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GOVERNOR RELEASES PROPOSED 2006-07 BUDGET

Governor Schwarzenegger released his Proposed 2006-07 Budget on January 10. The following update provides a “quick and dirty” summary of key provisions of the Governor’s Proposed Budget. As additional details become available, the California Budget Project (CBP) will update this document. The CBP will also prepare in-depth analyses of major proposals contained in the budget over the upcoming days and weeks. Please check the CBP website (www.cbp.org) for corrections and additions to this analysis as additional information becomes available.

The Governor’s major policy initiative, a 10-year public works plan, was announced prior to the release of the budget in the State of the State address (see below). For the second consecutive year, the Governor’s Proposed Budget was released electronically. The Governor’s budget documents are available at <http://www.ebudget.ca.gov/>. A detailed description of the Governor’s public works proposal is available on the “press releases” page of the Governor’s website at http://www.governor.ca.gov/state/govsite/gov_pressroom_main.jsp.

The Bottom Line

The Governor’s Proposed 2006-07 Budget spends \$97.902 billion and assumes \$92.005 billion in revenues and transfers, resulting in a \$6.4 billion operating deficit. Budgeted expenditures include \$1.6 billion that would repay and prepay various obligations, including loans to transportation and special funds. According to press reports sourced to the Director of Finance, the Governor’s Proposed Budget would lead to operating deficits of \$6.6 billion in 2007-08, \$9.7 billion in 2008-09, and \$8.6 billion in 2009-10. In November, the Legislative Analyst’s Office (LAO) estimated that the 2007-08 operating shortfall would be \$4.3 billion.

The Governor’s Proposed Budget reflects higher than previously assumed revenues in 2004-05 and 2005-06 and modestly stronger growth in 2006-07 than assumed by the LAO in November. The Governor assumes that combined 2004-05 and 2005-06 revenues and transfers will be \$5.5 billion above the amount assumed when the 2005-06 Budget was enacted and that 2006-07 revenues will be \$929 million more than the LAO forecast in November. The additional resources support increased funding for education, prepayment of loan obligations, the previously announced “buy out” of student fee increases, and other augmentations.

Reductions included in the Governor’s Proposed Budget include current and budget year reductions to the CalWORKs Program, a failure to fund inflation adjustments in county-administered health

and social service programs, and a further delay in passing through federally-funded cost-of-living adjustments (COLA) for SSI/SSP grants received by seniors and Californians with disabilities.

The Governor proposes language giving the Director of Finance mid-year budget cutting authority. Reductions would be limited to 25 percent of the affected appropriation. The Governor also proposes to eliminate the Legislature's ability to suspend the transfer of certain sales tax revenues to transportation programs authorized by Proposition 42 of 2002. Similar provisions were contained in Proposition 76, which was defeated by the voters in November.

The Governor's Proposed Budget states that it does not include any tax increases. However, the Governor proposes to suspend the teacher tax credit for an additional year, resulting in estimated additional revenue of \$210 million in 2006-07. This action increases taxes for teachers above what they would have owed absent the proposed suspension. The Governor also proposes to extend the collection of use taxes on certain vehicles, boats, and aircraft purchased outside of California and brought into the state, for an additional \$35 million. The Governor proposes to expand state income tax breaks for Health Savings Accounts (HSAs) for a loss of \$3 million in 2005-06 and \$8 million in 2006-07.

The Governor's Proposed Budget transfers \$920 million to the Budget Stabilization Account (BSA), as required by Proposition 58 of 2004. Half of the proposed transfer would be used to prepay deficit bonds, and the other half would remain in the BSA as a reserve.

The Governor's "Strategic Growth Plan"

The Governor announced a 10-year public works plan in his State of the State address and in leaks to the press prior to his speech. The plan is described in both a "Strategic Growth Plan Briefing Packet" and the Governor's Budget Summary. The Strategic Growth Plan (SGP) would cover \$222.6 billion in spending, including:

- \$100.8 billion in existing funds. This includes \$1 billion in existing general obligation (GO) bonds attributable to tribal gaming bonds related to transportation (which may be delayed by litigation) and \$4.1 billion in existing K - 12 and Higher Education GO bonds.
- \$68 billion in new GO bonds. These bonds are dependent upon voter approval in future elections.
- \$53 billion in "new" funds. These funds include sources such as savings generated through public-private partnerships, anticipated federal funds, and new fees.
- \$800 million in lease-revenue bonds. These would fund public safety, courts, and other public infrastructure facilities.

The Governor will ask the Legislature to approve the entire plan as a single package, but would place the bonds before the voters in a series of elections between 2006 and 2014.

The SGP would provide:

- \$107.0 billion for transportation and air quality (\$47.0 billion from existing funds, \$12.0 billion from GO bonds, and \$48.0 billion from new funding sources);
- \$48.2 billion for K - 12 Education (\$21.9 billion from existing funds and \$26.3 billion from GO bonds);
- \$11.7 billion for Higher Education (all from GO bonds);
- \$35.0 billion for flood control and water projects (\$21.0 billion from existing state and local funds, \$9.0 billion from GO bonds, and \$5.0 billion from new funding sources);
- \$17.4 billion for public safety (\$10.2 billion from existing funds, \$6.8 billion from GO bonds, and \$400 million from lease-revenue bonds); and

- \$3.3 billion for courts and other public facilities (\$700 million from existing funds, \$2.2 billion from GO bonds, and \$400 million from lease-revenue bonds).

The Governor's proposals include a constitutional debt service cap that the Legislature would place before the voters. Under the Governor's proposal, the Governor and Legislature's ability to incur General Fund-related debt service costs that exceed 6 percent of General Fund revenues in any year would be limited. However, it appears that the Governor's plan would result in debt service costs exceeding 6 percent, if the costs of repaying the state's deficit financing bonds are taken into account (the debt service cost of these bonds is paid out of a special fund and backed by the General Fund, rather than being paid out of the General Fund).

The Governor announced in his press conference introducing the budget that the Administration will work with the Legislature to finalize the public works proposal before it goes to the voters. Senate President Pro Tempore Don Perata introduced SB 1024 last year; it is on the Senate Floor. Assembly Speaker Fabian Núñez introduced his own infrastructure proposal, AB 1783, last week. Speaker Núñez has already named Assemblymembers John Laird, Judy Chu, and Rick Keene as his appointees to a to-be-formed conference committee on infrastructure.

Governor Schwarzenegger has not published the annual five-year infrastructure plan required by AB 1473 (Hertzberg, Chapter 606, Statutes of 1999). The most recent plan was published in 2003 and can be found at <http://www.dof.ca.gov/HTML/capoutly/co-home.htm>. The 2003 plan identified \$54.2 billion in infrastructure spending between 2003-04 and 2007-08, about half of which was designated for transportation. According to the LAO, state agencies and departments have submitted updated infrastructure needs information to the Administration.

The Governor's plan incorporates GoCalifornia, "a plan designed to decrease congestion, improve travel times, and increase safety." The Governor introduced GoCalifornia in his Proposed 2005-06 Budget; the Legislature, however, rejected the proposal.

The SGP assumes:

- \$8.6 billion in Proposition 42 funds, which, according to the January 10 revised Briefing Document, will not affect statutory funding obligations to local governments for streets and roads. The original Briefing Document included a diversion of Proposition 42 funds from local governments beginning in 2008-09.
- \$17.8 billion in local matching funds from school districts for existing and new GO bonds.
- \$16.0 billion in "local investments," specifically, water projects paid for by local water agencies and increased user fees.
- \$5.0 billion in new funds attributable to a new fee imposed on retail water users.
- \$4.0 billion in county matching funds for state jail construction funds.

Minimum Wage

In his State of the State address, the Governor proposed raising the state minimum wage by \$1.00, from the current hourly wage of \$6.75 to \$7.75. The wage hike would be phased in over the next 18 months, with the first increase of \$0.50 occurring in September 2006, followed by another increase of \$0.50 in July 2007. The Governor's Proposed Budget includes \$10.3 million to cover state costs for higher wages, primarily for a small number of In-Home Supportive Services (IHSS) workers and workers in Department of Developmental Services funded programs.

CalWORKs

The Governor's Proposed Budget:

- Reduces federal Temporary Assistance for Needy Families (TANF) funding provided to counties for CalWORKs employment services, child care, and administration by \$40 million in 2006-07 and uses those funds to reduce state spending for Child Welfare Services and Foster Care. The Administration suggests that counties can use unspent performance incentive funds to backfill the reduction.
- Cuts current year CalWORKs child care funding by \$114.6 million. The Administration indicates that fewer CalWORKs recipients have moved into work than was anticipated, and that the funding is not needed. However, county representatives note that this funding is flexible and can be used to provide other services to help move CalWORKs families into the workforce.
- Maintains the suspension of the July 2005 and July 2006 COLAs for CalWORKs grants included in the 2005-06 budget agreement, reducing spending by \$121.8 million in 2005-06 and \$307.2 million in 2006-07.
- Continues to withhold the October 2003 CalWORKs COLA, for savings of \$460 million. In 2004, a superior court judge ruled that the COLA denial violated state law and that the Administration must provide the COLA retroactively to October 1, 2003. However, the state appealed the ruling, staying the payments until the appeal is resolved. The Administration assumes the state will win on appeal, thereby avoiding \$460 million in additional grant payments for CalWORKs families.

Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program

The Governor's Proposed Budget:

- Delays providing the federal January 2007 COLA to SSI/SSP recipients until July 2008 – more than one year longer than the three-month delay included in the 2005-06 budget agreement. The state would use those funds to reduce state spending for the SSI/SSP Program, resulting in General Fund savings of \$48.1 million in 2006-07 and more than \$185 million in 2007-08. In the current year, monthly grant levels will increase to \$836 for an individual and to \$1,472 for a couple when the federal 2006 COLA is provided to recipients in April 2006, following a three-month delay. The SSI/SSP Program helps low-income seniors and people with disabilities meet basic living expenses.
- Maintains the suspension of the state January 2006 and January 2007 COLAs for SSI/SSP grants included in the 2005-06 budget agreement.

Other Social Services

The Governor's Proposed Budget:

- Does not increase the limit up to which the state will contribute toward In-Home Supportive Services (IHSS) workers' wages and benefits. Projected General Fund revenue growth for 2006-07 is below the 5 percent level needed to trigger a required increase above the current limit of \$11.10 per hour. However, IHSS workers who are paid at or near the state's minimum wage of \$6.75 per hour would receive a modest increase under the Governor's proposal to raise the state minimum wage by \$1.00 per hour over the next 18 months.
- Includes \$220 million to pay the federal fiscal year (FFY) 2006 federal penalty for the state's delay in implementing a statewide, automated child support system. The Administration assumes the state will not be assessed a penalty for FFY 2007.

- Provides \$12.5 million (\$7.1 million General Fund) to increase adoptions, including adoptions of older, hard-to-place foster care youth.
- Provides an additional \$2.6 million (\$1.4 million General Fund) for the Transitional Housing for Foster Youth Program, which provides transitional housing placement services to youth who have emancipated from the foster care system.
- Provides \$5.2 million (\$4.8 million General Fund) for the Community Care Licensing Division to increase the number of random sample licensing visits from 10 percent to 20 percent annually to ensure that community care facilities, including facilities for children and seniors, are visited at least once every five years. Press reports published in the fall of 2005 highlighted problems with delayed inspections of community care facilities.
- Extends for five years the “statutory sponsor deeming period” for the Cash Assistance Program for Immigrants (CAPI), during which the income and resources of individuals sponsoring non-citizens are included in determining CAPI benefit eligibility. This proposal would result in a General Fund cost avoidance of \$12.5 million in 2006-07 and more than \$40 million in 2007-08.

Child Care

The Governor’s Proposed Budget does not include major policy changes or funding reductions to child care programs administered by the California Department of Education (CDE), while providing \$70.2 million for a 5.18 percent COLA and \$14.8 million for growth (1.2 percent) for CDE child care programs in 2006-07.

Health

The Governor’s Proposed Budget allocates \$34.7 billion (\$13.7 billion General Fund) for the Medi-Cal Program. This reflects an increase of \$755.6 million General Fund above the 2005-06 Budget Act level. The Proposed Budget:

- Provides \$72.2 million (\$34.2 million General Fund) to increase enrollment of eligible children in the Medi-Cal Program and the Healthy Families Program (HFP). Of these funds, \$45.5 million (\$22.7 million General Fund) would support anticipated enrollment increases from simplifying the form that families must return annually for children to remain enrolled in Medi-Cal. The additional funding also includes \$20.8 million (\$9.1 million General Fund) to support county outreach and enrollment efforts; \$3.4 million (\$1.4 million General Fund) for a media campaign; and \$2.5 million (\$1.0 million General Fund) in “incentive payments” for application assistants who successfully enroll increased numbers of children in Medi-Cal or the HFP. In a separate proposal, the Governor allocates \$9.6 million (\$3.5 million General Fund) to streamline enrollment into the HFP, such as increased use of an online application (Health-e-App). The Administration notes that over 400,000 children are eligible for, but not enrolled in, Medi-Cal or the HFP.
- Includes \$172 million (\$86 million General Fund) to support a 5.4 percent increase in Medi-Cal rates for long-term care providers.
- Reflects state savings of \$25.0 million in 2005-06 and \$42.6 million in 2006-07 from a previously approved 5 percent reduction in the rates paid to many Medi-Cal providers. This rate reduction was blocked by a court injunction, which was subsequently lifted by a decision by the 9th Circuit Court of Appeals in August 2005.
- Freezes funding for basic county operating expenses for the Medi-Cal Program, for savings of \$42.4 million (\$21.2 million General Fund).
- Does not include last year’s proposal to require many enrollees who are seniors and people with disabilities to enroll in managed care plans. A Medi-Cal hospital waiver negotiated between the state and the federal government in 2005 includes \$180 million in federal funding in each of 2005-06 and 2006-07 if the state moves these enrollees into managed care. The Proposed Budget includes \$2 million (\$936,000 General Fund) to promote increased enrollment of this population into managed care, including increasing voluntary enrollment

and implementing a pilot project to require enrollment of seniors and persons with disabilities in managed care in two additional counties beginning in April 2008.

- Establishes a pilot project to coordinate health care for two sets of Medi-Cal enrollees: those who are seriously ill and have chronic health conditions and those who have serious mental illness and chronic health conditions.
- Allocates an additional \$19.6 million and 147.7 new positions in the Department of Health Services for the Licensing and Certification Program in order to investigate complaints in a timely manner and conduct required facility visits.
- Includes \$43.5 million (\$37.8 million General Fund) and 432 new positions to implement a recovery-oriented treatment system in the state's five mental hospitals, as required by the federal Civil Rights for Institutionalized Persons Act.

K - 12 Education

The Governor's Proposed Budget:

- Reflects a total 2006-07 Proposition 98 funding level of \$54.3 billion for K - 14 education programs, an 8.7 percent increase over the 2005-06 level of \$50.0 billion. The state's share of 2006-07 Proposition 98 funding is budgeted at \$40.5 billion, which includes \$428 million to fund after-school programs required by Proposition 49 of 2002. The Proposed Budget translates into K - 12 Proposition 98 per pupil spending of \$8,052 in 2006-07, up from \$7,428 in 2005-06. The change in per pupil spending levels between 2005-06 and 2006-07 are not strictly comparable due to the increase in funds for after-school programs included in 2006-07.
- Reflects an increase in Proposition 98 General Fund support of \$4.1 billion. Of this increase, the Proposed Budget provides approximately \$1.7 billion to reduce the state's maintenance factor obligation. The maintenance factor represents the difference between actual Proposition 98 spending in prior years and the minimum funding levels required under Test 2. The Governor also includes an additional \$428 million for after-school programs required by Proposition 49 as part of the increase in Proposition 98 funds. The Proposed Budget would count this amount towards the state's maintenance factor obligation.
- Provides, as noted above, an additional \$428 million for the After School Education and Safety (ASES) Program. The additional funds are required by Proposition 49, which will first go into effect in 2006-07.
- Funds statutory average daily attendance (ADA) growth (\$156 million), including \$67.4 million for revenue limit apportionments, \$14.8 million for child care and development, \$4.7 million for class size reduction, \$6.5 million for special education, and \$62.6 million for other categorical programs.
- Funds a 5.18 percent COLA (\$2.3 billion), including \$1.7 billion for revenue limits, \$70.2 million for child care and development, \$78.4 million for class size reduction, \$161.6 million for special education, and \$313.6 million for various categorical programs.
- Provides \$100 million to school districts for a newly created School Enrichment Block Grant. The funds would support strategies to recruit and retain teachers and principals in high-priority schools. Strategies would include student loan forgiveness, signing bonuses, recognition pay, and professional development.
- Provides \$133.6 million to fund the ongoing cost of mandated K - 14 programs.
- Allocates \$200 million for school district revenue limit equalization, which is intended to reduce disparities in general-purpose funding levels across school districts. The Proposed Budget also allocates \$206 million to partially repay the outstanding deficit factor generated by past reductions in revenue limits. Revenue limits provide general-purpose funding for schools.
- Increases funding for special education programs by \$156.3 million, including funding for enrollment growth and a 5.18 percent COLA.
- Proposes \$213.2 million in one-time funding, including \$106.6 million for school facility emergency repairs pursuant to the Williams v. California agreement, \$18.7 million for mandates, \$9.6 million for teacher credentialing, and \$9 million for charter school facilities.

- Provides \$100 million to create an Art and Music Block Grant to support art and music instruction in grades one through eight.
- Proposes \$85 million to support physical education instruction, such as hiring credentialed physical education teachers, purchasing equipment, and developing curricula.
- Proposes \$65 million to target support and mentoring for beginning teachers in schools in deciles one to three of the Academic Performance Index, by requiring them to participate in a third year of induction in the Beginning Teacher Support Assessment System (BTSA). Currently, the program serves first and second-year teachers.
- Provides \$40 million to support supplemental instruction to pupils who have failed, or are at risk of failing, at least one part of the California High School Exit Exam (CAHSEE).
- Proposes \$50 million to expand and improve career technical education courses offered at high schools, regional occupational centers and programs, and community colleges.
- Includes \$25 million in digital classroom grants to support investments in classroom technology, such as computer software, hardware, or staff development in information technology.

Community Colleges

The Governor's Proposed Budget:

- Provides \$8.6 billion for the California Community Colleges, an increase of \$643 million above the 2005-06 Budget Act. The Proposed Budget provides an increase of 3 percent for general apportionment enrollment growth and a 5.18 percent COLA for apportionments, and increases of 1.74 percent for enrollment growth and a 5.18 percent COLA for categorical programs.
- Provides an augmentation of \$130 million to equalize disparities in credit instruction funding levels among community colleges. The 2004-05 and 2005-06 Budgets both included funding for equalization, as well. The 2006-07 proposed augmentation would bring the three-year total to the \$240 million originally requested by community colleges.
- Increases support for Career Technical Education "Tech Prep" programs by \$30 million. The 2005-06 Budget Act provided \$20 million for Tech Prep, or "2 + 2," programs, which offer sequenced vocational training courses beginning in high school and continuing at the community colleges.
- Provides \$9.6 million for additional services for deaf and learning disabled students.

University of California and California State University

The Governor's Proposed Budget:

- Allocates \$5.1 billion for the University of California (UC), which reflects an increase of \$262.3 million above the 2005-06 Budget Act. The Governor's Proposed Budget allocates \$4 billion for the California State University (CSU), an increase of \$182.6 million above the 2005-06 Budget Act level. The new funding level supports a 3 percent COLA and a 2.5 percent increase for enrollment growth.
- "Buys out" a scheduled 2006-07 student fee increase at the UC and the CSU by "backfilling" the potential lost revenue with additional funding of \$75 million for the UC and \$54.4 million for the CSU. Undergraduate and graduate fees were to increase by 8 percent and 10 percent, respectively, at the UC and the CSU.
- Eliminates the one-time General Fund legislative augmentation for Student Academic Preparation and Education Programs, a \$17.3 reduction for the UC and a \$7 million reduction for the CSU. Student Academic Preparation and Education Programs focus on preparing disadvantaged K - 12 students for college. The Governor proposed unallocated cuts of the same amount last year, which he suggested could be achieved by either reducing enrollment or cutting these kinds of programs. The Legislature restored the funding in the final budget.

- Increases support for the Governor's Science and Math Teacher Initiative, announced in May 2005. The UC would receive an additional \$375,000 and the CSU will receive an additional \$1.1 million, to allow both systems to expand the program statewide.
- Provides \$14 million for start-up costs at the new UC Merced campus, bringing total one-time start-up funding for the campus to \$24 million.
- Provides an additional \$1.7 million each to the UC and the CSU for expansion of entry-level master's nursing programs.

California Student Aid Commission

The Governor's Proposed Budget:

- Provides \$897 million for the California Student Aid Commission, an increase of \$58.8 million above the 2005-06 Budget Act level.
- Provides an increase of \$39.5 million for the Cal Grant Program.
- Provides an increase of \$6.8 million for the Assumption Program of Loans for Education (APLE). The APLE program assumes partial payment of student loans for teachers who agree to teach in areas with critical teacher shortages.
- Provides \$51 million to replace monies from the Student Loan Operating Fund (SLOF) that were used to support financial aid programs in 2005-06.

State Employees and State Operations

The Governor's Proposed Budget:

- Does not assume any costs or savings from renewing contracts with state workers. Eighteen of state employees' 21 collective bargaining units are working under contracts that either have expired or will expire near the beginning of 2006-07. The largest bargaining units with expired or expiring contracts include professional, administrative, and financial staff; clerical and support staff; and correctional officers and parole agents.
- Reports that the state will contract with a private actuarial firm to calculate the state's future unfunded liability for health and dental benefits for employees and their dependents. California uses a "pay-as-you-go" system to pay for these benefits and, thus, all future costs are unfunded. The Governmental Accounting Standards Board approved a new accounting standard that requires states to begin reporting such unfunded liabilities. According to the Governor's Budget Summary, the state's policy of funding these benefits "could negatively affect the state's financial reports and impact its credit rating."
- Postpones issuance of a pending pension obligation bond until 2007-08. The Administration intends to appeal a recent court decision, which blocked the bond sale. The bonds would have been used to pay \$525 million in 2005-06 costs.
- Makes unallocated reductions to departmental spending of \$50 million in 2005-06 and \$100 million in 2006-07. According to the Governor's Budget Summary, the Administration met a \$100 million reduction requirement contained in the 2005-06 Budget. In past years, target amounts for such reductions have not been met.
- Reduces spending for state workers' salaries and wages by \$58 million primarily through savings from vacant positions, with target amounts assigned to each agency. These reductions would be in addition to the unallocated departmental reductions of \$100 million in 2006-07 and would not apply to the Legislature, the Judicial Branch, Higher Education, or the Governor's Office.

Transportation

The Governor's Proposed Budget:

- Includes \$1.4 billion to fully fund Proposition 42 in 2006-07. Proposition 42, approved by voters in 2002, requires an annual transfer of revenues from sales taxes paid on gasoline from the General Fund to the Traffic Congestion Relief Program to fund state and local transportation projects. The Proposition 42 transfers from the General Fund were partially or fully suspended from 2001-02 through 2004-05; the transfer was fully funded in 2005-06.
- Allocates \$920 million to repay a Proposition 42 loan to the General Fund that is due in 2007-08, leaving an outstanding loan of approximately \$430 million.
- Assumes \$1 billion in anticipated bond proceeds backed by Indian gaming revenues to help repay transportation loans. The bond sale has been repeatedly delayed due to litigation. However, in November 2005, the California Infrastructure and Economic Development Bank authorized the bond sale. The Governor's Proposed Budget assumes that the bond sale will occur in the spring of 2006, although this date could change.
- Does not transfer revenues from a portion of the sales tax on gasoline (so-called "spillover" revenues) to the Public Transportation Account (PTA) in 2006-07. The 2005-06 budget agreement suspended this transfer (\$380 million) and specified that, in 2006-07, the first \$200 million of spillover would be retained in the General Fund, the next \$125 million would go to the Bay Bridge seismic retrofit project, and any remaining revenues would be transferred to the PTA. Since spillover revenues are projected to be less than \$325 million in 2006-07, the transfer to the PTA would not occur.

The Governor's Proposed Budget also includes:

- \$975 million in increased federal funds in both 2005-06 and 2006-07, due to increased funding levels included in the recent federal transportation reauthorization act, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).
- Total programming capacity of \$5.6 billion for the 2006 State Transportation Improvement Program (STIP), of which \$3.8 billion is carried over from the 2004 STIP. The Governor's Budget Summary states that this funding level is due to full funding of Proposition 42 and partial repayment of Proposition 42 loans.
- A proposal to postpone indefinitely voter authorization of a \$9.95 billion GO bond to fund an intercity high-speed rail service. Legislation passed in 2002 provided for the measure to be submitted to the voters in 2004; subsequent legislation postponed it to 2006. AB 713 (Torrico), currently in the Senate Transportation and Housing Committee, would postpone the vote until 2008.

Housing

The Governor's Proposed Budget:

- Reduces funding for the Department of Housing and Community Development (HCD) by \$98.2 million below the 2005-06 Budget Act level. The reduction is primarily due to the fact that some categories of funding supported by the bonds authorized by Proposition 46 of 2002 have been fully allocated; as of June 30, 2005, the state had awarded approximately \$1.1 billion of Proposition 46 funds. Proposition 46 provided \$2.1 billion in GO bonds for state housing programs.
- Increases funding for the Office of Migrant Services (OMS) by \$3.4 million to address health and safety standard deficiencies for state-built OMS centers, which provide farmworker housing.

Local Government

The Governor's Proposed Budget:

- Includes \$98.1 million as a repayment for the cost of unfunded mandates to counties.
- Allocates \$40 million to backfill cities and special districts for fees paid to counties for booking inmates into county jails.
- Continues the suspension of Property Tax Administration Program grants for savings of \$60 million. The 2005-06 Budget suspended this program for two years. Previous studies have shown that these grants result in substantial state savings by increasing schools' property tax revenues, which, in turn, reduces the state's obligations under the Proposition 98 guarantee.

Public Safety

The Governor's Proposed Budget:

- Includes \$6 million for local assistance grant funds in the Office of Emergency Services (OES) to expand Sexual Assault Felony Enforcement (SAFE) teams.
- Increases funding for the Department of Justice (DOJ) by \$13.8 million to increase support for six new Gang Suppression Enforcement Teams (GSET), to create three new teams to combat methamphetamine networks, and to combat identity theft and other complex financial crimes within the DOJ Special Crimes Unit.
- Increases total spending for the Department of Corrections and Rehabilitation (CDCR) by \$643.7 million above the 2005-06 Budget Act to \$8.1 billion. The Proposed Budget includes \$54.5 million to hire and train additional correctional officers and other staff; \$52.8 million to reduce recidivism in inmate and parole populations; \$55 million to comply with the Farrell v. Hickman lawsuit regarding conditions at youth facilities; and \$68.1 million to comply with the court order in Plata v. Schwarzenegger regarding inmate health care.

The Governor also plans to pursue the authority to fund additional inmate housing capacity through "contracts with other providers."

Environmental Protection

The Governor's Proposed Budget:

- Decreases funding for the Environmental Protection Agency by \$106.9 million below the 2005-06 Budget Act level. According to budget documents, most of the decrease is due to a reduction in the amount of bond funds available in 2006-07.
- Allocates \$7.2 million to implement strategies to reduce greenhouse gas emissions.
- Increases funding for environmental enforcement efforts with \$6.2 million in special funds. Efforts would include additional enforcement of diesel regulations, electronic waste recycling, and pesticide regulation.
- Funds the Air Resources Board's ongoing effort to establish hydrogen fueling stations with \$6.5 million from the Motor Vehicle Account. This allocation will provide funds for three fueling stations and five fuel cell buses.

Resources

The Governor's Proposed Budget:

- Reduces funding for the Resources Agency by \$1.6 billion below the level in the 2005-06 Budget Act. According to budget documents, most of the decrease is due to a reduction in the amount of bond funds available in 2006-07.
- Allocates \$35 million to improve and maintain existing flood control projects and \$41.3 million for six new flood control projects.
- Allocates \$84 million to continue lining the All-American and Coachella canals as part of the Quantification Settlement Agreement in which the state agreed to reduce its use of Colorado River water. These funds were originally allocated in 1998.
- Allocates \$244 million (\$26 million General Fund) for the state's share of the ongoing California Bay-Delta Program, an effort to coordinate water management and ecosystem protection in the San Francisco Bay-Delta region.
- Provides \$411 million (\$113 million General Fund) to the Department of Parks and Recreation, including \$11.8 million to make state parks accessible to people with disabilities, a decrease of \$57 million from the current year. The decrease reflects a reduction in available bond and capital project funding.

Energy

The Governor proposes to consolidate eight entities responsible for state energy policies into a single Department of Energy. The Legislature rejected a similar proposal in August 2005.

Preparing for Natural and Intentional Disasters

The Governor's Proposed Budget includes \$62.3 million to improve the state's preparedness for, mitigation of, and response to natural and intentional disasters. The Proposed Budget allocates \$49 million of this amount to the Health and Human Services Agency (HHSA) to enhance state and local preparedness for pandemic disease or other disasters, including \$21.8 million for planning for and responding to influenza or other disease outbreaks; \$14.3 million for emergency preparedness public information campaigns; and \$5.5 million for disease surveillance, including laboratory infrastructure improvements.

Judicial

The Governor's Proposed Budget allocates \$18.7 million to improve court security, \$12.3 million to maintain and operate information technology in the courts, and \$5.5 million to support 150 new judgeships phased in over three years. State funding for trial courts would increase by \$105.2 million, reflecting a growth factor adjustment.