment growth consistent with the Compact.
- \$54.4 million increase to backfill the governing board's proposed student fee increases of 8 percent for undergraduates and credential candidates, and 10 percent for graduate students.
- \$7 million to continue funding for student academic preparation and student support services programs.
- \$2 million increase on a one-time basis for faculty recruitment and start-up costs associated with the expansion of nursing programs.
- \$1.7 million to continue funding for expansion of entry-level master's nursing programs pursuant to Chapter 592, Statutes of 2005.
- \$1.1 million increase, including \$652,000 one-time, for the Science and Math Teacher Initiative that was initiated through the 2005 Budget.
- \$371,000 to fund a 35 student expansion of undergraduate nursing enrollments.
- \$184,000 increase for the Capital Fellows Program reflecting a 3 percent Compact increase plus a \$100,000 legislative augmentation.
- \$22.5 million reduction for retirement costs.
- \$5 million reduction to offset the estimated loss of General Fund interest earnings as a result of a shift of CSU student fees from deposit in the General Fund to the CSU Trust Fund. This technical proposal is revenue neutral to the state and puts CSU on an equal footing with UC and the CCCs with respect to financial management of fee revenues.

California Community Colleges

Current Year

The Budget augments the 2005-06 Budget Act by approximately \$261 million General Fund and Proposition 98 sources for the California Community Colleges (CCC), including

an augmentation of \$257.2 million on a one-time basis as a result of a very significant increase in the current-year Proposition 98 guarantee. The following one-time, current-year Proposition 98 adjustments are included in budget trailer bill legislation:

- \$94.1 million for deferred maintenance, instructional equipment, and hazardous substance abatement to address backlogs in core operational needs beneficial to student learning.
- \$77.7 million for a general purpose block grant, distributed on a full-time equivalent students (FTES) basis, to address other local priorities. \$22.3 million for this purpose is also provided from the Proposition 98 Reversion Account for a total of \$100 million.
- \$40 million for career technical education equipment and associated facility reconfigurations to help ensure student access to state-of-the-art equipment necessary for developing relevant career technical skills needed in the workplace of today and tomorrow. This funding, and a similar amount included in the K-12 budget complements the \$20 million in ongoing funding provided in the Budget for the second year of the Governor's Career Technical Education Initiative.
- \$15 million in current year Proposition 98 resources, plus \$25 million in prior-year Proposition 98 "settle-up" funds, to provide a total of \$40 million for payment of prior-year amounts owed for mandated cost claims that have been audited.
- \$19.7 million for one-time costs associated with implementation of a new funding formula for Community Colleges proposed in pending legislation.
- \$2.5 million to fund a three-year pilot program that would provide stipends to recruit and retain full-time nursing faculty.
- \$1.4 million to extend high-speed internet services to all remaining colleges and offsite centers.
- \$500,000 for the expansion of Nursing Student Clinical Placement Registries in all regions of the state and to establish an on-line CCC Nursing Faculty Registry. The former will help increase access to clinical nursing experience opportunities for students from all segments and the latter will improve CCC's ability to identify qualified nursing candidates for faculty slots at individual campuses.

Budget Year

The Budget proposes a number of major, ongoing adjustments for CCC in 2006-07, which will increase total General Fund and Proposition 98 funding by a net \$439.7 million or 7.6 percent above the revised 2005-06 level. Major ongoing Proposition 98 General Fund adjustments for the CCC include the following:

- \$294.4 million increase to provide a 5.92 percent COLA for general-purpose apportionments for all districts.
- \$159.4 million for community college equalization. This provides the third, and final, increment of CCC equalization funding to ensure that all districts are equalized to the 90th percentile. This amount reflects the amount necessary to conform to a revised overall funding formula for Community Colleges that is subject to and contingent upon pending legislation in the 2005-06 legislative session.
- \$97.5 million increase to provide two-percent growth in apportionments sufficient to support an additional 23,000 FTES. Also, while the Budget reflects a base reduction of \$85 million to reflect unused 2005-06 growth funding, the Budget also retains more than \$100 million attributable to declining enrollment in various districts that represents additional capacity of more than 24,000 FTES. Combined, both sources of funding will allow colleges to serve approximately 1,181,000 FTES in 2006-07.
- \$40 million increase to backfill a reduction in student fees from \$26/unit to \$20/unit, holding colleges harmless for the loss in fee revenue.
- \$30 million to enhance funding for specified community college non-credit courses. Courses eligible for this increase will be those that are more advanced and rigorous in nature, and linked with other courses leading to degrees and certificates as well as improved job placement and employability for adults lacking in basic skills. This funding, like equalization, is subject to and contingent upon pending legislation in the 2005-06 legislative session.
- \$24 million increase for matriculation, providing colleges with additional resources to assist students' progress towards their educational goals.
- \$23.1 million increase for growth (\$5.1 million) and COLA (\$18 million) for community college categorical programs that provide services to special populations.

- \$15 million increase for the Economic Development program to expand targeted training services aligned with California business needs and to improve career technical education for both K-12 and the colleges.
- \$10 million increase in apportionments to support remediation programs at Community Colleges for high school students who failed to pass the California High School Exit Exam (CAHSEE) this Spring.
- \$9 million increase for the Special Services for CalWORKs Recipients Program to fund additional work-study and campus job development opportunities that will assist California's efforts to meet new federal work participation targets required under the federal Temporary Aid to Needy Families Program (TANF).
- \$4 million increase for ongoing claims on current reimbursable mandated programs.
- \$2.9 million increase to support additional diagnostic and assessment services for nursing students to address issues of attrition and promote greater retention and persistence in these programs. These funds will augment \$14 million previously provided for expansion of nursing enrollments.
- \$2.5 million increase for apprenticeship instructional program support to address increasing demand from industry for trained workers.
- \$1.3 million increase for the Telecommunications and Technology Services program including \$800,000 for increased costs of high-speed internet service delivery and an augmentation of \$500,000 for the California Partnership for Achieving Student Success (CalPASS) that will fully fund the resources necessary to expand the program statewide.

As mentioned, \$22.3 million from the Proposition 98 Reversion account is provided for the same purposes as the General Purpose Block Grant described previously.

Finally, the Budget sets aside \$30 million General Fund for pending legislation to provide a one-time loan to the Compton Community College District to address fiscal solvency and the anticipated loss of program accreditation.

Hastings College of the Law

The Budget provides total funding from all sources of \$37.9 million, an increase of \$2.2 million or 6.1 percent above the 2005-06 level. This funding includes \$10.7 million General Fund, reflecting an increase of \$2.3 million or 27.6 percent above the 2005-06 level.

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

- \$1.4 million increase to backfill Hastings' proposed student fee increase of 8 percent.
- \$253,000 increase for basic budget support.
- \$523,000 increase on a one-time basis for relocation costs related to a capital outlay project to correct code deficiencies in an academic facility.

Student Aid Commission

The Budget provides total funding from all sources of \$882.3 million, an increase of \$57.5 million or 7 percent above the revised 2005-06 level. This funding includes \$846.8 million General Fund, reflecting an increase of \$108.4 million or 14.7 percent above the revised 2005-06 level.

The Budget includes the following significant adjustments for the Student Aid Commission:

- \$51 million to replace the use of one-time surplus monies from the Student Loan Operating Fund (SLOF) that were used to support financial aid programs in 2005-06.
- \$38.8 million net increase for anticipated growth in costs in the Cal Grant Program, reflecting an offsetting reduction of \$28.7 million associated with the buy-out of segmentally approved 8 percent undergraduate fee increases at the UC and CSU.
- \$11.9 million to increase the maximum Cal Grant for new recipients at non-public colleges and universities from \$8,322 to \$9,708.
- \$6.8 million increase for anticipated growth in costs for the Assumption Program of Loans for Education (APLE).
- Authorization for 100 new warrants for the National Guard APLE program (payments estimated to begin no sooner than 2007-08 fiscal year).

- Authorization for 100 new warrants for the State Nursing APLE.
- Authorization for 40 new warrants for the Nurses in State Facilities APLE, pursuant to legislation.

The Budget also recognizes \$14.0 million in 2005-06 savings in Cal Grant awards based on revised estimates.

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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. These programs touch the lives of millions of Californians and provide access to critical services that promote their health, well-being and ability to function in society. The Budget reflects the Administration's efforts to maintain a strong and responsible safety net for California's most vulnerable residents, guided by an overall vision for health and human services 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.

Department of Aging

Multipurpose Senior Services Program

The Budget includes a total of \$50.5 million (\$25.3 million General Fund) for the Multipurpose Senior Services Program (MSSP). This reflects an increase of \$6 million (\$3 million General Fund), or 13.5 percent, over the revised 2005 Budget Act level. The MSSP serves approximately 12,000 frail elderly clients. The program is designed to arrange for and monitor social and health care services in order to support individuals living in the community. The MSSP must meet cost-neutrality provisions that require program costs not exceed the costs of institutional care.

Department of Health Services / Medi-Cal

The Budget includes total Medi-Cal expenditures of \$35.1 billion (\$13.8 billion General Fund), an increase of \$1.8 billion (\$946 million General Fund) over the revised 2005 Budget Act level. The average monthly Medi-Cal caseload is expected to be 6,664,700 beneficiaries in 2006-07. This represents an increase of 1.29 percent above the revised 2005 Budget Act level.

Provide Counties with Funding for Outreach Activities

The Budget includes \$22.6 million (\$9.3 million General Fund) for counties to perform outreach and enrollment activities targeted at the approximately 428,000 children who are eligible for Medi-Cal or the Healthy Families Program, but are not enrolled.

Medi-Cal Redetermination Form Simplification

The Budget includes \$48.2 million (\$24.1 million General Fund) for caseload growth as a result of simplifying the Medi-Cal redetermination form to decrease turnover within the program.

Increase Enrollment of Seniors and Persons with Disabilities in Medi-Cal Managed Care

The Budget includes \$1.6 million (\$768,000 General Fund) and 5 positions for Department of Health Services (DHS) to phase in expanded enrollment of seniors and persons with disabilities by developing and implementing statewide managed care performance standards and requirements to serve this medically fragile population and designing specific education and outreach efforts aimed at increasing voluntary enrollment in managed care counties.

Establish a Coordinated Care Management Pilot Project

The Budget includes \$311,000 (\$124,000 General Fund) and 3 positions for a pilot project to coordinate the provision of health care to beneficiaries with chronic health conditions who may be seriously ill or near the end of life, and persons with serious mental illness and chronic health conditions.

Managed Care Plan Payments

The Budget contains \$65.4 million (\$32.7 million General Fund) for half-year costs beginning January 1, 2007, to eliminate the 5 percent provider payment reduction on Medi-Cal managed care plans that was imposed by the Legislature and prior Administration pursuant to Chapter 230, Statutes of 2003 (AB 1762). Increasing provider payments will ensure that

providers continue to serve the 3.2 million Medi-Cal beneficiaries enrolled in managed care plans.

Increase Other Medi-Cal Managed Care Rates

The Budget contains \$78.1 million (\$39 million General Fund) to fund rate increases for Central Coast Alliance for Health, Community Health Group, Contra Costa Health Plan, Health Plan of San Mateo, Partnership Health Plan of California, and Santa Barbara Regional Health Authority. Rate increases for these managed care plans were based upon a financial review of all Medi-Cal managed care plans that DHS conducted to ensure that health plans would have sufficient resources to provide quality care to Medi-Cal beneficiaries through 2006-07. Increasing managed care plan rates also will ensure that these providers continue to serve Medi-Cal beneficiaries.

Increase Rate Reimbursements for Long-Term Care Facilities

The Budget includes \$174.5 million (\$87.3 million General Fund) for a 5.4 percent rate increase to nursing homes and adult sub-acute care facilities that provide long-term care to Medi-Cal beneficiaries.

Adjustments for Certain Durable Medical Equipment Items in Medi-Cal

The Budget includes \$4.5 million (\$2.2 million General Fund) to change the methodology that is used to reimburse for custom wheelchair equipment, custom rehabilitation equipment and oxygen. These changes are expected to provide Medi-Cal beneficiaries with greater access to these items.

Set Program for All Inclusive Care Rates at 90 Percent of the Upper Payment Limit

The Budget includes \$2.2 million (\$1.1 million General Fund) to reimburse all Program for All Inclusive Care (PACE) plans at least 90 percent of the upper payment limit. Currently, PACE rates are based on specific facility, geographic, and demographic factors. This funding provides rate increases to the PACE plans that have reimbursement levels below 90 percent of the upper payment limit.

Implementation of the Hospital Financing Waiver

The Budget includes an additional \$824,000 (\$412,000 General Fund), 5 positions and the conversion of limited-term positions to permanent status for additional administrative activities

related to implementation of the federal Hospital Financing Waiver, and disbursement of the additional funding made available to California hospitals under the waiver.

Licensing and Certification

The Budget includes \$20.8 million (-\$28.1 million General Fund) and 155.5 positions for increased licensing and certification workload to protect California's citizens, improve access to necessary services, and meet current statutory requirements. The Budget also establishes a fee structure that is more closely tied to workload activities and begins to phase-out the General Fund subsidy of licensing and certification activities. To better track fees and expenditures related to the program, the budget establishes a special fund for all Licensing and Certification Program activities.

Department of Health Services / Public Health

Newborn Screening Program Expansion

The Budget includes \$8.5 million from the Genetic Disease Testing Fund to add Cystic Fibrosis and Biotinidase to the Newborn Screening Program. The current program, which serves over 99 percent of all newborns, screens for 73 genetic disorders. Detection of these diseases allows for early treatment, which can help prevent or minimize severe health problems. It is anticipated that this expansion will also result in future cost avoidance in Medi-Cal and other health care services.

Infectious Diseases

The Budget includes \$3 million General Fund to support local mosquito control efforts across the state. This funding will be directed to West Nile Virus high-risk areas and "hot spots" to supplement local mosquito control efforts.

The Budget also includes a \$1 million augmentation to mitigate the effects of Valley Fever, including research and development activities for a vaccine. This fungus infects the lungs of as many as 35,000 Californians each year, after breathing air containing contaminated soil that has been disturbed by construction, natural disasters, or wind.

HIV Education and Prevention Program

The Budget includes total funding of approximately \$37.8 million (\$30.5 million General Fund, including \$5.6 million in one-time funding) to provide HIV Prevention and Education funding for various local health jurisdictions. Local health programs develop plans tailored to the specific needs of the individuals, including outreach, counseling, and testing activities.

AIDS Drug Assistance Program

The Budget includes total funding of approximately \$299.4 million (\$107.7 million General Fund) to fully fund the projected caseload for the AIDS Drug Assistance Program (ADAP) in 2006-07. 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. A total of more than 31,500 clients will be served in 2006-07.

Managed Risk Medical Insurance Board

Healthy Families Program

The Budget includes Healthy Families Program (HFP) expenditures of \$1 billion (\$368 million General Fund), an increase of \$129.4 million (\$47.4 million General Fund) above the revised 2005 Budget Act level. Year-end caseload is expected to reach 858,900 children, an increase of 78,200 children over 2005-06.

Streamline Enrollment Processes for Children's Health Programs

The Budget includes \$9.6 million (\$3.5 million General Fund) to simplify the enrollment of children into the HFP. This program change will encourage the use of the electronic application (known as "Health-e-App"), enhance enrollment, retain current eligible children, and ease administrative duties.

Increase the Number of Successful Applicants for Children's Health Programs

The Budget includes \$2.2 million (\$843,000 General Fund) to provide incentive payments to Certified Application Assistants to encourage the enrollment of more children in Medi-Cal and HFP.

Access for Infants and Mothers Program

The Budget includes Access for Infants and Mothers (AIM) program expenditures of \$120.4 million, an increase of \$5 million above the revised 2005 Budget Act level.

Department of Alcohol and Drug Programs

The Budget includes \$667.6 million (\$289.6 million General Fund) for the Department of Alcohol and Drug Programs, an increase of \$52.8 million (\$47.2 million General Fund) from the revised 2005 Budget Act level.

Reforming Substance Abuse Treatment for Drug Offenders

Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 (SACPA), was approved by the voters on November 7, 2000. Under SACPA, first or second time non-violent adult drug offenders who use, possess, or transport illegal drugs for personal use receive drug treatment rather than prison time. SACPA is intended to preserve jail and prison cells for serious and violent offenders, enhance public safety by reducing drug-related crime, and improve public health by reducing drug abuse through treatment. SACPA provided for an annual \$120 million General Fund transfer to the Substance Abuse Treatment Trust Fund from 2001-2002 through 2005-06.

In anticipation of various reforms to the program to increase accountability and improve treatment entry and completion rates, the Budget maintains the General Fund transfer to the Substance Abuse Treatment Trust Fund at \$120 million for 2006-07, including 29.7 positions to support state-level and local SACPA-related activities.

In addition, the Budget includes \$25 million General Fund for the new Substance Abuse Offender Treatment Program. Eligible expenditures include residential treatment, narcotic replacement therapy, drug testing, drug court model court costs, and other services approved by the department after consultation with stakeholders.

Methamphetamine Prevention

The Budget includes \$10 million General Fund to develop and implement a methamphetamine prevention campaign using media, community involvement, and public relations to reach targeted high risk audiences.

Department of Developmental Services

The Budget includes \$4.0 billion (\$2.5 billion General Fund) for the Department of Developmental Services (DDS), an increase of \$331 million (\$245.7 million General Fund) above the revised 2005 Budget Act level. Total caseload is expected to reach 215,000 consumers in 2006-07, compared to 207,000 in 2005-06.

Developmental Centers

The Budget provides \$702.7 million (\$385 million General Fund) for the developmental centers, a net decrease of \$4.4 million (\$697,000 General Fund) from the revised 2005 Budget Act level, primarily due to a decreasing population resulting from consumers being referred to community placements rather than being placed in a developmental center. The Budget supports a population of 2,800, a decrease of approximately 200 consumers from 2005-06.

Agnews Developmental Center Closure

The closure of Agnews Developmental Center (Agnews) will be delayed from June 30, 2007 to June 30, 2008, in order to ensure adequate community supports are available to Agnews consumers once they transition into the community. The Budget reflects a net increase of \$19.0 million (\$9.7 million General Fund) compared to the revised 2005 Budget Act level for the planned closure of Agnews Developmental Center. The developmental center budget reflects a net decrease of \$249,000 (\$4.6 million General Fund) due to the transfer of residents into the community. The regional center budget reflects an increase of \$19.3 million (\$14.3 million General Fund) to provide consumer placements and necessary services and supports in the community.

Regional Centers

The Budget includes \$3.2 billion (\$2.1 billion General Fund) for regional centers, a net increase of \$333.2 million (\$244.2 million General Fund) above the revised 2005 Budget Act level. The Budget supports a population of 212,000, an increase of 8,400 consumers above 2005-06.

Developmental Disability Service Provider Rate Increases

The Budget reflects an increase of \$68.4 million (\$46.6 million General Fund) for a 3 percent cost-of-living increase to programs that have been subject to the provider rate freezes that have been necessary during the last three years. These include programs for which the DDS sets rates (community care facilities, community-based day programs, habilitation service programs, respite agencies, and vouchered respite) and to specified contract-services programs (supported living, transportation, and look-alike day programs).

Employment Support for Persons with Developmental Disabilities

The Budget includes \$180.2 million (\$100.2 million General Fund) for the DDS and the Department of Rehabilitation (DOR) to provide employment services for persons with developmental disabilities through the Supported Employment Program (SEP) and the Work Activity Programs (WAP). This funding level reflects a 24 percent rate increase for on-the-job training, a doubling of individual and group job placement fees within the SEP Program, and a 3 percent provider rate increase within the WAP program. In addition, the Budget includes an increase of \$19.1 million (\$13.3 million General Fund) to provide additional wage enhancements for direct care providers in WAP and day programs. This increased funding is designed to result in savings in costlier alternative programs, such as day service programs. It will also make it possible for more people with developmental disabilities to find work and earn an income. This new funding will increase employment opportunities to persons with developmental disabilities and provide services to ensure that they remain successful in their jobs. For consumers who are able to work, having a job is a cornerstone to community integration and self-sufficiency.

Department of Mental Health

The Budget includes \$3.6 billion (\$1.7 billion General Fund) for the Department of Mental Health (DMH), a decrease of \$19.2 million (an increase of \$445.2 million General Fund) from the revised 2005 Budget Act level. The General Fund increase is due primarily to a permanent transfer of \$333.5 million for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program from the DHS budget.

State Hospitals

The Budget includes \$951.5 million (\$879.4 million General Fund) for state hospitals, a net increase of \$81.3 million (\$96 million General Fund). This funding will support a total population of 5,805 patients, an increase of approximately 430 patients from the revised 2005-06 population level. The state hospital budget reflects an augmentation of \$12.2 million General Fund to comply with the orders of the Coleman court to increase the number of Mental Health Crises and Intermediate Care Facility beds and associated staffing pursuant to the Short-Term Bed Plan at the Salinas Valley and Vacaville Psychiatric Programs.

Mental Health Services to Special Education Pupils (AB 3632)

The Budget includes \$118 million for special education mental health services, and proposes modest changes to the AB 3632 mental health services program to improve fiscal and programmatic accountability and introduce greater efficiency, while ensuring that mental health services to special education pupils continue. This reflects \$66 million one-time General Fund in the DMH budget to fund counties for providing services under the AB 3632 state mandate (\$33 million for 2004-05 costs and \$33 million for 2005-06 costs), and \$52 million in categorical funding for 2006-07. It also reflects \$100 million in special education funding in the Department of Education budget for services required by the Federal Individuals with Disabilities Education Act (IDEA). Of this funding, \$69 million will continue to be provided to county offices of education (COEs) for allocation to county mental health departments, as will \$31 million in Proposition 98 General Fund to Special Education Local Plan Areas (SELPA) to continue providing pre-referral mental health services pursuant to SB 1895.

Department of Child Support Services

Performance-Based Funding for Local Child Support Agencies

The Department of Child Support Services (DCSS), in collaboration with local child support agencies (LCSA), is in the process of developing a new allocation methodology intended to improve the state's performance on federal and state child support program measures. The Budget includes a one-time augmentation of \$12 million (\$4 million General Fund) to be distributed among LCSAs according to this performance-based allocation methodology. This augmentation represents a 1.6 percent increase in LCSA administrative funding above the level proposed in the Governor's May Revision. If this augmentation and associated allocation methodology proves to directly improve program performance, then the DCSS will consider utilizing a performance-based methodology on a broader scale.

Department of Social Services

Foster Care and Child Welfare Services Improvements

The Budget builds upon existing foster care reforms which will help advance the Administration's goal for child welfare: every child will live in a safe, stable, permanent home, nurtured by healthy families and strong communities. It reflects an unprecedented

commitment to California's continuum of services to protect children from abuse or neglect. Specifically, the Budget includes \$4 billion (\$1.7 billion General Fund) for programs to protect and support children, including Child Welfare Services (CWS), Child Abuse Prevention, Foster Care, Adoption Assistance, Kinship Guardianship Assistance Payment (Kin-GAP), and Adoptions.

Working together in recent years, the Administration and Legislature have taken action to improve the safety, permanency and well-being of children in California. Reflecting key reforms enacted in recent years, California's CWS program is undergoing a fundamental restructuring. A cornerstone of this effort is a commitment to link reforms at the state and county level to improved outcomes for youth in foster care, which has resulted in a new outcome and accountability system for child welfare services. Additionally, an outcome improvement project for counties is tying some local funding to plans for bettering the lives of children. Newly secured federal authorities provide counties with the flexibility to use federal funds on preventive services to families in crisis to keep children in safe and stable homes, and to reduce the need for foster care placement.

With bipartisan support and the commitment of the Legislature and the Governor to improve the lives of California's children, California will invest over \$255 million (\$160 million General Fund) to improve the safety, permanency and well-being of youth in foster care. Specifically, the Budget contains the following investments:

- \$111.5 million (\$72 million General Fund) to support and strengthen the Outcomes and Accountability System (Chapter 678, Statutes of 2001 [AB 636]) to improve safety, permanency and well-being outcomes for children and youth in foster care or risk of foster care placement.
- \$35.5 million (\$10 million General Fund) to implement a first-of-its-kind waiver that provides flexibility in the use of federal funds, and will enable strategies that prevent or reduce the need for foster care.
- \$9.9 million General Fund to promote the successful transition of foster youth to adulthood by expanding Transitional Housing programs and scholarships for higher education.
- \$8.2 million General Fund to improve the coordination and delivery of educational services for children and youth in foster care.

- \$8 million General Fund in 2006-07 to enhance the ability of relatives to care for foster children by expanding the Kin-GAP program and ensuring relatives who become guardians for youths with special needs receive comparable financial support as that received by foster parents and homes.
- \$7.9 million (\$4 million General Fund) to increase adoptions of children and youth in foster care, with a specific focus on encouraging adoption of older and hard-to-place youth.

California Work Opportunity and Responsibility to Kids

The Budget includes total California Work Opportunity and Responsibility to Kids (CalWORKs) expenditures of \$7.1 billion. Caseload is projected to decrease by a modest amount after many consecutive years of decline. The revised caseload projections are 478,000 cases in 2005-06, and 472,000 cases in 2006-07.

In response to the federal Deficit Reduction Act of 2005 (DRA), which reauthorized the federal Temporary Assistance for Needy Families program, the CalWORKs program includes several new components designed to improve work participation rates while continuing to assist CalWORKs families in achieving self-sufficiency. Major investments include:

- CalWORKs Improvement Initiative—The Budget includes \$90 million for counties to implement strategies to improve work participation rates based on local needs assessments. Counties are required to develop comprehensive plans that identify specific activities to engage recipients early, re-engage noncompliant or sanctioned families, or increase participation among recipients that are partially participating or are between activities. The Budget reflects net savings of \$17.2 million in 2006-07 from anticipated program improvements.
- Homelessness Prevention—The Budget includes \$5 million to increase temporary shelter rates to prevent homelessness among CalWORKs recipients. Stabilizing family housing is critical to work support and will assist adult recipients in continuing to meet participation requirements.
- Pay for Performance—The Budget reflects CalWORKs grant savings of \$1.8 million from implementation of an incentive program that rewards counties that meet specific CalWORKs program outcomes. Pay for Performance will enhance the program's focus on work and target county efforts to assist recipients in securing and retaining employment as a pathway to self-sufficiency. The program is expected to generate greater savings in 2007-08 and beyond. Funding for incentive payments, which is

scheduled to begin in 2007-08, is initially to be provided with \$40 million set aside in the CalWORKs reserve.

- **County Administration Augmentation**—In recognition of the need for counties to dedicate more resources to case management, transportation, and employment services in order to increase work participation rates, \$140 million is included in the Budget. This augmentation was based on current county expenditures as reported by counties. However, the Budget also includes requirements to more accurately measure the cost of doing business and assess how state policies and county implementation affect costs.
- **Reserve for Future CalWORKs Improvements**—The Budget includes a \$15 million reserve and limited flexibility to address future changes or improvements to the program that would continue the “work first” approach and lead to increased work participation rates, pending analysis of the federal regulations implementing the DRA.

Supplemental Security Income / State Supplementary Payment Program

Total General Fund expenditures for the Supplemental Security Income / State Supplementary Payment (SSI / SSP) program are projected to be \$3.6 billion in 2006-07, an increase of \$141.6 million from the revised 2005 Budget Act level. The average monthly caseload in this program is estimated to increase to 1.2 million recipients, a 2.5 percent increase over the 2005-06 projected level.

The three-month delay of the January 2007 federal SSI cost-of-living-adjustment included in the 2005 Budget Act is rescinded in the Budget. Effective January 1, 2007, the federal SSI payment will increase by an estimated 2.1 percent.

The Budget will maintain monthly SSI / SSP grant payments at the current level of \$836 for an aged or disabled individual and \$1,472 for a couple until January 1, 2007, at which time monthly payments are estimated to become \$849 for an individual and \$1,491 for a couple. California’s SSI / SSP payment standards for individuals continue to be the highest among the nation’s 10 most populous states and second highest in the nation, while the payment standards for couples are the highest of all 50 states.

Corrections and Law Enforcement

The following represents the significant funding issues included in the 2006 Budget Act for various public safety departments.

Enhancing Public Safety

This Administration is strongly committed to protecting the safety of the public and has demonstrated this commitment by providing additional resources for state and local law enforcement agencies. The Budget includes an additional \$196 million to support various law enforcement efforts, including those discussed below.

Mentally Ill Offender Crime Reduction Grants

The Budget includes \$45 million to award competitive grants for the implementation and assessment of multi-agency projects designed to curb recidivism among mentally ill offenders. In the past, over \$100 million General Fund has been invested in this program. Based on evaluations conducted by the Corrections Standards Authority, the program has significantly reduced the number of mentally ill inmates in jails and improved their success rate once released from custody.

Standards and Training for Local Correctional Staff

The Budget reflects \$19.5 million to offset the costs of training local sheriffs' deputies and probation officers who work in jails and juvenile halls. This funding will improve the level of training and address inconsistencies among county training programs.

Booking Fees Reimbursements

The Budget includes \$35 million to reimburse the fees that local law enforcement agencies paid to book arrestees into county jails in 2005-06. Cities will continue to pay booking fees in 2006-07. Beginning in 2007-08, counties are eligible for \$35 million per year in state funding to replace the booking fees they charged to local law enforcement agencies in 2006-07. In subsequent years, if less than the full \$35 million is included in the state Budget, counties may charge booking fees proportionate to the amount of funding that is not provided.

Beginning in 2007-08, whenever the Budget provides funding in lieu of booking fees, counties and cities with jails will also be allowed to charge a “jail access fee” to other law enforcement agencies. This fee may only be charged on a law enforcement agency’s bookings for infractions and specified types of misdemeanors that exceed the agency’s average number of bookings for those crimes over the preceding three years. It is anticipated that discussions amongst the cities, counties, sheriffs and police chiefs will continue to further refine the funding for the booking process and local jails.

Citizens’ Options for Public Safety/Juvenile Justice Crime Prevention Act

The Budget provides \$238 million (\$119 million for the Citizens’ Options for Public Safety (COPS) and \$119 for the Juvenile Justice Crime Prevention Act (JJCPA)), which reflects an increase of \$38 million compared to the 2005 Budget Act level. With respect to COPS, these resources will fund additional police officers and sheriffs deputies, as well as support for jail operations and district attorneys. The JJCPA funding will expand community-based programs that have proven effective in reducing crime and delinquency among at-risk youth and juvenile offenders.

Sexual Assault Felony Enforcement Teams

Under existing law, local agencies have established regional Sexual Assault Felony Enforcement (SAFE) teams throughout the state. The mission of these teams is to reduce violent sexual assault offenses through proactive surveillance and arrest of habitual sexual offenders. The Budget reflects a setaside of \$6 million to fund pending legislation to support the activities of SAFE teams statewide.

California Multijurisdictional Methamphetamine Enforcement Team Program

The California Multijurisdictional Methamphetamine Enforcement Team (CAL-MMET) Program currently works in conjunction with the federally funded Central Valley High Intensity

Drug Trafficking Area program to intensify the current methamphetamine eradication efforts of participating law enforcement agencies by providing additional resources for investigators and prosecutors specializing in methamphetamine offenses, as well as support staff, equipment, training, and facilities. The Budget strengthens methamphetamine eradication across the state by providing an additional \$20 million for allocation on a regional basis.

Vertical Prosecution

The Budget includes \$16.2 million to fund vertical prosecution units to dedicate specialized prosecutors, investigators, and/or victims advocates to follow specific heinous cases such as child and elder abuse, rape, and stalking through the entire judicial process. This funding level reflects an additional \$8 million to increase the state's support for vertical prosecution units.

Gang Suppression Enforcement Teams

The Budget reflects an increase of \$6.5 million to allow the Department of Justice (DOJ) to add four new Gang Suppression Enforcement Teams (GSETs), on a two-year limited-term basis, to the one team already in place. These teams provide a dedicated force with specialized knowledge of gang activities across multiple jurisdictions.

California Methamphetamine Strategy Program

The Budget provides \$6 million to create three new teams within the DOJ to augment the three California Methamphetamine Strategy (CALMS) Program teams currently in place. These teams have specialized training which, coupled with multijurisdictional law enforcement partnerships, uniquely qualify them to coordinate investigations and lab seizures.

Special Crimes Unit

The Budget provides \$1.3 million to increase investigation activities within the DOJ Special Crimes Unit to aggressively investigate and prosecute individuals and businesses that participate in complex financial and identity theft crimes. The DOJ currently has \$2.2 million to carry out these investigations.

Department of Corrections and Rehabilitation

Recidivism Reduction Strategies

The Administration is committed to improve public safety through the implementation of expanded evidence-based programs that improve public safety and reduce victimization by reducing recidivism and preparing inmates to transition back into the community. The Budget includes \$52.8 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. However, this is only the initial effort of an ongoing plan to provide rehabilitative programs to inmates and parolees, as the Department is exploring additional opportunities for program expansion.

Juvenile Justice Community Reentry Challenge Grant Program

The Budget includes \$10 million to establish the Juvenile Justice Community Reentry Challenge Grant Program. This program will award grants, on a competitive basis, to counties and non-profit organizations to provide a variety of services to juvenile parolees. The types of services that may be provided include transitional housing, occupational training and job placement, substance abuse treatment, life skills counseling, and education. The goal of this program is to improve the performance and cost-effectiveness of post-custodial reentry supervision of juvenile parolees, reduce recidivism rates of juvenile offenders, and pilot innovative reentry programs consistent with the Division of Juvenile Justice's focus on a rehabilitative treatment model in the state's juvenile facilities.

Global Positioning System Expansion

The Budget includes \$5.1 million to add 500 Global Positioning System (GPS) devices to track and monitor the parolees who pose the highest risk to public safety. This is part of a four-year plan to add 2,000 GPS units (500 units per year), bringing the total number of GPS units available for parolee monitoring up to 2,500 by 2009-10. Additionally, the caseload for parole agents supervising these offenders will be reduced from 40:1 to 20:1, consistent with caseloads used by other states for similar parolees. Increasing the number of parolees tracked by GPS and reducing the caseload for parole agents will increase public safety by reducing victimization.

District Attorney Representation at Parole Revocation Hearings

Currently, only parolees have legal representation at a parole revocation hearing. To address this inequity, the Department will implement a program to provide legal representation at parole revocation hearings where a witness has been subpoenaed to testify on behalf of the state. This program will enable District Attorneys to provide representation for witnesses of parolee crimes consistent with the representation provided for parolees.

Environmental Protection

Climate Change Initiative

The Budget provides \$30.4 million (\$1.1 million General Fund and \$29.3 million special funds) and 30.5 positions for a coordinated, multi-agency effort to reduce greenhouse gas emissions and promote alternative transportation fuels, including:

- \$28.2 million and 15.5 positions for the Air Resources Board to develop clean alternative fuels, promote zero emission and partially zero emission vehicles, develop measures that require the use of biodiesel fuel, reduce hydrofluorocarbon emissions, and reduce emissions from heavy-duty vehicles.
- \$1 million and 5 positions for the Department of Justice to defend greenhouse gas emission regulations adopted by the Air Resources Board and other climate-related litigation.
- \$539,000 and 6 positions for the Public Utilities Commission to promote renewable energy and expand energy efficiency programs.
- \$465,000 and 2 positions for the Secretary of Environmental Protection to lead a coordinated statewide effort to meet the emission reduction targets, including economic analysis.
- \$241,000 and 2 positions for the Integrated Waste Management Board to expand existing efforts to capture methane from landfills and enhance recycling efforts.

Hydrogen Highway

The Budget includes \$6.5 million from the Motor Vehicle Account (MVA) 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 initiative defines a plan for 250 hydrogen fueling stations and 20,000 hydrogen-fueled vehicles. The use of hydrogen technologies can significantly reduce air pollution and reduce energy dependence on fossil fuels. This funding will provide matching funds for three publicly accessible hydrogen fueling stations, and will enable the state to leverage federal matching funds for five fuel cell buses to be used in public transit fleets.

Low Emission School Buses

The Budget provides an additional \$25 million MVA to replace pre-1977 school buses with new clean school buses that meet the latest federal safety standards in order to reduce children's exposure to diesel exhaust. If the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act is approved in November, the bond will provide \$200 million for school bus replacement. In this instance, the Budget funds will instead be redirected to provide grants to public agencies to purchase low-polluting construction equipment.

Environmental Enforcement

Enforcement of environmental laws helps protect Californians from the adverse effects of environmental pollution. Furthermore, strict environmental enforcement prevents polluters from achieving an unfair competitive advantage over competitors that comply with environmental laws.

The Budget provides \$6.2 million special funds and 41.5 positions to strengthen environmental enforcement efforts, including:

- \$4.0 million (\$2.7 million Motor Vehicle Account and \$1.3 million Air Pollution Control Fund) and 20 positions for the Air Resources Board to enforce heavy-duty diesel regulations, evaluate on-board diagnostic systems in vehicles, and replace older testing and diagnostic equipment.
- \$1.8 million Electronic Waste Recovery and Recycling Account and 17.5 positions for the Department of Toxic Substances Control and the Integrated Waste Management Board to investigate fraud and enhance existing enforcement efforts in the electronic waste program.

- \$425,000 Pesticide Regulation Fund and 4 positions for the Department of Pesticide Regulation to conduct additional pesticide mill assessment audits.

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Resources

The Budget provides significant funding for programs that protect and preserve California's natural resources and environment. These programs are carried out by the Department of Fish and Game, Department of Parks and Recreation, Department of Forestry and Fire Protection, Department of Water Resources, and more than two dozen other departments, boards, commissions, and conservancies. The Budget includes funding for the following new programs:

Flood Control

On February 24, 2006, the Governor proclaimed a state of emergency for California's levee system and directed the immediate repair of 29 critical levee erosion sites. The Governor gained federal support for expediting federal permits for the projects so they can be completed by November 2006. The repairs will cost an estimated \$150 million. These costs will be funded from Chapter 34, Statutes of 2006, which appropriated \$500 million General Fund for levee evaluation and related work, and flood control system improvements. This funding will allow the department to jump-start critical flood control activities immediately, without waiting for funding from a proposed \$4.1 billion bond measure on the November 2006 ballot.

To further diminish threats from levee failure and flooding, the Budget also includes \$35 million General Fund and 30 new positions in the Department of Water Resources to improve and maintain the flood control system, and \$41.3 million General Fund for six new or continuing flood control capital projects: Folsom Dam Modifications, American River

Common Features, Sacramento River Bank Protection, Folsom Dam Raise, American River Natomas Features, and Upper Sacramento River Levee Restoration.

In addition, state law provides for reimbursement by the state on a cost-sharing basis to local flood control agencies for all rights-of-way and relocation costs of channel improvement and levee projects. The Budget proposes \$100 million General Fund to reimburse local agencies.

Flood control is also being addressed by the Department of Fish and Game. A severe storm in late December 2005 and early January 2006 caused damage to various levees and other infrastructure belonging to the Department. The Budget includes \$8.8 million General Fund in order to repair or prevent damage to levees, habitat, utility lines, roads, private residences, and other property in counties that have been declared eligible for federal emergency funding. Up to 75 percent of the state funding will be eligible for federal reimbursement.

Reorganization of the CALFED Program

The Budget addresses some of the most important recommendations produced from recent programmatic and fiscal reviews of the CALFED program. The Bay-Delta Authority's administrative activities have been transferred to the Secretary for Resources. This will add transparency, visibility, accountability, and decision-making authority to the CALFED administrative function. In addition, the Authority will focus its efforts exclusively on coordination, tracking program progress, science, and strategic planning.

The program duties previously carried out by the Bay-Delta Authority have been transferred to the departments that have primary operational responsibility for each area. Program activities that had been implemented by more than one entity will now be centralized in a single department, improving efficiency and communication. For example, the Department of Fish and Game will operate the Ecosystem Restoration Program as a single unit, combining efforts previously diffused among the Bay-Delta Authority, Department of Water Resources, Fish and Game, and the Secretary for Resources.

Marine Programs

The Budget includes \$19 million General Fund to strengthen programs that protect and manage ocean resources. Specifically, a total of \$4 million ongoing and \$10 million in one-time funding is provided for implementation of the Marine Life Protection Act and the Marine Life Management Act. An additional \$5 million in ongoing funding is included for activities related to the regulation of aquaculture and bottom trawling. In total, 55 positions have been provided to implement these expansions.

All-American Canal

Funding of \$84 million General Fund is provided to continue lining the All-American and Coachella canals in accordance with the Quantification Settlement Agreement, under which California has agreed to reduce its use of Colorado River water. The canal lining projects are expected to save approximately 100,000 acre-feet of water annually. This funding represents the expenditure of monies originally appropriated for this purpose in Chapter 813, Statutes of 1998.

Funding for the State Park System

The Budget includes \$250 million General Fund in one-time funding to reduce a growing backlog of deferred maintenance projects. An additional \$16.4 million General Fund in ongoing funding is included to fund operations in new and existing park facilities and to increase ongoing maintenance efforts. To address remediation of toxic materials at the Empire Mine State Historical Park, \$5 million General Fund in one-time funding is provided. The Budget also includes \$11.8 million General Fund to continue bringing the state parks into compliance with the Americans with Disabilities Act.

Augmentations for the Department of Fish and Game

Significant augmentations to correct fiscal problems and expand programs at the Department of Fish and Game have been provided, in addition to amounts provided for the marine programs and CALFED reorganization mentioned previously. The Budget includes \$14.9 million ongoing and \$19.9 million one-time to address shortfalls in the Fish and Game Preservation Fund and the repayment of previous borrowing from dedicated accounts within the Fund. Augmentations of \$10 million General Fund one-time and \$4 million General Fund ongoing are provided for the Salmon and Steelhead Restoration program. Ongoing augmentations of \$1.1 million General Fund to monitor wildfowl for avian influenza and \$1.5 million General Fund for conservation planning and resource assessment were also included. The Budget provides additional one-time appropriations of \$8.8 million General Fund for emergency work to repair storm damage on department lands, \$10 million General Fund for management of nongame fish and wildlife, and \$5 million General Fund for management of coastal wetlands.

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Energy and Public Utilities Commission

Alternative Fuels

The Budget provides \$500,000 Energy Resources Programs Account to implement AB 1007, which requires the development of recommendations to increase the use of alternative fuels. Specifically, the Energy Commission will evaluate fuel-cycle emissions and the in-state production of alternative fuels, and will encourage consumer use of alternative fuels.

Telecommunications Consumer Bill of Rights

The Budget provides \$12.2 million and 29.5 positions to implement the Telecommunications Consumer Bill of Rights, adopted by the Public Utilities Commission (PUC) on March 2, 2006. The Bill of Rights focuses on enhancing education, outreach and enforcement efforts to help consumers make informed choices, rather than establishing new regulations that could discourage technological innovation. The Bill of Rights also specifically directs the PUC to address the unique needs of non-English-speaking and low-income consumers.

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Business, Transportation, and Housing

San Joaquin Valley Partnership

The Budget includes one-time funding of \$5 million General Fund and 2.0 two-year limited-term positions to implement the San Joaquin Valley Strategic Action Proposal. Established by Governor's Executive Order (S-5-05) on June 24, 2005, the California Partnership for the San Joaquin Valley has been working with many local agencies and stakeholders to address the economic challenges in the eight counties that comprise the San Joaquin Valley region (Kern, Tulare, Kings, Fresno, Madera, Merced, Stanislaus, and San Joaquin Counties). The Governor's Executive Order requires preparation of a Strategic Action Proposal by October 2006 to improve the economic well-being and quality of life in the San Joaquin Valley.

Department of Transportation (CalTrans)

The Budget includes approximately \$13.3 billion for transportation. Overall, state and federal transportation revenues have increased by \$2.7 billion over revised 2005-06 figures.

The 2006-07 Proposition 42 transfer is fully funded at an estimated \$1.4 billion. In addition, the Budget prepays \$1.4 billion of outstanding Proposition 42 debt which is due to be repaid in 2007-08 and 2008-09 under current law. In total, these two funding sources will provide additional resources for the following programs: \$1.04 billion for the State Transportation Improvement Program, \$993 million for the Traffic Congestion Relief Program, \$446 million for local streets and roads maintenance, and \$356 million for transit projects.

Substantial increases in the sales tax on gasoline have increased subsidies to local transit operators by 202 percent, or \$417 million, over the current year, to an all-time high of \$624 million.

Other significant funding increases include the following:

Short-Term Congestion Relief Projects

The Budget includes \$40.3 million and 9.0 positions to complete a number of projects intended to provide short-term congestion relief in selected locations on the state highway system. These projects will be completed in 18 months or less and include the development and implementation of corridor management on the I-210 corridor, the repair of loop detectors and detector communication stations, and an expansion of freeway service patrol routes.

Construction Management System

The Budget includes \$950,000 and 3 positions to begin the replacement of Caltrans' antiquated construction management system. Total project costs are estimated to be \$21.2 million and 9 limited-term positions over four years. The new system will improve Caltrans' project management capabilities by providing timely and complete project information and will minimize costs associated with the late payment of contractors.

High Speed Rail

The Budget provides \$14.3 million to begin project implementation. Activities funded in 2006-07 include: completion of a financial plan, project management, identification of critical right of way acquisitions, development of a simulator for planning system operation and public information, and \$9 million for the beginning of detailed project design and related environmental studies. This funding will enable the authority to move forward with key aspects of the project. However, bond funding for the project must still be authorized by voters in 2008, under the provisions of AB 713.

California Highway Patrol

Patrol Staffing Expansion

The Budget proposes to add 197 uniformed positions and 38 nonuniformed positions (\$30.5 million Motor Vehicle Account) to address workload growth associated with population growth. By the end of the year, 240 officers, 32 supervising officers, and

38 support staff will be added. The full year cost of this request is \$41.9 million. These positions (both uniformed and nonuniformed) are provided to support the CHP's mission while they face increasing workload associated with the recent and future substantial growth in population; increasing number of licensed drivers; increasing development of new communities; and the resulting increased traffic congestion and collisions.

This statewide staffing augmentation could increase proactive patrol hours by approximately 136,320 hours, which equates to approximately 17,000 work shifts. Proactive road patrol provides a significant deterrent to motorists who violate the law while driving and enhances state security through increased officer presence. Moreover, the increased staffing reduces response times to major collisions and persons needing assistance on state highways.

Replacement of the CHP Radio System

The Budget includes \$56.4 million (Motor Vehicle Account) and 10 positions to begin the replacement of the existing CHP radio system. The project will take five years and will cost approximately \$491 million. The CHP's current radio system is antiquated, was not designed for tactical operations, special events, emergency incidents, or expanded responsibilities, and is no longer supported by the manufacturer. Along with items purchased with funds from the U.S. Department of Homeland Security, the new system is envisioned to:

- Increase the range of communication so officers can communicate with one another as opposed to having the CHP communication centers be the intermediaries.
- Provide the ability to "piggyback" onto other state departments' (Justice, Forestry, Corrections, and Caltrans) frequencies.
- Enhance interoperability with many local public safety agencies.
- Increase the number of tactical channels to provide flexibility.

Wireless 9-1-1 Staffing

The Budget increases staffing in the CHP communication centers by 94 positions and \$6.4 million to answer 9-1-1 calls more expeditiously. By the end of the year, 173 staff will be added. The full-year cost of this proposal is \$10.5 million. Due to exponential growth in the number of wireless 9-1-1 calls, which comprise approximately 80 percent of the calls handled, CHP needs additional staff to answer calls within their ten-second goal.

Department of Motor Vehicles

Implementation of Real ID Act

The Budget includes \$18.8 million (Motor Vehicle Account) and 36.4 positions to begin the planning, programming, and infrastructure development necessary to prepare to implement the federal Real ID Act. The Act sets minimum standards for the creation and issuance of driver license and identification cards that will be acceptable for official federal purposes, such as air travel and entering federal buildings. The Act has significant workload and cost implications for the Department of Motor Vehicles (DMV) because it requires 24 million licensed drivers and identification card holders in California to return to DMV offices to establish identity and obtain compliant cards when many of these individuals otherwise would have been able to conduct these transactions through the mail or internet. Provisions of the Act must be implemented by May 11, 2008; however, federal regulations concerning implementation of the Act are still under development.

These resources will enable the DMV to establish an organizational unit dedicated to Real ID comprised of 21 positions that would be responsible for overall project and policy development. The augmentation would also allow the DMV to implement a web-based infrastructure that would enable it to move over 2.2 million transactions annually out of the field offices when fully implemented to help make room for the additional field office visits from persons applying for Real IDs. The DMV's information technology systems also will need to be expanded to conform to Real ID requirements.

Information Technology Modernization

The Budget adds \$2.1 million to begin the modernization of DMV's aging core information technology systems used to support its Driver License, Occupational License, and Vehicle Registration programs. This project, estimated at \$242.2 million, is a multi-year incremental technology upgrade project that will modernize DMV's aging, custom-developed core systems with updated alternatives that are broadly supported by the information technology industry. The DMV's current systems have been managed well beyond their expected useful lives, have become increasingly complex and inflexible, and have been stretched to their limits in order to continue to respond to an increasing number of state and federal mandates. This project will incrementally upgrade DMV's core systems over a seven-year period by utilizing current programming languages to improve efficiency, reliability, flexibility, effectiveness, and productivity.

Summary Charts

This section provides various statewide budget charts and tables.

Summary Charts

Figure SUM-01
General Fund Budget Summary
(Dollars in Millions)

	<u>2005-06</u>	<u>2006-07</u>
Prior Year Balance	\$9,511	\$9,530
Revenues and Transfers	<u>\$92,749</u>	<u>\$93,882</u> ^{1/}
Total Resources Available	\$102,260	\$103,412
Non-Proposition 98 Expenditures	\$54,310	\$59,966 ^{1/}
Proposition 98 Expenditures	<u>\$38,420</u>	<u>\$41,295</u>
Total Expenditures	\$92,730	\$101,261
Fund Balance	\$9,530	\$2,151
Reserve for Liquidation of Encumbrances	\$521	\$521
Special Fund for Economic Uncertainties	\$9,009	\$1,630
Budget Stabilization Account		\$472
Total Available Reserve	\$9,009	\$2,102

1/ A total of \$944 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).

Figure SUM-02
2006-07 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2005-06
Personal Income Tax	\$50,885	\$1,255	\$52,140	\$1,400
Sales Tax	28,114	5,410	33,524	1,802
Corporation Tax	10,507	-	10,507	23
Highway Users Taxes	-	3,483	3,483	85
Motor Vehicle Fees	22	5,243	5,265	174
Insurance Tax	2,340	-	2,340	93
Liquor Tax	316	-	316	1
Tobacco Taxes	118	978	1,096	30
Other	1,580	11,387	12,967	1,054
Total	\$93,882	\$27,756	\$121,638	\$4,662

Note: Numbers may not add due to rounding.

Figure SUM-03
2006-07 Total Expenditures by Agency
(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$3,417	\$1,988	\$212	\$5,617
State and Consumer Services	576	752	14	1,342
Business, Transportation & Housing	3,029	7,654	38	10,721
Resources	1,826	1,650	723	4,199
Environmental Protection	88	1,016	69	1,173
Health and Human Services	29,304	6,766	111	36,181
Corrections and Rehabilitation	8,751	22	2	8,775
K-12 Education	40,510	78	79	40,667
Higher Education	11,368	1,265	2,269	14,902
Labor and Workforce Development	99	308	-	407
General Government	2,293	5,093	33	7,419
Total	\$101,261	\$26,592	\$3,550	\$131,403

Note: Numbers may not add due to rounding.

Summary Charts

Figure SUM-04
General Fund Expenditures by Agency
(Dollars in Millions)

	2005-06	2006-07	Change	%
Legislative, Judicial, Executive	\$3,093	\$3,417	\$324	10.5%
State and Consumer Services	576	576	-	0.0%
Business, Transportation & Housing	1,723	3,029	1,306	75.8%
Resources	1,885	1,826	-59	-3.1%
Environmental Protection	73	88	15	20.5%
Health and Human Services	26,965	29,304	2,339	8.7%
Corrections and Rehabilitation	7,838	8,751	913	11.6%
K-12 Education	37,855	40,510	2,655	7.0%
Higher Education	10,395	11,368	973	9.4%
Labor and Workforce Development	89	99	10	11.2%
General Government	2,238	2,293	55	2.5%
Total	\$92,730	\$101,261	\$8,531	9.2%

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	Special and Bond Funds	Totals
Legislative, Judicial, Executive	\$5,629	-\$12	-	\$5,617
State and Consumer Services	1,342	-	-	1,342
Business, Transportation & Housing	10,733	-	-\$12	10,721
Resources	4,201	-2	-	4,199
Environmental Protection	1,208	-	-35	1,173
Health and Human Services	36,223	-42	-	36,181
Corrections and Rehabilitation	8,775	-	-	8,775
K-12 Education	40,668	-1 ^{1/}	-	40,667
Higher Education	14,904	-2 ^{1/}	-	14,902
Labor and Workforce Development	409	-2	-	407
General Government	7,423	-1	-3	7,419
Total	\$131,515	-\$62	-\$50	\$131,403

Note: Numbers may not add due to rounding.

^{1/} Excludes \$103 million of Proposition 98 set asides.

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State of California
Governor's Office

I object to the following appropriations contained in Assembly Bill 1801.

Item 0530-001-9732—For support of Secretary of California Health and Human Services Agency. I reduce this item from \$220,022,000 to \$214,622,000 by reducing:

- (1) 30-Office of Systems Integration from \$220,022,000 to \$214,622,000.

This reduction conforms to the action taken in Item 5180-151-0001.

Item 0540-001-0001—For support of Secretary for Resources. I reduce this item from \$5,924,000 to \$5,824,000.

I am deleting the \$100,000 legislative augmentation for creation of a conservation easement registry at the Resources Agency. This information is already maintained and available at the county level.

Item 0540-001-0140—For support of Secretary for Resources. I revise this item by reducing:

- (1) 10-Administration of Resources Agency from \$8,318,000 to \$8,218,000, and
- (2.5) Amount payable from the General Fund (Item 0540-001-0001) from -\$5,924,000 to -\$5,824,000.

I am revising this item to conform to the action I have taken in Item 0540-001-0001.

Item 0860-001-0001—For support of the Board of Equalization. I reduce this item from \$208,522,000 to \$206,531,000 by reducing:

- (1) 100000-Personal Services from \$279,795,000 to \$276,329,000;
- (3) Reimbursements from -\$111,169,000 to -\$110,190,000;
- (4) Amount payable from the Breast Cancer Fund (Item 0860-001-0004) from -\$377,000 to -\$374,000;
- (5) Amount payable from the State Emergency Telephone Number Account (Item 0860-001-0022) from -\$581,000 to -\$575,000;
- (6) Amount payable from the Motor Vehicle Fuel Account, Transportation Tax Fund (Item 0860-001-0061) from -\$19,549,000 to -\$19,366,000;
- (7) Amount payable from the Occupational Lead Poisoning Prevention Account (Item 0860-001-0070) from -\$644,000 to -\$638,000;

- (8) Amount payable from the Childhood Lead Poisoning Prevention Fund (Item 0860-001-0080) from -\$469,000 to -\$464,000;
- (9) Amount payable from the Cigarette and Tobacco Products Surtax Fund (Item 0860-001-0230) from -\$4,812,000 to -\$4,767,000;
- (10) Amount payable from the Oil Spill Prevention and Administration Fund (Item 0860-001-0320) from -\$238,000 to -\$236,000;
- (11) Amount payable from the Integrated Waste Management Account, Integrated Waste Management Fund (Item 0860-001-0387) from -\$413,000 to -\$408,000;
- (12) Amount payable from the Underground Storage Tank Cleanup Fund (Item 0860-001-0439) from -\$2,112,000 to -\$2,092,000;
- (13) Amount payable from the Energy Resources Programs Account (Item 0860-001-0465) from -\$234,000 to -\$232,000;
- (14) Amount payable from the California Children and Families First Trust Fund (Item 0860-001-0623) from -\$7,457,000 to -\$7,388,000;
- (15) Amount payable from the Federal Trust Fund (Item 0860-001-0890) from -\$1,167,000 to -\$1,156,000;
- (16) Amount payable from the Timber Tax Fund (Item 0860-001-0965) from -\$2,168,000 to -\$2,148,000;
- (17) Amount payable from the Gas Consumption Surcharge Fund (Item 0860-001-3015) from -\$406,000 to -\$404,000;
- (18) Amount payable from the Water Rights Fund (Item 0860-001-3058) from -\$417,000 to -\$412,000;
- (19) Amount payable from the Electronic Waste Recovery and Recycling Account (Item 0860-001-3065) from -\$4,950,000 to -\$4,904,000; and
- (20) Amount payable from the Cigarette and Tobacco Products Compliance Fund (Item 0860-001-0367) from -\$7,043,000 to -\$6,977,000.

With this reduction, the Board of Equalization's (BOE) estimated salary savings will conform to the standard 5 percent level generally required of all state agencies. I understand BOE proposed to use part of the additional funding for auditor recruitment and retention initiatives and to increase hiring. However, the collective bargaining agreement negotiated between the state and the respective exclusive representatives provides significant incentives to encourage auditor recruitment and retention for all state agencies. I believe this issue is best addressed on a statewide basis, instead of through the actions of individual departments.

Item 0860-001-0004—For support of State Board of Equalization. I reduce this item from \$377,000 to \$374,000.

I am reducing this item by \$3,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0022—For support of State Board of Equalization. I reduce this item from \$581,000 to \$575,000.

I am reducing this item by \$6,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0061—For support of State Board of Equalization. I reduce this item from \$19,549,000 to \$19,366,000.

I am reducing this item by \$183,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0070—For support of State Board of Equalization. I reduce this item from \$644,000 to \$638,000.

I am reducing this item by \$6,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0080—For support of State Board of Equalization. I reduce this item from \$469,000 to \$464,000.

I am reducing this item by \$5,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0230—For support of State Board of Equalization. I reduce this item from \$4,812,000 to \$4,767,000.

I am reducing this item by \$45,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0320—For support of State Board of Equalization. I reduce this item from \$238,000 to \$236,000.

I am reducing this item by \$2,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0387—For support of State Board of Equalization. I reduce this item from \$413,000 to \$408,000.

I am reducing this item by \$5,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0439—For support of State Board of Equalization. I reduce this item from \$2,112,000 to \$2,092,000.

I am reducing this item by \$20,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0465—For support of State Board of Equalization. I reduce this item from \$234,000 to \$232,000.

I am reducing this item by \$2,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0623—For support of State Board of Equalization. I reduce this item from \$7,457,000 to \$7,388,000.

I am reducing this item by \$69,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0890—For support of State Board of Equalization. I reduce this item from \$1,167,000 to \$1,156,000.

I am reducing this item by \$11,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-0965—For support of State Board of Equalization. I reduce this item from \$2,168,000 to \$2,148,000.

I am reducing this item by \$20,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-3015—For support of State Board of Equalization. I reduce this item from \$406,000 to \$404,000.

I am reducing this item by \$2,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-3058—For support of State Board of Equalization. I reduce this item from \$417,000 to \$412,000.

I am reducing this item by \$5,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-3065—For support of State Board of Equalization. I reduce this item from \$4,950,000 to \$4,904,000.

I am reducing this item by \$46,000 to conform with the action taken in Item 0860-001-0001.

Item 0860-001-3067—For support of State Board of Equalization. I reduce this item from \$7,043,000 to \$6,977,000.

I am reducing this item by \$66,000 to conform with the action taken in Item 0860-001-0001.

Item 1700-001-0001—For support of Department of Fair Employment and Housing. I reduce this item from \$15,487,000 to \$15,237,000 by reducing:

(1) 50-Administration of Civil Rights Law from \$20,995,000 to \$20,745,000,

and by deleting Provision 1.

I am deleting the legislative augmentation of \$250,000 for a mediation program. The Department has indicated that this amount is insufficient to implement such a program. The Department implemented a mediation program several years ago at an approximate annual cost of \$1,000,000. Though this program was discontinued due to budget cuts, it is unclear whether a program could be implemented at a lower cost with any likelihood of success.

I am also deleting Provision 1, which would require the department to redirect \$250,000 from other program areas to help institute the mediation program. The Department cannot redirect this money without negatively impacting the mandated services it provides under the Fair Employment and Housing Act.

Item 2240-104-0001—For transfer, as an expenditure, by the Controller to the Self-Help Housing Fund. I delete this item.

I am deleting the \$500,000 legislative augmentation to provide funding for construction management grants in the Self-Help Housing Program. Notwithstanding the merits of the program, this reduction is necessary to limit program expansions and provide for a prudent General Fund reserve. In addition, if approved by voters in November, the Strategic Growth Plan housing bond will provide \$10,000,000 in new bond funding for this program.

I am deleting Provision 1 to conform to this action.

Item 2240-105-0001—For transfer, as an expenditure, upon order of the Director of Finance, to the Emergency Housing and Assistance Fund.

I am sustaining \$864,000 General Fund for the Emergency Housing Assistance Program in this item to continue shelter beds during a transition period while new beds are developed under my Initiative to End Chronic Homelessness. Over the past two years, \$110,000,000 has been made available to construct permanent housing with supportive services for individuals with mental illness who are chronically homeless, with \$75,000,000 available ongoing.

Item 2660-001-0890—For support of Department of Transportation. I reduce this item from \$547,224,000 to \$539,054,000.

I am deleting the \$8,170,000 legislative augmentation to increase funding in the Capital Outlay Support Program to conform to my action in Item 2660-001-0042.

Item 2660-002-3007—For support of Department of Transportation. I reduce this item from \$29,001,000 to \$28,929,000 by reducing:

- (1) 20.10—Highway Transportation Capital Outlay Support from \$28,275,000 to \$28,203,000.

I am deleting the \$72,000 legislative augmentation to increase funding in the Capital Outlay Support Program to conform to my action in Item 2660-001-0042.

Item 3110-101-0001—For support of Special Resources Program. I delete this item.

I am deleting the \$148,000 legislative augmentation that would increase funding for employee compensation and price increases in the Tahoe Regional Planning Agency (TRPA). This funding is unnecessary because trailer bill language associated with this Budget Act provides authority to make baseline salary and price increase adjustments for TRPA in the same manner as for other state agencies. Any necessary funding will be provided through that mechanism once the appropriate amounts are known.

Item 3720-001-0001—For support of California Coastal Commission. I reduce this item from \$11,145,000 to \$10,795,000 by reducing:

- (2) 20-Coastal Energy Program from \$1,069,000 to \$719,000.

I am deleting the \$350,000 legislative augmentation for the review of Liquefied Natural Gas proposals and directing that any necessary reviews be accomplished within existing resources. With this reduction, \$791,000 still remains in the Commission's coastal energy program for these activities.

Item 3760-001-0565—For support of State Coastal Conservancy. I revise this item by reducing:

- (2) 25-Coastal Resource Enhancement from \$5,114,000 to \$4,614,000, and
- (5) Reimbursements from -\$621,000 to -\$121,000.

I am revising this item to conform to the action I have taken in Item 3600-001-0001.

Item 3900-101-0044—For local assistance, State Air Resources Board. I reduce this item from \$20,111,000 to \$10,111,000 by reducing:

- (1) 35-Subvention from \$20,111,000 to \$10,111,000.

I am deleting the \$10,000,000 legislative augmentation for subventions to local air districts. This action is necessary because planned and anticipated expenditures limit the resources available in the Motor Vehicle Account to support new expenditures. With this action, \$10,111,000 still remains for local air districts. Furthermore, local communities will benefit from numerous air quality augmentations, including \$3,998,000 to enhance existing air pollution enforcement efforts, and \$1,665,000 to reduce air pollution related to goods movement.

Item 4120-115-0001—For transfer, as an expenditure, by the State Controller to the Trauma Care Fund. I delete this item.

I am deleting the \$10,000,000 legislative augmentation for trauma care services and provisional language within this item. I sustained a similar augmentation in the Budget Act of 2005 and noted the funding was available on a one-time basis in order to provide temporary financial relief. This Budget includes resources that will benefit the hospital system broadly, including an additional \$154.7 million for surge capacity, approximately \$671 million in additional funding for financially distressed hospitals for five years as part of the new Hospital Financing Waiver, and an additional \$36.8 million in realignment funding for county public health services, including services for indigent patients. Finally, local governments will retain an additional \$1.3 billion in property tax revenue in 2006-07 with the expiration of the Educational Revenue Augmentation Fund III shifts, and will receive \$700 million more in property tax revenue due to the Vehicle License Fee swap than they otherwise would have. Cities and counties have the discretion to commit a portion of this funding to local trauma systems.

I am also deleting Provision 8 of Item 4260-001-0001 to conform to this action.

Item 4200-101-0001—For local assistance, Department of Alcohol and Drug Programs. I revise this item by reducing:

- (1) 15-Alcohol and Other Drug Services Program from \$439,936,000 to \$439,336,000, and
- (2) Reimbursements from -\$18,995,000 to -\$18,395,000.

I am revising this item to conform to the action I have taken in Item 5180-101-0890 relating to Indian Health Clinics.

Item 4200-102-0001—For local assistance, Department of Alcohol and Drug Programs. I reduce this item from \$3,431,000 to \$3,317,000 by reducing:

- (1) 15-Alcohol and Other Drug Services Program from \$6,863,000 to \$6,634,000;
- (2) Reimbursements from -\$3,432,000 to -\$3,317,000;

and by revising Provision 5.

I am reducing the legislative augmentation which would have provided funding to increase Drug Medi-Cal rates by a total of \$2,299,000. Of this total amount, \$114,000 is reduced from Item 4200-102-0001, and \$2,185,000 is reduced from Item 4200-103-0001. This program received a rate increase in 2005-06. With the reduction to Item 4200-102-0001, \$6,634,000 remains to support the Perinatal Drug Medi-Cal Program.

I am revising the dollar amount specified in Provision 5 to conform to the actions taken in this item and Item 4200-103-0001.

"5. Of the combined amounts appropriated in Items 4200-102-0001 and 4200-103-0001, ~~\$2,300,000~~ \$1,000 from the General Fund, and corresponding reimbursements, are for the purpose of augmenting Drug Medi-Cal rates above the rates that were authorized in regulation for the 2005–06 fiscal year. The department shall establish increases in maximum Drug Medi-Cal reimbursement rates during the 2006–07 fiscal year to reflect the General Fund moneys and reimbursements specified in this item."

Item 4200-103-0001—For local assistance, Department of Alcohol and Drug Programs. I reduce this item from \$68,775,000 to \$66,590,000 by reducing:

- (1) 15-Alcohol and Other Drug Services Program from \$131,431,000 to \$127,062,000;
- (2) Reimbursements from -\$62,656,000 to -\$60,472,000;

and by revising Provision 6.

I am reducing this legislative augmentation to conform with my actions in Item 4200-102-0001. These funds would have provided funding to increase the Drug Medi-Cal rates by \$2,185,000. With this reduction, \$127,062,000 remains to support the regular Drug Medi-Cal program.

I am revising the dollar amount specified in Provision 6 to conform to the actions taken in this item and Item 4200-102-0001.

"6. Of the combined amounts appropriated in Items 4200-102-0001 and 4200-103-0001, ~~\$2,300,000~~ \$1,000 from the General Fund and corresponding reimbursements are for the purpose of augmenting Drug Medi-Cal rates above the rates that were authorized in regulation for the 2005–06 fiscal year. The department shall establish increases in maximum Drug Medi-Cal reimbursement rates during the 2006–07 fiscal year to reflect the General Fund and reimbursement moneys specified in this item."

Item 4260-101-0001—For local assistance, Department of Health Services. I reduce this item from \$13,444,722,000 to \$13,432,571,000 by reducing:

- (1) 20.10.010-Eligibility (County Administration) from \$2,330,731,000 to \$2,326,927,000;
- (3) 20.10.030-Benefits (Medical Care Services) from \$30,140,437,000 to \$30,116,882,000;
- (8) Amount payable from the Federal Trust Fund (Item 4260-101-0890) from -\$19,215,038,000 to -\$19,199,830,000;

and by deleting Provisions 12, 13, and 15.

I am deleting the legislative augmentation of \$9,349,000 to provide funding for Medi-Cal managed care plans in the event of financial distress. My May Revision proposal provides rate increases to six managed care plans at risk of falling beneath 200 percent of their tangible net equity. My proposal was based upon a comprehensive financial review of plans by the Department of Health Services.

I am deleting Provision 15 and the legislative augmentation of \$9,351,000 in Item 4260-101-0890 to conform to this action.

I am deleting the legislative augmentation of \$300,000 to fund a study of the impact that the Federal Deficit Reduction Act (DRA) may have on pharmacy reimbursement. A rate study is premature at this time since it is unknown when the DRA changes will be implemented. As part of next year's budget development process, the Department of Health Services will evaluate whether a pharmacy reimbursement rate study is necessary.

I am deleting Provision 13 and the legislative augmentation of \$300,000 in Item 4260-101-0890 to conform to this action.

I am deleting the legislative augmentation of \$2,502,000 that was provided to increase the rates paid to Medi-Cal non-emergency transport providers. With this reduction, approximately \$82,900,000 still remains to compensate the providers of non-emergency transport services.

I am deleting the legislative augmentation of \$2,353,000 in Item 4260-101-0890 to conform to this action.

I am deleting Provision 12 because counties are not anticipated to have increased costs related to the *Conlan v. Shewry* settlement agreement.

I am deleting the legislative augmentation of \$3,204,000 in Item 4260-101-0890 to conform to the action taken in 5180-141-0001 regarding workstation replacement and help desk support of the Statewide Automated Welfare System.

I am sustaining the \$100,000 legislative augmentation for podiatry services related to eliminating the Treatment Authorization Request (TAR) process. I am directing the Department of Health Services to monitor and audit these podiatry services so that there will not be an inappropriate utilization of Medi-Cal Services.

I am sustaining the \$12,127,000 legislative augmentation for county administration reimbursement. However, I welcome the opportunity to work with the Legislature to develop a new county reimbursement methodology for programs funded through the Department of Health Services, Department of Alcohol and Drug Programs, Department of Child Support Services, and the Department of Social Services, that will provide the ability to contain county reimbursement to a reasonable level.

Item 4260-101-0890—For local assistance, Department of Health Services. I reduce this item from \$19,215,038,000 to \$19,199,830,000.

I am reducing this item by \$15,208,000 to conform to my action in Item 4170-101-0001, Item 4260-101-0001, and Item 5180-141-0001.

Item 4440-011-0001—For support of the State Hospitals, Department of Mental Health. I delete Provision 8.

Provision 8 would require the department to provide an update by January 10, 2007 on the status of the operation of the adolescent unit at Metropolitan State Hospital (MSH), including whether construction of the onsite school is warranted. On May 8, 2006, the Legislature was notified of the termination of the school building project because the number of youths in the MSH's Children's Program has declined significantly, making construction of the school unnecessary. The department will provide information regarding the operation of the adolescent unit at MSH with the release of the 2007-08 Governor's Budget.

Item 5175-101-0001—For local assistance, Department of Child Support Services.

I am sustaining on a one-time basis the \$4,000,000 General Fund augmentation for local child support agency administration. The Department of Child Support Services, in consultation with local child support agencies, is in the process of developing a new funding allocation methodology intended to improve overall child support program performance. I am sustaining this funding to allow the department to evaluate the effectiveness of distributing funding according to this new allocation methodology in order to improve performance on state and federal child support program measures. If this augmentation and associated allocation methodology proves to directly improve performance, then I direct the department to consider options to utilize a performance-based methodology on a broader scale.

Item 5180-001-0001—For support of Department of Social Services. I reduce this item from \$88,889,000 to \$87,569,000 by reducing:

- (1) 16-Welfare Programs from \$64,579,000 to \$63,579,000;
- (2) 25-Social Services and Licensing from \$146,826,000 to \$146,470,000; and
- (10) Amount payable from the Federal Trust Fund (Item 5180-001-0890) from -\$345,298,000 to -\$345,262,000.

I am deleting the \$1,000,000 legislative augmentation for the Farm to Family and Donate/Don't Dump programs. Though I share the Legislature's desire to improve the statewide distribution of donated produce, these programs currently are operating without General Fund resources and should continue to pursue private investments.

I am also deleting the legislative augmentation of \$356,000 (\$320,000 General Fund and \$36,000 Federal Trust Fund) which would provide funding to make Community Care Licensing facility and compliance data available to the public on the Internet. I am fully supportive of efforts in this area, but the department must complete the necessary information technology planning process and should evaluate the possibility of using existing resources for this purpose.

Item 5180-001-0803—For support of Department of Social Services. I reduce this item from \$218,000 to \$208,000.

I am deleting the \$10,000 legislative augmentation which would provide funding to make Community Care Licensing facility and compliance data available to the public on the Internet. I am fully supportive of efforts in this area. Consistent with my action in Item 5180-001-0001, I am directing the Department of Social Services to complete the necessary information technology planning requirements and evaluate the possibility of using existing resources for this purpose.

Item 5180-001-0890—For support of Department of Social Services. I reduce this item from \$345,298,000 to \$345,262,000.

I am reducing this item to conform to the action I have taken in Item 5180-001-0001.

Item 5180-101-0001—For local assistance, Department of Social Services. I revise this item by reducing:

- (1) 16.30-CalWORKs from \$4,946,754,000 to \$4,941,154,000, and
- (6) Amount payable from the Federal Trust Fund (Item 5180-101-0890) from -\$3,833,619,000 to -\$3,828,019,000.

I am revising this item to conform to the action I have taken in Item 5180-101-0890.

Item 5180-101-0890—For local assistance, Department of Social Services. I reduce this item from \$3,833,619,000 to \$3,828,019,000 and delete Provision 5.

I am deleting the \$5,000,000 legislative augmentation in federal Temporary Assistance for Needy Families (TANF) Block Grant funds for the CalWORKs program to reflect the level of savings in the May Revision for ongoing welfare reform efforts initiated in 2004-05. The Legislature increased funding for this program based on concerns that estimated savings in prior subventions have not materialized. However, the May Revision already adjusted the savings from my January Budget as the result of a revised welfare reform methodology and implementation schedule. As welfare reform efforts continue, additional adjustments, if necessary, will be appropriately reflected in my proposed January Budget for 2007-08.

I am deleting the \$600,000 legislative augmentation in TANF Block Grant funds for CalWORKs Indian Health Clinics. The Legislature's augmentation did not reflect an analysis of data or outcome measures indicating that the current funding level is insufficient. This veto maintains funding for Indian Health Clinics at the level proposed in the May Revision.

I am deleting Provision 5, as this language is unnecessary. The Legislature included language with the same effect in the social services budget trailer bill. Having language in both the Budget Act and the trailer bill is duplicative and may cause confusion related to compliance.

Item 5180-141-0001—For local assistance, Department of Social Services. I reduce this item from \$437,339,000 to \$432,625,000 by reducing:

- (1) 16.75-County Administration and Automation Projects from \$1,055,060,000 to \$1,043,686,000;
- (2) Reimbursements from -\$57,397,000 to -\$54,203,000; and
- (3) Amount payable from the Federal Trust Fund (Item 5180-141-0890) from -\$560,324,000 to -\$556,858,000.

I am deleting the legislative augmentation of \$11,374,000 (\$4,714,000 General Fund, \$3,194,000 Reimbursements, and \$3,466,000 Federal Trust Fund) for workstation replacement and help desk support of the Statewide Automated Welfare System, including the CalWORKS Information Network. Although I understand that workstations need to be replaced on a regular basis, workstation replacement costs should be paid from funds provided for general county administration. In addition, the Budget already provides increased funding for county help desk staff.

I am also reducing \$3,204,000 in Item 4260-101-0890 to conform to this action.

Item 5180-141-0890—For local assistance, Department of Social Services. I reduce this item from \$560,324,000 to \$556,858,000.

I am reducing this item to conform to the action I have taken in Item 5180-141-0001.

Item 5180-151-0001—For local assistance, Department of Social Services. I reduce this item from \$912,253,000 to \$909,599,000 by reducing:

- (1) 25.30-Children and Adult Services and Licensing from \$2,392,442,000 to \$2,387,042,000;
- (3) Reimbursements from -\$99,626,000 to -\$99,173,000; and
- (6) Amount payable from the Federal Trust Fund (Item 5180-151-0890) from -\$1,399,979,000 to -\$1,397,686,000.

I am deleting the legislative augmentation of \$5,400,000 (\$2,654,000 General Fund, \$453,000 Reimbursements, and \$2,293,000 Federal Trust Fund) for Child Welfare Services/Case Management System (CWS/CMS) county workstation replacement. Although I understand that workstations need to be replaced on a regular basis, workstation replacement costs should be paid from funds provided for general county administration. In addition, since many workstations include functionalities that are not related to the CWS/CMS program, this augmentation is unnecessary.

I am also deleting the legislative augmentation of \$5,400,000 in Item 0530-001-9732 to conform to this action.

Item 5180-151-0890—For local assistance, Department of Social Services. I reduce this item from \$1,399,979,000 to \$1,397,686,000.

I am reducing this item to conform to the action I have taken in Item 5180-151-0001.

Item 5225-002-0001—For support of Department of Corrections and Rehabilitation. I delete Provision 6.

I am deleting Provision 6, which would limit the expenditure of funds appropriated for the Inmate Dental Plan required by the *Perez v. Tilton* lawsuit pending the submission of the court required staffing study to the Joint Legislative Budget Committee (JLBC). The Administration will provide this report to the JLBC when it is available; however, I am vetoing this language because it could limit the Department's ability to implement this plan and meet court requirements.

I am sustaining Provision 7, which will require the Department to establish guidelines for the use of telemedicine, establish performance targets, and provide the Legislature with a written report regarding meeting the performance targets. The Administration is supportive of establishing appropriate guidelines and performance measures. However, compliance will be at the discretion of the Receiver appointed by the federal court in *Plata v. Schwarzenegger* to oversee the provision of medical services to inmates.

Item 6110-001-0001—For support of Department of Education. I reduce this item from \$48,902,000 to \$47,816,000 by reducing:

- (1) 10-Instruction from \$58,451,000 to \$57,831,000,
- (2) 20-Instructional Support from \$100,127,000 to \$99,661,000;

and by deleting Provisions 27 and 30.

I am reducing this item by \$320,000 for increased compensation for Administrative Law Judges concerning dispute resolution services for special education. This legislative augmentation is unnecessary, as funding is already included in a separate item for employee compensation adjustments.

I am deleting Provision 30 to conform to this action.

I am reducing this item by \$300,000 for a study of the special education funding formula's Special Disabilities Adjustment. I note that a similar study funded in the 2002 Budget Act failed to update the adjustment factors in a satisfactory manner, and I see no compelling reason to believe that a second study will bring greater clarity to the issue.

I am deleting Provision 27 to conform to this action.

I am reducing a legislative augmentation by \$466,000 and 5.0 positions to oversee management teams and trustees of state-sanctioned schools. Instead, I am sustaining \$130,000 and 1.0 position for these purposes. I believe an increase in staff to the higher level is unnecessary because there are very few schools that will be subject to oversight by a management team or a trustee. Further, these oversight responsibilities can be absorbed within existing resources because the department's staffing levels were never reduced to reflect the phase-out of the Immediate Intervention/Underperforming Schools Program.

Item 6110-126-0890—For local assistance, Department of Education. I reduce this item from \$158,937,000 to \$143,837,000 and delete Provisions 10, 11, 12, and 13.

I am reducing \$15,100,000 in federal Reading First carryover expenditure authority from prior years and deleting the provisional language associated with it. I am concerned that this language both proposes to initiate a new cohort of grant recipients, and would require subsequent legislation to define the criteria by which currently participating districts are determined to be making progress in the program and thus, whether current grant recipients continue to receive funding. This language is an attempt to enact substantive law in the Budget Act rather than in a single subject bill as required by the Constitution.

Further, this proposal is inconsistent with the approved federal Reading First State Plan which appropriately gives the authority to define "significant progress" to the State Board of Education (SBE) as the State Educational Agency responsible for implementation of the federal No Child Left Behind Act. The SBE has been working with constituents to develop a fair and meaningful definition of "significant progress" and should be allowed to continue their work. Finally, the addition of a new cohort in the fifth year of a six-year

program may serve to undermine the overall performance of the state's Reading First program and, therefore, jeopardize future funding for this program if it is reauthorized at the federal level. I am willing to support a substantive bill that maintains the authority of the SBE to define "significant progress", extends availability of funding for existing cohorts for the 5th and 6th years, and avoids creation of a new cohort of grant recipients.

Item 6110-203-0001—For local assistance, Department of Education (Proposition 98). I reduce this item from \$130,892,000 to \$93,092,000 by reducing:

(1) 30.20.010-Child Nutrition Programs from \$131,234,000 to \$93,434,000,

and by deleting Provision 6.

I am deleting \$37,800,000 legislative augmentation because the Legislature did not link this funding to legislation that would require schools to improve the nutritional quality of meals served to California students. With the progress we have made thus far in limiting "junk food" on school campuses and placing greater emphasis on student consumption of fruits and vegetables, I believe that improved nutritional quality is a critical additional step to battling childhood obesity and improving our students' health. I am therefore setting these funds aside for appropriation in subsequent legislation.

I am deleting Provision 6 to conform to this action.

Item 6360-001-0001—For support of the Commission on Teacher Credentialing. I delete this item.

I am deleting this item to eliminate the \$227,000 legislative augmentation to support the rate increase for the Paraprofessional Teacher Training Program in Item 6360-101-0001 because a rate increase does not drive any substantive additional workload.

Item 6600-001-0001—For support of Hastings College of the Law. I reduce this item from \$10,924,000 to \$10,671,000.

I am reducing the one-time legislative augmentation for relocation costs related to a capital outlay project to correct code deficiencies in an academic facility from \$776,000 to \$523,000. Pursuant to the compact for Higher Education, the Budget includes \$253,000 which may be spent for this purpose at the discretion of the College. This action is necessary to limit program expansions and provide for a prudent General Fund reserve.

Item 6610-002-0001—For support of California State University. I reduce this item from \$3,121,000 to \$2,991,000 by reducing:

(3) Assembly Fellows from \$601,687 to \$565,287;

(4) Senate Fellows from \$601,687 to \$565,287;

(5) Executive Fellows from \$601,687 to \$565,287; and

(6) Judicial Fellows from \$422,939 to \$402,139.

I am reducing the \$230,000 legislative augmentation for the Capital Fellows Programs by \$130,000. Given the 3 percent increase that was already included in the January Budget for this program, the remaining \$100,000 augmentation would reflect a 6.6 percent increase for inflationary pressures. This should be sufficient to effectively maintain the program. Should the Chancellor of the California State University believe this amount to be insufficient, he may allocate funds for this purpose from Item 6610-001-0001.

Item 6610-004-0001—For support of California State University. I delete this item.

I am deleting this item which reflects a legislative augmentation of \$112,000 to support California's membership in the Western Interstate Commission for Higher Education (WICHE). When acting on the 2004 Budget, the Legislature deleted funding for membership dues for WICHE, as well as other state membership dues because of the fiscal condition of the state. This reduction continues to be necessary to provide for a prudent General Fund reserve. Both the University of California and the California State University may elect to provide funding for this purpose to the extent the benefits of membership in this organization are worthwhile.

Item 6870-001-0001—For support of Board of Governors of the California Community Colleges. I reduce this item from \$9,472,000 to \$9,397,000 by reducing:

(2) 20-Special Services and Operations from \$16,392,000 to \$16,317,000.

I am reducing Schedule (2) to eliminate the \$75,000 legislative augmentation for additional staffing at the Chancellor's Office. Three positions were added to the Chancellor's Office in the Budget Act of 2005 for the same purposes and remain available in the budget year for these purposes. These resources are sufficient for supporting local assistance programs in 2006-07.

Item 6870-101-0001—For local assistance, Board of Governors of the California Community Colleges (Proposition 98). I reduce this item from \$3,772,712,000 to \$3,763,712,000 by reducing:

(11) 20.20.050-Part-time Faculty Health Insurance from \$6,000,000 to \$1,000,000, and

(13) 20.20.055-Part-time Faculty Office Hours from \$11,172,000 to \$7,172,000.

I am reducing schedule (11) by \$5,000,000 and schedule (13) by \$4,000,000 to delete the legislative augmentations for both the respective Part-time Faculty Health Insurance and Part-time Faculty Office Hours Programs. However, I am setting these amounts aside for legislation that restores these funds for the Career Technical Education Program.

The part-time faculty programs were established to provide incentive grants to districts to increase their investments in part-time faculty benefits and were not intended to require additional state contributions. Given the significant increases in general purpose funding in this budget, districts have more than adequate resources to support these programs at local discretion. Moreover, I am committed to increasing the \$20,000,000 ongoing funding remaining in the budget for Career Technical Education, after the Legislature's

\$30,000,000 reduction to my proposed budget. Given the magnitude of work that remains to be done to reinvigorate and align career technical education programs in our high schools and community colleges, I am setting these funds aside for appropriation for that purpose in subsequent legislation.

Item 7980-001-0784—For support of California Student Aid Commission. I reduce this item from \$15,379,000 to \$15,279,000 by reducing:

(1) 15-Financial Aid Grants Program from \$13,848,000 to \$13,748,000,

and by deleting Provision 5.

I am deleting the \$100,000 legislative augmentation for 1.0 position for purposes of administering the Public Interest Attorney Loan Repayment Program to conform to my action on item 7980-101-0001.

I am deleting Provision 5 to conform to this action.

Item 7980-101-0001—For local assistance, California Student Aid Commission. I am revising Provision 1(d) and deleting Provision 10.

I am reducing the number of loan assumption warrants authorized in Provision 1(d) for the Assumption Program of Loans for Education by 600 and setting aside this amount of new warrants for authorization in subsequent legislation that would specify their use exclusively for students participating in the Science and Math Teacher Initiative as proposed in my January Budget. Given the significant shortage of highly talented science and math teachers in our public school system, my January Budget contained a modest, but important component of the initiative that has been funded in the last two budgets for the University of California and the California State University systems. I continue to propose assumption of loans for these students in order to provide greater certainty of securing the most proficient science and math teachers possible which is critical to California's future economic well being.

I am revising Provision 1(d) to conform to this action as follows:

“1(d). The purchase of loan assumptions under Article 5 (commencing with Section 69612) of Chapter 2 of Part 42 of the Education Code. The Student Aid Commission shall issue ~~8,000~~ 7,400 new warrants.”

Additionally, I am deleting the legislative language augmentation included in Provision 10 that authorizes 100 new warrants for the Public Interest Attorney Loan Repayment Program. Because the education trailer bill would delete the provisions of current law that authorize donations for the purpose of funding this program, these warrants would require General Fund repayment in future years. Therefore, this action is necessary to limit program expansions.

I am deleting Provision 10 to conform to this action.

Item 7100-101-0869—For local assistance under Workforce Investment Act (WIA), Employment Development Department. I delete Provision 2 of this item.

This language would have the effect of unilaterally augmenting the formula allocations for some Local Workforce Investment Areas (LWIAs), while decreasing the total funding available for other LWIAs that may need additional assistance as a result of recent worker dislocations.

I agree that the concern addressed by this language has merit, but it would not solve the underlying issue of fairness with regard to the division of funds based on mass layoff data. The California Workforce Investment Board is currently working on a report that will address the distribution of the federal Workforce Investment Act funds. Additionally, until the report is finalized, the Employment Development Department already has a process for LWIAs to apply for and receive additional funding when the formula allocation does not adequately reflect the demand for services. This process has been successfully used by LWIAs in the past to quickly receive additional funding when necessary. Consequently, for these reasons I am vetoing this language.

Item 7350-001-0001—For support of Department of Industrial Relations. I reduce this item from \$65,603,000 to \$64,103,000 by reducing:

(5) 40-Division of Occupational Safety and Health from \$88,966,000 to \$87,466,000, and by deleting Provisions 2 and 3.

I am deleting the legislative augmentation that provided \$1,500,000 and 15.2 personnel years to improve the ratio of Cal/OSHA inspectors to the civilian workforce. The Legislative Analyst's Office provided a study on Cal/OSHA inspections which demonstrates that the levels of workplace injuries and fatalities in California are well below the national average. Furthermore, Cal/OSHA has a number of inspector positions that are vacant and have been historically difficult to fill. With this reduction, \$87,466,000 still remains to support Cal/OSHA.

I am deleting Provision 2 which would require \$1,500,000 of the amount scheduled in Program 50 to be expended solely to reduce wage claim hearing backlogs and to increase field enforcement in specified industries. This language is unduly restrictive and could undermine the Division's targeted enforcement efforts.

I am deleting Provision 3 that would redirect the revenues collected from Farm Labor Contractor license fees. This provision would increase the amount directed to the Farmworker Remedial Account from \$50 to \$150, and would decrease the amount of funds directed to the General Fund from \$450 to \$350 for the 2006-07 fiscal year. This language is unnecessary because proposed budget trailer bill language will redirect the funds in a similar manner on an ongoing basis.

Item 8570-001-0001—For support of Department of Food and Agriculture. I reduce this item from \$76,457,000 to \$75,457,000 by reducing:

- (1) 11-Agricultural Plant and Animal, Pest and Disease Prevention from \$107,877,000 to \$106,877,000.

I am reducing the legislative augmentation for the Noxious Weed Management Program by \$1,000,000. While I understand that this program is to protect and enhance the economy and natural environment of California and that current activities are not sufficient to adequately address the problems associated with noxious and invasive weeds, the remaining funds will provide a sufficient level of funding to leverage local and federal funds to continue efforts in this area.

Item 8570-101-0001—For local assistance, Department of Food and Agriculture.

I am sustaining the \$3,000,000 legislative augmentation related to high-risk pest exclusion and the language requiring a specific allocation methodology for the distribution of these funds. Further, I am directing the Department to convene the High Risk Pest Exclusion Working Group and determine the distribution of these funds within 45 days of signature of this bill with contracts awarding these funds to immediately follow.

Item 8660-001-0461—For support of Public Utilities Commission. I reduce this item from \$9,292,000 to \$8,725,000.

I am reducing this item by \$567,000 to conform to the action I have taken in Item 8660-001-0462.

Item 8660-001-0462—For support of Public Utilities Commission. I reduce this item from \$74,778,000 to \$73,198,000 by reducing:

- (1) 10-Regulation of Utilities from \$108,830,000 to \$106,827,000;
- (3) 20-Regulation of Transportation from \$17,358,000 to \$16,791,000;
- (10) Amount payable from the Public Utilities Commission Transportation Reimbursement Account (Item 8660-001-0461) from -\$9,292,000 to -\$8,725,000; and
- (18) Amount payable from the Public Utilities Commission Ratepayer Advocate Account (Item 8660-001-3089) from -\$20,175,000 to -\$19,752,000.

The Legislature augmented the Public Utilities Commission's budget by \$5,607,000 and 58.5 positions to meet increased workload demands. I am sustaining \$3,037,000 and 33.0 positions to perform critical climate change activities and to meet workload demands in the Energy Division, Water Division, Telecommunications Division, and the Division of Ratepayer Advocates. However, I am vetoing \$2,570,000 and 25.5 positions of the augmentation because they are not justified on a workload basis.

Item 8660-001-3089—For support of Public Utilities Commission. I reduce this item from \$20,175,000 to \$19,752,000.

I am reducing this item by \$423,000 to conform to the action I have taken in Item 8660-001-0462.

Item 8660-011-0462—For transfer by the Controller from the Public Utilities Commission Utilities Reimbursement Account to the Public Utilities Commission Ratepayer Advocate Account. I reduce this item from \$(20,175,000) to \$(19,752,000).

I am reducing this item by \$423,000 to conform to the action I have taken in Items 8660-001-0462 and 8660-001-3089.

Item SEC. 24.55—California Research and Education Network. Specified Use of Funds and Reporting Requirements for the California Research and Education Network (CalREN). I revise this Control Section to eliminate requirements related to assets purchased primarily with state funds because they are overly restrictive and inequitable to other entities that have contributed funds for this equipment.

Participants in the Corporation for Education Network Initiatives in California (CENIC) and CalREN include private colleges and educational institutions from other states. Therefore, the language in this control section that requires that any assets purchased primarily with state moneys be transferred to the state if CENIC no longer manages the network is inappropriate. Disposition of jointly purchased and shared assets should be determined by all affected parties, including California educational institutions, in the unlikely scenario that CENIC no longer manages the Network. Further, this section appears to violate the separation of powers provision of the California Constitution in that it impairs the ability of the University of California, the California State University, and the Executive Branch to administer the program and determine the appropriate allocation of assets. Also, it appears to violate the prohibition against the impairment of the obligation of contracts in that it impairs the existing agreements among the members of CENIC.

I am revising Control Section 24.55 to conform as follows:

"SEC. 24.55. (a) For the purposes of this section, "educational institutions" means the University of California (UC), upon the approval of its Board of Regents, the California State University (CSU), the California Community Colleges (CCC), and the State Department of Education (SDE), or their designees, as part of their participation on the Board of the Corporation for Education Network Initiatives in California (CENIC).

(b) To expend General Fund, student fee revenue, or any other monies for the California Research and Education Network (CalREN) or the K–12 High Speed Network (HSN), state educational institutions shall do all of the following:

(1) Ensure that any interest earned on state monies is used for operating CalREN serving the UC, CSU, CCC, and K–12 segments. Any segment-specific cash reserves held by CENIC for an individual segment shall be held separately and accrue interest to that segment.

~~(2) Ensure that any assets purchased primarily with state monies are transferred to the state if CENIC no longer manages CalREN.~~

(3) Approve an agreement that designates specific levels of service to be provided by CalREN and HSN to all public education segments.

(4) Establish fee payment schedules that neither result in significant prepayments nor require additional administrative costs to implement. If the Board of CENIC determines that certain prepayments are necessary, individual segments may prepay to avoid additional costs to themselves.

(5) Ensure that CENIC reports to the Legislature and the Governor, not later than December 1, 2006, the following minimum information:

(A) For the 2005–06 fiscal year, revenues from each public education segment and from other sources whose annual revenues are \$100,000 or more, and expenditures of \$100,000 or more by major category.

(B) A financial accounting of all primarily state-funded assets associated with CalREN and HSN.

(C) A copy of the 2006–07 service level agreement approved by the Board of CENIC.

(D) A list of all prepayments made in the 2005–06 fiscal year and in the first quarter of the 2006–07 fiscal year, and a detailed explanation of the savings resulting from each prepayment.

(E) A list of all in-state private educational institutions and out-of-state educational institutions that have used CalREN and the fee amounts they have been charged.

(F) A detailed revised budget for CalREN and HSN for the 2006–07 fiscal year."

Item SEC. 33.50—Strategic Sourcing. I delete this Control Section.

I am deleting this Control Section, which authorizes the Department of Finance to reduce appropriations to capture savings resulting from the California Strategic Sourcing Initiative and requires the Director of Finance to provide quarterly reports to the Legislature on any payments made to a Strategic Sourcing contractor at least 30 days prior to reducing any item of appropriation.

To the extent departments experience savings due to Strategic Sourcing, these savings will either create flexibility within departments' budgets or be counted toward the \$200,000,000 savings requirement in Control Section 4.05. However, consistent with the intent of Control Section 33.50, I am directing the Department of General Services to continue to provide quarterly reports to the Legislature identifying the Strategic Sourcing savings by departments and amounts paid to contractors.

With the above deletions, revisions, and reductions, I hereby approve Assembly Bill 1801.



ARNOLD SCHWARZENEGGER

State of California
Governor's Office

I object to the following appropriations contained in Assembly Bill 1811.

Item 0250-101-0932—For local assistance, Judicial Branch. I reduce this item from \$2,802,900,000 to \$2,792,900,000 by reducing:

(4) 45.45-Court Interpreters from \$96,126,000 to \$86,126,000.

I am deleting the \$10,000,000 legislative augmentation to provide interpreters in civil cases. I believe it is essential to provide non-English speaking litigants with interpreters in order to provide meaningful access to our justice system, and as such, I expect that the Judicial Council will identify efficiencies and best practices, and will, to the extent possible, expand the use of interpreters in civil cases using existing resources. This is consistent with the agreement I have with the Chief Justice regarding funding for the Courts, which provides a stable funding level for the Judicial Branch and allows the Judicial Council to prioritize programs within that annual augmentation, as is appropriate for an independent branch of government.

I am deleting Provision 11 to conform to this action.

Item 0250-111-0001—For transfer by the Controller to the Trial Court Trust Fund. I reduce this item from \$1,612,357,000 to \$1,602,357,000.

I am deleting the \$10,000,000 legislative augmentation to provide interpreters in civil cases to conform to the action taken in Item 0250-101-0932.

Item 0690-102-0001—For local assistance, Office of Emergency Services. I reduce this item from \$56,699,000 to \$56,249,000 by reducing:

(1.5) 50.20-Victim Services from \$9,317,000 to \$9,267,000;

(2.5) 50.30-Public Safety from \$52,953,000 to \$52,553,000;

and by deleting Provision 8.

I am deleting the \$450,000 legislative augmentation for the California Innocence Protection Program and the Youth Emergency Telephone Referral Hotline.

I am confident that these programs will be able to obtain private funding as they have in the past. With these reductions, \$127,000 still remains to support the Youth Emergency Telephone Referral Hotline.

I am deleting Provision 8 to conform to this action.

Item 2660-001-0042—For support of Department of Transportation. I reduce this item from \$2,322,131,000 to \$2,310,701,000 by reducing:

- (2) 20.10-Highway Transportation—Capital Outlay Support from \$1,394,844,000 to \$1,375,244,000;
- (17) Amount payable from the Federal Trust Fund (Item 2660-001-0890) from -\$547,224,000 to -\$539,054,000;

and by deleting Provision 13.

I am deleting the \$11,430,000 legislative augmentation to increase funding in the Capital Outlay Support Program. The Legislature augmented this item in order to provide funding for workload associated with the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 on the November 2006 ballot, as provided by Chapter 25, Statutes of 2006. However, this funding is unnecessary, because all of the capital outlay support work related to the bond act in 2006-07 will have already been completed within existing resources. Any future bond-related work should be funded out of the bond proceeds instead of using these scarce State Highway Account resources that are needed for ongoing maintenance of state highways.

I am deleting Provision 13 to conform to this action.

I am also revising Items 2660-001-0890 and 2660-002-3007 to conform to the revision in this item.

Item 3600-001-0001—For support of Department of Fish and Game. I reduce this item from \$101,813,000 to \$100,813,000 by reducing:

- (3) 30-Management of Department Lands and Facilities from \$67,020,000 to \$66,020,000,

and by deleting Provision 15.

I am deleting the legislative augmentation of \$1,000,000 and 8.0 positions for land management activities. With this reduction, \$66,000,000 still remains to support the management of department-owned lands and facilities, including wildlife areas, ecological reserves, and fish hatcheries.

I am deleting Provision 15. The Budget Act of 2006 includes \$10,000,000 for salmon restoration projects on the Klamath River. The proposed provisional language would shift \$4,000,000 from Klamath River restoration projects to the Fisheries Restoration Grant Program, subjecting these funds to a lengthy grant process. The intent of the Budget Act appropriation is to restore critical salmon habitat on the Klamath River as soon as possible through projects administered directly by the Department of Fish and Game. With this action, the Budget Act still provides \$4,000,000 to support the Fisheries Restoration Grant Program.

Item 3790-001-0001—For support of Department of Parks and Recreation. I reduce this item from \$377,959,000 to \$377,784,000 by reducing:

- (1) For support of the Department of Parks and Recreation from \$605,378,000 to \$605,203,000.

I am reducing this item by \$175,000 and 2.0 positions for the Main Street Program. Existing law specifies a funding mechanism for this program and providing a General Fund augmentation would be inconsistent with those provisions.

Item 3900-001-0044—For support of Air Resources Board. I reduce this item from \$160,579,000 to \$135,579,000 by reducing:

- (1) 15-Mobile Source from \$272,255,000 to \$257,255,000, and
- (2) 25-Stationary Source from \$51,210,000 to \$41,210,000.

I am deleting the \$25,000,000 legislative augmentation to reduce emissions from locomotives, construction equipment, and dairy equipment. Notwithstanding the merits of the funding, this reduction is necessary because planned and anticipated expenditures limit the resources available in the Motor Vehicle Account to support new expenditures. Furthermore, the Budget already provides \$90,000,000 for the Carl Moyer Program to fund cost-effective emission reduction projects, \$25,000,000 to replace pre-1977 school buses with new clean buses that meet federal safety standards, and \$25,000,000 to develop clean alternative fuels and promote zero emission vehicles.

Item 4260-001-0001—For support of Department of Health Services. I delete Provisions 7 and 8.

I am deleting Provision 7 because exempting all clinical positions within the Department of Health Services Licensing and Certification Division from unallocated reductions is an infringement on the Executive Branch's budget development process and restricts my authority to prepare a budget which reflects my spending priorities within available fiscal resources.

I am deleting Provision 8 to conform to the action I took in Item 4120-101-0001.

Item 4260-111-0001—For support of Department of Health Services. I reduce this item from \$569,157,000 to \$560,157,000 by reducing:

- (5) 10.30.040-Chronic Diseases from \$187,890,000 to \$185,890,000;
- (6) 10.30.050-Communicable Disease Control from \$74,711,000 to \$68,711,000;
- (9) 20.40-Primary Care and Family Health from \$1,536,864,000 to \$1,535,864,000;

and by revising Provision 4.

I am deleting the \$2,000,000 legislative augmentation for the California Children's Dental Disease Program (CDDPP). With this reduction, \$3,300,000 still remains to support 33 programs statewide, serving over 1,200 schools and 326,000 children. In addition, this

Budget includes \$1,500,000 in the Medi-Cal and \$500,000 in the Healthy Families programs for dental services related to my proposal to ensure dental screenings are available for California's school children.

I am sustaining \$3,000,000 and deleting \$6,000,000 of the \$9,000,000 legislative augmentation for West Nile Virus (WNV). Last year I provided \$12,000,000 in one-time funding to enhance mosquito control efforts and reduce death and illness from WNV. That funding should continue to have an effect this year. Local mosquito and vector control agencies and other local governmental entities should continue to utilize local government revenue to support their ongoing efforts. Furthermore, the Budget contains an additional \$1,000,000 in ongoing funding to support an effective, long-term, strategic plan for WNV, including a multifaceted surveillance program, extensive public education, and assistance to local agencies and the medical and veterinary communities. In the event unforeseen circumstances result in the depletion of funds to fight this infectious disease, I will consider administrative remedies to provide funding to the extent appropriate. I am revising Provision 4 to conform to this action as follows:

"4. (a) Of the amount appropriated in this item, the Department of Health Services shall, at the discretion of the director, allocate ~~\$9,000,000~~ \$3,000,000 to local mosquito and vector control agencies or other governmental entities, or contract with other entities to supplement resources for local mosquito control efforts to mitigate the threat of West Nile Virus transmission. In allocating these funds, the director shall first address high priority areas and "hot spots," based on epidemiological studies and related information to mitigate the spread of the disease. These funds shall not be used to supplant existing local vector control agency funds.

(b) In response to the public health implications of the West Nile Virus, and in order to expedite the implementation of mosquito control efforts funded by no more than ~~\$9,000,000~~ \$3,000,000 appropriated in this item, the department may make and receive grants and enter into contracts and interagency agreements. The department shall be exempt from competitive bidding requirements and shall be exempt from the requirements of Part 2 (commencing with Section 10100) of Division 2 of the Public Contract Code."

I am sustaining the legislative augmentation to provide \$272,000 AIDS Drug Assistance Program Rebate Fund and 3.0 positions to support expansion of the Ryan White Comprehensive AIDS Resources Emergency Health Insurance Premium Payment (CARE/HIPP) Program. There is likelihood that cost avoidance may materialize in future years due to this program expansion.

I am sustaining the legislative augmentation to provide \$20,000,000 federal funds, anticipated from the second federal award for pandemic influenza, to purchase medical supplies and equipment to strengthen the state's health care surge capacity needs.

I am deleting the \$1,000,000 legislative augmentation which would increase resources for Indian Health Clinics. With this reduction, \$6,900,000 still remains in the Department of Health Services for this purpose.

Item 6360-101-0001—For local assistance, Commission on Teacher Credentialing (Proposition 98). I revise Provision 2.

While I am sustaining the \$1,267,000 legislative augmentation for increasing the per participant funding rate for the Paraprofessional Teacher Training Program, I am making a technical

revision to the language in this item because it is inconsistent with the intent of the augmentation.

I am revising Provision 2 to conform to this action as follows:

"2. The funds appropriated in Schedule (2) are for school districts and county offices of education participating in the California School Paraprofessional Teacher Training Program established pursuant to Article 12 (commencing with Section 44390) of Chapter 2 of Part 25 of the Education Code. Of these funds, \$1,267,000 is available to increase the per participant rate and to address participant waiting lists pursuant to the enactment of legislation during the 2005-06 Regular Session."

Item 6440-001-0001—For support of University of California. I reduce this item from \$2,835,604,000 to \$2,834,604,000 by reducing:

(1) Support from \$2,752,108,000 to \$2,751,108,000,

and by revising Provision 13 and deleting Provision 24.

I am deleting the \$1,000,000 legislative augmentation for research on obesity and diabetes. This reduction exceeds the level of funding provided under the Higher Education Compact and is necessary to limit program expansions and to provide for a prudent General Fund reserve.

I am deleting Provision 24 to conform to this action.

In addition, I am revising Provision 13 to delete language that describes a new methodology for determining the marginal cost of each additional state-supported student in the future. The new formula is not transparent, is too difficult to either replicate or verify allowing for the potential of manipulation in future years, and does not properly reflect the full mix of new faculty associated with the system-wide growth in students.

I am revising Provision 13 to conform as follows:

"13. Of the funds appropriated in Schedule (1), \$50,980,000 is to fund 5,149 additional state-supported full-time equivalent (FTE) students at the University of California, based on a marginal General Fund cost of \$9,901 per additional student. ~~This funding rate is based on a new methodology for determining the marginal cost of each additional state-supported student. This methodology calculates a total marginal cost (including operation and maintenance costs and faculty costs based on the salaries of recently hired professors) and then subtracts from this cost the fee revenue the university anticipates from each additional student (after adjusting for financial aid), in order to determine the amount of General Fund support needed from the state. It is the intent of the Legislature that enrollment growth funding provided to the university in subsequent budgets be based on this new methodology.~~ The Legislature expects the University of California to enroll a total of 193,455 state-supported FTE students during the 2006-07 academic year. This enrollment target does not include nonresident students and students enrolled in non-state-supported summer programs. The University of California shall report to the Legislature by March 15, 2007, on whether it has met the 2006-07 enrollment goal. For purposes of this provision, enrollment totals shall only include state-supported students. If the University of California does not meet its total state-supported enrollment goal by at least 257 (FTE) students, the Director of Finance shall revert to the General Fund by April 1, 2007,

the total amount of enrollment funding associated with the total share of the enrollment goal that was not met.”

Item 6610-001-0001—For support of California State University. I revise Provisions 7.5 and 13.

I am sustaining the \$371,000 legislative augmentation for the full cost associated with supporting an additional 35 undergraduate nursing students. While the Administration supports increases in undergraduate nursing slots, enrollment growth funding from the higher marginal cost included in the Budget Bill should be sufficient to support the intended expansion as it reflects average costs for both high and low cost programs. Therefore, I will not support additional costs for undergraduate enrollments in the future.

I am revising Provision 13. While I am sustaining the one-time legislative augmentation of \$1,000,000 for faculty recruitment and start-up costs to prepare for the enrollment of 340 undergraduate nursing students in 2007-08, I object to the language that intends that these students be funded in 2007-08 at a higher level than would be provided with marginal cost growth funding. Similar to my concerns expressed above, I believe that the future costs associated with undergraduate nursing enrollments can be fully accommodated within the funding provided for enrollment growth under the Higher Education Compact.

I am revising Provision 13 to conform as follows:

“13. Of the amount provided in Schedule (1), \$2,000,000 is appropriated on a one-time basis for startup costs associated with the expansion of nursing programs. Specifically, the Legislature intends that these funds be used to prepare for the enrollment in the 2007-08 academic year of 340 additional undergraduate full-time-equivalent nursing students above enrollment levels in the 2006-07 academic year. The Legislature intends that these additional nursing students be funded out of the California State University's enrollment funding for the 2007-08 academic year, ~~with additional funding to be provided to recognize the higher costs imposed by nursing students.~~”

Finally, I am revising Provision 7.5 to delete language that describes a new methodology for determining the marginal cost of each additional state-supported student in the future. The new formula is not transparent, is too difficult to either replicate or verify allowing for potential manipulation in future years, and does not properly reflect the full mix of new faculty associated with the system-wide growth in students.

I am revising Provision 7.5 to conform as follows:

“7.5. Of the amount appropriated in Schedule (1), \$61,340,000 is to fund 8,490 additional state-supported full-time-equivalent students (FTES) at the California State University (CSU), based on a marginal General Fund cost of \$7,225 per additional student. ~~This funding rate is based on a new methodology for determining the marginal cost of each additional state-supported student. This methodology calculates a total marginal cost (including operation and maintenance costs and faculty costs based on the salaries of recently hired professors) and then subtracts from this cost the fee revenue the university anticipates from each additional student (after adjusting for financial aid), in order to determine the amount of General Fund support needed from the state. It is the intent of the Legislature that enrollment growth funding provided to the university in subsequent budgets be based on this new methodology. The~~

Legislature expects CSU to enroll a total of 332,395 state-supported FTES during the 2006-07 academic year. This enrollment target does not include nonresident students and students enrolled in nonstate supported summer programs. The CSU shall provide a preliminary report to the Legislature by March 15, 2007, and a final report by May 1, 2007, on whether it has met the 2006-07 enrollment goal. For purposes of this provision, enrollment totals shall only include state-supported students. If CSU does not meet its total state-supported enrollment goal by at least 425 FTES, the Director of Finance shall revert to the General Fund by May 15, 2007, the total amount of enrollment funding associated with the total share of the enrollment goal that was not met."

With the above deletions, revisions, and reductions, I hereby approve Assembly Bill 1811.

/s/ ARNOLD SCHWARZENEGGER