



Updated January 14, 2005

GOVERNOR RELEASES PROPOSED 2005-06 BUDGET

Governor Schwarzenegger released his Proposed 2005-06 Budget on January 10. The following update provides a “quick and dirty” summary of key provisions of the Governor’s Budget. As additional details become known, 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. Budget documents are available on the Department of Finance’s website at www.dof.ca.gov.

The E-Budget

In a departure from past practice, the Governor released his 2005-06 Proposed Budget to the public solely in an electronic form. In previous years, the Department of Finance has released hard copies of the *Governor’s Budget Summary* and, until last year, sold copies of the full budget to the public. This year, the Department released hard copies of the brief *Budget Highlights* and released all other information over the Internet. The electronic summary provides most, but not all, of the information contained in previous summaries in a relatively “user-friendly” format. The detailed information provided in the full budget document is somewhat more difficult to navigate in the web-based version.

The Big Picture

The Governor’s proposal outlines “solutions” that close a budget gap of \$9.1 billion, sufficient to bridge the anticipated shortfall and provide a \$500 million reserve. Major components of the budget plan include:

- \$1.7 billion in borrowing under the authority provided by Proposition 57, approved by the voters in March 2004.
- \$464 million in borrowing to finance the state’s obligations in litigation over flood damage.
- \$2.3 billion in savings from failing to increase K–14 education funding to the level that would be required due to higher than anticipated revenues absent the suspension of the guarantee included in the 2004-05 budget agreement.
- \$469 million in savings from ending the state’s contributions to a defined benefit retirement plan offered by the State Teachers’ Retirement System.
- \$1.3 billion in savings from suspending Proposition 42, which allocates the sales tax paid on fuel sales to transportation programs.
- \$650 million of reductions in the CalWORKs Program, including grant reductions and elimination of the required cost-of-living adjustment.
- \$259 million in savings from eliminating the state and federal cost-of-living adjustments

for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program.

- \$417 million of savings from reductions to state employees' compensation package.
- \$136 million in savings from eliminating the Senior Citizens' Property Tax Assistance Program and limiting eligibility for the Senior Citizens Renters' Tax Assistance Program. These programs provide financial assistance to low-income seniors and persons with disabilities.

The Proposed Budget assumes that the state will issue pension obligation bonds authorized in the 2004-05 budget agreement, but assumes that the bonds will not be issued until 2005-06 due to legal challenges.

Overall, the Proposed Budget assumes that General Fund revenues will increase by 6.8 percent (\$5.3 billion) and expenditures will increase by 4.2 percent (\$3.4 billion). The Proposed Budget does not propose a tax increase, but does propose increases in student fees for the California State University (CSU) and University of California (UC) systems.

Governor Proposes "Autopilot" Reductions in the Event of Future Shortfalls

As announced in the Governor's State of the State address, the Governor proposes to amend the State Constitution to require across-the-board midyear spending reductions, among other changes, in the event of future midyear budget shortfalls. This proposal is part of a package that would also make changes to the Proposition 98 school funding guarantee, the Proposition 42 transportation funding allocation, and the state's ability to borrow monies from special funds to address a General Fund shortfall.

A draft description of the Governor's proposal states that it would:

- Allow the Governor to declare a fiscal emergency in the event General Fund revenues decline or spending increases by \$250 million or more from the levels assumed in the budget.
- Require across-the-board reductions, in a percentage determined by the Department of Finance, to bring the budget into balance if the Legislature does not respond to a fiscal emergency within 45 days (30 days if a budget has not been enacted). Expenditures for debt service and those required by federal law would be exempt from the reductions.
- Require the Department of Finance to advise the Governor on revenues and expenditures in May and November of each year and at the beginning of any fiscal year when a budget has not been enacted.
- Require a continuing appropriation if a budget has not been enacted by July 1. Under this provision, funds would be appropriated "subject to the same conditions that applied in the prior fiscal year" until a budget is enacted.
- Prohibit the state from borrowing from special funds to address a General Fund shortfall. Short-term "cash flow" borrowing would be allowed. The state has borrowed extensively from special funds during recent budget crises. Under current law, some special funds must be repaid with interest, while no repayment is required to other funds. The proposal would also require outstanding loan balances to be repaid within 15 years.

- Require the state to repay local governments outstanding amounts owed for the cost of providing mandated services over a period of 15 years.
- Make major changes to the Proposition 98 school funding guarantee. The proposal would eliminate “Test 3” of the spending guarantee, which reduces the school funding obligation in years of low or no revenue growth. The proposal would also eliminate the “maintenance factor” requirement that requires funding to be restored to the level required in the absence of Test 3 in future years. The state would be required to repay outstanding maintenance factor, settle-up, and mandate claims within 15 years. Finally, the proposal would specify that in years when the budget allocates more than the minimum required by the spending guarantee, amounts over the guarantee would not become part of the “base” for calculating funding required in future years.
- Repeal the current constitutional provision that allows suspension of the funding required by Proposition 42. This would lock in future years’ funding for transportation programs and make it more difficult to address future budget shortfalls.

“Blowing Up Boxes”

The Governor introduced a reorganization plan last week that would eliminate 88 state boards and commissions. (The California Performance Review proposed last summer to eliminate 118 boards and commissions.) In many cases, the functions would be transferred from boards, which operate independently, to newly created bureaus, which operate under the direct management of the overseeing department. The reorganization plan also calls for the creation of two new entities, the Office of Higher Education and Financial Aid and the Employment and Benefits Appeals Board.

The Administration also introduced a plan to reorganize the Youth and Correctional Agency (YACA) under a newly created Department of Corrections and Rehabilitation. Unlike the Secretary of YACA, the Secretary of the new Department will have authority over all departmental activities.

The Proposed 2005-06 Budget creates a new Department of Technology Services, which would consolidate the Stephen P. Teale Data Center, the Health and Human Services Agency Data Center, and some functions of the Telecommunications Division of the Department of General Services. The Administration states that this proposal will be submitted to the Legislature in the form of a reorganization plan.

Senior Citizens Property Tax Assistance Program

The Governor’s Proposed Budget eliminates the Senior Citizens Property Tax Assistance Program, scales back the Senior Citizens Renters Tax Assistance Program, and makes a modest expansion in the Senior Citizens Property Tax Deferral Program, for net savings of \$135.9 million. The primary result of these changes would be to eliminate the program that provided annual cash payments to seniors and individuals with disabilities, but to increase eligibility that allows individuals to defer payments until a property is sold or transferred. Changes to the Renters Tax Assistance Program would reduce the maximum income level for eligibility for the program to \$13,200. Currently the maximum income level is \$37,000.

Health

The Governor proposes to:

- Restructure the Medi-Cal Program for General Fund savings of \$12.3 million in 2005-06. Savings would be generated by: expanding the use of managed care for families and children in additional counties and requiring new participants who are aged, blind, or disabled to enroll in managed care plans; establishing an alternative hospital financing structure, for which details are not available at this time; establishing an annual limit of \$1,000 for dental services for adults, except for federally-required emergency services; establishing monthly premiums for certain families, children, seniors, and persons with disabilities; processing Medi-Cal applications for children through a centralized vendor, rather than county welfare offices; and securing a vendor to monitor county compliance with performance standards for Medi-Cal administration.
- Increase enrollment in Medi-Cal and Healthy Families for uninsured children who are currently eligible for these programs. The Governor's proposals include: adding \$14.5 million (\$5.9 million General Fund) for application assistance; adding \$5.6 million (\$2.1 million General Fund) to improve retention of children transitioning from Medi-Cal to Healthy Families; allowing counties to "buy-into" Healthy Families to provide health coverage for children who are not currently eligible for Medi-Cal or Healthy Families; and revising the joint Medi-Cal/Healthy Families application form.
- Provide \$6 million from the General Fund to support a new obesity prevention program.
- Provide \$4 million from the General Fund to implement a new discount prescription drug program, California Rx, for uninsured individuals with incomes under 300 percent of the federal poverty level. The Governor proposes to derive the discounts through negotiations with drug manufacturers. However, participation by drug manufacturers would be voluntary.
- Access federal funds for prenatal care in the Medi-Cal Program for General Fund savings of \$191 million and in the Access for Infants and Mothers Program for General Fund savings of \$51 million. The Governor proposes to use federal funds to provide prenatal services to certain low-income and pregnant immigrant women. The federal government would require the state to enroll the fetus, not the mother, in the federal program.
- Eliminate General Fund support for the Office of Binational Border Health, for savings of \$694,000. This would leave \$500,000 in federal funds for the office.

CalWORKs

The Governor proposes to:

- Eliminate the statutory requirement to provide an annual cost-of-living adjustment (COLA) and reduce cash assistance levels by 6.5 percent for savings of \$376.1 million in 2005-06 and annually thereafter. This proposal would reduce the maximum monthly grant for a family of three from \$723 to \$676 in high-cost counties and from \$689 to \$644 in low-cost counties.
- Reduce the amount of earnings that families may exclude from their income in determining eligibility for CalWORKs cash assistance, which would reduce the number

of low-income families who qualify for CalWORKs. Currently, families are allowed to deduct \$225 and 50 percent of their remaining earned income in determining CalWORKs eligibility. The Governor's proposal would reduce these levels to \$200 and 40 percent, which would cause some working CalWORKs families to lose cash assistance and prevent others from qualifying for CalWORKs. Under current law, a family of three is able to earn up to \$1,651 per month (\$9.53 per hour) and remain eligible for cash assistance. Under the Governor's proposal, a family of three would become ineligible for CalWORKs cash assistance if its income exceeds \$1,310 per month (\$7.56 per hour).

- Discontinue a \$50 million augmentation for employment services that was included in the 2004-05 Budget.
- Implement a "pay-for-performance" system that would base a portion of counties' administration and employment services funding on unspecified outcomes achieved by CalWORKs participants for savings of \$22.2 million in 2005-06.
- Make unspecified additional changes to CalWORKs work participation requirements for savings of \$12 million in 2005-06. The 2004-05 budget agreement included changes to work participation requirements, including requiring CalWORKs participants to work at least 20 hours per week in certain "core" work activities.
- Shift \$316.5 million in General Fund expenditures into the state's Temporary Assistance for Needy Families (TANF) maintenance of effort requirement. This would allow the state to reduce CalWORKs Program expenditures and thereby achieve General Fund savings. The shift would include funding for the Department of Mental Health (\$60 million), Foster Care (\$55.1 million), and county juvenile probation (\$201.4 million).

Other Social Services Programs

The Governor proposes to:

- Suspend the state COLA of 4.6 percent and withhold the federal COLA of 2.3 percent for SSI/SSP grants, both of which are scheduled for January 2006. This suspension would result in General Fund savings of \$258.9 million in 2005-06 and \$517.8 million annually thereafter. Under current law, the monthly grant would increase to \$849 for an individual and \$1,503 for couples in January 2006. The Governor's proposal would maintain monthly grant levels at \$812 for an individual and \$1,437 for couples.
- Reduce the state's share of costs for provider wages and benefits in the In-Home Supportive Services (IHSS) Program. The state would reduce its share of costs to the state minimum wage for General Fund savings of \$152.1 million in 2005-06 and \$216.8 million annually thereafter. Currently, the state pays a share of cost for provider wages and benefits up to \$10.10 per hour and up to the Maximum Allowable Contract Rates for contract providers.
- Eliminate the Naturalization Services Program, administered by the Department of Community Services and Development, for General Fund savings of \$1.5 million.

Child Care

The Governor proposes to:

- Change the measure used to determine income eligibility for subsidized child care,

potentially reducing the number of low-income families who qualify for child care. Currently, families are eligible for subsidized child care if their incomes are at or below 75 percent of the state median income (SMI – \$35,100 for a family of three). The Governor proposes to use some variant of the federal poverty level (FPL) in determining income eligibility for child care programs starting in 2005-06. The Administration states that, “no family currently receiving subsidized child care will lose its eligibility under this proposal.” However, this change could reduce the number of low-income families who would receive affordable child care through the state’s subsidized child care programs over the long term.

- Reduce the amount of time that families may receive CalWORKs child care services and require those families to seek subsidized child care through the state’s Alternative Payment (AP) Program, which provides vouchers that allow families to select child care from any provider. Families in CalWORKs Stage 3 child care as of June 30, 2005 would be transferred to the AP Program. Families who no longer receive cash assistance, but who are in CalWORKs Stages 1 or 2 child care, could remain in CalWORKs child care for up to four years before they would have to move into the AP Program. Families receiving cash assistance would be limited to three years of CalWORKs child care after they leave aid, by which time they would need obtain a slot in the AP Program.
- Require counties to establish centralized child care eligibility lists. Families who are not required to pay fees for subsidized child care would receive child care services on a first-come, first-served basis. Families required to pay fees would receive services according to their income level, with the lowest-income families served first. It is unclear how this change would affect eligible families’ access to subsidized child care.
- Reduce reimbursement levels for license-exempt child care providers. Reimbursement levels would be reduced by 39 percent for providers who do not obtain specified training and by 33 percent for providers who do obtain specified training, including completing health and safety training and seeking early childhood education.
- Implement regulations establishing an “alternative rate-setting mechanism” for child care providers who serve only families receiving state child care subsidies. The regulations have been suspended for the past two years, according to the Administration.

K-12 Education

The Governor’s Proposed Budget:

- Reflects a total 2005-06 Proposition 98 funding level of \$50.0 billion for K-14 education programs, a 6.1 percent increase over the 2004-05 level of \$47.1 billion. The General Fund’s share of 2005-06 Proposition 98 funding is budgeted at \$36.5 billion. The Proposed Budget translates into K - 12 Proposition 98 per pupil spending of \$7,374 in 2005-06, up from \$7,012 in 2004-05, an increase of 5.2 percent.
- Includes savings of \$1.1 billion in 2004-05 and \$1.2 billion in 2005-06, reflecting a proposal to hold 2004-05 Proposition 98 funding to the level appropriated in the 2004-05 Budget Act and to use this lower level of funding as the base for determining the 2005-06 guarantee.
- Reflects an increase in General Fund support of \$2.4 billion. Of this increase, the Proposed Budget allocates \$2.1 billion for enrollment growth, cost-of-living, and other

adjustments. The Proposed Budget allocates \$329.3 million to partially repay the outstanding deficit factor generated by past reductions in revenue limits. Revenue limits provide general purpose funding for schools.

- Funds statutory average daily attendance (ADA) growth (\$394.7 million), including \$245.9 million for revenue limit apportionments, \$5.8 million for K-3 class size reduction, \$31.4 million for Special Education, and \$81.9 million for other categorical programs.
- Funds a 3.9 percent cost-of-living increase (\$1.6 billion), including \$1.2 billion for revenue limits, \$14 million for K-3 class size reduction, \$156.6 million for Special Education, and \$206.4 million for various categorical programs.
- Reflects a decrease of \$567.4 million in appropriations for the California State Teachers Retirement System (STRS), a decrease of 49.4 percent as compared to 2004-05. The state would shift its contribution to the Defined Benefit Program to school districts or covered employees, for savings of \$469 million. Covered employees would be allowed to increase their take-home pay by discontinuing participation in a recently enacted annuity program.
- Proposes reducing the number of state-funded categorical programs through expanding the block grant for professional development programs and charter schools. Specifically, four block programs would be added to the Professional Development and Teacher Credentialing Block Grant for total funding of \$361.7 million. In addition, the Proposed Budget would eliminate the linking of the Charter School Block Grant to specific categorical programs and instead establish a base funding level adjusted annually for charter school enrollment growth and COLA. The Proposed Budget increases this block grant by \$10 million, to a total of \$62 million.
- Provides increased funding of \$172.7 million from the General Fund for special education programs, including funding for enrollment growth and a 3.93 percent COLA.
- Proposes establishment of the California Obesity Initiative, which would improve access to nutritious foods and physical fitness.
- Proposes to introduce legislation to allow entities other than school districts to authorize and oversee charter schools. Entities allowed to charter schools would include designated colleges and universities, subject to authorization by the State Board of Education (SBE).
- Proposes to sanction schools that fail to make progress under the state's accountability system. Such schools would be converted into charter schools or assigned School Recovery Teams (SRTs) to manage the schools and provide targeted assistance. SRTs would take over the responsibility of existing school administrators such as principals, assistant or vice principals, and academic deans.

Community Colleges

The Governor's Proposed Budget includes an increase of 7.4 percent in Proposition 98 funding as compared to the 2004-05 funding level, including increases for growth in both enrollment and the COLA. However, community colleges also would be affected by the changes proposed in state employee retirement programs, and the Proposed Budget would permit an increase in the percentage of classes taught by part-time faculty.

The budget proposes a total funding level of \$7.9 billion (\$5.4 billion in Proposition 98 funding), which supports:

- A 3 percent increase for enrollment growth (\$136.7 million).
- A 3.93 percent increase (\$195.5 million) for COLA increases for general apportionment and some categorical funds.
- No increase in student fees.
- A \$31.4 million set-aside for community college general apportionment funding, contingent on the successful development of district-specific accountability standards by the working group established by AB 1417 (Pacheco, Chapter 581 of 2004).
- A reduction of \$137,000 in funding for the Chancellor's Office.

In addition, the Proposed Budget includes a new initiative in economic development and career technical education. The initiative would:

- Provide \$20 million to expand the Tech Prep 2+2 model, which integrates the curriculum of high schools and community colleges to offer students four years of rigorous vocationally focused education.
- Develop consistent credentialing standards for instructors in career technical and vocational education in both the K-12 and community college systems.
- Revise the current law that prevents community colleges from having more than 25 percent of credit instruction taught by part-time instructors. The Governor's proposal excludes career technical education courses from this rule.

Higher Education

The 2004-05 Budget Agreement reflected an agreement between the Governor, the University of California (UC), and the California State University (CSU). In conformity with this "Higher Education Compact," the 2005-06 Proposed Budget includes:

- Base increases of 3 percent for both higher education segments at a cost of \$76.1 million for the UC and \$71.7 million for the CSU.
- Increases for enrollment growth of 2.5 percent for both segments at a cost of \$37.9 million for the UC and \$50.8 million for the CSU.
- Undergraduate fee increases of 8 percent and graduate student fee increases of 10 percent at both the UC and the CSU.

The Proposed Budget also includes an additional \$44.4 million for retirement contributions at the CSU and \$14 million for the new UC Merced campus, which is scheduled to open in the fall of 2005.

However, the Governor's Proposed Budget also proposes reductions in higher education including:

- Unallocated cuts of \$71.3 million for the UC and \$7 million for the CSU, which the Budget Summary says could be achieved by either reducing outreach programs or enrollment.
- Elimination of \$3.8 million in funding for a multi-campus UC Institute for Labor and Employment.

Overall, the Governor's Budget proposes total funding of \$4.8 billion (\$2.8 billion General Fund) for the UC and \$3.8 billion (\$2.6 billion General Fund) for the CSU. This represents a 5.5 percent increase in total funds (3.6 percent General Fund) for the UC and a 5.2 percent increase in total funds (4.4 percent General Fund) for the CSU as compared to the 2004-05 funding level.

Finally, the Proposed Budget proposes an increase of \$44.8 million in funding for the Cal Grant program. This includes General Fund savings of \$7.5 million, achieved by reducing the maximum Cal Grant award for students attending private colleges and universities from \$8,322 to \$7,449. The Proposed Budget shifts \$35 million from the Student Loan Operating Fund (SLOF) to the General Fund to support financial aid programs, but also provides \$146.5 million in General Fund monies to backfill SLOF funds used to support financial aid programs in 2004-05.

Housing

The Governor's 2005-06 Proposed Budget:

- Reduces the Emergency Housing and Assistance Program by \$0.9 million, providing \$3.1 million for 2005-06. The 2004-05 Budget reduced funding for homeless assistance by \$1.3 million.
- States intent to reform "onerous regulatory and planning laws" to help encourage home construction and thereby reduce home prices. The Proposed Budget also implies that the reversal of the property tax shift required by Proposition 1A will help encourage local residential construction.

Local Government

The Governor proposes to:

- Eliminate the Juvenile Justice Program. The Proposed Budget would reduce funding for the program by \$75 million, shifting the remaining \$25 million to the Board of Corrections for distribution to local governments.
- Eliminate the Small and Rural Sheriffs Program, for savings of \$18.5 million.
- Maintain funding for the Citizens' Option for Public Safety (COPS) program at \$100 million for 2005-06.
- Reduce grants to counties for property tax administration by \$5.7 million.

Transportation

The Governor proposes to:

- Suspend the Proposition 42 transfer from the General Fund in 2005-06 to transportation programs, for General Fund savings of \$1.3 billion. This suspension would be treated as a loan to the General Fund that would be repaid within 15 years. (Proposition 42, approved by voters in March 2002, required an annual transfer from the General Fund to the Traffic Congestion Relief Program of sales taxes paid on gasoline sales to fund state and local transportation projects. The Proposition 42 transfer was suspended

partially in 2003-04 with repayment by June 2009 and fully suspended in 2004-05 with repayment by June 2008.

- Suspend the transfer of \$216 million of sales tax “spillover” revenues from the General Fund to the Public Transportation Account in 2005-06. The Proposed Budget does not provide for repayment of these revenues.
- Introduce legislation to make repayment of \$1.4 billion in transportation loans, which are due June 30, 2005, explicitly contingent upon receipt of tribal gaming revenues. The 2004-05 Budget assumed that the loans would be repaid through \$1.2 billion in bond proceeds from certain dedicated Indian gaming revenues as well as other sources; the bond sale, however, is on hold due to litigation.
- Implement a “GoCalifornia” performance-based initiative for state transportation programs. The Administration states that the Governor will introduce a legislative package related to this initiative.

State Employees

The 2005-06 Budget proposes to:

- Give the Governor authority to furlough non-public safety and health employees for up to five days during a fiscal crisis, for annual savings of \$109 million (\$60 million General Fund).
- Eliminate leave time from overtime calculations, for estimated annual savings of \$36.4 million (\$20 million General Fund).
- Replace current formulas for state contributions to employee health care, which are based on average premiums for certain employees, with a fixed dollar contribution to each employee based on the number of family members to be covered. The Proposed Budget would also eliminate the state’s contributions toward health care premiums for new employees until they have passed probation. The Proposed Budget estimates General Fund savings of \$30 million from implementing these two proposals.
- Eliminate two of the current 14 paid state holidays, for an estimated savings of \$3.1 million (\$1.7 million General Fund) in 2005-06 and 2006-07. Savings would increase to \$17.6 million (\$9.7 million General Fund) in 2007-08, when additional collective bargaining contracts for certain employees, including the correctional peace officers, expire. The Legislature rejected similar legislation last year.
- Prohibit state employees from accruing additional leave time once they have reached a cap of 640 hours, for unknown savings. Employees would no longer be able to “cash out” more than 640 hours of accrued leave when leaving state service. The Administration does not specify how employees who have currently accrued more than this amount would be affected.
- Introduce a constitutional amendment to prohibit the state from offering defined benefit retirement programs to future state employees.
- Negotiate with employee unions to reduce the state’s annual contribution to the California Public Employees’ Retirement System (CalPERS) to half of the normal retirement cost and any unfunded liability in the pension fund, for General Fund savings of \$206 million in 2005-06. (Currently, state employees fund approximately one-fourth of the state’s pension contribution amounts; this proposal would increase the employee contribution to half). The Proposed Budget argues that this proposal would

ensure that the state and employees would “share the future benefits and risks.”

- Allow state employees to “opt out” of CalPERS in exchange for a one-time stipend of one-half the normal retirement cost, for savings of \$90 million in 2005-06.

State Operations

The Governor proposes:

- A \$150 million unallocated General Fund reduction to departmental state operations budgets.
- A procurement initiative to leverage the state’s buying power, for an estimated \$95 million in savings in 2005-06. Recent press reports note that savings related to 2004-05 procurement reform efforts have been lower than anticipated.
- To “streamline the process by which [business] firms are invited to do business with the State.”

Youth and Adult Corrections

The Governor’s Proposed Budget:

- Allocates \$6.5 billion to the Department of Corrections (CDC), an increase of 4.0 percent over the estimated 2004-05 Budget.
- Estimates that the inmate population in 2005-06 will decrease by 0.2 percent and the parole population will decrease by 6.7 percent. The Administration attributes the inmate decrease to successful parole reforms that were part of the 2003 and 2004 Budget Acts, although the Budget Summary states that the population decreases are lower than originally projected.
- Includes \$4 million in 2004-05 and \$3.6 million in 2005-06 for the CDC to comply with Proposition 69. These funds will allow DNA samples to be taken from 150,000 inmates and parolees who are not currently in the DNA Data Bank. The Proposed Budget also includes \$11.2 million from the DNA Identification Fund for the Department of Justice to address workload requirements in 2005-06.
- Reflects a \$95.3 million reduction in funding for Inmate and Parolee Programs under the CDC. The Administration assumes that this reduction will eventually be replaced with savings generated by a revised labor agreement with the California Correctional Peace Officers Association (CCPOA). The current CCPOA contract is due to expire at the end of 2005-06.
- Increases the CDC’s budget for inmate medical services by \$30.1 million to meet the conditions of the Plata class-action lawsuit.
- Provides \$15.9 million over the current and budget years to comply with the Valdivia federal class-action lawsuit, which stated that California’s parole revocation process violated the due process rights guaranteed under the US Constitution.
- Augments the budget of the CDC by \$35 million for unfunded personnel costs to avoid the “CDC needing to operate at unacceptable vacancy levels” and an additional \$9.8 million to reflect actual sick-leave usage, training hours, and other employee costs mandated by labor contracts.
- Proposes \$400.2 million (\$350 million General Fund) for the California Youth Authority

(CYA), a 1.7 percent reduction in General Fund support compared to the estimated 2004-05 funding level. The Proposed Budget attributes the decrease to decline in the youthful offender population.

- States that the Governor's May Revision will include details of the final Remedial Plan to address conditions and treatment of wards at the CYA.

Judicial Programs

The Governor's Proposed Budget:

- Provides \$1.9 billion in General Fund support for the Judicial Branch, an increase of \$164.5 million. For the first time, budget documents combine the budgets of the Judiciary and State Trial Court Funding.
- Includes a growth factor for State Trial Court Funding at a cost of \$97.4 million.

Resources

The Governor's Proposed Budget includes:

- \$464 million in borrowing to finance the state's obligations in the settlement in *Paterno v. State of California*, which found the state liable for certain damages caused by the 1986 floods.
- \$9.7 million General Fund to support flood protection activities in the Sacramento and San Joaquin Valleys.
- A transfer of \$120.6 million in revenues derived from oil extraction on tidelands to the General Fund.
- An increase in state park entry fees to finance improvements in the water and sewer systems in state parks. The increase in fees is expected to raise \$6 million in additional revenue.
- \$22.7 million to implement recommendations of the Blue Ribbon Fire Commission to replace fire engines and helicopters, update telecommunications equipment, and provide year-round fire fighting staffing in Southern California.
- \$59.1 million for lining the All-American and Coachella canals to fulfill an agreement to reduce California's use of Colorado River water.
- \$11.8 million to support the fourth year of an effort to make state parks facilities more accessible to people with disabilities.

Environmental Protection

The Governor's Proposed Budget increases funding for the Air Resources Board by \$69.6 million from special funds. Of this amount, \$55.5 million would address full-year funding and the 2004 expansion of the Carl Moyer Program to reduce air pollutants.

The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the California Budget Project is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's web site at www.cbp.org.
