

July 24, 2007
REVISED

The 2007-08 Budget Package

LEGISLATIVE ANALYST'S OFFICE





Major Features

- ☑ **K-14 Education.** Provides a total of \$2.7 billion in new ongoing, one-time, and special fund monies.
 - **Funding.** Includes \$2 billion in new ongoing Proposition 98 monies, about \$630 million in one-time Proposition 98 monies, and almost \$100 million in Public Transportation Account (PTA) monies.
 - **Spending.** Spends \$2.4 billion for a 4.53 percent cost-of-living adjustment (COLA) for K-14 education and \$269 million to increase the Proposition 98 share of child care funding.

- ☑ **Transportation.** Uses \$1.3 billion of PTA funding to reduce General Fund expenditures, including almost \$100 million for education noted above.

- ☑ **Social Services.** Rejects administration's proposals for new California Work Opportunity and Responsibility to Kids (CalWORKs) program sanctions and time limits. Shifts the statutory January 2008 Supplemental Security Income/State Supplementary Program (SSI/SSP) COLA to June 2008.

- ☑ **Corrections.** Includes more than \$500 million for new and continuing program initiatives in the California Department of Corrections and Rehabilitation to address medical, dental, and mental health court cases.

- ☑ **Debt Payments.** Provides \$2.5 billion from the sales tax and Budget Stabilization Account for payments on the state's deficit-financing bonds. Rejects the administration's proposal to make an additional \$595 million payment in 2007-08.

- ☑ **Revenue Assumptions.** Assumes \$1 billion in General Fund revenues from the sale of EdFund, the state's nonprofit student loan guaranty agency. Also assumes \$293 million in new General Fund revenues from amended tribal gambling compacts.



Estimated General Fund Condition Budget Package

(In Millions)

	2006-07	2007-08
Prior-year fund balance	\$10,453	\$4,801
Revenues and transfers ^a	96,013	102,262
Total resources available	\$106,553	\$107,063
Expenditures	\$101,665	\$102,961
Ending fund balance	\$4,801	\$4,102
Encumbrances	745	745
Reserve^b	\$4,056	\$3,357
Budget Stabilization Account (BSA)	\$472	\$1,495
Special fund for economic uncertainties	\$3,584	\$1,862
^a 2006-07 amount includes \$472 million and 2007-08 amount includes \$1.023 billion in General Fund revenues transferred to BSA, which the administration excludes from its revenue totals. These different treatments do not affect the bottom-line reserve shown.		
^b Under the budget's current revenue assumptions, the state would need to appropriate from the reserve roughly \$400 million more each in 2006-07 and 2007-08 for Proposition 98 spending.		

Revenues and Expenditures. The budget assumes the state will start 2007-08 with a fund balance of \$4.8 billion. It projects \$102.3 billion in budget-year revenues, an increase of 6.5 percent from 2006-07. The budget authorizes expenditures of \$103 billion, an increase of 1.3 percent from 2006-07. The resulting operating shortfall of \$0.7 billion leaves the General Fund with a year-end reserve of \$3.4 billion.

Future Shortfalls Likely. Based on current estimates of the policies reflected in the package, the state would continue to face operating shortfalls of about \$5 billion in both 2008-09 and 2009-10, requiring future corrective actions.



Major Actions Proposition 98

Ongoing Proposition 98 Spending				
<i>(Dollars in Millions)</i>				
	<i>2006-07 Budget Act</i>	<i>2007-08 Budget Package</i>	Change	
			Amount	Percent
Total Funding				
K-12	\$49,114	\$50,797	\$1,683	3.4%
CCC	5,894	6,223	329	5.6
Other	114	119	5	4.4
Totals	\$55,122	\$57,139	\$2,017	3.7%

- Proposition 98 Adjustments.** Reduces ongoing Proposition 98 spending by \$427 million but uses one-time and special fund monies to backfill reduction, thereby sustaining total K-14 funding at the May Revision level.
- Funds “Baseline” Budget.** Funds a 4.53 percent COLA for existing K-14 education programs.
- Accommodates Child Care Shift.** Increases the Proposition 98 share of child care funding by \$269 million, thereby achieving a like amount of General Fund savings.



Major Actions Proposition 98

(Continued)

One-Time and Special Fund Monies	
<i>(In Millions)</i>	
One-Time/Special Fund Monies Used for Ongoing Purposes:	
Deferred maintenance backfill (one-time Proposition 98)	\$115.5
High Priority School Grant Program backfill (one-time Proposition 98)	102.0
Home-to-School backfill (one-time Proposition 98)	250.0
Home-to-School backfill (Public Transportation Account)	99.1
Total—Ongoing Spending	(\$566.6)
One-Time Proposition 98 Monies Used for One-Time Purposes:	
K-12 Education	
Emergency Repair Program	\$100.0
Charter school facilities grants	18.0
Teacher Credentialing Block Grant	8.8
Community Day School deficiency	4.1
High-Speed Network technology refresh	1.9
FCMAT audits	0.4
Subtotal	(\$133.2)
Community Colleges	
Maintenance, special repairs, and various other purposes	\$8.1
Nursing/allied health equipment	8.1
New nursing programs	4.0
Part-time Faculty Health Insurance Program	4.0
California Construction College pilot program	1.5
Cal-PASS faculty councils	1.0
Subtotal	(\$26.7)
Total—One-Time Spending	\$159.9
Grand Total—One-Time/Special Fund Spending	\$726.5

- Ongoing Spending—Large Shortfall.** Uses \$567 million in one-time monies for ongoing K-12 costs related to deferred maintenance, district/school intervention, and transportation.

- One-Time Spending.** Provides \$100 million for the K-12 Emergency Repair Program and \$60 million for various other one-time purposes (\$33 million for K-12 education and \$27 million for community colleges).



Major Actions Higher Education

- ☑ **Total Higher Education Funding.** Provides \$11.4 billion in General Fund support for higher education (including California Community Colleges [CCC]). Compared to 2006-07, General Fund spending on the University of California (UC) and the California State University (CSU) increases by over 6 percent. (See prior section for changes in CCC spending.)
- ☑ **Student Fees.** Assumes \$203 million in new revenue from student fee increases of 7 percent at UC and 10 percent at CSU. Student fees at CCC remain at \$20 per unit.
- ☑ **COLAs.** Provides General Fund base increases of \$117 million (4 percent) for UC, \$109 million (4 percent) for CSU, and \$263 million (4.53 percent) for CCC.
- ☑ **Enrollment Growth.** Expands higher education enrollment by about 36,000 full-time equivalent students. Provides \$114 million to CCC for 2 percent growth and \$117 million to UC and CSU (combined) for 2.5 percent growth. The Legislature rejected the Governor's proposed methodology for funding the marginal cost of additional enrollment at UC and CSU.
- ☑ **Student Academic Preparation (Outreach).** Rejects the Governor's proposal to reduce General Fund support for academic preparation programs at UC and CSU by \$26.3 million.
- ☑ **Sale of EdFund.** Assumes the state will receive a net \$976 million from the sale of EdFund, which is the state's designated guaranty agency for federal student loan programs.
- ☑ **Research Initiatives on Technological Innovation.** Rejects the Governor's proposed \$20 million General Fund augmentation for UC to expand the California Institutes for Science and Innovation and build a Petascale supercomputer.



Major Actions Health

- Medi-Cal Provider Rates.** Provides \$107 million General Fund for rate increases for Medi-Cal managed care plans. Also provides \$16 million General Fund to reflect the reversal of a reduction in rates for skilled nursing facilities that was proposed by the administration.
- Offender Drug Treatment Programs.** Provides \$120 million in funding for the Substance Abuse and Crime Prevention Act (also known as Proposition 36) programs, a reduction of \$25 million from the prior-year funding level.
- Mental Health Services.** Rejects the administration's proposal to eliminate the Integrated Services for Homeless Mentally Ill Adults Program established by Chapter 518, Statutes of 2000 (AB 2034, Steinberg), resulting in General Fund costs of almost \$55 million in 2007-08. Provides about \$87 million General Fund (scored as a prior-year adjustment) as the first of three annual payments to reimburse counties for costs from prior years for the Early and Periodic Screening, Diagnosis, and Treatment Program.
- Establishment of the Department of Public Health (DPH).** Effective July 1, 2007, Chapter 241, Statutes of 2006 (SB 162, Ortiz), creates the new DPH and the Department of Health Care Services from the existing Department of Health Services. As intended by Chapter 241, the creation of the two new departments does not result in increased General Fund expenditures for state operations.
- Public Health Foodborne Illness.** Provides about \$1 million for DPH to expand its existing efforts to investigate foodborne illnesses and to provide additional emergency outbreak investigation capacity.



Major Actions Social Services

- CalWORKs Sanctions and Time Limits.*** Rejects the Governor's proposals to (1) establish a five-year time limit for children's receipt of cash assistance and (2) impose a "full-family" sanction that eliminates the family's entire grant if the parent or parents do not comply with work participation requirements. These policy changes would have resulted in a savings of \$314 million.

- CalWORKs Grants.*** Approves the Governor's proposal to suspend the CalWORKs July 2007 COLA, resulting in a savings of \$124 million compared to prior law.

- TANF Reserve.*** Uses \$84 million from the Temporary Assistance for Needy Families (TANF) Reserve to offset General Fund expenditures for CalWORKs.

- Child Care Fund Shift.*** Uses \$269 million in Proposition 98 funds for Stage 2 child care, resulting in identical General Fund savings in CalWORKs.

- SSI/SSP COLA.*** Permanently reschedules the statutory COLA from January until June, resulting in a five-month savings of \$123 million in 2007-08, compared to prior law.

- Foster Care Rates.*** Increases rates for foster family homes and group homes by 5 percent effective January 1, 2008. Leaves foster family agency rates unchanged and limits increases in adoptions assistance payments to those cases where adoption occurs after January 1, 2008. This results in costs of \$10 million in 2007-08, rising to over \$20 million in 2008-09.

- Transitional Housing for Emancipating Foster Youth.*** Provides \$20.2 million additional above the Governor to allow counties to provide transitional housing services to emancipating foster youth.



Major Actions Social Services

(Continued)

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- ☑ ***In-Home Supportive Services (IHSS) Wage Freeze.*** Rejects the Governor's proposal to freeze state participation in county authorized wages for IHSS providers. This results in a cost of at least \$14 million plus unknown additional costs, depending on the number of, and the degree to which, counties increase wages above current levels.

 - ☑ ***Adult Protective Services Augmentation.*** Provides an additional \$12 million above the Governor's level for the Adult Protective Services program.

 - ☑ ***Job Services Program.*** Rejects the Governor's proposal to eliminate state support for the Employment Development Department's Job Services Program, resulting in forgone savings of \$27.1 million.

 - ☑ ***County Computer Workstation Upgrades.*** Provides \$6.5 million for replacing desktop computers for certain county-operated statewide social services computer systems (which have client-server based technology).



Major Actions Judiciary and Criminal Justice

- ☑ **Judicial Branch.** Provides for growth in trial court operations funding based on the annual change in the state appropriations limit (\$127 million), partial-year funding for 100 new superior court judgeships (\$28 million), and implementation of recent legislation to increase oversight of conservators and guardians (\$17 million). Also includes \$36 million from the State Court Facilities Construction Fund for acquisition and working drawings related to 12 courthouse construction projects.

- ☑ **Adult Corrections.** Provides funding to implement Proposition 83 (Jessica's Law) and other initiatives related to the management of sex offenders under parole supervision (\$106 million). Also includes funding to upgrade prison maintenance (\$42 million), develop information technology infrastructure at state prisons (\$32 million), and provide 111 new staff and contract resources to implement the recently approved prison construction program (\$2 million General Fund and \$10 million reimbursements). Also provides funding to implement new and expanded programs to reduce recidivism among adult offenders (\$90 million, including existing base funding), as well as reduces revenues the state receives from fees charged on collect phone calls made by inmates (\$7 million in the budget year, growing to \$26 million annually in 2010-11).

- ☑ **Adult Correctional Health Services.** Funds new and continuing initiatives to carry out the remedial plans of the federal Receiver and comply with court orders in the *Plata* case relating to inmate medical services (\$354 million in various funding allocations plus the shift of \$66 million in funding within the corrections budget for medical guarding and transportation). Provides additional support funding to comply with settlements in the *Perez* inmate dental care legal case (\$79 million) and the *Coleman* mental health case (\$81 million) as well as related resources to hire staff needed for both legal settlements. Also, directs that a new \$56 million, 50-bed mental health crisis unit at California Men's Colony (near San Luis Obispo) be funded using available lease-revenue bond funding.



Major Actions Judiciary and Criminal Justice *(Continued)*

- Juvenile Justice Programs.*** Enacts a major policy change under which nonviolent juvenile offenders would no longer be held at state juvenile facilities and new grant programs would be created to support programs for these offenders at the local level. Also, \$100 million in bond funding would be provided to construct or renovate local juvenile facilities. (The fiscal impact would be a net cost of about \$3 million in 2007-08 but eventual net savings that could reach \$70 million in subsequent years.)

- Gang Prevention.*** Establishes an antigang coordinator position and three new gang prevention grant programs in the Office of Emergency Services (\$466,000 General Fund and \$9.5 million from the Restitution Fund). The grant programs target specific cities with heavy gang concentrations, provide competitive grants to cities as a whole, and support community-based organizations that provide services designed to reduce gang activity. Also provides funding to expand to additional state juvenile institutions Project IMPACT, a program to deter offenders from gang participation.

- Local Assistance Programs.*** Establishes two, one-time pilot projects mainly to improve probation supervision and services to serve at-risk youth from age 18 to 25 (\$10 million). Provides \$30 million for the Mentally Ill Offender Crime Reduction Program aimed at reducing recidivism among adult and juvenile offenders.



Major Actions Transportation

- Full Transfer of Proposition 42 Funds for Transportation.*** Transfers \$1.48 billion in gasoline sales tax revenues from the General Fund to transportation purposes. The transfer will provide \$602 million for projects in the Traffic Congestion Relief Program, \$702 million for the State Transportation Improvement Program (STIP), and \$176 million to the PTA for mass transportation purposes.

- Uses \$1.3 Billion in Transportation Funds to Cover General Fund Expenditures.*** Uses PTA funds, including \$827 million in projected spillover revenue resulting from high gasoline prices, to pay for certain General Fund expenditures. (Spillover revenue is a portion of gasoline sales tax revenue, which under current law accrues to the PTA. The account also receives revenues from diesel sales tax and Proposition 42 gasoline sales tax.) General Fund expenditures to be covered include: \$948 million for 2007-08 and past-year debt service on transportation bonds, and \$83 million to pay back a portion of the outstanding Proposition 42 loan. Additionally, \$99 million will be used to pay home-to-school transportation and \$129 million to pay regional center transportation.

- Uses Transportation Funds to Help the General Fund on an Ongoing Basis.*** Includes trailer bill legislation to provide for the use of spillover/PTA funds beyond 2007-08 to help the General Fund. Specifically, beginning in 2008-09, one-half of the spillover revenue would be used to pay various General Fund expenditures. (In 2008-09, this amount is projected at \$467 million.) The remaining one-half of spillover revenue would be split: two-thirds to the State Transit Assistance program, and one-third to the PTA. Additionally, the PTA would fund regional center transportation on an ongoing basis.



Major Actions Transportation

(Continued)

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- Significant Expenditures of Proposition 1B Bond Funds.***
Provides \$4.2 billion from Proposition 1B (2006) bond funds for various transportation and air quality improvement programs, including \$722 million for STIP, \$608 million to improve transportation corridor mobility, \$403 million to rehabilitate and improve the existing state highway system, \$950 million for local streets and roads, \$600 million for local transit capital improvements, \$250 million for air quality improvement in trade corridors, and \$193 million for school bus retrofit.

 - Additional Resources to Deliver Transportation Projects.***
Provides \$1.8 billion to the Department of Transportation to fund a total of 12,594 personnel-year equivalents (PYEs) in staff resources to design and engineer transportation projects. This is an increase of 527 PYEs over the 2006-07 level. Of the increase, 90 percent (477 PYEs) would be state staff, including overtime, and 10 percent (50 PYEs) would be contracted resources.



Major Actions Resources, Energy, and Environmental Protection Programs

- ☑ ***Climate Change.*** Provides about \$34 million, mainly from special funds, for actions at various departments to reduce greenhouse gas (GHG) emissions through implementing Chapter 488, Statutes of 2006 (AB 32, Núñez), including evaluation of market-based compliance mechanisms and development of early action measures, source-specific measures, protocols for voluntary early-action credit, a GHG emissions inventory, and scientific and economic analyses.

- ☑ ***Flood Management.*** Provides about \$842 million for flood management, mainly from bond funds, for statewide planning, levee repairs and improvement, and flood corridor improvements. Included in this amount is a legislative augmentation of \$40 million to increase nonstructural flood protection in floodway corridors. Reverts \$168 million General Fund from the \$500 million appropriation for flood management in Chapter 34, Statutes of 2006 (AB 142, Núñez), replacing the reverted funds with bond funds.

- ☑ ***CALFED Bay-Delta Program.*** Provides \$393.9 million in state funds for the CALFED Bay-Delta Program (not including reappropriations totaling about \$118 million). This is a decrease of \$80.1 million from the Governor's proposal, reflecting the rejection of the Governor's proposals for the South Delta Improvements Program, surface storage feasibility studies, Delta water quality program, supplemental analyses of water conveyance methods in the Delta, and Proposition 84-funded science program research grants.

- ☑ ***Integrated Regional Water Management.*** Defers allocation of \$258 million in bond funds proposed by the Governor to policy legislation.

- ☑ ***San Joaquin River Restoration.*** Approves \$14 million (bond funds) for the restoration of the San Joaquin River to implement a lawsuit settlement between the federal government, water users, and environmental groups.



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

- Salton Sea Restoration.** Provides an increase of \$13 million above the Governor's budget for early actions relating to the restoration of the Salton Sea. The Governor proposed \$12.5 million for planning and monitoring activities for the restoration effort.
- Lower-Emission School Buses.** Provides \$193 million for financial incentives for the replacement of the state's remaining oldest, most-polluting school buses, and for the replacement or retrofit of other high-polluting school buses.
- Goods Movement-Related Air Quality Improvements.** Provides \$250 million for financial incentives to reduce emissions and improve air quality along California's principal trade corridors.
- Local Parks.** Rejects \$30 million from the Housing and Emergency Shelter Trust Fund Act (Proposition 1C) proposed for local parks related to housing development. Approves \$1.1 million in program administration costs to develop grant guidelines and procedures for making future grants to local governments from Proposition 84.
- State Parks Deferred Maintenance.** Approves a reversion of \$160 million back to the General Fund from a \$250 million appropriation in the *2006-07 Budget Act* for deferred maintenance in the state parks system. Of the remaining \$90 million, about \$80 million is projected to be spent in 2006-07.
- State Parks Opportunity Acquisitions.** Provides an increase of \$25 million (Proposition 84 bond funds) above the Governor's budget proposal of \$5 million for the acquisition of parcels located within or adjacent to existing state parks.
- Fish and Game Wardens.** Provides \$3 million above the Governor's budget in ongoing General Fund support for recruitment, training, and overtime pay for game wardens.



Major Actions General Government

- Employee Compensation.** Provides approximately \$1.2 billion (\$680 million General Fund) to increase pay for state employees pursuant to (1) provisions of approved memoranda of understanding; (2) the administration's compensation plan for nonrepresented personnel such as supervisors and managers; and (3) court-ordered or legislatively approved pay increases for medical personnel in state prison, mental health, developmental services, and veterans facilities. Most state employees receive a 3.4 percent pay increase under current labor agreements. The budget includes no funds to increase compensation levels for state correctional officers and attorneys. Any pay increase costs for these groups would need to be paid from the reserve.

- Retirement Benefits.** Assumes that the state's payment obligations for pension and retiree health benefits for state employees and pension benefits for teachers will total around \$5.2 billion (\$3.9 billion General Fund). This represents about an 8 percent increase in retirement costs from the current year. Health benefit costs for state government and CSU retirees—a part of the total payment obligations—increase by \$120 million (up 12 percent from the current year). The budget package makes no changes in the purchasing power program for retired teachers. Changes were proposed by the administration in January.

- Proposition 1C Housing Bond Expenditures.** Provides \$808 million for housing programs under Proposition 1C, about \$155 million above the level proposed by the Governor. This includes \$128 million for home ownership programs; \$235 million for multifamily rental housing programs; and \$475 million for other programs, including \$300 million for infill incentive grants, \$95 million for transit-oriented development, and \$40 million for farm worker housing programs.



Major Actions General Government

(Continued)

- ☑ **Unclaimed Property.** Responds to a federal court preliminary injunction which freezes most aspects of the state's unclaimed property program. Provides the State Controller an \$8 million General Fund augmentation for enhanced notifications to property owners. Assumes the increased notifications will reduce annual General Fund revenues by almost \$80 million.

- ☑ **Unallocated Reductions.** Assumes General Fund savings of \$186 million from unallocated reductions to departmental budgets. Achieves \$86 million of this amount by not providing funds to cover the costs of inflation on operating expenses. Provides the administration with the authority to make an additional \$100 million in reductions during the fiscal year.

- ☑ **2008-09 Budget Intent.** States the Legislature's intent not to fund price increases in the 2008-09 budget and limits General Fund capital outlay expenditures to \$50 million.

- ☑ **Tax Changes.** Permanently eliminates the teacher retention tax credit (which has been suspended the past three years). Rejects the administration's proposal to make permanent changes to the use tax that were enacted in 2004 related to vessels, vehicles, and aircraft. (This floor packet excludes the fiscal effects of SB 98 [Committee on Budget and Fiscal Review], as amended July 20, 2007, which includes a variety of tax provisions.)