

June 27, 2006

The 2006-07 Budget Package

LEGISLATIVE ANALYST'S OFFICE





Major Features

- ☒ Provides \$8 billion in new funds for Proposition 98, roughly consistent with the May Revision level.
 - K-12 per-pupil funding rises to \$8,244 in 2006-07—an over 11 percent increase from the \$7,402 provided in the *2005-06 Budget Act*.
 - Significant funding increases included for school district apportionments, local block grants, revenue limit equalization, Economic Impact Aid, and expansions in a variety of other areas.
- ☒ Includes large funding increases for each of the higher education segments. Reduces community college fees from \$26 to \$20 per unit in spring 2007 and backfills revenue loss with \$40 million. Maintains current fee levels at the University of California (UC) and the California State University (CSU). Provides additional funds in lieu of fee increases at each segment. Provides outreach funding at UC and CSU.
- ☒ Prepays about \$2.8 billion in budgetary debt, including payments related to transportation, mandates, flood control, and special fund loans.
- ☒ Provides full \$1.4 billion Proposition 42 transfer to transportation in 2006-07. Prepays \$1.4 billion of past Proposition 42-related loans.
- ☒ Includes one-time funding for hospitals to increase patient capacity to meet health care emergencies such as an avian flu pandemic.
- ☒ Passes through the federal January 2007 Supplementary Security Income cost-of-living adjustment (COLA) which had previously been delayed until April 2007. Increases funding for (1) county block grants for California Work Opportunity and Responsibility to Kids (CalWORKs), (2) child welfare services, and (3) foster care.



Major Features

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- ☒ Provides \$250 million for state park-related deferred maintenance with funds projected to be spent over a three-year period. Provides \$100 million to pay local governments the state's share of costs of flood control projects outside of the Central Valley.
 - ☒ Provides significant funding increases in corrections for inmate population growth and health care. Increases public safety funding for local government.



General Fund Condition Budget Package

(In Millions)

	2005-06	2006-07
Prior-year fund balance	\$9,512	\$9,530
Revenues and transfers	92,749	94,354
Total resources available	\$102,260	\$103,884
Expenditures	\$92,730	\$101,325
Ending fund balance	\$9,530	\$2,559
Encumbrances	\$521	\$521
Reserve	\$9,009	\$2,038
Budget Stabilization Account	—	\$472
Reserve for economic uncertainties	\$9,009	\$1,566



2005-06. The budget assumes a prior-year balance of \$9.5 billion, revenues of \$92.7 billion, and expenditures of \$92.7 billion. After accounting for \$521 million in encumbrances, the year-end reserve is \$9 billion. The large reserve reflects both past budgetary borrowing and stronger-than-expected revenues in prior and current years.



2006-07. The budget assumes 2006-07 revenues of \$94.4 billion and expenditures of \$101.3 billion. The resulting operating shortfall of \$7 billion—which partly reflects the prepayment of \$2.8 billion in budgetary debt obligations—leaves the General Fund with a year-end reserve of \$2 billion.



Based on current estimates of the policies reflected in the package, the state would continue to face multibillion dollar operating shortfalls in 2007-08 and 2008-09.



Major Actions

Proposition 98—K-12 and Community Colleges

Total Proposition 98 Funding Increases in 2006-07	
<i>(In Billions)</i>	
Source	Amount
Ongoing	\$5.2
One-time ^a	2.8
Proposed settlement ^b	2.9
^a Includes settle-up funds for various years and reversion account funds.	
^b Paid over six years beginning in 2007-08.	



Proposition 98 Ongoing Funding Increase of \$5.2 Billion.

From the 2005-06 Budget Act level, Proposition 98 funding increases \$5.2 billion (10.3 percent). Of this amount, K-12 funding increases \$4.5 billion (10 percent) and community college funding increases \$677 million (13 percent). Included in the total is an appropriation of \$426 million above the minimum guarantee for Proposition 49 after school programs.



Proposition 98 One-Time Increase of \$2.8 Billion. Additional General Fund revenues in the current year increased the 2005-06 minimum guarantee. The budget provides \$2.3 billion in one-time funds to meet this obligation. In addition, the budget provides \$532 million in prior-year settle-up and reversion account funds.



Lawsuit Settlement Proposed, but Pending (\$2.9 Billion).

The administration has proposed a settlement in the *CTA v. Schwarzenegger* lawsuit concerning the level of the Proposition 98 suspension in 2004-05. Payment of the settlement would occur in 2007-08 through 2013-14. The Legislature has not yet received a proposal, but the 2006-07 Proposition 98 guarantee level assumes that these payments are made.



Major Actions Proposition 98—Ongoing K-12 Funds

Major K-12 Proposition 98 Changes	
	Amount (In Millions)
Cost-of-living adjustments, growth, and other adjustments	\$2,383
Proposition 49 after school programs	426
Revenue limit equalization	350
Economic Impact Aid	350
Deficit-factor reduction (including basic aid)	309
High school counselors	200
Arts and music block grant	105
Child care eligibility	67
Preschool expansion	50
Increased support for high school exit exam	49
Other	188
Total Changes	\$4,476



Per-Pupil Spending Increases \$842 (11.4 Percent).

Assumes spending of \$49.1 billion for K-12 Proposition 98 funding in 2006-07, roughly the same total spending level as proposed in the May Revision. On a per pupil basis, K-12 Proposition 98 funding will be \$8,244 in 2006-07, an \$842 increase (11.4 percent) over the *2005-06 Budget Act*.



COLAs, Growth, and Other Adjustments (\$2.4 Billion).

Provides a 5.92 percent COLA to district revenue limits (\$1.9 billion) and other programs (\$690 million). Offset by \$221 million in savings related to attendance and retirement costs.



Other Changes. Provides \$350 million to help equalize per-pupil revenue limits (general purpose funds) across districts and \$309 million to fully restore foregone COLAs that schools experienced in prior years. Also includes \$350 million to increase state funding for educating English learner and economically disadvantaged students and adopts trailer bill language to revise the current distribution formula.



Major Actions Proposition 98—One-Time K-12 Funds

K-12 Spending From One-Time Funds	
<i>(In Millions)</i>	
	Amount
Payment of K-12 mandate claims from prior years	\$927
Discretionary block grant	534
Arts, music, and P.E. equipment block grant	500
School facilities emergency repairs (<i>Williams</i> settlement)	137
Instructional materials	100
Preschool facilities	50
Teacher recruitment	50
Career technical education equipment	40
Mandates—2006-07 costs	30
Other	165
Total	\$2,533

- ☒ **Payment for Mandate Claims From Prior Years.** The budget provides \$927 million to reimburse districts for mandate costs claimed in prior years. Based on current estimates, this amount will pay off virtually all prior mandate claims except a pending matter related to testing. It also provides \$30 million to pay a portion of 2006-07 mandate costs.
- ☒ **Discretionary Block Grant.** Includes \$534 million in one-time per-pupil grants. School site councils can spend 75 percent of the funds and districts the remaining 25 percent. School-site uses include instructional materials, education technology, professional development, and maintenance. Districts may spend funds for the same purposes as schools plus transportation and fiscal solvency.
- ☒ **Arts, Music, and P.E. Equipment Block Grant.** Provides \$500 million for school districts to purchase equipment and materials in these areas.



Major Actions Higher Education

- ☒ **Total Higher Education Funding.** Total general purpose funding for higher education (General Fund, fees, and property tax revenues) would increase by about 6.7 percent from the 2005-06 level. (General Fund support grows by 9.4 percent, offsetting lower increases in the other two sources.)
- ☒ **Student Fees.** Assumes no student fee increases at UC and CSU in 2006-07. Student fees at the California Community Colleges (CCC) would *decline* from \$26 per unit to \$20 per unit in spring 2007. The budget provides \$40 million in Proposition 98 General Fund support to backfill the foregone CCC fee revenue.
- ☒ **Base Increases.** Provides General Fund base increases of \$156 million (5.2 percent) for UC, \$130 million (5.8 percent) for CSU, and \$312 million (5.9 percent) for CCC. The UC and CSU base increases include funding associated with a “fee buyout,” as proposed by the Governor.
- ☒ **Enrollment Growth.** Expands higher education enrollment by about 37,000 full-time equivalent students. Provides \$97.5 million to CCC for 2 percent growth and \$112 million to UC and CSU (combined) for 2.5 percent growth. The Legislature adopted an alternative to the Governor’s proposed methodology for funding the marginal cost of additional enrollment at UC and CSU.
- ☒ **Nursing.** Provides \$10.5 million in new funding for various higher education nursing initiatives, including funding for expanded nursing enrollment, faculty recruitment, and student financial aid.
- ☒ **Student Academic Preparation (Outreach).** Rejects Governor’s proposal to eliminate support for academic preparation programs at UC and CSU, providing \$26.3 million for this purpose.
- ☒ **CCC Equalization.** Provides \$159 million to fully fund equalization, contingent on enactment of legislation to revise the formula for allocating future funding to college districts.



Major Actions Health



Enrollment Activities for Children's Programs. Provides about \$50 million in General Fund support for new activities to enroll additional children who are eligible for, but not now enrolled, in the Healthy Families Program and Medi-Cal, and to retain in coverage more children who are enrolled.



Medi-Cal Provider Rates. Provides \$75 million General Fund to reflect the reversal of a 5 percent reduction in rates for physicians and certain other Medi-Cal providers that was enacted in 2003-04, but only partially implemented due to a now-resolved legal challenge. Among other provider rate increases, provides \$48 million in state funds for rate increases for Medi-Cal managed care plans.



Reform of Licensing and Certification Program. Significantly expands staffing for the inspection of nursing homes, hospitals, and other health care facilities. Establishes a special fund to pay for these activities primarily from fees, but provides some General Fund support to moderate the initial impact of fee increases.



Public Health Disaster Preparedness. Provides more than \$190 million in state funding (plus federal funds) to make additional hospital beds available in case of an avian flu pandemic emergency, strengthen the state's public health laboratory systems, and conduct local planning to respond to a major public health disaster.



Expansion of Public Health Programs. Continues state assistance to local special districts in controlling the West Nile Virus. Augments various existing state programs, including AIDS prevention and education, breast cancer screening, and trauma care centers. Also, genetic testing of newborns is expanded to include screening for cystic fibrosis and biotinidase deficiency.



Major Actions Health

(Continued)



Services for the Developmentally Disabled. Approves \$47 million General Fund to provide a 3 percent rate increase for providers of specified regional center services. Also provides about an additional \$30 million General Fund for providers of services for the developmentally disabled. Wages would be increased for direct care staff in certain day programs and work activity programs, and funding would be increased for supported employment programs.



Mental Health Services. Approves about \$21 million General Fund and 453 positions to meet the requirements of a consent decree that resulted from a U.S. Department of Justice civil rights investigation of state mental hospitals. Also, approves about \$27 million General Fund and an additional 271 positions to address a federal court order in the so-called *Coleman* case which requires additional intermediate and acute care inpatient mental health services for state prison inmates.



Offender Drug Treatment Programs. Continues funding for the Substance Abuse and Crime Prevention Act (also known as Proposition 36) at the current level of \$120 million. Modifies current law to change various provisions of Proposition 36, including establishing new requirements for drug testing and permitting the brief incarceration in jail of some offenders for violation of probation. In addition, provides \$25 million General Fund for performance- and outcome-based substance abuse treatment services for Proposition 36 offenders.



Major Actions Social Services

- ☒ ***Supplemental Security Income/State Supplementary Program (SSI/SSP) Grants.*** Passes through the federal January 2007 SSI COLA (which had been previously delayed until April 2007), resulting in a net, one-time cost of \$42 million in 2006-07.
- ☒ ***Cash Assistance Program for Immigrants—Benefits for Legal Noncitizens.*** Rejects the proposal to extend, from the current 10 years to 15 years, the period for which a sponsor's income is "deemed" (counted for purposes of financial eligibility) to a legal noncitizen. This results in General Fund costs of approximately \$12 million in 2006-07, rising to over \$40 million in 2007-08.
- ☒ ***Child Welfare Services (CWS)/Foster Care Fund Shift.*** Replaces \$100 million in federal Temporary Assistance for Needy Families (TANF) block grant funds for CWS and foster care with General Fund monies.
- ☒ ***CalWORKs County Block Grants.*** Increases county block grants for eligibility determination, employment services, and child care by \$140 million in federal TANF funds.
- ☒ ***TANF Reauthorization Package.*** Adopts multiple strategies for increasing work participation rates. Changes include \$90 million in federal TANF funds to counties for various projects designed to engage nonworking recipients in work-related activities, \$9 million for community college work-study programs, \$5 million for increases in homeless assistance payments, and a budget neutral fund shift in order to create a non-TANF program for families exempt from CalWORKs participation requirements under current state law.



Major Actions Social Services

(*Continued*)



CWS and Foster Care Package. The Conference Committee version adds a total of \$75 million General Fund for improvements in CWS and foster care compared to the May Revision. Legislative initiatives include (1) flexible funding for reducing social worker caseloads or implementing early interventions to improve outcomes for families and children, (2) increased support for kinship care, and (3) funding for transitional housing and education/training vouchers for emancipating foster youth. (The Conference Committee version provides \$25 million more General Fund than the Governor's post-May Revision proposal, submitted in a letter to the legislative leadership.)



Los Angeles County Health Care Workforce Development. Provides \$5.7 million General Fund to continue health care workforce development program in Los Angeles County pursuant to a federal Medicaid 1115 waiver. (Formerly, this program was supported by federal Workforce Investment Act funds.)



Major Actions Judiciary and Criminal Justice

- ☒ **Court Operations.** Provides for growth in trial court operations funding based on the annual change in the state appropriations limit (\$113 million), restoration of one-time reductions (\$58 million), and increased court security (\$19 million). Includes funding to provide court interpreter services in certain civil cases (\$10 million), as well as partial-year funding for 50 new superior court judge positions (\$5.5 million).
- ☒ **Adult Corrections.** Provides increased funding to comply with court settlements relating to the delivery of inmate health care (\$400 million). Includes funding to address higher caseloads (\$303 million), implement a variety of new and expanded programs aimed at reducing recidivism among adult offenders (\$53 million), expand the Basic Correctional Officer Academy (\$55 million), and expand the use of Global Positioning System devices to track high-risk parolees (\$5 million).
- ☒ **Juvenile Justice.** Provides funding to further implement remedial plans resulting from the *Farrell v. Hickman* lawsuit (\$60 million). This consists of funds to increase the number of staff in youth correctional facilities and enhance the delivery of medical and mental health care services. Establishes the Community Reentry Challenge Grant Program aimed at reducing recidivism among juvenile parolees through enhanced community-based services (\$10 million).
- ☒ **Local Public Safety.** Funds county probation grants (\$201 million), Citizens' Options for Public Safety (\$119 million) and Juvenile Justice Crime Prevention Act grants (\$119 million), the Mentally Ill Offender Crime Reduction Grant Program (\$45 million), and Vertical Prosecution block grants (\$16 million). In addition, provides (1) \$35 million to reimburse cities for booking fees paid to counties in 2005-06 and revamps county authority to collect booking fees starting in 2007-08 and (2) increased funding (\$20 million) for local War on Methamphetamine Program grants for a total of \$29.5 million.



Major Actions Transportation

- ☒ ***Full Transfer of Proposition 42.*** Transfers \$1.4 billion in General Fund revenues to transportation purposes. The transfer will provide \$678 million for Traffic Congestion Relief Program (TCRP) projects, \$594 million for State Transportation Improvement Program (STIP) projects, and \$148 million for the Public Transportation Account (PTA).
- ☒ ***Substantial “Spillover” Revenues, New Allocation.*** Projects spillover revenues to total \$668 million, to be allocated differently from current law. The allocation will include \$200 million to repay a prior Proposition 42 suspension, \$125 million for Bay Area toll bridge seismic retrofit, \$20 million for farm worker transportation grants, and \$13 million for high-speed rail development. Remaining revenues (about \$310 million) will be allocated as follows: 80 percent to State Transit Assistance and 20 percent to the PTA for other mass transportation purposes.
- ☒ ***Early Partial Repayment of Proposition 42 Debt.*** Proposes to repay \$1,415 million of past Proposition 42 suspension, including \$920 million that would otherwise be repaid in 2007-08 and \$495 million that is due in 2008-09. Proposed repayment includes \$1,215 million from the General Fund and \$200 million in spillover revenues (as mentioned above). The repayment will be allocated as follows: \$315 million for TCRP projects, \$424 million plus interest each for STIP and local streets and roads, and about \$210 million for PTA.
- ☒ ***Caltrans Capital Outlay Support.*** Provides \$1.6 billion for design and engineering of capital projects. This amount includes \$20 million for capital outlay support to be available upon passage of the transportation bond in November.
- ☒ ***Funding to Enhance California Highway Patrol (CHP) Service.*** Provides \$56 million to begin upgrading CHP's radio communications system over five years. Also provides \$41 million for additional patrol officers and 911 call center staff.



Major Actions Resources, Energy, and Environmental Protection Programs

- ☒ ***CALFED Bay-Delta Program.*** Provides about \$250 million in state funds for the CALFED Bay-Delta Program (not including reappropriations totaling about \$95 million). Reflects a reorganization of the program, including a transfer of all funding and position authority of the California Bay-Delta Authority to various other state agencies, including the Secretary for Resources.
- ☒ ***State Parks Deferred Maintenance.*** Provides \$250 million in one-time funding from the General Fund for deferred maintenance at state parks, with funds projected to be spent over a three-year period.
- ☒ ***State Park Operations.*** Provides an increase above Governor's budget of \$15 million from the General Fund for operations and maintenance at existing state parks.
- ☒ ***Climate Change.*** Provides \$36.9 million, mostly in one-time funding from special funds, for actions to reduce greenhouse gas emissions, including funding for various incentive programs for clean alternative fuels development, and zero emission and partially zero emission vehicle programs, including the Hydrogen Highway. This represents an increase of \$21.7 million (142 percent) over the Governor's budget proposals for his Climate Change Initiative and the Hydrogen Highway.
- ☒ ***Flood Management.*** Approves \$100 million (one time) from the General Fund to pay local governments for the state share of costs of federally authorized flood control projects outside of the Central Valley. Approves 28 new positions to implement Chapter 34, Statutes of 2006 (AB 142, Nuñez), which appropriated \$500 million for flood control system repairs and improvements, including the repair of critical erosion sites; the positions will be paid for from this appropriation.



Major Actions Resources, Energy, and Environmental Protection Programs (*Continued*)

- ☒ ***Public Utilities Commission.*** Approves \$12.2 million (special funds) for implementation of the Telecommunications Consumer Bill of Rights. These funds will support 29.5 new positions, a media campaign to inform consumers of their rights, and an upgraded system to resolve consumer complaints. Also approves \$5.1 million for 52.5 new positions to increase regulatory staffing.
- ☒ ***Fish and Game Preservation Fund.*** Provides \$19.9 million in one-time funding and \$5.9 million in ongoing funding from the General Fund to address structural deficits in the Fish and Game Preservation Fund.
- ☒ ***Various Department of Fish and Game Activities.*** Provides ongoing augmentations (General Fund) to the Governor's budget of \$5 million for protection of marine ecosystems, \$1.5 million for conservation planning and resource assessment, and \$1 million for management of department-owned lands.
- ☒ ***Habitat Protection and Restoration.*** Approves one-time General Fund increases for salmon and steelhead restoration (\$10 million), marine life protection and management (\$10 million), nongame fish and wildlife management (\$10 million), and wetlands and riparian habitat conservation (\$5 million). Also approves \$5 million one-time General Fund transfer to create an endowment fund for management of coastal wetlands.
- ☒ ***Bond Funds.*** Provides about \$800 million from bonds for various resources and environmental protection programs.



Major Actions General Government

- ☒ ***Employee Compensation.*** Provides \$567 million (\$361 million General Fund) to increase pay for state employees. Of this amount, \$30 million (\$15 million General Fund) is available for the administration to address recruitment and retention issues among employees, supervisors, and managers. The budget includes contractual pay raises for 6 of the state's 21 employee bargaining units. Since most contracts have expired or will expire within the next month, any increased General Fund costs from future contracts approved by the Legislature will be paid from the reserve.
- ☒ ***Mental Health Services for Students Mandates.*** Rejects the administration's proposal to suspend state mandates to provide "AB 3632" mental health services for children in special education programs. Provides \$69 million (federal special education funds) and \$52 million (General Fund) to reimburse a significant portion of estimated county costs to provide services in 2006-07. Provides \$66 million (General Fund) to pay outstanding mandate claims from 2004-05 and 2005-06.
- ☒ ***All Other Noneducation Mandates.*** Provides \$403 million to pay prior- and budget-year mandate claims. These funds make the 2006-07 and 2007-08 payments toward the state's 15-year plan to retire mandate debt (\$170 million), pay outstanding 2005-06 mandate claims (\$107 million), and fund most 2006-07 mandate claims (\$126 million).