



*July 13, 2005*

## 2005-06 BUDGET SIGNED

On Monday, July 11, 2005, the Governor signed the 2005-06 Budget into law. The Budget authorizes General Fund spending of \$90.0 billion and assumes revenues and transfers of \$84.5 billion. The Budget reflects the state's issuance of approximately \$525 million in pension obligation bonds, assumes an additional \$525 million from the tobacco securitization bonds, and assumes \$1 billion in tribal gaming bond revenues. The following provides a brief overview of major highlights of the 2005-06 Budget, as well as notable vetoes.

### THE 2005-06 BUDGET

#### K-12 Education

The budget agreement:

- Funds Proposition 98 K-14 education at the same level proposed in the Governor's May Revision. The May Revision maintained the Governor's January proposal to keep 2004-05 Proposition 98 spending at the dollar level contained in the 2004-05 Budget Act. The budget agreement also uses the 2004-05 Budget Act as the basis for the 2005-06 Proposition 98 funding level. The Legislative Analyst's Office (LAO) has estimated that, over the two-year period, the difference between holding Proposition 98 at the 2004-05 Budget Act level and the target assumed in the 2004-05 budget agreement is \$3.1 billion due to higher than previously anticipated revenues.
- Does not include the Governor's January proposal to shift \$469 million in teacher retirement costs, which the state currently pays out of non-Proposition 98 funds, to local school districts. Instead, the budget reflects savings of \$235 million, approximately half of the proposed shift. These savings were obtained by reducing the amount of one-time "settle-up funds" below the level proposed in the May Revision.
- Uses remaining one-time K-14 education settle-up funds included in the May Revision and additional one-time funding from the Proposition 98 Reversion Account to provide \$60.6 million for schools to pay prior year mandate claims. The budget also uses one-time funding to provide \$49.5 million for incentives for low performing schools, \$18.2 million for schools to provide fruits and vegetables as part of an effort to provide students healthier breakfasts, and \$183.5 million for school facility emergency repairs pursuant to the Williams settlement agreement.
- Funds enrollment growth (\$193.6 million) and a 4.23 percent cost-of-living adjustment (\$1.7 billion).

## Health and Human Services

The budget agreement:

- Suspends the annual state cost-of-living adjustment (COLA) for CalWORKs grants for two years, freezing the maximum grant for a family of three in high-cost counties at \$723 per month. This suspension will result in estimated General Fund and federal Temporary Assistance for Needy Families (TANF) block grant savings of \$409.8 million over the two-year period.
- Suspends the annual state COLA for two years for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program and delays the annual federal COLA by three months in each of 2005-06 and 2006-07. These changes will result in estimated General Fund savings of \$629.0 million over the two-year period.
- Does not include the Governor's proposal to eliminate state funding for IHSS provider wages and benefits above the state's minimum wage of \$6.75 per hour. The state will contribute toward IHSS wages and benefits of up to \$11.10 per hour in 2005-06, an increase of \$1 per hour from the 2004-05 level.
- Reflects the Legislature's rejection of most of the Governor's proposed changes to the state's subsidized child care system, including reducing reimbursement rates for license-exempt child care providers and imposing a time limit on CalWORKs Stage 3 child care. However, the budget agreement:
  - Requires the establishment, subject to an appropriation, of "centralized eligibility lists" in each county to track the number of families waiting for subsidized child care; and
  - Clarifies the circumstances under which 11- and 12-year-olds may receive subsidized child care, rather than being enrolled in a before- or after-school program, which is the "preferred placement" for 11- and 12-year-olds under state law.
- Reflects the Legislature's rejection of most of the Governor's multi-pronged proposal to restructure the Medi-Cal Program. However, the safety-net hospital financing waiver negotiated between California and the federal government, announced on June 22, makes \$360 million in federal Medicaid funds contingent on adoption of the Governor's managed care proposal. That proposal would move more than half a million seniors and people with disabilities into Medi-Cal managed care plans. Enrollment would have to begin in January 2007 under the waiver agreement, which has not yet been finalized.
- Includes the Governor's proposal to obtain additional federal funds for prenatal care services in the Medi-Cal Program and the Access for Infants and Mothers (AIM) Program for state savings of \$253.6 million.

## Higher Education

The budget agreement:

- Reduces from \$40.0 million to \$30.0 million the Governor's proposed augmentation to eliminate disparities in the amount of funding community colleges receive for each full-time equivalent student (FTES) enrollment. The Legislature initially proposed to set aside \$10 million of the \$30.0 million to increase the funding rate for non-credit FTES instruction, which is reimbursed at less than half the rate of credit FTES. However, the final budget agreement folded the \$10.0 million back into "equalization" funding.
- Includes \$10.0 million in ongoing funds and \$4.0 million in one-time funds to the community colleges to expand nursing programs. The State Nursing Initiative also provides \$560,000 to the California State University (CSU) for the development of an entry-level master's degree program in nursing, as well as funds to other agencies.
- Includes \$750,000 to the University of California (UC) and \$250,000 to the CSU for a Science and Math Teacher Initiative. In addition, the Governor directed that subsequent legislation restrict all 300 new Cal Grant Assumption Program of Loans for Education (APL) awards to those studying to become math or science teachers.
- Includes one-time augmentations of \$17.3 million for the UC and \$7.0 million for the CSU for student preparation and support services programs.
- Includes \$37.4 million for a Career Technical Education initiative, aimed at improving and expanding career technical education programs. The initiative also calls for greater coordination between K-12 schools and community colleges.

## Blowing Up Boxes

The budget agreement:

- Eliminates nine boards and commissions.
- Includes the new Department of Corrections and Rehabilitation, which replaces the Youth and Adult Correctional Agency.
- Includes the new Department of Technology Services, which consolidates existing state data centers.

## Housing

The budget agreement:

- Provides \$125,000 General Fund for a new Governor’s Council to Address Chronic Homelessness. The Budget also directs \$750,000 in Proposition 63 funds and \$35 million in Proposition 46 funds for this purpose.
- Restores \$0.9 million to the Emergency Housing and Assistance Program, rejecting the Governor’s proposal to reduce the program by this amount.

## Local Government

The budget agreement:

- Fully repays the \$1.2 billion Vehicle License Fee (VLF) “gap” loan owed to local governments. Repayment was originally rescheduled for August 2006.

## Transportation

The budget agreement:

- Fully funds the \$1.3 billion transfer from the General Fund to transportation programs for the first time since voters approved Proposition 42 in 2002. The Budget also assumes \$1 billion in tribal gaming bond revenues for transportation.

## THE GOVERNOR’S VETOES

The Governor vetoed \$190 million in spending contained in the budget bill.

### K-12 Education

Notable vetoes include:

- A total of \$74.5 million in carryover funds added by the Legislature for the Comprehensive School Reform and Title 1 programs, which were included in the No Child Left Behind Act flexibility proposal. The Governor proposes to pursue future legislation to redirect these funds to low-performing schools and districts to improve academic performance.
- \$20.0 million for the purchase of supplemental materials for English language learners. The Governor states that he will set aside these funds for appropriation in future legislation for other Proposition 98 K-14 education priorities.

### Higher Education

Notable vetoes include:

- \$3.8 million in funding added by the Legislature for the University of California Institute for Labor and Employment, a labor-oriented research center.

## Health and Human Services

Notable vetoes include:

- \$57.1 million (state and federal funds) the Legislature added for county administration of social services programs, including CalWORKs and the Food Stamp Program. The state has withheld operating increases for county-run social services programs for several years, and counties argue that county administration costs are underfunded.
- \$3.0 million for the state's prostate cancer program for low-income men, eliminating the program.
- \$1.4 million the Legislature added for the state's Community Care Licensing Division, which conducts periodic visits to licensed facilities to ensure they comply with required health and safety regulations.
- \$1.0 million for the Naturalization Services Program, reducing funding to \$1.5 million in 2005-06.

## Other

Notable vetoes include:

- \$1.2 million the Legislature added to provide 14 additional positions to establish a Misdemeanor Program within the Franchise Tax Board.
- A control section requiring the Department of Finance to report to the Legislature regarding the impact of unallocated reductions included in the 2005 Budget Act, because "this language is an infringement on the Executive Branch's budget development process."