STATE OF CALIFORNIA

GOVERNOR'S BUDGET

May Revision

2006-07

Introduction

California's economy continued to perform strongly into 2006, with the state's unemployment rate falling to 4.8 percent in January and March—a rate not seen in over five years—and the number of jobs in the economy is now more than 560,000 higher than in November 2003.

This economic strength, coupled with a surge in revenues tied to corporate tax, capital gains, and stock options, has resulted in an increase in projected state revenues when compared to the Governor's January Budget of $4.8 billion in the current year and $2.7 billion in the budget year, for a two-year increase of $7.5 billion.

Given the volatility of California's revenues, it is imperative to view these gains with caution. Precise data on the components of the new revenue growth will not be available for several months. Therefore, fiscal prudence dictates that most of the current-year gain be viewed as one time in nature, which is why the budget-year revenue projection is significantly less than the current-year gain would seem to suggest. In light of this, the May Revision proposes a total reserve of $2.2 billion, by far the largest May Revision reserve since the enactment of Proposition 13.

Governor Schwarzenegger recognizes that the state must continue to exercise fiscal discipline in the face of a persistent structural budget problem. Thus, the May Revision proposes an unprecedented $3.2 billion to prepay future debts. This is an increase of $1.6 billion over the amount of pre-payment and repayments proposed in the Governor's Budget. Figure INT-01 details the pre-payments and repayments of debt proposed in the Governor's Budget as revised.

Figure INT-01
Debt Pre-Payments and Repayments Proposed in the Governor's Budget as Revised
(Dollars in Millions)

Included in Governor's Budget:		$1,627
Proposition 42 Prepayment*	$920	
Transfer to Budget Stabilization Account (to Retire ERBs)	460	
Special Fund Loans Repayment	149	
Repayment of Reimbursements to Local Governments for State Mandated Programs**	98	
Additional at May Revision:		$1,572
Economic Recovery Bonds Pre-payment*	$1,000	
Special Fund Loans Pre-payment*	198	
Proposition 98 Settle-Up Pre-payment*	150	
Flood Control Subventions Pre-payment*	100	
Pre-payment of Reimbursements to Local Governments for State Mandated Programs**	87	
GO Bonds Debt Pre-payment*	40	
Adjustment to Transfer to Budget Stabilization Account (to Retire ERBs)	12	
Adjustment to Repayment of Reimbursement to Local Governments for State Mandated Programs**	–15	
Total		$3,199
Proposition 98 Settle-Up is reflected in prior year, not affecting 2006-07 Operating Deficit		–150
Amount Included in 2006-07 Operating Deficit		$3,049

* Under existing law, not due until 2007-08 or later.
** Excludes school districts.

It is especially noteworthy that the May Revision proposes to pre-pay an additional $1 billion in principal on Economic Recovery Bonds approved by voters in 2004. While the Governor's Budget proposed to make the constitutionally required repayment of $460 million, the May Revision proposes to go beyond the minimum requirement. This incremental amount demonstrates the seriousness of the Governor's commitment to retire the "credit card debt" approved by the people as Proposition 57. With these pre-payments we now project that the

Economic Recovery Bonds will be fully repaid in 2008-09, one year earlier than we forecast in January.

While the large reserve and the massive commitment to pre-pay debt are reflective of caution and fiscal restraint, the Governor also recognizes the importance of fully funding education, protecting citizens from crime, strengthening our levees to prevent floods and to ensure the continuity of the state's water supply, and preparing the state to respond to public health emergencies and natural disasters.

The May Revision proposes a settlement of litigation related to the 2004-05 suspension of the Proposition 98 guarantee. It includes full funding for the guarantee, resulting in a $3.1 billion increase in 2006-07. It also recognizes $2.9 billion in payments for 2004-05 and 2005-06 and proposes a repayment plan that will have no effect on the General Fund until 2009-10. In order to provide resources for the initial years of the settlement repayment schedule, the May Revision proposes legislation to authorize the re-funding of the Golden State Tobacco Securitization Corporation's 2003A bonds. This re-funding involves a new structure for utilizing 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.

The May Revision also proposes one-time funding of $400 million to help local hospitals and public health agencies prepare for public health emergencies and natural disasters by providing funding for equipment, medicine, and other assistance in developing surge capacity to handle medical needs during future emergencies, including a potential influenza pandemic. Additionally, the recently enacted bond package includes a one-time $500 million General Fund appropriation so that the state can immediately begin making levee repairs to protect against floods. Finally, the May Revision proposes $142 million to invest in public safety augmentations.

In summary, the Governor is proposing a May Revision budget that is fiscally prudent, pays off debt and nevertheless fully funds education and provides urgently needed funding to protect the public.

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Summary Charts

This section provides various statewide budget charts and tables.

Figure SUM-01

2006-07 May Revision
General Fund Budget Summary

(Dollars in Millions)

	2005-06	2006-07
Prior Year Balance	$9,507	$9,368
Revenues and Transfers	$92,450	$93,866 [1/]
Total Resources Available	**$101,957**	**$103,234**
Non-Proposition 98 Expenditures	$54,260	$59,737 [1/]
Proposition 98 Expenditures	$38,329	$41,248
Total Expenditures	**$92,589**	**$100,985**
Fund Balance	**$9,368**	**$2,249**
Reserve for Liquidation of Encumbrances	$521	$521
Special Fund for Economic Uncertainties	$8,847	$1,728
Budget Stabilization Account		**$472**
Total Available Reserve	**$8,847**	**$2,200**

[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	$50,877	$1,255	$52,132	$1,563
Sales Tax	28,103	5,410	33,513	1,791
Corporation Tax	10,507	-	10,507	151
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	1,583	11,381	12,964	1,051
Total	**$93,866**	**$27,750**	**$121,616**	**$4,939**

Note: Numbers may not add due to rounding.

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

	General Fund	Special Fund	Bond Funds	Totals
Legislative, Judicial, Executive	$3,431	$1,958	$212	$5,601
State and Consumer Services	571	752	14	1,337
Business, Transportation & Housing	2,381	7,817	38	10,236
Resources	1,742	1,642	727	4,111
Environmental Protection	75	1,006	69	1,150
Health and Human Services	29,141	6,771	111	36,023
Corrections and Rehabilitation	8,661	22	1	8,684
K-12 Education	40,541	78	79	40,698
Higher Education	11,279	1,264	2,245	14,788
Labor and Workforce Development	97	308	-	405
General Government	3,066	4,973	33	8,072
Total	**$100,985**	**$26,591**	**$3,529**	**$131,105**

Note: Numbers may not add due to rounding.

Figure SUM-04

General Fund Expenditures by Agency

(Dollars in Millions)

	2005-06	2006-07	Change	%
Legislative, Judicial, Executive	$3,138	$3,431	$293	9.3%
State and Consumer Services	576	571	-5	-0.9%
Business, Transportation & Housing	1,723	2,381	658	38.2%
Resources	1,885	1,742	-143	-7.6%
Environmental Protection	73	75	2	2.7%
Health and Human Services	26,866	29,141	2,275	8.5%
Corrections and Rehabilitation	7,838	8,661	823	10.5%
K-12 Education	37,768	40,541	2,773	7.3%
Higher Education	10,396	11,279	883	8.5%
Labor and Workforce Development	89	97	8	9.0%
General Government	2,237	3,066	829	37.1%
Total	**$92,589**	**$100,985**	**$8,396**	**9.1%**

Note: Numbers may not add due to rounding.

Economic Outlook

Rebounding from the effects of last year's hurricanes, the national economy grew at its fastest pace in two and a half years in the first quarter of 2006. A pickup in consumer spending, a snapback in business investment in equipment and software, and a jump in defense spending led the way. Labor markets strengthened and tightened with the economy's renewed growth. The average monthly job gain in the first quarter of 2006 was bigger than the average monthly gain in 2005, and the unemployment rate fell to a level not seen since the spring of 2001. In addition, manufacturing remained strong, particularly high-tech manufacturing, and residential construction increased slightly, even though home sales continued to slide. The Federal Reserve tightened policy two times during the quarter, but hinted that their long string of tightening moves might be near completion. The generally good performance of the national economy in the first quarter did not, however, reflect the run-up in oil prices and the dramatic increase in gasoline prices that occurred between mid-March and the end of April. The effects of higher energy prices will be seen in the economic statistics released in the coming months.

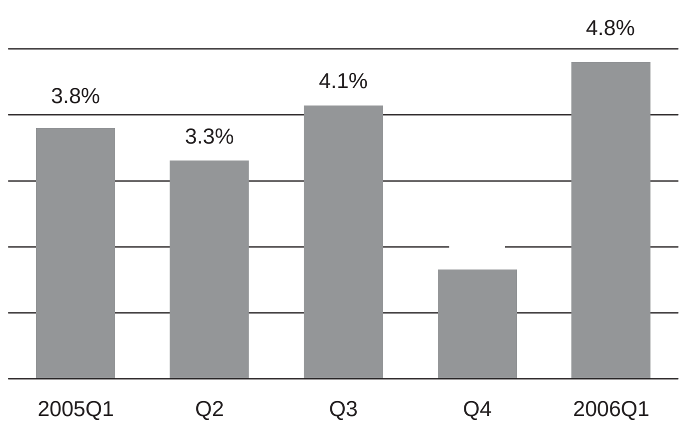
California's economy continued to create jobs at a good clip in the first two months of 2006, but a rainy March brought the first decline in employment in ten months. Even so, the state's unemployment rate fell to a five-year low as labor markets continued to tighten. Home building and home sales continued to cool in the first quarter, and home price appreciation moderated further. The value of nonresidential permits grew strongly, however, and office and industrial vacancy rates continued to either fall or remain at low levels. The state's tourism industry improved, as evidenced by higher hotel/motel occupancy and room rates. Personal income growth remained solid in the fourth quarter of 2005. Exports of made-in-California merchandise and port activity remained strong in the first two months of 2006. The San Francisco Bay Area economy continued to improve in the first quarter.

The national and California economies continued to expand solidly in the first quarter of 2006 despite higher energy costs and slowing residential real estate and construction. Those headwinds picked up in recent months and will likely slow the growth of both economies as the year proceeds. The risks to the outlook have increased.

The Nation

Adjusted for inflation, national economic output (real GDP) grew by 4.8 percent at an annualized rate in the first quarter of 2006, a considerable improvement over its 1.7 percent gain in the fourth quarter of 2005 (Figure ECO-01). A turnaround in consumer spending on motor vehicles and parts accounted for most of the improved growth. This spending fell sharply in the fourth quarter of 2005 before bouncing about a third of the way back in the first quarter of 2006.

Figure ECO-01
Gross Domestic Product
Change from the Previous Quarter
Annualized Percent



An acceleration in business investment in equipment and software-transportation and information processing equipment, in particular-also was a significant contributor to the increase in real GDP growth. Residential construction's contribution to real GDP growth, however, fell slightly in the first quarter, but investment in nonresidential structures contributed to the increase in real GDP growth. A swing in inventory investment, from a sizeable accumulation in the fourth quarter of 2005 to a drawdown in the first quarter of 2006, limited the gain in output growth considerably.

Net exports (exports minus imports) fell again in the first quarter of 2006. Exports grew quickly, but imports even more so. The deterioration of net exports was less in the most recent quarter than in the fourth quarter of 2005, however.

A swing in national defense spending was the third major contributor to the improvement in real GDP in the first quarter. This spending fell by $11.6 billion in the fourth quarter of 2005 before rising by $12.2 billion in the most recent quarter.

The gain in real GDP growth was reflected in the nation's labor markets. Nonfarm payroll employment increased for the thirty-first consecutive month in March, and the average gain in the first three months of this year, 197,000, exceeded the average monthly gain for all of 2005-165,000. Job gains continue to be widespread across major industry sectors. The national unemployment rate has trended downward for almost three years and was 4.7 percent in March. Other than in January, when the unemployment rate was also 4.7 percent, that was the lowest rate since July 2001.

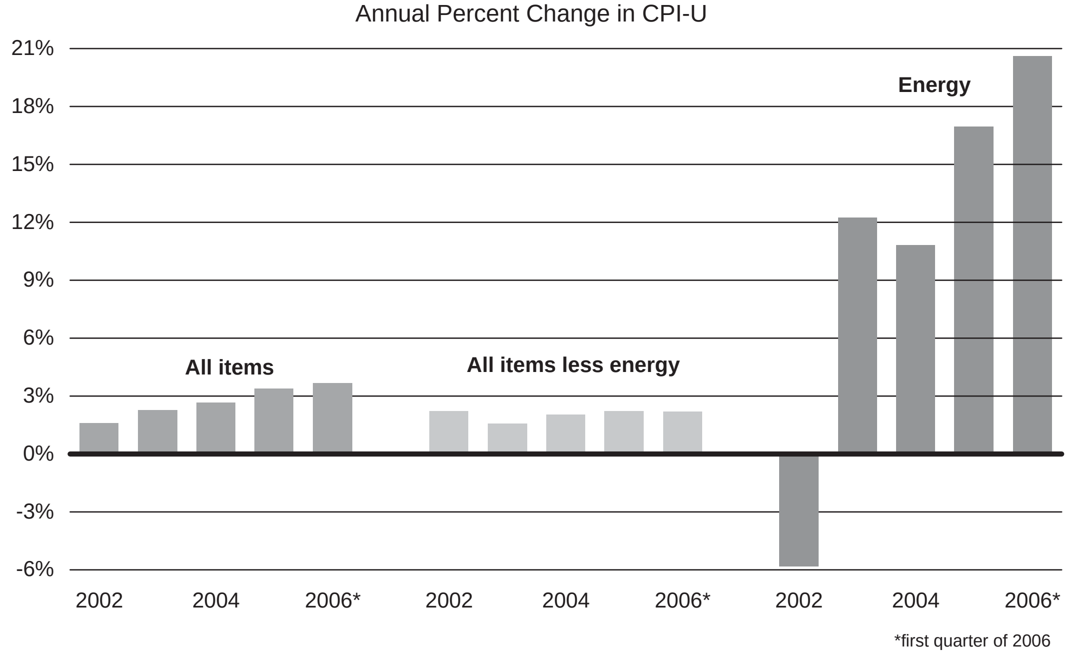
Both new and existing home sales slowed in the first quarter of 2006 on a seasonally adjusted basis. In fact, new home sales have trended downward since reaching a record high in July 2005 and existing home sales since June 2005. Inventories of unsold houses-both new and existing-have increased.

Rising energy prices were the paramount concern of Americans in March and April. The average retail price for regular gasoline rose by about 65 cents per gallon in the nation over the two months, and the spot price for oil by about $14 a barrel. The consumer price index for energy was 21 percent higher in the first quarter of 2006 than in the first quarter of 2005 (Figure ECO-02). Soaring energy prices have pushed up general inflation measures

Figure ECO-02

U.S. Consumer Inflation

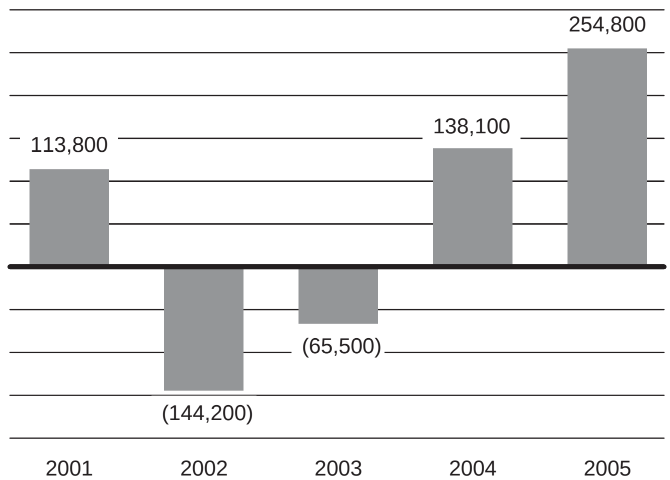
Annual Percent Change in CPI-U



and slowed economic growth in the last year, but they have not appreciably affected the prices consumers pay for other goods and services. For example, the consumer price index that strips away energy prices was 2.2 percent higher in first quarter of 2006 than a year earlier-the same percentage increase as in 2005 as a whole (Figure ECO-02). The rate in the first quarter of 2006 does not reflect the increase in energy prices in April but coming quarters may.

California

Figure ECO-03
California Nonfarm Job Growth
Annual Change



Statistics released since January put in sharper focus the improvement in the California economy during 2005. The annual benchmark revision of employment statistics revealed that more jobs were created in the state during the year than initially thought-255,000, the best gain in five years (Figure ECO-03). Nine out of the 11 major industry sectors saw employment grow in 2005. The state's unemployment rate has trended downward since October 2003, when it was 6.9 percent, to 4.8 percent in January 2006 and March 2006, the lowest rate since February 2001.

California personal income grew by 6 percent in 2005. California's personal income growth has outstripped the nation's as a whole since the first quarter of 2004. Taxable sales were 6.4 percent higher in the first half of 2005 than in the first half of 2004-in line with personal income growth in the state in the first half of 2005, but not as strong as the growth in taxable sales in the first half of 2004.

Made-in-California exports grew by 6.2 percent to $116.8 billion in 2005, just shy of the peak level reached in 2000. High-tech exports fell slightly in 2005, but exports of transportation products, miscellaneous manufactured products, agricultural products, and food and kindred products all grew at double-digit rates and chemical exports just slightly less than that.

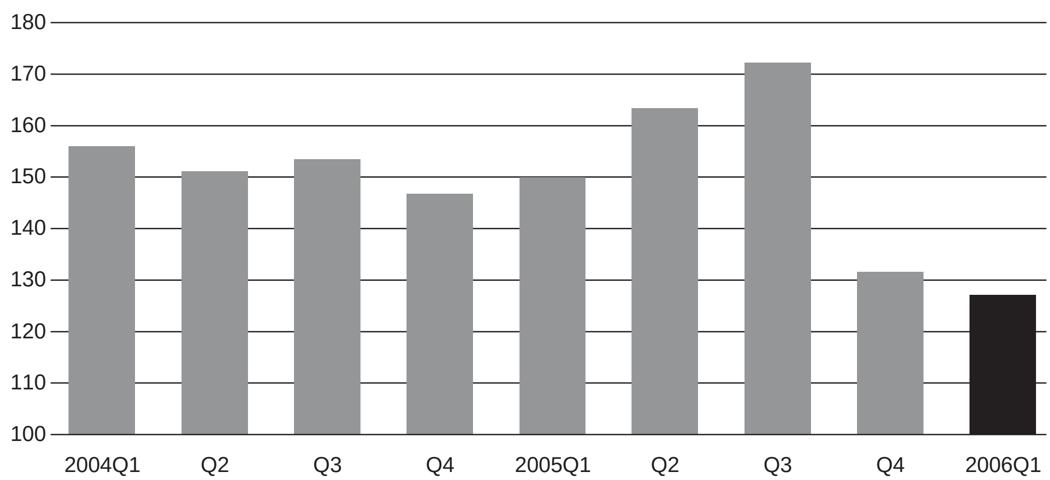
Leading export destinations, in order, were Mexico, Japan, Canada, Mainland China, South Korea, Taiwan, the United Kingdom, Hong Kong, and Germany. State exports expanded to all these markets, except the United Kingdom and Hong Kong. California deliveries to Germany grew by 16 percent and to Mainland China by 15 percent, the biggest gains among the state's major trading partners. Made-in-California exports grew by 6.7 percent in the first two months of 2006.

California residential real estate markets and residential construction began slowing in the second half of 2005 and continued to slow in the first quarter of 2006. The number of residential units permitted fell sharply in the fourth quarter of 2005 and slightly in the first quarter of 2006 (Figure ECO-04). Except for a small gain in August 2005, total home sales have been down from a year earlier in every month since March 2005. Inventories of unsold houses, while not at worrisome levels, have grown over the last four to six months. Home price appreciation has slowed in the last six months, but year-over-year price gains for resale homes remain in double-digits, while those for new homes have dipped into the single digits.

Figure ECO-04

California Single-Family Home Construction

1,000s of Permits, Seasonally Adjusted at Annual Rate



A much welcomed development in 2005 was improved job growth in the San Francisco Bay Area. As recently as August 2004, nonfarm payroll employment was below its year-earlier level in the Bay Area, while it was up 1.6 percent in Southern California.

In March 2006, nonfarm payroll employment in the Bay Area was 1.5 percent above its year-ago level, not much different from Southern California, where it was up by 1.6 percent.

The Forecast

Higher energy prices, somewhat higher interest rates, and further slowing of residential construction and real estate markets will slow economic growth in both the nation and California in 2006 and 2007. A rebound in consumer spending in the first quarter of 2006 fueled strong output growth in the nation, but that will be difficult to duplicate in the second quarter. The strong growth in the first quarter had more to do with weakness in the national economy in the fourth quarter of 2005-the result of the hurricanes-than strength in the first quarter of 2006. For example, motor vehicle sales were at an annualized level of 17.6 million in January 2006-the highest rate since July 2005. Since January, however, sales of motor vehicles have been quite lackluster-16.6 million in February and March and 16.7 million in April. With the April level below the first quarter average, it will be difficult for second-quarter sales to top the first-quarter level, even if gasoline prices had not increased so much in March and April. So, it is unlikely that vehicle sales will contribute to national economic growth in the second quarter. Monthly economic statistics released in May and June will likely reflect to a greater extent the sharp run-up in energy prices in March and April.

Real U.S. GDP will grow by 3.3 percent in 2006 and 3.0 percent in 2007, down from 3.5 percent in 2005, but still sufficient to allow for job growth in both years (Figure ECO-05). Housing starts will fall in 2006 and again in 2007. Corporate profits will be strong again in 2006 but flat in 2007.

On an annual average basis, California personal income will grow by 6.2 percent in 2006 and 5.8 percent in 2007 (Figure ECO-06). California job growth will fall slightly to 1.6 percent in 2006 and 1.5 percent in 2007. On an annual average basis, construction employment will increase slightly in 2006-although falling during the year-and fall in 2007. Housing permits will decline by 9.1 percent in 2006 and 7.8 percent in 2007.

Figure ECO-05
Selected U.S. Economic Indicators

	2005 (Est.)	2006 (Projected)	2007 (Projected)
Real gross domestic product, (2000 dollar) (Percent change)	3.5	3.3	3.0
Personal consumption expenditures	3.5	3.3	3.0
Gross private domestic investment	6.1	6.2	4.2
Government purchases of goods and services	1.8	1.4	1.7
GDP deflator (2000=100) (Percent change)	2.8	2.8	1.9
GDP, (Current dollar) (Percent change)	6.4	6.2	4.9
Federal funds rate (Percent)	3.2	5.0	5.0
Personal income (Percent change)	5.5	6.1	5.6
Corporate profits before taxes (Percent change)	35.8	13.5	(0.3)
Nonfarm wage and salary employment (Millions)	133.5	135.5	137.5
(Percent change)	1.5	1.5	1.5
Unemployment rate (Percent)	5.1	4.7	4.8
Housing starts (Millions)	2.1	1.9	1.8
(Percent change)	6.3	(8.1)	(6.2)
New car and light truck sales (Millions)	16.9	16.7	16.8
(Percent change)	0.0	(1.2)	0.9
Consumer price index (1982-84=100)	195.3	200.9	205.6
(Percent change)	3.4	2.9	2.4

Forecast based on data available as of April 2006.
Percent changes calculated from unrounded data.

Figure ECO-06

Selected California Economic Indicators

	2005	Percent change	2006 (Projected)	Percent change (Projected)	2007 (Projected)	Percent change (Projected)
Personal income ($ billions)	1,341.7	6.3%	1,425.1	6.2%	1,507.2	5.8%
Nonfarm W&S employment (thousands)	14,798.3	1.8%	15,029.0	1.6%	15,255.3	1.5%
Natural resources and mining	23.4	2.4%	24.0	2.5%	24.5	2.2%
Construction	905.7	6.5%	913.2	0.8%	884.5	-3.1%
Manufacturing	1,510.9	-1.4%	1,517.4	0.4%	1,530.2	0.8%
High technology	395.9	-0.7%	399.8	1.0%	403.9	1.0%
Trade, transportation, & utilities	2,817.6	2.3%	2,867.6	1.8%	2,917.8	1.7%
Information	472.6	-2.0%	465.0	-1.6%	476.8	2.5%
High technology	206.6	-1.2%	206.1	-0.2%	213.0	3.4%
Financial activities	930.3	3.1%	950.5	2.2%	947.7	-0.3%
Professional and business services	2,154.2	3.3%	2,220.5	3.1%	2,296.3	3.4%
High technology	270.2	3.3%	281.0	4.0%	297.0	5.7%
Educational and health services	1,586.2	1.7%	1,610.3	1.5%	1,642.4	2.0%
Leisure and hospitality	1,475.4	2.5%	1,513.2	2.6%	1,552.2	2.6%
Other services	508.0	0.8%	516.1	1.6%	527.5	2.2%
Government	2,414.0	0.8%	2,431.3	0.7%	2,455.4	1.0%
Unemployment rate	5.4%		4.9%		4.9%	
Housing permits (thousands of units)	208.9	-1.9%	190.0	-9.1%	175.1	-7.8%
Consumer price index (1982-84=100)	202.6	3.7%	209.8	3.6%	215.8	2.9%

Forecast based on data available as of April 2006.
Percent changes calculated from unrounded data.

Revenue Estimates

General Fund revenues are expected to be above the Governor's January budget by $4.8 billion in 2005-06 and by $2.7 billion in 2006-07 for a two-year increase of $7.5 billion. This increase is prior to transfers to the Budget Stabilization Account ($472 million), accelerated loan repayments ($177 million), and a transfer of $200 million in sales tax revenues to repay transportation debt. Substantially stronger personal income tax and corporation tax revenues make up most of the changes, as can be seen in Figure REV-01.

Personal Income Tax

The personal income tax forecast has been increased by $3.9 billion in 2005-06 and by $2.2 billion in 2006-07. Through April, General Fund personal income tax receipts were $3.7 billion, or 9.7 percent, above the Governor's Budget forecast, indicating that taxable income was stronger than expected for the year. 2004 tax data, the most recent information available, show higher income and liability growth for taxpayers with adjusted gross income over $100,000 than for those with income under $100,000. The forecast assumes that this growth difference continued in 2005. We believe capital gains and income from stock options are primarily responsible for the substantial increase in 2005 tax receipts.

This forecast estimates that capital gains income growth in 2005 was 32 percent; this is in addition to the 60-percent growth that occurred in 2004. Capital gains income in 2006 is expected to stabilize.

Figure REV-01

General Fund Revenue Forecast
Reconciliation with the 2006-07 Governor's Budget
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
Fiscal 04-05				
Personal Income Tax	$42,738	$42,738	$0	0.0%
Sales & Use Tax	25,759	25,759	$0	0.0%
Corporation Tax	8,670	8,670	$0	0.0%
Insurance Tax	2,233	2,233	$0	0.0%
Other Revenues	2,581	2,581	$0	0.0%
Transfers	228	228	$0	0.0%
Total	**$82,209**	**$82,209**	**$0**	**0.0%**
Fiscal 05-06				
Personal Income Tax	$45,493	$49,384	$3,891	8.6%
Sales & Use Tax	27,184	27,211	$27	0.1%
Corporation Tax	9,621	10,356	$735	7.6%
Insurance Tax	2,246	2,247	$1	0.0%
Other Revenues	3,161	3,277	$116	3.7%
Transfers	-14	-25	-$11	78.6%
Total	**$87,691**	**$92,450**	**$4,759**	**5.4%**
Change from Fiscal 04-05	$5,482	$10,241		
% Change from Fiscal 04-05	6.7%	12.5%		
Fiscal 06-07				
Personal Income Tax	$48,716	$50,877	$2,161	4.4%
Sales & Use Tax	28,295	28,103	-$192	-0.7%
Corporation Tax	10,024	10,507	$483	4.8%
Insurance Tax	2,340	2,340	$0	0.0%
Other Revenues	2,603	2,665	$62	2.4%
Transfers	27	-626	-$653	-2418.5%
Total	**$92,005**	**$93,866**	**$1,861**	**2.0%**
Change from Fiscal 05-06	$4,314	$1,416		
% Change from Fiscal 05-06	4.9%	1.5%		
Three-Year Total			$6,620	

These figures reflect reductions to revenues for transfers to the Budget Stabilization Account ($472 million), early loan repayments ($177 million), and shift of "spillover" from the General Fund to the Transportation Debt Service Fund ($200 million)

Sales and Use Tax

The sales and use tax forecast has been increased by $27 million in the current year and decreased by $192 million in the budget year. Through March, sales tax receipts have tracked closely to estimates.

Current law specifies that certain state revenues from the sales tax on gasoline and diesel fuel sales be transferred to the Public Transportation Account (PTA). The 2005-06 Budget maintained the base level of transfers to the PTA, but specified that any excess sales tax revenues on gasoline, which would otherwise be designated as PTA "spillover," be credited to the General Fund for 2005-06. In the Governor's Budget, this amount was estimated to be $398 million; it has been revised to $381 million.

The 2005-06 Budget also provided that in 2006-07, the first $200 million in spillover revenues would be transferred to the General Fund, the next $125 million to the Bay Area Toll Account, and any remaining revenues to the PTA. The Governor's Budget estimated that there would be sufficient spillover revenues to fully fund the transfer to the General Fund and $118 million of the $125 million transfer to BATA. Because of rising gasoline prices in 2006, it is now anticipated that the transfer to BATA will be fully funded.

The May Revision reflects a decision to transfer $200 million that would otherwise have been deposited in the General Fund and $344 million in spillover revenue that would otherwise been transferred to the PTA to a special fund to repay transportation debt.

Corporation Tax

The corporation tax forecast has been increased by $735 million for 2005-06 and $483 million for 2006-07 due to stronger corporate profits and enhanced compliance experienced in 2005 and projected for the forecast period.

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Paying Down Debt

The revised Governor's Budget continues to address two of the Governor's top priorities, paying down state debt and restoring the state's fiscal condition. Paying down state debt ensures the additional one-time revenues are used for one-time purposes and also reduces the projected 2007-08 operating deficit.

The Administration addresses these priorities by proposing to: (1) pre-pay and repay state debt including reducing the amount of outstanding Economic Recovery Bonds (ERBs) debt by $1.0 billion, (2) create the Transportation Debt Service Fund to fund transportation bond debt, and (3) build the General Fund reserve.

Debt Pre-payments and Repayments

The May Revision continues to pre-pay or repay outstanding state debt. The Administration proposes to pre-pay or repay a total of $3.2 billion of state debt, which is an increase of $1.6 billion from the Governor's Budget.

The Governor's Budget proposed a total of $1.627 billion in pre-payments or repayments of state debt as follows:

- Proposition 42 Prepayment of $920 million—The May Revision continues to propose repaying $920 million in 2006-07 on the 2004-05 Proposition 42 loan, which will allow local government to receive $254 million in funding for local streets and roads repairs. This is even more critical now due to the damage suffered in the winter of 2005-06 and the fact that the regular Proposition 42 allocation for 2006-07 contains no funds for local streets and roads.

- Transfer $460 million to the Budget Stabilization Account to retire ERBs—The May Revision proposes to increase the transfer to $472 million pursuant to Proposition 58.
- Various Special Fund Loan Repayments totaling $149 million—The Governor's Budget proposed to repay 14 special fund loans in 2006-07. The May Revision proposes to pre-pay additional special fund loans (see below).
- Repayment of Reimbursements to Local Government (not including school districts)—$98 million. Proposition 1A and current statute specify that the payable claims for mandated costs incurred prior to the 2004-05 fiscal year that have not been paid prior to the 2005-06 fiscal year may be paid over a period of not more than 15 years commencing with the 2006-07 fiscal year. The $98 million is adjusted to $83 million at May Revision.

The May Revision proposes an additional $1.572 billion in pre-payments or repayments of state debt as follows:

- Economic Recovery Bonds Pre-payment totaling $1.0 billion—See Reduce Outstanding Economic Recovery Bonds Debt section below.
- Various Additional Special Fund Loan Pre-payments totaling $198 million—The May Revision proposes to pre-pay 13 special fund loans in 2006-07 that are currently scheduled to be repaid in 2007-08. This pre-payment of $198 million is in addition to the $149 million of repayments proposed at Governor's Budget.
- Proposition 98 Settle-up Pre-payment totaling $150 million—For Proposition 98 settle-up prior to 2003-04.
- Flood Control Subvention totaling $100 million -The May Revision proposes $100 million for the state's share of funding for local flood control projects from prior years. In some cases, the funds will allow local agencies to proceed with additional flood projects.
- Pre-payment of the second year of Reimbursements to Local Government (not including school districts) totaling $87 million—This will increase payments for mandates to $170 million.

- General Obligation Bond Debt Pre-payment totaling $40 million—The May Revision proposes to make the final payment on various general obligation bonds issued under 27 different bond acts. These bonds would normally be retired in 2007-08. An interest savings of $1 million will be realized in 2007-08 by accelerating the pay-off of these bonds in 2006-07.

Reduce Outstanding Economic Recovery Bonds Debt by $1.0 Billion

On March 2, 2004, voters approved Proposition 57 (the Economic Recovery Bond Act) and Proposition 58 (the California Balanced Budget Act). Proposition 57 authorized the issuance of Economic Recovery Bonds (ERBs) to achieve up to $15 billion in net bond proceeds to retire the accumulated state budget deficit. To date, a total of $10.9 billion in ERBs have been issued ($11.3 billion in net proceeds), with $3.7 billion of net proceeds available. To ensure the repayment of the ERBs, the Legislature authorized the "Triple Flip," which consists of three major provisions regarding the distribution of sales and use taxes and other revenues to schools and local governments as follows:

- The ¼ percent local sales tax rate was replaced with a new ¼ percent statewide sales tax rate to fund ERB repayment.
- Property tax previously allocated to local schools was shifted to cities and counties to backfill revenues now used to repay ERBs.
- The General Fund now repays the local schools to backfill the property tax previously allocated to them.

Proposition 58 requires a special reserve to be established, the Budget Stabilization Account (BSA), part of which is to repay the ERBs authorized by Proposition 57. The amount of BSA funds used to repay ERBs is capped at $5 billion.

As a result of aggressive repayment efforts, the Governor's Budget proposed to significantly shorten the originally scheduled ERB retirement date from July 2023 to June 2010. The May Revision proposes an additional $1 billion General Fund to further accelerate the repayment of the ERBs. As a result of these additional revenues, refinements to the ERB repayment model, and increases in revenues dedicated to the repayment of the ERBs, it is now estimated that the ERBs will be effectively paid off by June 30, 2009, one full year ahead of the previous projection. In addition, it is estimated that the pre-payment of the ERBs will result in more than $147.9 million in simple interest savings, an increase of $266.3 million to the BSA reserves in 2008-09, and make available $1.679 billion General Fund in 2009-10 that otherwise would have been used to reimburse local governments for the Triple Flip.

Transportation Debt Service Fund

The May Revision revenue forecast indicates substantial sales tax will be derived from the increase in gasoline prices. Under the "spillover" formula in existing law, this money does not go into Proposition 42. Over the last two decades, the bulk of the spillover funds have been redirected to the General Fund. The Administration proposes to shift these special revenues to a new fund that will be dedicated to paying a portion of the debt service on existing and new transportation bonds. The General Fund will pay the remaining debt service. Based on current forecasts, this could provide over $4.1 billion through 2015-16 toward transportation debt service costs, with initial resources of $355 million in 2006-07 and $336 million in 2007-08 (See Revenue Estimates section).

Build the 2006-07 General Fund Reserve

The May Revision proposes to use part of the additional $7.5 billion in revenue to increase the General Fund reserve from $613 million to $2.2 billion, an increase of $1.6 billion. This amount includes $472 million from the Budget Stabilization Account for rainy day purposes.

Strategic Growth Plan: Building California for Future Generations

In January, the Governor proposed a comprehensive Strategic Growth Plan (SGP) to build the critical infrastructure that is the foundation of the state's vibrant economy. The Legislature embraced this concept and approved a $115.8 billion SGP package, which includes $37.3 billion in new general obligation bonds to be placed on the November 2006 ballot, and $50.1 billion in existing funding, and $28.4 billion in new leveraged funding sources (Figure INF-01).

Figure INF-01
Legislatively Approved Strategic Growth Plan
(Dollars in Billions)

Program	Total	General Obligation and Lease Revenue Bonds GO	LR	Existing Funding Sources	New Funding Sources
Transportation/Air Quality	$86.8	$19.9	-	$46.5	$20.4
K-12	14.9	7.3	-	3.6	4.0
Higher Education	3.1	3.1	-	-	-
Levee Repair and Flood Control	8.1	4.1	-	-	4.0
Housing and Development	2.9	2.9	-	-	-
Total	**$115.8**	**$37.3**	**$0.0**	**$50.1**	**$28.4**

This package consists of the following components:

Education

$10.4 billion in new general obligation bonds for K-12 and Higher Education facilities, including funds for overcrowded schools, charter schools, career technical education, the University of California, California State University, and California Community Colleges. In addition, local school districts will provide $4.0 billion as their match for the new funds, and $3.6 billion in remaining, previously authorized general obligation bonds will be fully apportioned to help meet the needs of local districts.

Transportation

$19.9 billion in new general obligation bonds for transportation and air quality projects, including traffic congestion relief, public transportation, port improvements, highway safety, seismic retrofits, and railroad crossings. Existing sources for transportation projects include $26.4 billion in state and federal fuel taxes and weight fees that are being used for capital purposes. This excludes funding for maintenance, planning and other non capital purposes. Additionally, $526 million is expected to be available from tribal gaming revenues and bonds and $8.6 billion from Proposition 42. Both the tribal funds and the Proposition 42 amounts exclude funds that are dedicated to local streets and roads, the Traffic Congestion Relief Program and transit operating subsidies. The additional funding made available due to reauthorizations of federal transit and highway funding law is estimated to make $10 billion available over the next 10 years. Savings in Caltrans' support budget that began in 2005-06 are expected to generate $375 million in additional capital capacity over the decade, taking into account that $125 million of these savings are pledged to the Bay Area Toll Bridge Seismic program. The figures provided here include refined estimates made after the development of the Governor's Budget. New funding sources for transportation projects include $9 billion from the portion of revenues from new and renewed local sales tax measures that historically has been used for projects on the state system. The state-local partnership portion of the proposed general obligation bond act will help to incentivise local agencies to raise this funding. The bond measure requires $300 million in local matching for grade crossings. Additionally, $3.1 billion in Grant Anticipation Revenue Vehicle (GARVEE) bonding against future federal revenues is available. AB 1467, recently enrolled, provides authority for new toll facilities and public-private partnerships for goods movement. Since this proposal is significantly different from previous proposals, it is difficult to anticipate which potential public-private projects might be authorized. Initial estimates are that private funding of as much as $8 billion may be possible.

Flood Protection

$4.1 billion in new general obligation bonds for levee repair and flood control projects, including levee improvements in the Central Valley and Sacramento-San Joaquin Bay Delta, project enhancements to increase the level of flood protection, flood control subventions to local governments, and floodplain mapping activities. In addition, between new local matching funds as well as anticipated contributions from the federal government, over $3.5 billion of other funds will be invested into the various projects. Finally, the $500 million General Fund in AB 142, recently enrolled, will be utilized for the repair and improvement of critical levees.

Housing

$2.9 billion in new general obligation bonds for housing construction and assistance, including homeownership programs, affordable rental housing construction, farm worker housing, and housing for the homeless and foster care youth.

Affordability of the Strategic Growth Plan

While the size of this bond package is considerable and will increase the state's general obligation debt, that debt load should be quite manageable over the term of the bonds. Two factors contribute significantly to the affordability of the SGP bond package. First, the May Revision proposes to utilize so-called spillover funds from the sales tax on gasoline to pay debt service on outstanding and newly authorized transportation bonds (See Transportation Section for details.) This will reduce the draw on the General Fund for debt service while using the spillover funds for transportation purposes as originally envisioned. Second, as the Economic Recovery Bonds (ERBs) are retired, the effect of that retirement will free up a considerable amount of General Fund resources that can be applied to debt service payments without reducing support for any other program in the state's budget (See Paying Down Debt section for details). Figure INF-02 displays the effect of the bond package on debt service and the mitigating effect of these two factors on the additional budgetary impact of that debt service. Beginning in 2009-10, the combined resources of the spillover funding and retired ERBs are greater than the incremental debt created by the SGP bond package. They will not only cover this incremental debt, but will make a substantial contribution to paying the debt service attributable to already outstanding bonds.

Figure INF-02

Debt Affordibility for Strategic Growth Plan

Year	Revenue	Base Debt Service	Incremental Debt Service for SGP	Total Debt Service	GF Debt Service Ratio	Less: Spill over funds for Transportation	Less: ERB Resources	Total Spillover and ERB Resources	Net GF Debt Service Obligation	Net GF Debt Service Ratio
2006 - 07	$94,338.0	$4,212.0	$0.0	$4,212.0	4.46%	$355.1		$355.1	$3,856.9	4.09%
2007 - 08	98,795.0	4,569.7	97.6	4,667.3	4.72%	336.3		336.3	4,331.0	4.38%
2008 - 09	104,476.0	5,047.0	540.0	5,587.0	5.35%	422.8		422.8	5,164.2	4.94%
2009 - 10	110,903.0	5,394.6	878.1	6,272.8	5.66%	700.4	1,679.0	2,379.4	3,893.4	3.51%
2010 - 11	118,559.0	5,631.3	1,252.1	6,883.4	5.81%	820.5	1,763.0	2,583.5	4,299.9	3.63%
2011 - 12	127,269.0	5,436.9	1,673.1	7,110.0	5.59%	356.0	1,851.0	2,207.0	4,903.0	3.85%
2012 - 13	135,505.0	5,215.3	2,023.9	7,239.2	5.34%	333.9	1,944.0	2,277.9	4,961.3	3.66%
2013 - 14	142,227.8	5,130.1	2,237.6	7,367.7	5.18%	308.2	2,044.0	2,352.2	5,015.5	3.53%
2014 - 15	149,339.1	5,038.9	2,339.3	7,378.1	4.94%	279.2	2,149.0	2,428.2	4,949.9	3.31%
2015 - 16	156,806.1	4,878.8	2,443.3	7,322.0	4.67%	247.8	2,256.0	2,503.8	4,818.2	3.07%
2016 - 17	164,646.4	5,130.0	2,500.2	7,630.2	4.63%		2,369.0	2,369.0	5,261.2	3.20%
2017 - 18	172,878.7	5,152.3	2,499.7	7,651.9	4.43%		2,488.0	2,488.0	5,163.9	2.99%
2018 - 19	181,522.7	4,856.2	2,499.1	7,355.3	4.05%		2,612.0	2,612.0	4,743.3	2.61%
2019 - 20	190,598.8	4,870.8	2,498.5	7,369.3	3.87%		2,743.0	2,743.0	4,626.3	2.43%
2020 - 21	200,128.7	4,636.1	2,497.9	7,134.0	3.56%		2,880.0	2,880.0	4,254.0	2.13%
2021 - 22	210,135.2	4,663.0	2,497.2	7,160.2	3.41%		3,024.0	3,024.0	4,136.2	1.97%
2022 - 23	220,641.9	4,609.4	2,496.5	7,105.9	3.22%		3,175.0	3,175.0	3,930.9	1.78%
2023 - 24	231,674.0	4,548.6	2,495.7	7,044.3	3.04%		3,333.8	3,333.8	3,710.5	1.60%
2024 - 25	243,257.7	4,560.8	2,494.9	7,055.7	2.90%		3,500.5	3,500.5	3,555.2	1.46%
2025 - 26	255,420.6	4,558.8	2,494.1	7,052.9	2.76%		3,675.5	3,675.5	3,377.3	1.32%

Preparing for Natural and Intentional Disasters

Health Care Surge Capacity Needs for California

Following through on the Governor's January commitment, the May Revision includes $400 million to implement a broad strategy to ensure that California is ready for public health emergencies and is properly equipped to handle them. This funding will enable the state to increase patient care capacity (also known as "surge capacity") to achieve the levels recommended by the federal Centers for Disease Control and Prevention (CDC) and the Health Resources and Services Administration (HRSA). In the past, California has responded to "moderate" local or regional public health emergencies, such as a fire, flood, explosion or earthquake, with up to 10,000 casualties over a limited time frame. Measured against federal HRSA benchmarks, California needs to increase response capacity in some areas.

Emergency planning experts agree that the most critical element in preparing for surge needs is the development of hospital and community surge plans, and the training and recurring exercise of those plans. Given that the development of surge plans is a fundamental element in the protection of residents of California, it is appropriate that the State provide leadership and assistance in ensuring that these plans and subsequent exercises and training are completed. The May Revision includes nearly $14.5 million to resource positions in hospitals throughout the state, dedicated to surge capacity planning, training and exercises. The May Revision provides $4.0 million for the rapid development of state guidance on the specific licensing flexibility, liability protection, and reimbursement that will be provided to health facilities, licensed professionals and volunteers during an emergency response effort. State leadership on these issues will enable local health departments and hospitals to expeditiously move forward with planning efforts and ongoing exercises, which will ensure that emergency response assets are effectively utilized when needed most. Additionally, the Department of Health Services (DHS) will update hospital licensing and infection control regulations to address preparedness for emergencies.

In addition to ensuring that California's public health infrastructure is prepared for moderate events, the Administration is taking seriously the potential for a pandemic influenza outbreak. Pandemic influenzas, although infrequent, are serious public health threats. Currently, significant national and international attention is being paid to the possibility that the H5N1 strain of the avian influenza virus will mutate into an easily transmissible human influenza and cause wide-scale societal disruption. While we cannot predict with certainty that any particular strain of avian influenza will become a human influenza, medical and scientific information indicates that California must prepare for this eventuality. Additionally, the same planning and inventory of emergency response assets that is necessary to prepare for a pandemic influenza can be applied to future catastrophic emergency events that will certainly occur.

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. The May Revision includes funding for the purchase of the following:

- Two mobile field hospitals to increase patient care capacity by 400 beds in times of emergency, as well as the infrastructure necessary for their rapid deployment.
- 3.7 million courses of antiviral medicines, at a discounted price made possible by an offer of 25 percent federal matching funds.
- 7,183 ventilators, which will double the number of ventilators now available in the state. These machines are durable, can operate on battery power and without compressed oxygen, and will be disseminated based on local needs.
- Supplies and equipment for alternate care sites to increase the number of general medical-surgical and intensive care beds available around the state.

Federal Centers for Disease Control and Prevention Grant

DHS was awarded $6.7 million in one-time supplemental federal funding from the federal CDC to prepare for and respond to a pandemic influenza. These supplemental federal funds are available only until August 31, 2006. Federal funds in 2006-07 will be used for the following major purposes:

- $4.5 million for local health departments to support activities related to the prevention of a pandemic influenza outbreak.
- $806,000 to strengthen DHS' pandemic influenza planning efforts, conduct epidemiologic investigations of influenza and respiratory disease outbreaks and provide epidemiologic and statistical support to infectious disease laboratories. These funds will also be used by DHS to train existing frontline public health field investigators to more effectively respond to anticipated infectious disease events and to support outreach activities, a general emergency preparedness hotline and risk communications staffing.
- $360,000 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. These activities are required pursuant to the terms of this federal grant.
- $200,000 to support cross-jurisdictional coordination in public health emergency preparedness with other states, military installations, tribal entities and Mexico.

K thru 12 Education

Strong performance by the California economy presents a historic opportunity to make significant additional state investments in K-12 schools to revitalize California's system of public education. These additional resources provide an opportunity for all Californians to unite behind their public schools. Therefore, the Administration proposes to make strategic investments by targeting significant new resources to critical educational priorities that require statewide leadership and focus. At the core of the Administration's priorities is maintaining the state's standards-based reforms in professional development, instructional materials, testing and accountability programs. These reforms are the key to ensuring that all California children have access to high quality instruction that will pave the way toward success in life.

Building on this essential foundation, the Governor has championed the restoration of programs necessary for a well-rounded education; the arts, music, career technical education and physical education. Under the Administration's proposal, schools would receive significant one-time and ongoing resources to purchase equipment and hire staff to ensure all students have access to these programs.

Furthermore, the Governor believes that true educational reform and improved academic achievement result from leadership and ingenuity at the local level. That is why the May Revision proposes a total of $2.3 billion in new discretionary spending above levels contained in the 2005-06 state budget. These resources are provided as cost-of-living adjustments, deficit reduction funding and revenue limit equalization funding. These funds will provide local educators with the flexible resources to craft specific solutions to help their students succeed.

Finally, in an effort to resolve the pending lawsuit regarding Proposition 98 funding, the Administration is proposing 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 $3 billion in settle-up funding, comprised of approximately $1.7 billion and $1.3 billion to count toward the 2004-05 and 2005-06 Proposition 98 guarantees for those years. In order to provide resources for the initial years of the settlement schedule, the May Revision proposes legislation to authorize the refinancing of the Golden State Tobacco Securitization Corporation's 2003A bonds. This refinancing involves a new structure for utilizing 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.

Change in Total K-12 Funding

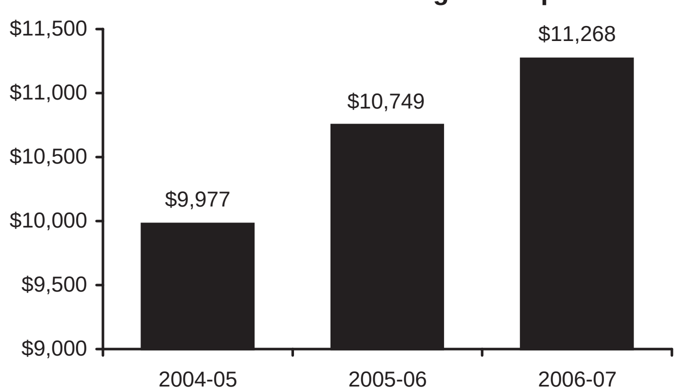
- 2005-06 $2.0 billion
- 2006-07 $0.8 billion

The total funding from all sources available to kindergarten through grade twelve (K-12) education continues to increase. For 2005-06, the May Revision reflects an increase of $2.0 billion from the Governor's January Budget level of $62.1 billion. For 2006-07, an increase of $896.2 million brings total funding to $67.1 billion.

Funding per pupil from all sources for 2006-07 relative to the Governor's January Budget increases $272, from $10,996 to $11,268. Revised per pupil funding of $10,749 in 2005-06 represents an increase of $413 from the Governor's January Budget level of $10,336 (see Figure K12-01).

Figure K12-01

Total K-12 Funding Per Pupil



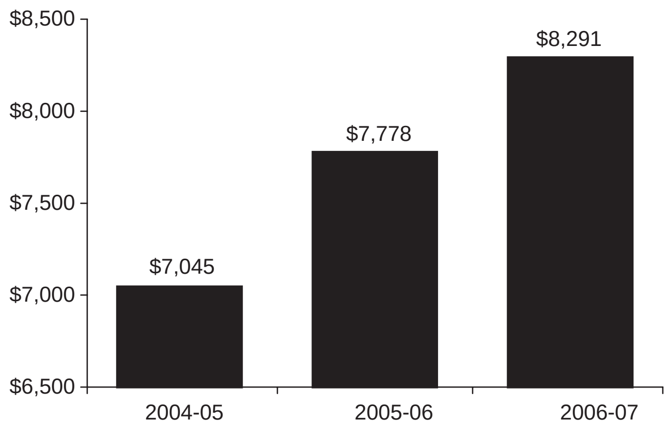
Proposition 98 Guarantee

- 2005-06 $2.1 billion
- 2006-07 $0.8 billion

The Governor's Budget included funding of $54.3 billion for Proposition 98 in 2006-07. This reflected $1.7 billion in spending above the level that would have otherwise been required by the Proposition 98 guarantee and a $428 million increase to implement Proposition 49. In the May Revision, the Administration is proposing to add to these significant investments in education programs. The May Revision reflects a Proposition 98 increase of $2.1 billion in 2005-06 and an increase of $756.8 million for 2006-07. The May Revision continues to propose to spend at the level the Proposition 98 guarantee would be in 2006-07 assuming that the 2004-05 suspension had only been $2 billion. It also continues to include $426 million above this level to implement Proposition 49.

Funding per pupil from Proposition 98 sources for 2006-07 relative to the Governor's January Budget increases $239, from $8,052 to $8,291. Revised per pupil funding of $7,778 in 2005-06 represents an increase of $350 from the Governor's Budget level of $7,428 (see Figure K12-02).

Figure K12-02
Proposition 98 K-12 Per Pupil



May Revision Expenditure Highlights

The May Revision proposes significant new one-time and ongoing education initiatives. These proposals, along with the major education investments proposed in the Governor's Budget, demonstrate the Administration's commitment to meaningful reform in California's public schools.

Ongoing Programs

The May Revision proposes strategic ongoing investments in the areas described below. These major initiatives will help to restore crucial educational services that have been reduced or eliminated in recent years and also lay the groundwork for important new efforts. Along with the initiatives contained in the Governor's Budget, these investments will help guide the way to major improvements in California's public schools.

Expansion of the Arts and Music Block Grant

The May Revision proposes an increase of $66 million Proposition 98 General Fund to expand the Arts and Music Block Grant proposed in the Governor's Budget, for a total of $166 million. This increase will allow for expansion of the block grant to high schools and increases the per pupil rate to $25. The Administration continues its commitment to improving cognitive development and educational outcomes by increasing educational opportunities for art and music. These funds will be distributed to school districts, charter schools, and county offices of education for supporting standards aligned instruction in kindergarten through grade twelve and will also be available for uses that include hiring additional staff, purchasing materials, books, supplies and equipment, and staff development. Funding will be allocated at a rate of $25 per pupil, with a minimum of $3,000 for school sites with ten or fewer students and a minimum of $5,000 per site with more than ten students.

School Counselors for Grades Seven through Twelve

The May Revision provides $200 million 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 ratio for middle school students to 500:1 and 300:1 at high schools. Moreover, unlike existing counseling services that only provide students with academic counseling, these new counselors will provide students with information on all educational and vocational options available to them.

Targeted Preschool Initiative

The May Revision proposes $50 million Proposition 98 General Fund for the first phase of a $145 million expansion for 4-year olds from low-income families residing in school districts in the lowest three deciles of the Academic Performance Index. This expansion will also include quality reforms designed to promote family literacy. Research demonstrates that children from low-income families benefit the most from access to quality preschool. The expansion will be phased in over a three-year period, which will allow school districts to address facility needs and to build capacity by hiring new teachers.

In addition, the May Revision provides an increase of $50 million one-time Proposition 98 General Fund in the Child Care Facilities Revolving Fund to address facility needs for the preschool expansion.

One-Time Programs

The May Revision proposes the following initiatives to be supported with one-time funding. These initiatives were selected to address critical education policy concerns while not creating recurring financial obligations for the state or school districts.

Instructional Materials Grants

The May Revision provides $250 million Proposition 98 General Fund for the purchase of standards-aligned instructional materials and supplemental materials. 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. Additionally, to the extent schools have purchased standards-aligned materials for the four core subject areas, these funds will enable districts to purchase effective supplemental 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 and grades one through twelve.

Arts and Music Equipment and Supplies Grants

The May Revision provides $250 million Proposition 98 General Fund for the purchase of Art and Music equipment and supplies. These one-time grants will allow K-12 schools to restore and expand the infrastructure of art and music programs. 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.

Physical Education Equipment Grants

The May Revision provides $250 million Proposition 98 General Fund for the purchase of physical education equipment and supplies. This significant infusion of resources will allow schools to make meaningful investments in order to improve and expand the infrastructure of physical education programs. 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 and grades one through twelve.

Teachers' Fund for Classroom Supplies and Materials Grant

Across the state, teachers oftentimes dip into their own pockets to pay for classroom supplies, laboratory supplies and other materials they need to do their jobs. It is well-documented that most K-12 teachers spend hundreds and even thousands of dollars per year of their own money on items ranging from paper and glue sticks to lab supplies and printer cartridges. The May Revision provides $400 million Proposition 98 General Fund to help alleviate this burden on teachers. These resources will be allocated to school districts and county offices of education serving pupils in kindergarten through grade twelve and must be used to purchase classroom supplies and materials. Funds must be used to establish discretionary classroom supply and material accounts for each classroom teacher.

Classroom and School Library Reading Block Grant

The May Revision provides $75 million Proposition 98 General Fund for the purchase of school library materials. School libraries foster literacy by allowing students to read stories and explore information that matters to them. In addition, school libraries play a vital role in promoting academic achievement and providing instructional support. The resources provided in the May Revision will help to replenish and refresh both school and classroom library materials. Of the $75 million, $25 million is reserved for kindergarten through grade four and $50 million for grades five through twelve.

Career Technical Education Equipment and Materials Block Grant

The May Revision provides $50 million Proposition 98 General Fund for the purchase of career technical education equipment and materials. These resources will be allocated to school districts, regional occupational centers/programs, adult education providers and county offices of education to the extent they offer career technical education. Funds will be distributed on an equal amount per pupil based on the number of pupils in middle and high school.

Mathematics Teacher Pilot Program

In addition to the Governor's Math and Science Teacher Initiative, the May Revision includes $1.8 million Proposition 98 General Fund for a pilot program to establish essential links between higher education and secondary-level math programs. This will complement the Governor's Initiative and further reflects the Administration's commitment to addressing the shortage of math teachers. 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 and by encouraging upper-level college math majors to enter the teaching profession in districts most in need.

K-12 High Speed Network

The May Revision includes $5 million one-time Proposition 98 General Fund for the "last mile" which will enable all remaining California schools, districts, charter schools and county offices of education to connect to the K-12 High Speed Network. The proposed funds will be allocated based on need, with priority to be given to districts that are not yet connected.

The May Revision also authorizes $15.6 million to support the K-12 High Speed Network, including $8.6 million Proposition 98 General Fund, $3 million from existing reserves and $4 million from excess funds in the equipment refresh account. These funds will allow the K-12 High Speed Network to continue the work of ensuring cost-effective Internet and other communication services for all California schools.

Discretionary Funding For Schools

The Governor's Budget included significant increases in discretionary funding for schools, including $200 million for school district revenue limit equalization to address the disparity in base general-purpose funding levels across school districts. In addition, $205 million was included to restore most of the outstanding deficit factor owed as a result of reductions to apportionments made by the prior Administration. The May Revision continues to prioritize discretionary funding for schools and provides an additional $233.9 million in discretionary funding. This includes increases of $235 million for an increase in the cost of living adjustment index, $102.4 million to restore the remaining deficit factor and $100 million for school district revenue limit equalization.

Major Program Adjustments

The May Revision includes the following significant changes to major education programs.

Attendance Changes

The May Revision includes an estimated 2005-06 K-12 average daily attendance (ADA) decline of 0.21 percent, a reduction from the 0.47 percent growth projected in the Governor's Budget. In 2006-07, the revised ADA also shows a decline of 0.26 percent (approximately 66,000 ADA lower than the January estimate). As a result, General Fund Proposition 98 costs for school district and county office of education revenue limits decrease by $67.3 million in 2005-06 and $209.9 million in 2006-07. The total number of ADA is estimated to be 5,972,000 in 2005-06 and 5,957,000 in 2006-07.

Cost Of Living Adjustment Changes

The May Revision includes an additional $320.4 million to fund an increase in the estimated Cost of Living Adjustment (COLA) factor, from 5.18 percent to 5.92 percent. This increase requires adjustments of $235 million for apportionments, $22.6 million for special education, $12.3 million for K-3 class size reduction, and $10 million for various child care programs.

Revenue Limits

Revenue limit funding constitutes the basic funding source for classroom instruction. The May Revision provides a net increase compared to the Governor's Budget of $233.9 million to school district and county office of education revenue limits, which includes the decrease due to anticipated ADA declines, the increase due to the increased COLA factor and an increase of $8.7 million General Fund 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 in the Discretionary Funding for Schools section.

The May Revision also sets aside $17.8 million Proposition 98 General Fund to resolve inequities in base funding for oversight and assistance activities to school districts by county offices of education.

Mandated Local Programs

The Governor's Budget included $133.6 million to fund the ongoing cost of K-12 and Community College state-mandated programs. The May Revision includes an additional $30 million from the Proposition 98 Reversion Account for these costs. This should be sufficient to fund these mandates until more audits have been performed and reliable data is obtained on the true costs of the mandates.

The Governor's Budget also included $18.7 million from the Proposition 98 Reversion Account and $150 million in settle-up payments to fund prior year mandate claims. The May Revision adds over $650 million one-time Proposition 98 General Fund to fund over half of the outstanding audited claims.

Special Education

The May Revision provides a net General Fund increase of $19.5 million and a net decrease of $13.6 million in federal funding under amounts proposed in the Governor's January Budget. These changes include adjustments for local property tax, growth and the increased COLA. The total year-over-year decrease in federal Special Education Funds is $1.6 million. We note that in order to comply with the federally-mandated state-level activities cap, the May Revision proposes to shift some expenditures from Federal to General Fund dollars. To reflect this, it is proposed that $963,000 in transportation costs for the State Special Schools be funded with General Fund, and it is proposed that $934,000 for activities related to Family Empowerment Centers be funded with General Fund.

The May Revision continues to include $100 million ($69 million in Federal funds and $31 million in Proposition 98 General Fund) for special education mental health and pre-referral services to local education agencies. An additional $69 million is provided in the Department of Mental Health budget for allocation to county mental health agencies as part of a program restructuring designed to provide greater fiscal and programmatic accountability, improve efficiency, and ensure that these valuable services for special education pupils will continue. This proposal is discussed in greater detail in the Department of Mental Health section.

School Nutrition Program

The May Revision provides $37.8 million Proposition 98 General Fund to support a 6.75 cent increase in the meal rate for the School Nutrition Program. This increase will enhance the ability of schools to serve nutritious meals to students. By providing nutritious food choices, school nutrition programs play an important role in promoting student health and combating childhood obesity.

The May Revision also provides $3 million one-time Proposition 98 General Fund for School Breakfast Startup grants.

In addition, $1 million one-time General Fund is proposed for a child nutrition point-of-service technology study, which would assess the availability and costs of current point of service technologies. These web-based technologies allow parents to electronically monitor and limit the foods their children eat at school. Parents are also able to specify which foods their child may purchase and block food purchases that are unhealthy or that may contain ingredients that may cause an allergic reaction.

Other Major Budget Adjustments

The May Revision includes other major budget adjustments outlined below.

National Board Certification

The May Revision provides $5 million Proposition 98 General Fund to significantly reduce the cost to teachers for obtaining certification from the National Board for Professional Teaching Standards. This is sufficient to fund up to 5,000 teachers, with a priority for teachers in High Priority Schools. National Board certification is a voluntary program, which allows teachers to demonstrate professional teaching excellence. As such, teachers must complete significant professional development and pass rigorous standards and assessments. Certification currently costs $2,500, with federal funds available for half the fee. This proposal would fund up to $1,000 of the remaining cost so that teachers will pay only $250. If federal funds are insufficient to meet demand, the funds will be used to provide $2,250 per teacher to ensure this goal is met.

English Language Learner Instructional Materials

The May Revision proposes $30 million one-time Proposition 98 General Fund for the purchase of supplemental materials to help students with a primary language other than English quickly develop grade-level English language skills.

California High School Exit Exam

The May Revision provides $7.7 million Proposition 98 General Fund to develop three additional administrations of the California High School Exit Examination (CAHSEE). These administrations will accommodate students who attend school at non-traditional times, such as evenings and weekends, and provide students with additional opportunities to pass the examination. In addition, funds will be used by the independent evaluator to perform analyses related to the three additional administrations. Beginning with the Class of 2006, successful completion of all graduation requirements and passage of the CAHSEE are prerequisites for a high school diploma.

The May Revision also includes $65 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. This is an increase of $25 million over the Governor's January Budget proposal. It is intended that these funds supplement, not supplant, the existing Supplemental Instruction Program funds. Of the additional funds provided at the May Revision, $10 million provides supplemental instruction to adult education pupils who have met all graduation requirements except for the passage of the CAHSEE.

Healthy Start

The May Revision includes $10 million one-time Proposition 98 General Fund for Healthy Start for a new cohort of operational and collaborative planning grants in 2006-07.

Oral Health Assessments for Kindergarten Pupils

The Administration proposes to require proof of an oral health assessment by a licensed dental professional for children enrolled in kindergarten pursuant to legislation in the current session. As a result, the May Revision includes $4.4 million Proposition 98 General Fund for schools to notify parents of the requirement, withhold report cards for pupils whose parents have not complied and report required information to county health agencies. The May Revision also includes $2 million in the Medi-Cal and Healthy Families budgets for the cost of the assessment for eligible children.

Fiscal Solvency

The May Revision provides $10 million one-time Proposition 98 General Fund to require districts that have outstanding long-term obligations concerning health benefits for retirees to produce a plan for meeting those obligations. The funding is also intended to reimburse county superintendents for reviewing these plans as part of the budget adoption process. In conjunction with Chapter 52, Statutes of 2004 (AB 2756), the Administration's recent effort to improve fiscal responsibility at the local level, and the provision of large increases in discretionary funding proposed in both the current and budget years, the Administration believes these proposals will help ensure that local education agencies have both the resources and the accountability structures in place to avoid issues of fiscal insolvency.

CALPADS-CSIS Transition

To prepare schools for the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS), the May Revision includes $31 million ($20 million from the Educational Telecommunication Fund and $11 million one-time Proposition 98 General Fund) to help improve school districts' data capability by participating in the California School

Information Services (CSIS) program. These funds are proposed to be available for two years so that all districts may upgrade hardware and software to improve their ability to collect and analyze pupil data. This funding will help ensure data integrity and a smooth, effective transition to the new statewide longitudinal student data base. The May Revision also includes $1.1 million for CSIS to support districts in their transition to CALPADS.

Teacher Database System

The May Revision provides $938,000 from federal Title II Improving Teacher Quality carryover funds for development of the statewide Teacher Database System. The amount proposed would 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.

Proposition 98 Reversion Account

The May Revision proposes additional one-time Proposition 98 Reversion Account funding as follows:

- $30.4 million for emergency repairs pursuant to the William's settlement agreement.
- $30 million in one-time grants for school garden supplies and equipment.
- $30 million for on-going mandate costs.
- $22.3 million for a one-time Community College general purpose block grant
- $10.5 million to fully fund the differential between the charter school revenue limit and the unified school district revenue limit pursuant to Chapter 355, Statutes of 2005 (SB 319).

Other K-12 Agencies

The May Revision also includes adjustments to the following education related agencies.

California State Library

The May Revision 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 on 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. This program encourages efficient resource allocation and is worthy of increased support.

California State Summer School for the Arts

The May Revision proposes $676,000 General Fund for the California Summer School for the Arts (CSSSA). These funds will allow CSSSA to reduce the fees charged to pupils and to offer additional scholarships to low-income students. This increase fulfills the statutory intent that the state provides funding to support up to 75 percent of the total program costs.

California Commission on Teacher Credentialing and Other Credentialing Reforms

The May Revision includes $22 million that has been set aside for various teacher credentialing reforms that are contained in SB 1209 (Scott). This funding includes $2 million for anticipated studies of current teacher and intern induction programs as well as $20 million to support the reforms contained in the bill. These reforms will simplify the process for out-of-state teachers to receive a California teaching credential, streamline the system of exams individuals must pass in order to earn a teaching credential, expand and improve mentoring and induction programs for teachers, and help school districts improve their teacher recruitment and hiring practices.

Higher Education

The May Revision for higher education remains consistent with the 2004 Higher Education Compact, and includes workload adjustments to the Cal Grant program. Due to significant revenue increases and enrollment declines in Community Colleges, the May Revision incorporates significant changes for that segment, reflecting major one-time increases funded from current year Proposition 98 as well as substantial increases in the budget year. Overall General Fund and related Proposition 98 growth for higher education increases 7.9 percent over the current year revised level in the May Revision, as compared with the 9.4 percent growth referenced in the Governor's Budget Summary. However, actual General Fund and related Proposition 98 sources increase in the May Revision by $57 million overall compared to the Governor's Budget. The reduction in the percentage change is a result of the very large current-year expenditure increase for community colleges.

Nurse Education Initiative

Current clinical nursing salary levels make it difficult to recruit and retain the faculty necessary to train new nurses. As a component of the Governor's Nurse Education Initiative, the May Revision proposes additional investments to ensure sufficient faculty are available to support funded enrollment growth for nursing programs. Additionally, the May Revision addresses shortages of clinical nurses for state agencies. Specifics are described below.

For both the University of California (UC) and California State University (CSU), $1 million increases are proposed on a one-time basis for faculty recruitment and start-up costs to help secure and retain the needed faculty. This funding is in addition to the $1.7 million that was provided to both UC and CSU through Chapter 592 of the Statutes of 2005, and continued in the Governor's Budget, to support a minimum of 130 additional full-time equivalent students (FTES) in entry-level master's degree programs. These resources will enable UC and CSU to expand capacity in both undergraduate and graduate nursing programs to help address California's nursing shortage.

For California Community Colleges (CCC), the May Revision provides $1.5 million on a matching basis with the colleges for a multi-year nursing faculty stipend incentive program. These funds will leverage $3 million annually to ensure sufficient faculty to successfully fulfill the $14 million investment in nursing enrollments funded from Proposition 98, plus the expansion resulting from the infusion of Workforce Investment Act funds and matching contributions totaling $90 million over five years announced last year.

Also, $500,000 is provided on a one-time basis to CCC to expand and establish Student Clinical Placement Registries in all regions of the state and to establish the on-line CCC Faculty Registry. Student Clinical Placement Registries have been initiated in three regions of the state and have identified underutilized clinical placement slots available for students. Therefore, expansion of these slots to other regions will assist all segments in connecting students with clinical opportunities necessary to complete nursing degree programs. The online Faculty Registry will provide an opportunity for prospective instructors to specify their qualifications and availability to a wide audience and for CCC nursing program administrators to conveniently search and match faculty to areas of need.

Additionally, to address clinical nursing shortages in state agencies, the May Revision proposes $630,000 in one-time funding for the California Student Aid Commission to administer a three-year pilot program, which would provide up to 40 nurse education recruitment grants. The grants would be provided to participants enrolled full time in accelerated nursing degree programs who commit to serve in a state-operated health care facility after passing the nurse licensing exam. The grants would require a four year state employment commitment. Depending on the length of the accelerated nursing program, the grant would vary between $1,000 and $2,000 per month. Failure to pass the licensing exam and/or to fulfill the state service requirement would trigger repayment of the grant.

University of California

- 2005-06 -$3.8 million General Fund
- 2006-07 $1 million General Fund

Current Year

- A reduction of $3.8 million is related to a shortfall in enrollments of 500 FTES, pursuant to provisional language in the 2005 Budget Act that requires the Director of Finance to revert unspent enrollment growth funding to the General Fund.

Budget Year

- The May Revision proposes $1 million General Fund to provide funding on a one-time basis for faculty recruitment and start-up costs associated with the expansion of undergraduate and graduate nursing programs.

In addition, the May Revision proposes the following changes to non-General Fund items for 2006-07:

- An increase of $300,000 in Proposition 99 funds to provide additional funding for tobacco-related research.

California State University

- 2005-06 No Change
- 2006-07 $1 million General Fund

Budget Year

- The May Revision proposes $1 million General Fund to provide funding on a one-time basis for faculty recruitment and start-up costs associated with the expansion of undergraduate and graduate nursing programs.

California Student Aid Commission

- 2005-06 -$14.0 million General Fund
- 2006-07 -$14.2 million General Fund

Current Year

- Savings of $14 million is estimated for current-year Cal Grant Entitlement awards.

Budget Year

The May Revision proposes a net General Fund decrease of $14.2 million over the level proposed in the 2006-07 Governor's Budget, as noted below:

- Savings of $14.8 million associated with revised estimates for Cal Grant Entitlement awards that will be issued in 2006-07 including transfer and high school entitlement awards.
- An increase of $600,000 in one-time funding for a three-year period to implement a pilot Nurse Education Grant Program for State Agencies. The program and appropriation will be authorized in budget trailer bill legislation.

In addition, the May Revision proposes the following changes to non-General Fund items for 2006-07:

- An increase of $30,000 from the Student Loan Operating Fund for one-half personnel year to administer the Nurse Education Grant Program for State Agencies, again through the trailer bill legislation.

California Community Colleges

- 2005-06 $244.4 million net General Fund and Proposition 98 Related Sources
- 2006-07 $80.4 million net General Fund and Proposition 98 Related Sources

Current Year

The May Revision proposes a net General Fund and Proposition 98 related increase of $244.4 million for the California Community Colleges (CCC), including an augmentation of $257.3 million on a one-time basis as a result of an increase in the current-year Proposition 98 guarantee. The following current-year Proposition 98 adjustments will be addressed through budget trailer bill legislation:

- $100 million for deferred maintenance, instructional equipment, and hazardous substance abatement. These funds will provide significant funds to address backlogs in core operational needs beneficial to student learning.
- $77.7 million for a general purpose block grant. These funds will be distributed on a full-time equivalent students (FTES) basis, and will allow each college to address other

local priorities. An additional $22.3 million for this purpose is also provided from the Propositon 98 Reversion Account in the Budget Year for a total of $100 million.

- $40 million for career technical education equipment and associated facility reconfigurations. In addition to providing broader flexibility for one-time infrastructure investments, the May Revision also builds upon the Governor's ongoing investment of $50 million in career technical education by providing both K-12 and CCC with one-time resources for career technical equipment. These funds will 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.
- $15 million for payment of prior-year amounts owed for mandated cost claims that have been audited.
- $23.6 million is set aside for one-time costs associated with implementation of a new funding formula for community colleges.
- $500,000 to extend high-speed internet services to 52 offsite centers.
- $500,000 for the expansion of Student Clinical Placement Registries in all regions of the state and to establish an on-line CCC 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.

Budget Year

In addition, the May Revision proposes major budget adjustments for the CCC, which will increase total General Fund and Proposition 98 Related sources by a net $80.4 million compared to the January Governor's Budget, including an increase of $38 million in on-going Proposition 98 General Fund. Major ongoing Proposition 98 General Fund adjustments for the CCC include the following:

- Increases of $32.6 million for apportionments and $2.3 million for selected categorical programs to reflect an increase in the COLA factor from 5.18 percent to 5.92 percent.
- A base reduction of $85 million in apportionments to reflect unused 2005-06 growth funding that will revert based on the most recent current-year enrollment information available from the Chancellor's Office.

- $29.5 million increase for ongoing deferred maintenance, instructional materials, and hazardous substances abatement costs, allowing colleges to help keep up with backlogs and new needs in critical instructutional equipment and facilities areas.
- $24 million increase for matriculation, providing colleges with additional resources to assist students' progress towards their educational goals.
- $15 million increase for the Economic Development program to expand targeted training services aligned with California business needs and 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 have failed to pass the California High School Exit Exam (CAHSEE).
- $4 million increase for ongoing claims of current mandated programs.
- $2.5 million increase for apprenticeship instructional program support to address increasing demand from industry for trained workers.
- $1.5 million increase for nursing programs to initiate a nursing faculty stipend incentive program that will provide colleges with additional resources to recruit new and retain existing full-time nursing faculty.
- $800,000 increase for the Telecommunications and Technology Services program to pay for increased costs of high-speed internet service delivery allocated to community colleges.
- $500,000 increase for the Telecommunications and Technology Services program to support the California Partnership for Achieving Student Success (CalPASS) that will fully fund the resources necessary to expand the program statewide.

In addition, the following ongoing technical Proposition 98 adjustments are proposed to conform to revised estimates of local funds and the base apportionment reduction:

- A decrease of $2.6 million in Proposition 98 General Fund for apportionments to reflect the recalculation of 3 percent growth funding included in the Governor's Budget on a lower base, as discussed previously.
- An increase of $3.2 million Proposition 98 General Fund that offsets a reduced estimate of student fee revenues for 2006-07.

- A decrease of $816,000 to reflect an offsetting increase in oil and mineral revenues of an identical amount.
- An increase of $744,000 in Proposition 98 General Fund for administration of the Board of Governor's Fee Waiver program to reflect 2006-07 base adjustments as a result of reestimated student fee revenues.

The May Revision also proposes $22.3 million from the Proposition 98 Reversion account for the same purposes as the General Purpose Block Grant described previously.

Finally, the Governor's May Revision sets aside up to $30 million General Fund for a one-time loan to the Compton Community College District to address fiscal solvency and the anticipated loss of program accreditation. These funds would be used in the short-term to ensure basic operations of the college continue, while the remaining funds will be used over a longer period of time to address Compton's structural deficit along with a number of outstanding financial liabilities that include: repayment of various audit findings, facility health and safety issues, various litigation and intervention costs, and other statutory and accreditation deficiencies. Subsequent legislation will define a period of repayment for the loan, as well as the necessary structural and administrative reforms that must be made to ensure fiscal recovery and return of accreditation.

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Health and Human Services

The May Revision maintains a strong and responsible safety net for California's most vulnerable residents by continuing the reform proposals and initiatives included in the Governor's January Budget. In developing these reform proposals and initiatives, the Administration continues to be guided by an overall vision for health and human services:

- Residents are protected against and prepared for natural and intentional disasters.
- Californians have access to affordable health care coverage.
- Children are raised in safer, more stable, and permanent homes.
- Seniors and persons with disabilities live in the most integrated and appropriate community setting.

These reform efforts strike a reasonable and responsible balance between the need to maintain essential services for Californians in need, while implementing strategies to better manage and control program costs over the long term. At the same time, the May Revision identifies a number of additional targeted investments that address emerging issues and promote continued access to services that are critical to supporting the health and well-being of the people of California.

May Revision Adjustments—Highlights

State Support for County Efforts to Cover Uninsured Children

In recent years, counties, foundations, the state and local First Five Commissions, and other community groups have established 18 county-based programs, called children's health initiatives, to cover uninsured children in families above 250 percent of federal poverty who are ineligible for Medi-Cal or the Healthy Families Program (HFP). Additional counties are in the planning stages to begin similar programs. These existing children's health initiatives cover approximately 83,000 children. These initiatives are expected to have nearly 24,000 children on waiting lists by the end of 2006-07. To eliminate these waiting lists, the May Revision proposes $23 million General Fund and three positions in the Managed Risk Medical Insurance Board (MRMIB) to support enrollment of these uninsured children.

Modify Certified Application Assistants Proposal

To increase the number of successful applications to Medi-Cal and the HFP, the May Revision proposes that Certified Application Assistants (CAAs) who assist with enrolling kids in public health coverage programs receive an additional $25 per successful application filed using the electronic Health-e-App. To improve retention, payment to CAAs for Annual Eligibility Redetermination assistance will be increased from $25 to $50. The Administration estimates that this modified proposal will allow an additional 20,000 children to receive and maintain health coverage in 2006-07.

Governor's Initiative to End Chronic Homelessness

The May Revision proposes to continue the interagency collaboration between the Health and Human Services Agency (HHSA) and the Business, Transportation, and Housing Agency (BTHA) to implement the second phase of the Governor's Initiative to End Chronic Homelessness by providing up to $75 million in Proposition 63 funding each year to construct housing for individuals with mental illness who are chronically homeless and their families. Proposition 63 resources will be leveraged to secure an estimated $4.5 billion in other funding sources and will enable the construction of more than 10,000 new housing units. In addition, $1.2 million is proposed for the Department of Mental Health (DMH) to coordinate implementation of the initiative.

Foster Care Federal Waiver Implementation

The Administration secured a waiver to provide counties with unprecedented flexibility in using foster care funds to offer innovative services to keep children out of foster care and in safe, stable homes. The Title IV-E Child Welfare Waiver Demonstration Project will allow up to 20 counties to participate in a five-year program focused on prevention and intervention strategies aimed at keeping children in their homes. Previously, waiver funding could only be used for foster care payments and services to support children already in foster care. Under the waiver, children at risk are less likely to be placed in institutions because preventive services will now be provided to families in crisis. This alleviates the need for removing children from the home and placing them into costly and restrictive foster care settings. The May Revision provides funds for the upfront costs associated with initial implementation of the waiver.

County Expansion of Program Improvement Plan (PIP) Initiatives

The May Revision includes $19.6 million ($11.9 million General Fund) to expand three specific PIP initiatives, currently being pilot tested in 11 counties, to additional counties in 2006-07. The federal Child and Family Services Review and the new California Outcome and Accountability System have established a comprehensive process to measure program performance and track improvement in California's CWS delivery system. This funding will allow the Standardized Safety Assessment initiative to be expanded to an additional 18 counties and the Differential Response and Permanency Enhancements initiatives to be expanded to an additional 15 counties.

Managed Care Plan Payments

Protecting access to health care for vulnerable Californians is important to the Administration. The May Revision 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 3.2 million Medi-Cal beneficiaries.

Increase Other Medi-Cal Managed Care Rates

The Department of Health Services (DHS) recently conducted a financial review of all Medi-Cal managed care plans to determine if any additional rate adjustments were needed to ensure that health plans would have sufficient resources to provide quality care to Medi-Cal beneficiaries through 2006-07. This review determined that rate increases will be needed 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. Increasing provider rates will ensure that providers continue to serve

Medi-Cal beneficiaries. The May Revision contains $61.2 million ($30.6 million General Fund) in 2006-07 to fund these rate increases.

Department of Health Services

Medi-Cal

- 2005-06 -$365.8 million
- 2006-07 $29.7 million

Current Year

The May Revision includes total Medi-Cal expenditures of $33.3 billion ($12.8 billion General Fund), a decrease of $502.5 million ($365.8 million General Fund) from the January Governor's Budget. General Fund expenditures for Medi-Cal have increased by $1.1 billion, 9.6 percent over the 2004-05 level.

The average monthly Medi-Cal caseload in 2005-06 is expected to decrease by 100,700 beneficiaries, to 6,579,500 eligibles. This represents a decrease of 1.5 percent from the level projected in the January Governor's Budget. The revised caseload is expected to track closely to 2004-05 caseload.

The net General Fund decrease from the January Governor's Budget level includes the following significant adjustments:

- A $270.9 million decrease reflecting the recalculation and payment over time of the Medicare Part D "clawback".
- A $184.6 million decrease due to the identification of additional drug rebates that likely will be received in 2005-06.
- A $45.9 million net increase for various cost and utilization changes.
- A $43.8 million increase due to hospital financing costs that are shifting from 2006-07 to 2005-06 as the result of a delay in implementing the hospital financing waiver.

Budget Year

The May Revision includes total Medi-Cal expenditures of $35.0 billion ($13.8 billion General Fund), a net total funds increase of $183.5 million ($29.7 million General Fund) from the January Governor's Budget. General Fund expenditures for Medi-Cal are expected to increase by $937.9 million, or 7.3 percent over the 2005-06 level.

The average monthly Medi-Cal caseload is expected to decrease from the January Governor's Budget by 142,100 beneficiaries, to 6,664,700 eligibles. This represents a decrease of 2.1 percent below the January Governor's Budget.

The net General Fund increase from the January Governor's Budget level includes the following significant adjustments:

- A $106.1 million increase due to a revised estimate of the fiscal impact of transferring dual eligibles to the Medicare Part D program.
- An $81.1 million decrease due to the identification of additional drug rebates that likely will be received in 2006-07.
- A $43.8 million decrease due to hospital financing costs that are shifting from 2006-07 to 2005-06 as the result of a delay in implementing the hospital financing waiver.
- A $32.7 million augmentation due to rate increases provided to certain managed care plans to ensure that they will have sufficient resources to provide quality care to Medi-Cal beneficiaries.
- A $14.8 million net increase for various cost and utilization changes.
- A $1.0 million increase to add HIV/AIDS to the Disease Management Pilot Project.

Licensing and Certification

The May Revision refines the distribution of costs between the Licensing and Certification Fund and the General Fund to reflect a better estimate of the cost to license and certify both state-owned facilities and 306 certified-only facilities that cannot be charged fees. This refinement increases the General Fund share of cost by $4.6 million. In addition, this refinement increases the expenditure authority in the Licensing and Certification Fund by $2 million to pay the cost of fingerprint criminal clearance processing for Certified Nurse Assistants. Furthermore, the Administration is withdrawing the January Governor's Budget current year proposal for $8 million General Fund to support 67 Licensing and Certification positions. The DHS has used increased overtime and the hiring of retired annuitants to help meet its current year requirements and no longer requires these additional resources.

Public Health

- 2005-06 $0.9 million
- 2006-07 -$2.4 million

Current Year

The May Revision includes a net decrease of $1.0 million from the $224.6 million provided in the January Governor's Budget due to adjustments in caseload and health care costs in the California Children's Services (CCS) program, Child Health and Disability Prevention (CHDP) program, and Genetically Handicapped Persons Program (GHPP). General Fund expenditures for these programs have increased $7.8 million, or 9.2 percent, which includes $6.0 million General Fund to backfill Title V funds previously used to support direct care services in the CCS program.

The May Revision includes $258.8 million to fully fund the AIDS Drug Assistance Program (ADAP). This funding level is 3.0 percent below the $266.8 million identified in the January Governor's Budget, which included $1.5 million in savings resulting from the implementation of Medicare Part D. Current year ADAP caseload at the May Revision remains unchanged from the January Governor's Budget. This funding adjustment reflects net savings of $8.0 million General Fund as a result of ongoing efforts to attain program efficiencies from revised reimbursement structures with the program's pharmacy benefits manager and from revised Medi-Cal screening guidelines offset by $1.97 million in higher program costs due to steadily increasing drug prices and increased access to covered drugs by ADAP clients. These savings will not result in program cuts or limitations to current levels of service.

The Genetic Disease Screening estimate reflects an increase of $3.6 million from the Genetic Disease Testing Fund due to an increase in caseload and costs for follow-up, counseling, and diagnostic services in the newborn screening and prenatal screening programs. This information was previously transmitted to the Legislature on May 3, 2006.

Budget Year

The May Revision includes an increase of $10.3 million ($3.8 million General Fund) from the $255.5 million provided in the January Governor's Budget due to adjustments in caseload and health care costs in the CCS, CHDP, and GHPP programs. General Fund expenditures have increased $3.8 million, or 4.8 percent, which includes $6.0 million General Fund to backfill Title V funds previously used to support the CCS program.

The May Revision also includes an increase of $3.0 million from the ADAP Rebate Fund, or 1.0 percent, from the $296.4 million provided in the January Governor's Budget to fund increased program costs. Budget year caseload at the May Revision remains unchanged from the January Governor's Budget. Although program costs are $23.9 million higher due to steadily increasing drug prices and increased access to covered drugs by ADAP clients, ADAP has identified $20.9 million in additional savings resulting from revised reimbursement structures with the program's pharmacy benefits manager, revised Medi-cal screening guidelines, and savings resulting from implementation of Medicare Part D.

The Genetic Disease Screening estimate includes an increase of $8.6 million from the Genetic Disease Testing Fund due to an increase in caseload and costs for follow-up, counseling, and diagnostic services in both the newborn and prenatal screening programs.

The May Revision also includes an increase of $6.7 million in Proposition 99 funding for the Breast Cancer Early Detection Program: Every Woman Counts. To provide the increase, the May Revision redirects Proposition 99 funds from the Orthopaedic Hospital program and provides $6.7 million General Fund for the hospital program. The increase will provide services for eligible women and backfill a projected reduction in the federal grant award for this program. Budget year caseload at the May Revision increased by 9,344 women, or 3.6 percent, from 263,066 to 272,410 women.

Alzheimer's Disease Program

The May Revision includes $2 million General Fund to increase grants to the Alzheimer's Disease Research Centers of California (ARCC). Each of the 10 research centers will receive an additional $185,000. The remaining $150,000 will be provided to the University of California, San Francisco Institute of Health and Aging, which manages ARCC data and program evaluations. This increase, the first since 1998-99, will enhance the program's ability to provide state-of-the art diagnostic and treatment services, caregiver training and support services, and evaluate the most complex cases of dementia of Alzheimer's related disorders. In addition, the funds will be used to expand Alzheimer's Disease research.

Managed Risk Medical Insurance Board

- 2005-06 -$6.3 million
- 2006-07 $16.9 million

County Health Initiative Matching Fund Program

The County Health Initiative Matching (CHIM) Fund Program, established by Chapter 648, Statutes of 2001, allows county or local public agency funds to be used to match unused federal State Children's Health Insurance Program funds to provide health care for uninsured children in families with incomes up to 300 percent of the federal poverty level. These county programs are frequently referred to as Healthy Kids Programs. Expenditures are expected to increase by $520,000 ($182,000 CHIM Fund and $338,000 federal funds) in 2005-06 and by $156,000 ($55,000 CHIM Fund and $101,000 federal funds) in 2006-07 due to updated county caseload information.

County-Based Children's Health Initiatives Enrollment Assistance

The May Revision proposes $23 million General Fund and three positions to provide financial support to the 18 counties with operational children's health programs so they can enroll the estimated 24,000 uninsured children on waiting lists in 2006-07 in local initiatives.

Healthy Families Program

Current Year

The HFP is expected to serve a total of 780,698 children by June 30, 2006, an increase of 38,354, or 5.2 percent, from June 30, 2005. The May Revision projects an overall expenditure decrease of $18.0 million ($6.2 million General Fund), from $908.5 million ($326.8 million General Fund) to $890.5 million ($320.6 million General Fund), from the level anticipated in the Governor's January Budget. This is a 2 percent decrease in total funds, primarily due to a reduction in the estimated caseload growth in the HFP.

Budget Year

The May Revision projects an overall expenditure decrease of $19.8 million ($6.1 million General Fund), from $1,047.1 million ($377.2 million General Fund) to $1,027.3 million ($371.1 million General Fund), from the level anticipated in the January Governor's Budget. This is a 1.9 percent decrease in total funds. Between June 2006 and June 2007 enrollment in HFP is expected to grow from 780,698 children to 867,727 children. This is an increase of 87,029 children, or an 11.1 percent increase. Projected caseload as of the May Revision reflects updates to the impact of various proposals included in the January Governor's Budget that promote and maximize enrollment in HFP, improve the retention of children already enrolled, and support county-based efforts to enroll eligible children.

Access for Infants and Mothers Program

Current Year

The May Revision projects an overall expenditure decrease of $2.0 million (-$2.1 million Perinatal Insurance Fund, -$57,000 General Fund, and $96,000 federal funds), from $117.4 million to $115.3 million, from the level anticipated in the January Governor's Budget. This is a 1.7 percent decrease in total funds. Average monthly enrollment in the Access for Infants and Mothers (AIM) program is expected to be 7,030 women and infants, 2.0 percent lower than the 7,173 originally estimated in the January Governor's Budget.

Budget Year

The May Revision projects an overall expenditure increase of $5.9 million ($1.2 million Perinatal Insurance Fund and $4.7 million federal funds) from the level anticipated in the January Governor's Budget. This is a 5.2 percent increase in total funds. Costs are higher due to slight increases in women's enrollment and rates charged by plans. All first-year infants will be phased out of AIM by July 2006 and new infants are going directly into HFP. Second-year infants will be phased out of AIM during 2006-07. Average monthly enrollment in AIM is expected to be 1,616 women and infants, 5.1 percent lower than the 1,703 originally estimated in the January Governor's Budget.

With a declining number of children enrolled in AIM, the MRMIB has had to increase provider rates to recognize the relatively higher cost of pregnancies for a higher share of the AIM caseload. In 2006-07, the one-time capitation rate for pregnancies is expected to be approximately $620 higher than the rate used in 2005-06, once approved by MRMIB.

Office of Statewide Health Planning and Development

- 2005-06 No Change
- 2006-07 No Change

The May Revision includes an increase of $1.2 million Hospital Building Fund and 13 positions to implement a Fire and Life Safety Officer training program and to provide additional support for regional operations to facilitate plan and field review of hospitals and skilled nursing facilities.

Department of Developmental Services

- 2005-06 $15.6 million
- 2006-07 $86.7 million

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. As a result, the number of consumers who will transition from Agnews into the community will be reduced by 17 consumers in 2005-06 and 58 consumers in 2006-07. In addition, 50 Agnews consumers who were projected to transfer to another developmental center in 2006-07 will remain at Agnews. The delay will impact both developmental centers and regional centers. Costs to provide services to consumers at Agnews will increase, while developmental center staff costs to transition consumers into the community and regional center purchase of services costs will decrease. The net effect will be decreased expenditures of $3.6 million ($1.7 million General Fund) in 2005-06 and $8.1 million ($7.9 million General Fund) in 2006-07.

Developmental Centers

Current Year

Compared to the January Governor's Budget, the developmental centers' population is projected to increase by 17 residents to 3,043 residents. The May Revision includes an increase of $3.7 million General Fund, which will be offset by a transfer of $3.7 million General Fund from the regional center budget and a reduction of $4.9 million in reimbursements. These changes are primarily due to the following adjustments:

- Population—Increase of $1.7 million ($895,000 General Fund) and 20.0 positions due to the increase in population. The change in caseload is a result of 17 fewer Agnews consumers transitioning into the community.
- Medi-Cal Allowable Costs—Decrease of $1.4 million General Fund and corresponding increase in Medi-Cal reimbursements to reflect an increase in Title XIX Allowable Costs.
- Medicare Part D—Increase of $4.9 million General Fund and corresponding decrease in Medi-Cal reimbursements due to the implementation of Medicare Part D. Under Medicare Part D, the state receives reimbursements for developmental center drug purchases as General Fund revenues, rather than as reimbursements within the

developmental centers' budget. In addition, the Department of Developmental Services no longer receives reimbursements for certain administrative costs that were allowable under Medi-Cal. The General Fund increase in the developmental centers' budget will be partly offset by increased General Fund revenues.

- Agnews Closure Plan—Decrease of $2 million ($166,000 General Fund) due to: (1) a three-month delay in the effective date for state employees to begin providing services in the community, (2) reduced costs for staff transition assistance and training, and (3) reduced costs for staff escort services for pre-placement visits associated with relocating consumers.

Budget Year

Compared to the January Governor's Budget, the developmental centers' population is projected to increase by 31 residents to 2,828 residents. The May Revision includes an increase of $1.6 million General Fund and a decrease of $5.5 million in reimbursements for a net reduction of $3.9 million. Major changes include:

- Population—Decrease of $496,000 ($99,000 General Fund) and 19.0 positions, including an increase of 35.0 Level-of-Care positions and a decrease of 54.0 non-Level-of-Care positions. The increase in Level-of-Care staff is due to the increase in the developmental center population. The decrease in non-Level-of-Care staff is attributable to 50 Agnews consumers remaining at Agnews, rather than transferring to another developmental center in 2006-07.
- Medicare Part D—Increase of $7.4 million General Fund and corresponding decrease in Medi-Cal reimbursements due to the implementation of Medicare Part D.
- Agnews Closure Plan—Decrease of $4.6 million ($5 million General Fund) due to reduced costs for: (1) staff transition assistance and training, (2) staff escort services to transfer consumers into the community, and (3) other activities associated with relocating consumers.

Regional Centers

Current Year

Compared to the January Governor's Budget, the regional centers' community caseload is projected to decrease by 1,342 consumers, to a caseload of 203,823 consumers.

The May Revision includes a net increase of $20.5 million ($5.8 million General Fund) for regional centers as a result of the following major adjustments:

- Operations—Decrease of $3.1 million ($3.0 million General Fund) in staffing costs due to the reduction in caseload.
- Purchase of Services—Increase of $26.7 million ($11.9 million General Fund) based on updated utilization and expenditure data, partially offset by a reduction in caseload.

Budget Year

Compared to the January Governor's Budget, the regional centers' community caseload is projected to decrease by 1,515 consumers to a caseload of 212,225 consumers. The May Revision includes a net increase of $90.4 million ($58.6 million General Fund), including the following changes:

- Operations—Decrease of $2.5 million ($2.2 million General Fund) in staffing costs due to the decline in caseload.
- Purchase of Services—Increase of $82 million ($65.8 million General Fund) based on updated utilization and expenditure data, partially offset by a reduction in caseload.
- Provider Rate Increase—Increase of $582,000 ($436,000 General Fund) due to updated data for the 3 percent provider rate increase proposed in the Governor's Budget. The Governor's Budget included $67.8 million ($46.1 million General Fund) to provide an increase to programs for which the Department sets rates, including those that have been subject to rate freezes during the last three years.
- Medicare Part D (Operations)—Increase of $2.9 million General Fund to continue, for an additional year, assisting new consumers with enrolling in a prescription drug program (PDP), helping existing consumers change PDPs as warranted and guiding consumers through the Medicare Part D appeals process.
- Medicare Part D (Purchase of Services)—Increase of $4.8 million General Fund to purchase prescription medications not covered by either Medicare Part D or Medi-Cal.
- Attendance Data—Increase of $2.1 million ($1.4 million General Fund) for regional centers and $1.3 million ($1 million General Fund) for providers to improve data collection efforts that will enable the state to draw down an additional $16.1 million in federal

funds in 2006-07 and $21.4 million in 2007-08, resulting in a corresponding reduction in General Fund.

Headquarters

Budget Year

Attendance Data—The May Revision includes an increase of $193,000 ($126,000 General Fund) and 2.0 positions for improved data collection from regional centers. This information will be used to bill the federal government for approximately $16.1 million in additional federal reimbursements in 2006-07 and $21.4 million in 2007-08.

Department of Mental Health

- 2005-06 -$15.2 million
- 2006-07 $70.7 million

Long-Term Care / State Hospitals

Current Year

The May Revision includes a net decrease of $15.2 million General Fund in 2005-06 compared to the January Governor's Budget for state hospitals. The General Fund decrease consists of the following major adjustments:

- A decrease of $12.0 million General Fund to reflect a reduction in the Judicially Committed/Penal Code population of 195 patients, including a decrease of 46 Incompetent to Stand Trial (IST) patients, 11 Not Guilty by Reason of Insanity (NGI) patients, 67 Mentally Disordered Offenders (MDOs), and 71 Sexually Violent Predators (SVPs).
- A decrease of $6.2 million General Fund for the delayed activation of 50 California Department of Corrections and Rehabilitation (CDCR) beds at Coalinga State Hospital. This reduction is due to recruitment difficulties experienced at the hospital.
- A decrease of $524,000 General Fund to reflect a reduction in the CDCR population of 24 patients. This adjustment was made pursuant to a court order in the Coleman case to convert 60 Day Treatment beds to 36 Intermediate Care Facility (ICF) beds at the Vacaville Psychiatric Program.

- An increase of $729,000 General Fund to reflect the December 2006 activation of an additional 36 temporary ICF beds at Salinas Valley State Prison (SVSP). This adjustment was made pursuant to a court order in the Coleman case and reflects two months of current year funding for advance hiring consistent with the effective phase-in strategy utilized to recruit staff for the activation of the original 36 temporary beds at SVSP.
- An increase of $2.7 million General Fund for additional recruitment and retention pay differentials for physician and nursing classifications. This adjustment was made in relation to the Plata court order.
- An increase of $520,000 General Fund to reimburse the Pooled Money Investment Board for costs expended for working drawings, plus interest and other fees, associated with the Metropolitan State Hospital (MSH) Construct School Building project. The project is being cancelled due to a significant decline in the adolescent population at MSH.

Budget Year

Funding for long-term care and state hospitals is anticipated to increase by a net $1.1 million ($8.4 million General Fund) in 2006-07. Significant General Fund adjustments are as follows:

- State Hospital Population—The May Revision includes a net increase of $135,000 (an increase of $7.4 million General Fund and a decrease of $7.2 million in realignment reimbursements) in 2006-07. This includes the following major changes:
    - An increase of $4.2 million General Fund to reflect a net increase in the Judicially Committed/Penal Code population of 158 patients, including a decrease of nine IST patients and an increase of 27 NGI patients, 65 MDOs and 75 SVPs. This adjustment reflects the use of the new Civil Rights for Institutionalized Persons Act (CRIPA) staffing standards.
    - A decrease of $16.3 million General Fund to reflect the full-year impact of the current year reduction in the Judicially Committed/Penal Code population of 195 patients.
    - An increase of $5.7 million General Fund to reflect the December 2006 activation of an additional 36 temporary ICF beds at SVSP. This adjustment was made pursuant to a court order in the Coleman case and reflects five months of budget year

funding for advance hiring consistent with the effective phase-in strategy utilized to recruit staff for the activation of the original 36 temporary beds.

- o An increase of $1.8 million General Fund to reflect the full-year impact of the current year reduction in the CDCR population of 24 patients due to the conversion of 60 Day Treatment beds to 36 ICF beds at the Vacaville Psychiatric Program.
- o An increase of $432,000 General Fund to reflect the establishment of a new psychiatrist series classification at Vacaville and Salinas Psychiatric Programs. This adjustment was made pursuant to an order in the Coleman case.
- o An increase of $1.8 million General Fund for a change in the staffing needs identified in the Sexually Violent Predator Treatment Restructure savings proposal included in the 2005 Budget Act. Based on experience activating the residential housing units (RHUs) at Coalinga State Hospital, the Department of Mental Health (DMH) has identified a critical need for additional Level-of-Care staff for RHUs.
- o The permanent shift of $9.7 million General Fund from DHS to DMH for patient generated revenue ($9.5 million) and eligibility unit contracts at MSH and Napa State Hospital ($245,000). These funds are currently scheduled as a reimbursement to DMH from DHS.

- Forensic Conditional Release Program—A General Fund increase of $456,000 to reflect an increase of 20 non-SVP patients currently court ordered for conditional release.
- SVP Evaluations and Court Testimony—An increase of $548,000 General Fund based on a projected increase in initial and recommitment SVP evaluations.

Community Mental Health Services

Current Year

The May Revision includes a reduction of $29.4 million in reimbursements for community mental health services in 2005-06. The change is comprised of the following major adjustments:

- Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program—
The May Revision includes a reduction of $27.0 million in reimbursements ($12.1 million General Fund in DHS) due to lower than projected EPSDT claims. Since reimbursement

rates for services are capped at the Medi-Cal Statewide Maximum Allowance (SMA), the increase is the result of caseload and utilization growth.

- Healthy Families Program—Funding for mental health services for Healthy Families Program participants is anticipated to increase by $529,000 federal funds in DHS. This change reflects updated claiming information and county administrative costs.
- San Mateo Pharmacy and Laboratory Services—The May Revision includes a reduction of $2.9 million ($1.4 million General Fund in DHS). This primarily reflects the results of a claims study completed in March 2006 and the impact of Medicare Part D implementation.

Budget Year

The May Revision includes a net increase of $57.1 million ($62.3 million General Fund) in 2006-07 for community mental health services compared to the January Governor's Budget. Major adjustments include the following:

- Mental Health Services to Special Education Pupils (AB 3632)—An increase of $69 million General Fund in local assistance (offset by a $50 million General Fund savings in the mandate program) to restructure the AB 3632 mental health services program, as described below, and an increase of $275,000 General Fund for program administration and monitoring.
- EPSDT Program—The May Revision includes a decrease of $12.9 million ($5.9 million General Fund) due to lower than projected EPSDT claims.
- Mental Health Managed Care Program—There is a net decrease of $1.0 million ($389,000 General Fund) for this program. This change primarily reflects a decrease in the number of Medi-Cal eligibles.
- Healthy Families Program—Funding for mental health services for program participants is proposed to increase by $1.1 million in federal funds in DHS. This change reflects updated claims information and county administrative costs.
- San Mateo Pharmacy and Laboratory Services—The May Revision includes a reduction of $4.6 million ($2.3 million General Fund). This primarily reflects the results of a claims study completed in March 2006 and the impact of Medicare Part D implementation.

- Conlan Court Order—An increase of $3.3 million ($1.6 million General Fund) in one-time funding for the payment of potential retroactive claims related to Medi-Cal billing and contracting with a fiscal intermediary to implement the required claims process in compliance with the court order.
- Mental Health Services Oversight and Accountability Commission (MHSOAC)—An augmentation of $534,000 Mental Health Services Fund to the MHSOAC's current budget to provide increased support and oversight to implement the Mental Health Services Act (Proposition 63).

Restructuring of Mental Health Services to Special Education Pupils (AB 3632)

The May Revision proposes to restructure 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. Federal Individuals with Disabilities Education Act (IDEA) funds of $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 (SELPAs) to continue providing pre-referral services. An additional $69 million in non-Proposition 98 General Fund will be allocated to county mental health departments to provide AB 3632 services. As a condition of receiving the non-Proposition 98 General Fund, COEs and county mental health departments will be required to enter into agreements for county mental health departments to provide AB 3632 services to special education pupils. The agreements also will address the COEs' plans for providing services if the funding provided through IDEA and the General Fund is exhausted. These funds will be available to match federal fund expenditures.

The allocation of IDEA and General Fund will be consistent and based on school attendance figures for special education pupils. Small counties will receive a minimum level of funding to ensure that they have adequate resources, a risk pool will be established for high-cost incidents, and unspent funds will roll over for one year. The California Department of Education (CDE) or its designee will be required to audit county mental health departments to ensure the link between services and the pupil's Individualized Education Program (IEP) for services claimed under this funding. The DMH and CDE will also provide technical assistance to improve the structuring of mental health services in the IEP to provide services more effectively and improve student success.

Proposition 63 Funds for Phase II of the Governor's Initiative to End Long-Term Homelessness

In 2005-06, the HHSA and the BTHA collaborated to implement the first phase of the Governor's Initiative to End Long-Term Homelessness. In the first phase, $40 million of Proposition 46 funding, $2.4 million of Proposition 63 funding, and construction, bridge and permanent financing from the California Housing Finance Authority is being used to create 400 to 500 units of permanent housing with supportive services for the chronically homeless population. The May Revision proposes to continue that interagency collaboration to implement the second phase of the Governor's Initiative by providing up to $75 million in Proposition 63 funding each year to construct housing for individuals with mental illness who are chronically homeless and their families. Proposition 63 resources will be leveraged to secure an estimated $4.5 billion in other funding sources and will enable the construction of more than 10,000 new housing units. As a condition of receiving funds, counties will be required to provide the supportive services necessary to maintain these individuals in their homes. In addition, $1.2 million is proposed for the DMH to coordinate the implementation of the second phase.

Increased Revenue to the Proposition 63 Mental Health Services Fund (MHSF)

Based on updated revenues from the Personal Income Tax Fund and interest income from the Surplus Money Investment Fund, the estimated revenues to the Proposition 63 MHSF are now projected to be greater than the revenue identified in the January Governor's Budget. The two-year increase is projected to be $1.1 billion ($514 million in 2005-06 and $579,000 in 2006-07).

Department of Alcohol and Drug Programs

- 2005-06 $2.9 million
- 2006-07 $6.8 million

Current Year

The May Revision includes an increase of $5.2 million ($2.9 million General Fund), or 0.8 percent, above the $609.6 million provided in the January Governor's Budget. This increase is due to revised estimates for caseload and units of service.

- Regular Drug Medi-Cal—Expenditures are expected to be $2.6 million General Fund higher than projected in the January Governor's Budget. Caseload is estimated to be 4,336 clients, 2.6 percent higher than previously projected.

- Perinatal Drug Medi-Cal—Expenditures are expected to be $316,000 General Fund higher than projected in the January Governor's Budget. Caseload is estimated to be 1,183 clients, 16.0 percent higher than previously projected in the January Governor's Budget.

Budget Year

The May Revision includes an increase of $14.7 million ($6.8 million General Fund), or 2.3 percent, above the $614.6 million provided in the January Governor's Budget, including the following adjustments:

- Regular Drug Medi-Cal—Excluding increases related to the Conlan litigation, expenditures are projected to increase by $3.6 million General Fund, or 5.9 percent, from the January Governor's Budget due to changes in caseload and average units of service. Caseload is projected to increase by 6,702, or 3.7 percent, above the January Governor's Budget. This change reflects an increase of 4,974 clients in the Outpatient Drug Free Program, an increase of 1,284 in the Narcotic Treatment Program, and an increase of 444 in the Day Care Rehabilitative Program.

- Perinatal Drug Medi-Cal—Excluding increases related to the Conlan litigation, expenditures are projected to increase by $603,000 General Fund from the January Governor's Budget due to increased estimates for caseload and average units of service. Caseload is projected to increase by 1,894, or 24.7 percent, above the January Governor's Budget. This change reflects a caseload increase in all four programs: Outpatient Drug Free, Day Care Rehabilitative, Narcotic Treatment, and Residential.

- Conlan Litigation—An increase of $5.3 million ($2.7 million General Fund) and proposed budget bill language are necessary to comply with the requirements of these lawsuits, which require the state to actively reimburse certain Medi-Cal beneficiaries.

- Dependency Drug Courts—An increase of $1.8 million in reimbursements from the Department of Social Services is proposed to sustain the 2005-06 funding level for Dependency Drug Courts, which focus on cases involving parental rights and a substance abuse charge against a parent. The goal of these courts is to help decrease the number of children placed in foster care.

Department of Social Services

- 2005-06 -$22.6 million
- 2006-07 $63.5 million

CalWORKs

The 2005-06 average monthly CalWORKs caseload of 478,100 represents a 2.5 percent decrease from 2004-05, revised from the January Governor's Budget estimate of a 1.3 percent decrease. For 2006-07, the caseload is now expected to be 475,100, a 0.6 percent decrease from the revised 2005-06 caseload.

The May Revision continues to meet the federally required combined state and county Temporary Assistance for Needy Families (TANF) maintenance-of-effort (MOE) of $2.7 billion. For 2005-06, total CalWORKs-related expenditures are estimated to be $6.7 billion, including county expenditures and the transfer to the Department of Education for child care costs. For 2006-07, total CalWORKs-related expenditures are anticipated to be $6.8 billion.

The federal Deficit Reduction Act of 2005 reauthorized the federal TANF program and updated the caseload reduction credit. Historically, California met federal performance targets because of the credit received as a result of significant caseload declines since the inception of CalWORKs. As a result of the adjustment to the caseload reduction credit, California is not likely to meet federal targets and must improve work participation from the current rate of approximately 24 percent to 50 percent beginning October 1, 2006. Considerable improvement in work participation rates must be achieved to avoid federal penalties, which could be more than $2 billion General Fund over a five-year period. The Department of Social Services (DSS) has begun meeting with key stakeholders and legislative staff to respond to the federal requirements. Through these meetings, a wide variety of options will be explored to identify the best policy and fiscal approaches that the state should take in responding to the work participation requirements under TANF reauthorization.

The Administration is committed to addressing the increased work participation requirements through substantive program improvements that will support and engage more recipients in activities that lead to self-sufficiency. As a first step in building upon the work-first focus of the CalWORKs program, the May Revision proposes several actions to help meet the new requirements and position the state to make additional changes after the federal regulations are published later this summer. Proposed reforms include:

- Pay for Performance—To refocus CalWORKs implementation on work participation and employment, the May Revision sets aside $40 million in the 2006-07 CalWORKs reserve for the Pay for Performance program. Counties that successfully meet the desired outcomes would receive a fiscal reward in 2007-08. Performance would be measured on three outcomes: (1) employment rates, (2) a modified work participation rate that accounts for state allowable activities, and (3) the percentage of county CalWORKs cases that have earned income three months after ceasing to receive aid.

- CalWORKs Participation Improvement Project—The May Revision includes $20 million in 2006-07 for the Participation Improvement Project to help counties overcome barriers in engaging CalWORKs recipients in appropriate activities and to improve counties' ability to meet the required work participation rate. This program will provide funding to counties on a competitive basis to implement strategies for addressing unengaged recipients, reducing counties' sanction and noncompliance rates, or reducing the number of recipients who are able to participate but are not continuously engaged.

- Performance Reviews and Best Practices—Building upon the Pay for Performance program, $1.5 million of existing research funds will be utilized to implement a peer review program to identify best practices and obstacles to improved performance in individual counties. County-specific performance data will be published regularly on the DSS Web site to ensure that information on best practices is available.

- TANF Reauthorization/CalWORKs Reform Reserve—In order to fund future program improvements that are identified through the TANF reauthorization stakeholder process currently underway, $114.6 million will be held in reserve. At this time, several critical issues remain to be defined by the federal regulations and additional time is required to analyze programmatic data and identify options for improvement.

Supplemental Security Income/State Supplementary Payment Program

Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program are $3.5 billion in 2005-06, representing a decrease of $27.5 million compared to the January Governor's Budget, primarily due to lower than expected caseload growth. The SSI/SSP General Fund expenditures for 2006-07 are $3.6 billion, which is an increase of $1.1 million from the January Governor's Budget. Caseload for the SSI/SSP program is projected at 1,212,000 recipients in 2005-06 and 1,241,000 recipients in 2006-07, which represents a year-to-year caseload growth of 2.4 percent. These caseload estimates reflect a slight decrease in 2005-06 and 2006-07 from the 2006-07 January Governor’s Budget projection. Significant changes in SSI/SSP General Fund expenditures include:

- An increase of $43.8 million from rescinding the proposal to suspend the pass-through provision of the April 2007 federal SSI cost-of-living adjustment (COLA) until July 2008. The proposal to withhold pass-through of the COLA was necessitated by the anticipated revenue situation at the Governor’s Budget. Due to additional General Fund revenue, pass-through of this COLA can be provided beginning April 1, 2007 pursuant to current law. Because of this action, monthly grant payment levels are estimated to be increased from $836 to $849 for aged or disabled individuals and from $1,472 to $1,491 for couples on April 1, 2007.
- A reduction of $25 million in 2005-06 and $21.6 million in 2006-07 due to lower caseload and lower average monthly grant expenditures since the Governor's Budget.
- A decrease of $2.4 million in 2005-06 and $20.9 million in 2006-07 due to savings from performing more frequent eligibility redeterminations and changing the payment of retroactive benefits from a one-time lump payment to an installment payment, as required by the federal Deficit Reduction Act of 2005.

In-Home Supportive Services

Total General Fund expenditures for the In-Home Supportive Services (IHSS) program are $1.3 billion in 2005-06 and 2006-07, including increases of $3.8 million in 2005-06 and $22.4 million in 2006-07 compared to the January Governor’s Budget. Caseload is projected to be 354,100 recipients in 2005-06 and 378,400 in 2006-07. Although this represents a year-to-year caseload growth of 6.9 percent, the caseload estimates in 2005-06 and 2006-07 are slightly less than projected in the January Governor’s Budget. Significant General Fund adjustments include the following:

- An increase of $7.8 million in 2005-06 and $17.2 million in 2006-07 to continue funding costs associated with applying Medi-Cal share-of-cost rules to certain IHSS recipients. This is consistent with the Administration’s intent to protect recipients’ access to services under the recent federal waiver.
- An increase of $7.9 million in 2005-06 and $18.6 million in 2006-07 for 15 counties that increased IHSS wages and/or health benefits since the January Governor's Budget.

- Decreases of $13.6 million in 2005-06 and $11.7 million in 2006-07 due to a lower caseload projection, partially offset by increased hours per case, since the January Governor's Budget.

Foster Care

Total General Fund expenditures for the Foster Care Program are $433.7 million in 2005-06 and $418.1 million in 2006-07, which represent decreases of $9.2 million in 2005-06 and $8.7 million in 2006-07 compared to the January Governor's Budget. Caseload growth in the Foster Care program continues to slow and flatten, indicating reduced entries and increasing exits from the system. The year-to-year caseload growth is projected to increase by 0.4 percent.

Title IV-E Waiver—California recently secured federal approval of the state's Title IV-E Child Welfare Waiver Demonstration "Capped Allocation" Project. This waiver proposal will test a "capped allocation" strategy that will provide federal Title IV-E foster care funds as block grants for up to 20 participating counties. Counties will have flexible use of these funds for early intervention and prevention services that help to reduce out-of-home care, promote reunification, and address required state and federal outcomes for child safety, permanence, and well-being. Absent the waiver, counties can access federal support only once a child is removed from the home and is placed in the foster care system.

The waiver will enable the state to better support vulnerable children and families by allowing a full range of prevention services, rather than limiting the use of federal foster care funds on children who have been removed from their homes and placed in foster care. The Administration is working collaboratively with prospective participating counties, including Los Angeles County.

The May Revision provides $35.5 million ($10 million General Fund) for first year costs to implement the waiver. This funding will be available, subject to approval by the Department of Finance, for counties that formally commit to participate in the waiver.

Child Welfare Services

Total General Fund expenditures for Child Welfare Services (CWS) are $613 million in 2005-06 and $645.3 million in 2006-07, which represent a decrease of $1.5 million in 2005-06 and an increase of $16.4 million in 2006-07 compared to the January Governor's Budget. The increase in 2006-07 is primarily due to a series of programmatic investments designed to ensure the safety of children and improve outcomes, such as permanency and the well-being of children and families served. Caseload in the CWS program continues to slow and is declining in certain components of the program. The caseload for all CWS program components combined is projected to decrease by 1.6 percent from 2005-06 to 2006-07.

County Expansion of Program Improvement Plan (PIP) Initiatives—The federal Child and Family Services Review and the new California Outcome and Accountability System have established a comprehensive process to measure program performance and track improvement in California's CWS delivery system. The May Revision includes $19.6 million ($11.9 million General Fund) to expand three specific PIP initiatives, currently being pilot tested in 11 counties, to additional counties in 2006-07. This funding will allow the Standardized Safety Assessment initiative to be expanded to an additional 18 counties and the Differential Response and Permanency Enhancements initiatives to be expanded to an additional 15 counties.

Preliminary evaluation information from the first cohort of counties piloting these PIP initiatives has demonstrated positive performance results and improved outcomes for children and families. Program expansion activities will assist the state in making ongoing progress toward federal compliance and should improve California's performance in the next federal review scheduled for 2007. Failure to demonstrate measurable improvement during the state's PIP evaluation would result in significant federal penalties, which would be compounded in out-years. This proposal will provide the necessary resources to support critical PIP activities to achieve compliance with federal performance requirements, avoid federal penalties, and protect federal funds for the CWS program.

Dependency Drug Courts—Dependency drug courts provide intensive substance abuse treatment combined with close court supervision to parents who are involved in dependency court cases. These programs seek to either have children safely remain with their parents or to hasten the reunification of families. The May Revision includes $2.1 million General Fund to maintain expenditures of $1.8 million in 2006-07 for the Dependency Drug Court program expansion initiated in 2004-05 and to provide $300,000 in contract funding for an evaluation of the cost-effectiveness of the existing pilot project. Continued study is needed to more accurately determine the impact of this program prior to any expansion beyond the current nine counties.

Future Improvements in Child Welfare Services

The Governor is committed to enhancing outcomes for children. The January budget calls for additional investments to support children and youth in foster care by increasing adoptions, promoting permanent homes and family connections, and supporting older children and youth emancipating from foster care. The Governor stands ready to build on these proposals to advance our common interest in improving the safety, permanency and well-being of children and youth in foster care. In particular, the Administration looks forward to working with the Legislature to ensure that our county partners have the necessary support and flexibility to implement programs to prevent or reduce foster care placements. State support and county flexibility must be tied to improved outcomes for children and coupled with ongoing accountability for performance. In addition, the Administration is interested in identifying promising strategies to support youth in foster care to successfully transition to adulthood, to enhance the ability of relatives to care for children, and to support the adoption of older foster youth. Working together, we can realize important improvements to prevent children from entering foster care, ensure those in foster care have improved outcomes, and youth emancipating from foster care have the services and supports to succeed as adults.

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Corrections and Law Enforcement

The following represents the significant adjustments proposed in the May Revision for various public safety departments.

Enhancing Public Safety in California

The Governor is strongly committed to enhance public safety and has demonstrated this commitment by providing additional resources for state and local law enforcement agencies, including $25.1 million General Fund proposed in the January budget to fund Sexual Assault Felony Enforcement Task Forces, Gang Suppression Enforcement Teams, the California Methamphetamine Strategy Program, and the Department of Justice, Special Crimes Unit.

In recognition of this commitment, the May Revision proposes an additional $142.2 million for public safety programs.

California Multijurisdictional Methamphetamine Enforcement Team Program

The California Multijurisdictional Methamphetamine Enforcement Team (CAL-MMET) currently works in conjunction with the federally funded Central Valley High Intensity Drug Trafficking Area to intensify the current methamphetamine eradication efforts of those 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 May Revision proposes to strengthen methamphetamine eradication across the state by providing an additional $20 million General Fund for allocation on a regional basis.

Vertical Prosecution Block Grants

The 2006-07 January Governor's Budget includes $8.2 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. The May Revision proposes an additional $10.1 million General Fund to increase the state's support for vertical prosecution units. This increase would restore the program to its historical funding level.

Mentally Ill Offender Crime Reduction Grant Program

The May Revision proposes $50 million General Fund 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 was invested in this program. Based on evaluations conducted by the Corrections Standards Authority (CSA), the program has significantly reduced the number of mentally ill inmates in jails and improved their success rate once released from custody.

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

The May Revision proposes a $42.6 million General Fund increase ($21.3 million for the Citizens' Options for Public Safety (COPS) and $21.3 for the Juvenile Justice Crime Prevention Act (JJCPA)) to return the funding to the 2000-01 level. With respect to COPS, these resources would provide additional police officers and sheriffs deputies, as well as support for jail operations and district attorneys. The JJCPA funding would expand community-based programs that have proven effective in reducing crime and delinquency among at-risk youth and juvenile offenders.

Standards and Training for Local Corrections Staff

The CSA works in collaboration with local corrections agencies and public/private training providers to develop and administer programs designed to ensure the competency of local corrections professionals. Historically, the CSA provided funding to local corrections agencies to offset the costs of attending training classes, however, the 2003 Budget Act eliminated the funding. As a result of this reduction, the quality and availability of the training programs has diminished. In order to improve the level of training and address inconsistencies between counties, the May Revision proposes $19.5 million to offset the costs of training local sheriffs' deputies and probation officers who work in jails and juvenile halls.

Department of Corrections and Rehabilitation

- 2005-06 $45.9 million
- 2006-07 $219.6 million

The May Revision proposes an increase of $219.6 million General Fund for the California Department of Corrections and Rehabilitation (CDCR), which includes the following:

Adult Inmate/Parolee Population/Caseload Changes

Current Year

Based upon the latest estimates, including the most recent actual population data, the May Revision reflects an estimated institutional Average Daily Population (ADP) of 168,018 inmates. This is 1,680 more than projected in the 2006-07 Governor's Budget. This is due to an increase in new admissions from the courts and Parole Violators with New Terms (PV-WNT).

The projected parolee ADP is 115,290. This is a decrease of 234 from the number projected in the 2006-07 Governor's Budget. This change is due to recent population data that is below projected levels.

The net effect of these population changes is increased costs to the General Fund of $43.7 million and an increase of $331,000 from the Inmate Welfare Fund.

Budget Year

The May Revision reflects an estimated institutional ADP of 175,627 inmates. This is 5,422 more than projected in the 2006-07 Governor's Budget. The increased population is mainly due to an increase in new admissions (3.8 percent increase over the prior year), parole violators with new terms (10.7 percent increase over the prior year), and parole violators returned to custody (4.0 percent increase over the prior year).

The projected parolee ADP is 117,754. This is an increase of 1,534 from the number projected in the 2006-07 Governor's Budget. The parole population is expected to increase due to a significant increase in the number of inmates released to parole.

The effect of the population changes is a cost to the General Fund of $142 million and a cost to the Inmate Welfare Fund of $852,000.

Adult Local Assistance

The May Revision includes $10 million to fully fund local entities for costs incurred for the prosecution of inmate crimes and housing state inmates.

The 2005 Budget Act provided $17.2 million for the costs associated with prosecuting crimes committed by state inmates, which included $7.5 million in one-time funds to pay prior year claims. Based on claims received, it is projected that the total costs of claims for 2005-06, including the outstanding balance from 2004-05, will be $21.5 million resulting in a shortfall of $4.3 million. The May Revision includes $4.3 million in one-time funding for 2006-07 to pay the outstanding current year claims, along with $3.1 million to adequately fund the base to pay projected claims in 2006-07.

Last year, the Administration, working with representatives for local law enforcement entities, created a methodology to establish the Daily Jail Rate based on the state's costs to house similar inmates and provide routine medical care. At that time, the Administration committed to reassessing the Daily Jail Rate each year and revising the rate based on this methodology. As a result, the revised Daily Jail Rate for 2006-07 will increase from $68.22 to $71.57. The May Revision includes an additional $2.5 million to reimburse local entities for the costs of housing state inmates and supplying routine medical care at the revised rate.

Ward/Parolee Population/Caseload Changes

Current Year

For 2005-06, the May Revision estimate for the year-end juvenile institution population is 2,805, a decrease of 155 wards from the projection included in the January Governor's Budget. This decrease is primarily due to higher than expected transfers to adult facilities and fewer contract cases. In addition, the year-end juvenile parole population is projected to be 3,260, a decrease of 160 parolees from the January Governor's Budget projection. Despite the ward and parolee population decline, an additional $2.1 million is requested to address salaries of trainees in the R.A. McGee Correctional Training Center and correct errors identified in the budgeting of Youth Correctional Counselor salaries.

General Fund expenditures for juvenile institutions are partially offset by General Fund revenues from the sliding scale fees paid by counties. In 2005-06, these revenues are estimated to be $19.9 million, an increase of $476,000 over the revenue expected at the time of the January Governor's Budget.

Budget Year

For 2006-07, the year-end juvenile institution population is projected to be 2,660, a decrease of 20 wards from the projection included in the January Governor's Budget. Additionally, the year-end juvenile parole population is estimated to be 2,935, a decrease of 240 parolees since the January Governor's Budget estimates. However, despite these decreases, an increase of $7.3 million General Fund will be needed to open a new housing unit at Heman G. Stark to address population at that institution, address salaries of trainees in the R.A. McGee Correctional Training Center, and correct errors in how the Youth Correctional Counselors salaries were budgeted in the past.

General Fund expenditures for juvenile institutions are partially offset by General Fund revenues from the sliding scale fees paid by counties. In 2006-07, these revenues are estimated to be $17.5 million, a decrease of $208,000 compared to the revenue expected at the time of the January Governor's Budget.

Morrissey v. Brewer Compliance

The May Revision includes $557,000 General Fund to comply with juvenile parole revocation hearing, evidentiary, and statutory due process standards as established by Morrissey v. Brewer. This request provides funding and staff to ensure a ward's parole hearing is conducted within a 50-mile radius of the location of the parole violation.

Board of Parole Hearings

The May Revision proposes $427,000 General Fund in 2005-06 and $3.4 million General Fund in 2006-07. This includes $1 million General Fund in 2006-07 to address costs associated with the court appointed monitors' audit of the Board of Parole Hearing's (Board) compliance with the Valdivia Remedial Plan. The Board indicates that the adult parole hearing workload projected in the January Governor's Budget will not be adjusted, as actual hearings to date have generally tracked according to the initial projection. In addition to the funds provided for the Division of Juvenile Justice related to Morrissey v. Brewer compliance, the May Revision proposes $251,000 General Fund in 2006-07 for the Board of Parole Hearings to conduct parole revocation hearings for youthful offenders.

As part of an April 1 Finance Letter, an increase of $6.7 million General Fund is proposed to provide legal representation at parole revocation hearings for victims and witnesses of parolee crimes as well as for local law enforcement and parole agents. Currently, only parolees have legal representation at a parole revocation hearing. These resources will enable District Attorneys to provide representation for these groups consistent with the representation provided for parolees.

Correctional Health Care Services

May Revision Adjustments

In order to address various court requirements related to the provision of medical care and mental health care, the May Revision includes the following adjustments:

- Separate Budget Item for the Correctional Health Care Program-In order to allow the state to quickly respond to the fiscal needs of the Receiver in the Plata v. Schwarzenegger lawsuit, the Administration proposes that the funding for correctional health care programs be placed in a stand-alone item, distinct from the rest of the CDCR budget. This stand-alone item will also include budget bill language that would provide the Legislature with information regarding the goals and performance of the health care programs and allow for the expedited revision of funding provided to the Receiver for the operation of the health care program.

- Pay Enhancements for Psychiatrists-$12.7 million General Fund to provide CDCR psychiatrists, who meet the qualifications specified by the court, with a ten percent salary increase, as well as establish a recruitment bonus for new employees who come from outside state service. This proposal is in response to Coleman v. Schwarzenegger that requires the state to provide the court with a plan for improving the hiring of psychiatrists. This proposal will provide the funding needed to implement the plan submitted to the court on May 1, 2006. A similar adjustment is proposed for the Department of Mental Health (DMH) budget to provide equivalent pay enhancements for psychiatrists employed by the DMH who provide services in the state prisons.

- Pay Enhancements for Various Mental Health Headquarters Positions-$915,000 General Fund to provide a three percent pay increase for various positions that oversee the Statewide Mental Health Service Delivery System at CDCR headquarters, as well as several other court-order related pay adjustments for specific positions. This proposal is primarily in response to Coleman v. Schwarzenegger that requires the state to provide headquarters staff with a pay rate higher than that of the field positions they supervise.

Other Court-Driven Augmentations

On April 20, 2006, the Administration submitted an early May Revision request to the Legislature requesting funding to address the following court-driven costs and base shortfalls in the CDCR health care budget:

- Contract Medical and Medical Guarding-$182.4 million General Fund to adjust the base funding available to pay the increased costs of medical contracts and medical guarding. This adjustment would continue the current level of contract expenditures. The total current base shortfall in this area is $250.5 million, including $68.1 million already requested for this purpose in the January Governor's Budget.
- Plata v. Schwarzenegger, Court Order Compliance-$1.3 million General Fund to provide additional staffing to comply with court orders related to death reviews, the review of professional practices in the medical program, and the employee discipline process.
- Coleman v. Schwarzenegger, Court Order Compliance-$20.2 million General Fund to comply with recent court orders that require the implementation of new program guidelines for the Mental Health Delivery System and an increase in the level of headquarters oversight for the Mental Health Program.
- Perez v. Hickman, Dental Program Supervision-$5.8 General Fund to provide additional supervisory staff for the dental offices at each institution necessary to implement the changes required in the provision of inmate dental care required by the recent stipulated agreement in the Perez v. Hickman lawsuit. This proposal would also provide additional staff at the two women's prisons to ensure that pregnant inmates receive the dental services required by Chapter 608, Statutes of 2005.
- Health Care Services Litigation Infrastructure Support-$6.9 million General Fund to ensure that the Division of Correctional Health Care Services has sufficient staff to meet various recent court orders. This includes the ongoing cost of contract management positions required by a recent Plata v. Schwarzenegger court order, staff to perform telemedicine activities at specific institutions as required by a recent Coleman v. Schwarzenegger court order, as well as specific staff that are necessary to maintain current levels of direct patient care.

- Comprehensive Health Care Recruitment Staff-$6 million General Fund to provide additional staff to improve the recruitment and hiring process for all health care positions to meet the hiring time frames specified in Plata v. Schwarzenegger. It will also apply similar processes to the hiring of mental health classifications which are currently experiencing significant vacancy rates, resulting in the Department being out of compliance with court orders in the Coleman v. Schwarzenegger case. This funding includes resources to implement the Live Scan information technology project which will improve the timeliness of background checks for prospective employees.

Other Division of Juvenile Justice Adjustments

- Proposition 98 Division of Juvenile Justice Teacher Salaries-On April 20, 2006, an early May Revision request was submitted for $6.1 million Proposition 98 General Fund to pay teacher salary adjustments associated with the new bargaining agreement between the State and California Education Authority (Unit 3) that took effect April 1, 2006. The bargaining agreement will allow the Department to improve the recruitment and retention of teachers at youth facilities as required by the Farrell v. Hickman lawsuit.

- Division of Juvenile Justice, Core Treatment Facility Study-On April 20, 2006, an early May Revision request was submitted for $3 million General Fund to conduct a detailed study of a core treatment facility at the Northern California Youth Correctional Center, Stockton. The 2005 Budget Act requires the Department to submit to the Legislature programs and policies that will reform the Juvenile Justice system, as well as the type of staff and facilities that will be needed to support these programs and policies. This study will provide a detailed schematic design for a prototype core treatment facility to be built at a currently unoccupied site at the Northern California Youth Correctional Center.

Environmental Protection

The May Revision revises the Governor's Climate Change Initiative proposal to reflect the final report of the Climate Action Team. The January Governor's Budget proposes $7.2 million and 23.4 positions to implement greenhouse gas emission reduction strategies. The May Revision proposes an additional $500,000, for a total of $7.7 million, for climate change activities.

- 2005-06 No Change
- 2006-07 $500,000

Climate Change Initiative

The May Revision proposes an augmentation of $500,000 Air Pollution Control Fund to enable the Secretary for Environmental Protection to evaluate options for the establishment of a mandatory climate change emissions reporting program and to develop climate change emissions reporting protocols for local and regional governments.

In June 2005, the Governor issued an executive order that established greenhouse gas emission reduction targets. The executive order also directed the Secretary for Environmental Protection, in collaboration with other state agencies, to prepare a report that identifies actions necessary to meet the emission reduction targets. The Climate Action Team submitted its report to the Governor and Legislature in March 2006. The final Climate Action Team report included specific recommendations for mandatory emissions reporting from the largest sources and the development of climate change emissions reporting protocols for local governments. This proposal will provide $500,000 for these emissions reporting activities, consistent with the Climate Action Team's recommendations.

Resources

The May Revision proposes a major reorganization of the CALFED Bay-Delta Program and increased funding to implement the Marine Life Protection Act. In addition, the May Revision includes significant amounts to reimburse local governments for flood protection projects and to repair storm damage on lands owned by the Department of Fish and Game.

- 2005-06 $150 million
- 2006-07 $185.1 million

Investing in Resources Programs

Recognizing that state revenues have been higher than anticipated, the Administration proposes to invest a portion of this temporary revenue boost in the Resources area. The May Revision provides $50 million in one-time funding for six important activities:

- $10 million for salmon and steelhead restoration.
- $10 million for marine life and marine reserve management.
- $10 million for non-game fish and wildlife programs.
- $10 million for deferred maintenance in state parks.
- $5 million for wetlands and riparian habitat conservation.

- $5 million, from which the interest only would be expended for management of coastal wetlands.

Funding for some of these activities has been provided in the past directly from Tidelands Oil revenues by statute. This statutory scheme will sunset on June 30, 2006. The funding proposed in the May Revision will allow continued support for these and other high-priority programs in the budget year. Tidelands Oil revenues will be deposited directly into the General Fund, as is appropriate.

Reorganization of the CALFED Bay-Delta Program

The CALFED program was designed during the 1990s to link local, state and federal agencies in a common effort to improve water quality, water supply, flood protection, and environmental health in the San Francisco Bay and the Sacramento-San Joaquin River Delta. In response to concerns regarding the efficacy of the CALFED program, the Governor last year ordered major program and fiscal reviews conducted by the Department of Finance, the Little Hoover Commission, and an independent consulting firm to identify the program's deficiencies, accomplishments, and options for improvement.

The May Revision proposes to address some of the most important recommendations produced from these reviews. One recommendation was that the California Bay-Delta Authority, which was established to coordinate CALFED efforts and administer the program's science activities, should be placed in the Office of the Secretary for Resources. The elimination of the California Bay-Delta Authority as an independent entity and the incorporation of its resources and responsibilities in the Secretary's office are therefore proposed in the May Revision. Under this approach, $31.0 million and 68 positions budgeted in the Bay-Delta Authority will be transferred to the Secretary for Resources. This will add visibility, accountability, and decision-making authority to the CALFED administrative function.

Another recommendation was that the Bay-Delta Authority should focus its efforts exclusively on coordination, tracking program progress, science, and strategic planning. To implement this recommendation, the May Revision proposes an internal reorganization of the Authority to concentrate on these activities and a centralization of the Ecosystem Restoration Program within the Department of Fish and Game. 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.

All of the CALFED reform proposals with budgetary implications are proposed in the May Revision. Further reforms to CALFED governance and other improvements will require statutory changes, which the Administration will pursue through the legislative process.

Payments for Local Flood Projects

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. Because of budgetary constraints in recent years, reimbursement claims from local governments have not been processed or paid in a timely manner. Claims received or expected to be received by the end of the 2005-06 fiscal year total approximately $250 million. The May Revision proposes $100 million General Fund to pay a substantial portion of the outstanding claims. Past budget reductions have all but eliminated the capacity of the Department of Water Resources to examine, verify, and authorize payment of the claims; therefore, an additional $739,000 General Fund and seven positions are proposed for claim processing.

Emergency Repair of State Levees

On February 24, 2006, the Governor proclaimed a state of emergency for California's levee system and directed the immediate repair of critical levee erosion sites. The Governor recently gained federal support for expediting federal permits for the projects, so they can be completed by November of this year. These repairs will cost an estimated $150 million.

A severe storm in late December 2005 and early January 2006 caused damage to various levees and other infrastructure belonging to the Department of Fish and Game. The May Revision proposes $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 proposed would be eligible for federal reimbursement.

In addition, the Legislature appropriated $500 million for levee evaluation and related work, and flood control system improvements. This funding will allow the department to jump-start the most critical flood control activities immediately, without waiting for bond funding that will be before the voters in November 2006.

Marine Life Protection Act

The Marine Life Protection Act, enacted in 1999, directed the Department of Fish and Game to design and manage a network of marine protected areas in order to protect marine life and habitats, and to improve recreational and educational opportunities provided by marine ecosystems. DFG has begun planning efforts on how to implement the MLPA. The planning process is being accomplished on a regional basis until the entire coast is covered by implementation plans.

Funding provided to date has been substantially dedicated to the initial regional planning phase on one section of the Central Coast. The resulting planning document will be considered by the Fish and Game Commission in late 2006. The Governor's Budget included baseline funding of $500,000 for implementation of the Act, and an April Finance Letter proposed $380,000 General Fund to replace expiring private funds. The May Revision proposes to provide an additional $2.62 million General Fund and 11 positions, for a total of $3.5 million to initiate planning for the second phase, which would cover another portion of the coast. This funding will ensure that all views are heard, that progress continues in developing and managing a statewide network of marine protected areas along California's coast using the best available science, and that the objective of protecting the richness of California's marine heritage is met.

Enhancing Resources Base

In addition to other actions proposed for Resources programs, the May Revision includes a General Fund transfer of $19.9 million to the Fish and Game Preservation Fund, in order to bring each of the subaccounts within the fund into balance. Similarly, the May Revision proposes $3 million to fully fund legislation requiring attainment of fish hatchery production goals. An earlier Finance Letter provided $15 million General Fund to the Department of Parks and Recreation and ended a transfer of gas tax funds to the department. The gas tax monies will now flow to the Department of Boating and Waterways and significantly enhance the funds available for grants and loans to marinas and other boating facilities. These actions are a prudent use of this year's robust revenues to benefit Resources programs.

Energy

The May Revision revises the Governor's Budget to reflect the final Telecommunications Consumer Bill of Rights decision adopted by the Public Utilities Commission (PUC). Based on a draft version of the Bill of Rights, the January Governor's Budget includes $9.91 million and 28.0 positions for a consumer education campaign and increased enforcement. The May Revision proposes an additional $2.85 million, for a total of $12.76 million, for Bill of Rights implementation.

- 2005-06 No Change
- 2006-07 $2.85 million

Telecommunications Consumer Bill of Rights

The May Revision proposes an increase of $2.85 million PUC Utilities Reimbursement Account to implement the Telecommunications Consumer Bill of Rights adopted by the PUC on March 2, 2006. The Bill of Rights focuses on enhancing education and enforcement efforts, rather than establishing new regulations that could discourage technological innovation. Additional enforcement activities will protect consumers against fraudulent behavior by telecommunication companies. Education and outreach efforts will provide information to consumers to enable them to make informed choices among the wide variety of telecommunication services. The Bill of Rights directs the PUC to specifically address the unique needs of non-English speaking and low-income consumers. This proposal includes $1.7 million for a database system to enhance the effectiveness of the PUC's complaint resolution process and $500,000 to evaluate the effectiveness of the consumer education campaign.

Business, Transportation, and Housing

The Business, Transportation, and Housing Agency includes programs that: plan, build, and maintain California's state transportation systems; ensure efficient and fair markets for the real estate industry, health care plans, and certain financial businesses; and assist community efforts to expand the availability of affordable housing. The Agency also contains programs that assist financing the state's infrastructure, small business expansion, and economic development by encouraging and promoting economic activity and investment within the state. In addition, the Agency contributes to public safety through the law enforcement activities of the California Highway Patrol and the Department of Alcoholic Beverage Control.

Transportation Debt Restructuring

The Governor's Budget proposed $920 million to partially repay the loan that was made when Proposition 42 was suspended in 2004-05. This loan is due to be paid in 2007-08 under current law. SCA 7, which will be submitted to the voters in November, requires that Proposition 42 loans outstanding on June 30, 2006 be repaid over no more than 10 years, superseding the current statutory repayment dates. This could provide substantial budgetary relief in 2007-08 and 2008-09 by spreading out payments on the remaining principal amount of approximately $1.2 billion.

As part of the Administration's overall strategy of paying down debts, the May Revision continues to propose repaying $920 million in 2006-07, which includes $254 million for local streets and roads repairs. This is even more critical now due to the damage suffered in the winter of 2005-06 and the fact that the regular Proposition 42 allocation for 2006-07 contains no funds for local streets and roads. While the proposed bonds will provide substantial funding for transit, highways, local roads and other transportation capital needs beginning in 2007-08, Proposition 42 funds are needed in 2006-07 to keep previously planned transportation capacity projects moving.

The May Revision revenue forecast indicates substantial sales tax will be derived from the increase in gasoline prices. Under the so-called "spillover" formula in existing law, this money does not go into Proposition 42, rather it has been directed by statute into a variety of other funds, including the Public Transportation Account. As a major part of the Administration's strategy to make the proposed transportation infrastructure bonds more affordable, the Administration proposes to shift these special revenues to a new fund that will be dedicated to paying a portion of the debt service on existing and new transportation bonds. The General Fund will pay the remaining debt service. Based on current forecasts, this could provide nearly $4 billion through 2015-16 toward transportation debt service costs. The Revenue and Strategic Growth Plan sections provide more information on this proposal.

Transit Funding

Revenues to the Public Transportation Account, including the sales tax on diesel fuel (up almost $70 million in the May Revision), Tribal Gaming Bond proceeds, and Proposition 42 have resulted in a projected balance exceeding $500 million at the end of 2006-07 that is available for capital projects. The May Revision reflects an increase of $35 million in grants for local transit operations to a level of $270 million. The level of state support for transit operations has increased by $153 million over the level in 2004-05.

Department of Transportation

- 2005-06 $4.8 million
- 2006-07 -$15 million

Capital Outlay Support Staffing

Caltrans traditionally submits a zero-based Capital Outlay Support request as part of the May Revision. Capital outlay workload needs are estimated in the spring because the department has a better idea of which projects will be allocated by the California Transportation Commission in the upcoming year and what will be needed to deliver those projects. The May Revision proposes a reduction of $39.3 million and 411 state and contract positions. This resource level will result in 88.9 percent state staff and 11.1 percent contract staff.

Of these savings, $12.2 million is proposed to be redirected to increase the tort claims budget to the average amount spent in recent years, which has been approximately $54 million.

Capital Project Spending

Project capital outlay support for Proposition 42 projects was funded out of the State Highway Account in the current year. For 2006-07, the May Revision proposes to shift these costs to the Transportation Investment Fund (Proposition 42), consistent with the way other capital outlay support is funded. This shift frees up $185 million in the State Highway Account that can be used to increase the State Highway Operations and Protection Program, which has been significantly under funded due to lack of funds in the State Highway Account.

Tribal Gaming Funds

Due to litigation that has been filed against the state, the Administration proposed to shift $849.0 million of the $1.0 billion in tribal gaming expenditure authority from 2005-06 to 2006-07 in an April Finance Letter.

To date, the state has received approximately $151.0 million in revenues from tribal gaming compacts. These funds will be used in 2005-06 pursuant to current law to repay the State Highway Account for previous loans made to the General Fund. It is our understanding that the California Transportation Commission plans to allocate these funds to State Transportation Improvement Program projects.

Department of Motor Vehicles

- 2005-06 No Change
- 2006-07 $20.1 million

Implementation of Real ID Act

The May Revision proposes $18.8 million (Motor Vehicle Account) and 36.4 positions to begin the planning, programming, and infrastructure development necessary 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 pending.

This request would establish an organizational unit dedicated to Real ID, comprised of 21 positions that would be responsible for overall project and policy development. The request 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.

Department of Alcoholic Beverage Control

- 2005-06 -$1.3 million
- 2006-07 No Change

Licensing and Compliance System

The May Revision proposes to reduce current-year expenditures for the Licensing and Compliance System (LCS) information technology project by $1.3 million special fund, due to implementation delays stemming from a lawsuit filed by an unsuccessful project bidder. When the LCS is implemented, it will streamline the ABC's ability to process license applications, and will enable the Department to more easily access stored information.

Office of the Secretary of Business, Transportation, and Housing

- 2005-06 No Change
- 2006-07 $5 million

San Joaquin Valley Strategic Action Proposal

The May Revision proposes $5 million General Fund on a one-time basis to support implementation of the San Joaquin Valley Strategic Action Proposal. Established by Executive Order on June 24, 2005, the California Partnership for the San Joaquin Valley is 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 Executive Order requires preparation of a Strategic Action Proposal to improve the economic well-being and quality of life in the San Joaquin Valley.

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General Government

The General Government Section includes departments, commissions and offices responsible for oversight of distinct policy areas that are not easily consolidated into other oversight areas. These policy areas include ensuring peace officer competency, seismic safety, reasonable public utility rates, food and agriculture, and services to veterans. Additionally, this Section includes issues that are statewide in nature such as lease/revenue issues, bonds, and local government.

Board of Equalization

- 2005-06 -$7.9 million General Fund, $1.7 million special funds
- 2006-07 No Change

Workers' Compensation Savings

- The May Revision proposes a decrease of $108,000 General Fund in 2005-06 to capture anticipated workers' compensation savings.

Window Repairs at BOE Headquarters

- The May Revision proposes a decrease of $7.8 million General Fund and an increase of $1.7 million from various special funds for current-year costs associated with repair of the window gaskets on the Board's Sacramento headquarters building. The 2006-07 Governor's Budget proposed $20 million in current-year funding for the repairs.
Upon evaluating the Administration's proposal, the Legislature granted expenditure

authority of $13.9 million. This adjustment accounts for the difference between the proposed level of funding and the amount approved.

Franchise Tax Board

- 2005-06 $3.1 million General Fund, and $5.5 million reimbursements
- 2006-07 No Change

Workers' Compensation Savings

- The May Revision proposes a decrease of $124,000 General Fund in 2005-06 to capture anticipated workers' compensation savings.

California Child Support Automation System (CCSAS) Carryover Adjustment

- The May Revision proposes an increase of $3.1 million General Fund and $5.5 million in reimbursements for the CCSAS project in the current year. This reflects the availability of a like amount of carryover funds from 2004-05. These funds are necessary to ensure the project is completed on a timely basis, and are reflected in previously approved budget documents.

Commission on State Mandates

- 2005-06 No Change
- 2006-07 $26.142 million General Fund

The May Revision proposes the following adjustments:

Reform State Mandate Reimbursement Process

The May Revision includes an increase of $270,000 General Fund for a facilitator to lead discussions with state and local officials to reform the state mandate reimbursement process.

Payment for Specified Mandate Claims

An increase of $4.1 million General Fund and redirection of funds proposed for mandates in the Governor's Budget to:

- Provide $90.3 million for payment of 2005-06 estimated claims for specified mandates.

- Provide $5.7 million for newly determined mandates based on updated information.
- Identify, based on the requirements of Proposition 1A, those mandates to be implemented in 2006-07 and funded in 2007-08.

Transfer Funds for Mental Health Services to Special Education Pupils

Transfer $50 million General Fund to the Department of Mental Health to provide mental health services to special education pupils in the 2006-07 fiscal year.

Repayment of Past Mandate Debt

A net increase of $71.8 million to reflect a reduction of $15.1 million to the first year of the 15-year repayment of past mandate debt based on updated information and an increase of $86.9 million to pay the 2007-08 mandate debt in advance of the required timeline.

Department of Veterans Affairs

- 2005-06 No Change
- 2006-07 $421,000

The May Revision proposes $421,000 General Fund to prepare a feasibility report focused on replacing the Veterans Home Information System to better support member care and update technology infrastructure throughout the homes and the Department.

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Assistance to Local Government

The 2006-07 Governor's Budget Summary stated that per-capita revenues for cities were $1,315 in 2002-03, which represented an increase of $223 over their 1977-78 per capita revenue level when adjusted to 2002-03 dollars.

After consulting with local government representatives, the Department of Finance agreed to recalculate the per-capita revenue estimates using new parameters. These parameters included considering only city-based population (as opposed to statewide population), using the California All-Urban Consumers CPI of 2.95 as the price deflator (as opposed to the federal Bureau of Labor Statistics' 2.82 percent price deflator), and counting San Francisco as a county, instead of a city.

Using these parameters, Finance identified per-capita revenues for cities as $1,366 in 2002-03, and $1,330 in 1977-78. Consequently, under these parameters, per-capita inflation-adjusted revenues for cities increased by $36 between 1977-78 and 2002-03, instead of the $223 cited in the 2006-07 Governor's Budget Summary.

Tax Relief

- 2005-06 $6.6 million
- 2006-07 $7.7 million

Senior Citizens' Renters' Tax Assistance Program

The May Revision proposes to increase Program funding by $5.9 million General Fund in both 2005-06 and 2006-07 to match revised participation projections from the Franchise Tax Board.

Senior Citizens' Property Tax Deferral Program

The May Revision proposes to increase Program funding by $1 million General Fund in 2005-06 and $2.1 million General Fund in 2006-07 to match revised participation projections from the State Controller's Office.

Local Government Financing

- 2005-06 No Change
- 2006-07 $42.6 million

Citizens Option for Public Safety (COPS) and Juvenile Justice Crime Prevention Act (JJCPA) Funding

The May Revision proposes to increase funding for the COPS and JJCPA Programs by a total of $42.6 million General Fund. Pursuant to statutory requirements, the Administration proposes to divide the augmentation equally between the two programs.

COPS monies are available to police and sheriffs' departments for frontline law enforcement activities, District Attorney operations, and county jail costs. JJCPA funding is available to counties for juvenile crime prevention activities. Both COPS and JJCPA monies are distributed based on population. Regardless of size, however, each city and county is guaranteed a minimum COPS grant of $100,000 for frontline law enforcement activities.

Local Detention Facility Funds

As part of the May Revision, the Administration proposes statutory language to create a new trust fund in each county for local detention facilities, to ensure local governments have secure and modern facilities in which to house detainees. State grants to these Local Detention Facility Funds of $40 million per year would be exclusively for the operation, renovation, remodel, reconstruction, and new construction of local detention facilities. Each Fund would be controlled by the county official responsible for local detention facility operations.

The Local Detention Facility Fund grants replaces the booking fees subventions that were provided prior to 2005-06. The 2006-07 Governor's Budget proposed to fund the subventions at $40 million in 2006-07.

The Administration's proposal replaces booking fees with a "jail access fee", that counties could charge cities and other local law enforcement agencies in specified circumstances. Specifically, the fee could be charged if an agency's bookings into county jails for municipal code violations and misdemeanors (with the exception of arrests for driving under the influence or domestic violence) exceed their previous three-year average, as annually calculated. This will ensure local agencies are able to book arrestees into county jails as necessary, while also ensuring sheriffs' departments are able to recover a portion of their costs if bookings increase.

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Employee Compensation and Retirement

The revised budget includes changes to the state's costs for employee compensation and teacher's retirement.

Augmentation for Employee Compensation

- 2005-06 $11 million General Fund
- 2006-07 $81 million General Fund

The Governor's Budget includes funding for salary increases required under current contract obligations for a number of bargaining units, including attorneys, highway patrol, correctional peace officers, safety employees, and engineers. An increase of $11.3 million from the Motor Vehicle Account is included in the May Revision as a result of a higher than estimated salary increase for Bargaining Unit 5 (Highway Patrol). An increase of $47.5 million General Fund is required for Bargaining Unit 6 (Correctional Peace Officers) as a result of a revised estimate of their salary increase. Both of these increases are based on the results of the annual highway patrol salary survey. An additional $8.3 million General Fund is included for health care contributions for two recent bargaining agreements. The Administration is continuing to bargain with the exclusive representatives of the 17 collective bargaining units whose contracts have expired.

A Plata v. Schwarzenegger court order required the state to provide specified compensation increases to health care staff in the Department of Corrections and Rehabilitation, effective

December 1, 2005. The Governor's Budget requested an increase of $12.2 million General Fund for fiscal year 2005-06 for these costs. Further analysis of the court order's requirements by the Department of Personnel Administration identified additional positions to which the order applies, at a cost of $11.0 million. In order to maintain staffing levels in the Department of Mental Health the Plata compensation increases were extended to Department of Mental Health level-of-care staff as these employees often work in the same locations as the CDCR health care staff. An increase of $25.2 million General Fund is requested for 2006-07 to fund pay increases resulting from the Plata court order.

The Department of Personnel Administration (DPA) recently published a preliminary survey of total compensation for a number of benchmark classifications in state civil service. The survey did not include safety or peace officer classifications as they will be surveyed separately. Additionally, the survey includes only limited data from private employers. This preliminary survey showed that, in general, most state classifications lag behind similar classifications in public agencies in California in both salary and total compensation, while comparisons with private employers yielded mixed results. The survey will allow DPA to focus the state's limited employee compensation dollars to achieve the greatest benefit in recruitment and retention of state employees.

As the DPA enters into the next phase of negotiations, it will need to balance the findings from the compensation survey against the continuing structural deficit the state faces. The Department must also remain cognizant of the possibility of new compensation costs being ordered by federal courts, and problems that departments are now facing with "compaction" issues for managers and supervisors. While no additional funding is proposed at this time in order to maintain a level playing field for both sides during the upcoming collective bargaining, the Administration remains committed to recruiting and retaining quality employees, managers, and supervisors.

State Contributions to the State Teachers' Retirement System

- 2005-06 No Change
- 2006-07 -$121.5 million General Fund

The state's contribution to CalSTRS' retirement benefits is reduced by $121.5 million due to an error recently discovered in the CalSTRS' accounting system. The error resulted in the state contributing more than is required by law in fiscal years 2002-03, 2004-05 and 2005-06. Since the General Fund transfers have already been completed for these fiscal years, the $121.5 million correction is included as an adjustment to the state's 2006-07 transfer from the General Fund.

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Statewide Issues

This section includes issue(s) that affect multiple departments in various major program areas.

2006-07 State Appropriations Limit Calculation

Pursuant to Article XIIIB of the California Constitution, the 2006-07 State Appropriations Limit (SAL) is estimated to be $72.303 billion. The revised limit is the result of applying the growth factor of 4.96 percent. The revised 2006-07 limit is $175 million above the $72.128 billion estimated in January. This increase is due to changes in the following factors:

- Per Capita Personal Income
  - January Percentage Growth: 3.58
  - May Revision Percentage Growth: 3.96
- State Civilian Population
  - January Percentage Growth: 1.37
  - May Revision Percentage Growth: 1.21
- K-14 Average Daily Attendance
  - January Percentage Growth: 0.66
  - May Revision Percentage Growth: 0.60

For SAL purposes, per capita personal income is defined as calendar fourth quarter California personal income, as estimated by the US Bureau of Economic Analysis (BEA), divided by California civilian population, estimated by the California Department of Finance. Since BEA does not release its civilian population estimate until April, the Department of Finance uses its own estimate for the Governor's January Budget. The May Revision reflects the BEA's estimate.

The SAL for 2005-06 does not change since it was statutorily established by Control Section 12.00 of the 2005 Budget Act.

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