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# Highlights of the 2006-07 Analysis

ELIZABETH G. HILL • LEGISLATIVE ANALYST

## ANALYSIS OF THE 2006-07 BUDGET BILL



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## K-12

### ➤ **Minimize Impact of Proposition 98 on Structural Gap**

- The Governor's budget proposes to increase Proposition 98 expenditures by \$4.3 billion in 2006-07 compared to the revised 2005-06 spending level. The administration's proposal for the budget year exceeds the minimum spending requirement under Proposition 98 by \$2.1 billion (including \$426 million for Proposition 49).
- We recommend the Legislature fund Proposition 98 at the level needed to fully fund base program costs in the budget year. While this would result in \$1 billion less in K-14 spending than the Governor's budget, it would still provide an increase of \$3.3 billion over the current year. If the Legislature chooses to spend above this level, we offer two options that permit additional spending on K-14 education while reducing the impact on the state's future fiscal condition. (*Analysis*, page E-27.)

### ➤ **Create a Fiscal Solvency Block Grant**

- Districts face a variety of fiscal challenges, including low general purpose reserves, internal borrowing, declining enrollment, and costs of retiree health benefits. If the Legislature chooses to fund schools at the level of Proposition 98 spending proposed in the 2006-07 Governor's Budget, we recommend the Legislature redirect about \$400 million proposed for new programs to establish a new fiscal solvency block grant. (*Analysis*, page E-56.)

### ➤ **Simplify the K-12 Mandates Process**

- The Governor's budget proposes \$133.6 million from the General Fund to pay the costs of K-14 education mandates in 2006-07 (about three-quarters of expected claims). We recommend the Legislature fully fund these costs. We also recommend trailer bill language that would simplify the mandate claims process and make mandate funding more predictable for both the state and districts. (*Analysis*, page E-76.)

### ➤ **Proposition 49—Recommend Repeal**

- We continue to recommend the Legislature enact legislation placing before the voters a repeal of Proposition 49 because (1) it triggers an autopilot augmentation even though the state is facing a structural budget gap of billions of dollars, (2) the additional spending on after school programs is a lower budget priority than protecting districts' base education program, and (3) existing state and federal after school funds are going unused. (*Analysis*, page E-93.)

## HIGHER EDUCATION

### ➤ **University Enrollment Growth Funding Overbudgeted**

- The Governor’s budget for the University of California (UC) and the California State University (CSU) funds enrollment growth targets of 2.5 percent for each segment. The Governor also proposes a new formula for calculating how much new funding is required for each additional full-time equivalent student.
- We project that enrollment at UC and CSU will grow at somewhat lower rates. We recommend that Legislature fund 2 percent enrollment growth at both segments, which would accommodate increased demand due to population growth plus a modest increase in participation rates. (*Analysis*, page E-180.)
- We also find that the Governor’s proposed new “marginal cost” funding formula overstates the cost of serving additional students. We propose a different methodology which better reflects actual costs. Our recommendation would achieve savings relative to the Governor’s budget, but would fund enrollment growth at a higher rate than would be provided under the existing formula. (*Analysis*, page E-190.)

### ➤ **Fee Decisions Should Be Driven By Share-of-Cost Considerations**

- The Governor’s proposes to “buy out” fee increases that have been approved by UC and CSU. We think fees should reflect a policy choice about what share of their education costs students should pay. We therefore recommend the Legislature reject the Governor’s fee buyout, and instead set fees at all three segments so that students maintain their current share of cost in the budget year. (*Analysis*, page E-219.)

### ➤ **California Community Colleges**

- Total enrollment at the California Community Colleges (CCC) has been declining for the past several years. We examine some of the factors explaining this trend. (*Analysis*, page E-247.)
- The Governor proposes to fund a 3 percent increase in CCC enrollment. This is substantially above projected growth in the adult population, as well as the administration’s own projections for CCC enrollment growth. We recommend the Legislature instead fund our projected level of enrollment, which provides 1.75 percent growth. (*Analysis*, page E-256.)
- The Governor proposes \$130 million for equalizing apportionment funding among CCC districts. We recommend that any funding for equalization be linked to legislation amending the current allocation formula which, if unchanged, would erode the state’s equalization efforts over time. (*Analysis*, page E-257.)

➤ **Administration of Financial Aid Programs Could Be Improved**

- The state has struggled with how to structure the administration of its financial aid programs. As directed by the Legislature, we recently released a report evaluating options available to the state for restructuring the administration of its financial aid grant programs and federal student loan programs. We recommend the Legislature authorize a single agency, with one board and executive director, to administer these programs. We recommend this agency be structured as a nonprofit public benefit corporation. (*Analysis*, page E-271.)

## HEALTH

➤ **Medi-Cal Budget Should Be Adjusted for Effects of Medicare Drug Benefit**

- We review the state's response to problems in the rollout of the new federal Medicare Part D prescription drug benefit and recommend Medi-Cal reductions of almost \$330 million over two years to more accurately reflect lower costs to the state for the program. (*Analysis*, page C-91.)

➤ **A Targeted Strategy to Constrain Costs and Improve Access to Community Care**

- The Legislature should take steps to deter costly nonemergency visits to emergency rooms (ERs) and to improve access to care and quality of care in community settings. This could be accomplished by seeking available federal funds to improve access to primary care and by establishing effective copayments on the inappropriate use of ERs. (*Analysis*, page C-103.)

➤ **Medi-Cal's Bitter Pill: High Payments to Pharmacies**

- Medi-Cal's lack of accurate information about the prices of prescription drugs means that the program is reimbursing pharmacies much more than appears to be reasonable. We recommend legislation to ensure that reimbursement for drugs is set at more appropriate levels. (*Analysis*, page C-118.)

➤ **Future Federal Funding Shortfall for Healthy Families**

- Future uncertainty about reauthorization of federal funding and the eventual exhaustion of unspent federal funds pose a risk of significant future increases in state costs for the Healthy Families Program (HFP). We present alternatives to hold down increases in overall HFP costs and to obtain additional financial support for the program. (*Analysis*, page C-142.)

➤ **Proposition 36 at a Crossroads**

- The guaranteed appropriations for Proposition 36 are expiring, giving the Legislature discretion to determine the level of funding for this measure to require drug treatment instead of incarceration for certain drug offenders. We comment on how the funding level should be set and proposals for making policy changes in the Proposition 36 law. (*Analysis*, page C-78.)

➤ **Hospital Waiver Increasing State General Fund Costs**

- A new federal hospital financing waiver is estimated to result in a net increase in Medi-Cal costs of \$39 million over its first two years. We recommend that the waiver instead be implemented in a manner that avoids these costs and generates significant state savings. (*Analysis*, page C-112.)

➤ **Reform of Licensing and Certification of Health and Social Services Providers**

- The administration is proposing changes to the way the state conducts licensing and certification of providers of certain health and social services. We concur in some proposals, recommend others be reduced to correct over-budgeted staffing and funding, and propose further changes to improve the way these functions are carried out. (*Analysis*, page C-37.)

➤ **A Perspective on Emergencies and Disasters in California**

- Some budget proposals to improve the state's preparedness and response to such public health emergencies as a flu pandemic are warranted, but others have problems, such as a failure to use other available funding instead of the General Fund. (*P&I*, "Part V.")

➤ **Better Oversight of Regional Center Purchases Needed**

- Spending for some specific services and supports for persons with developmental disabilities varies so widely among regional centers as to raise concerns about the fiscal controls over these expenditures. We recommend an audit to evaluate the situation. (*Analysis*, page C-156.)

➤ **Some Practical Steps to Increase Children's Enrollment**

- The budget plan includes a package of proposals to encourage the enrollment of uninsured children in state health coverage. Some of the proposals are reasonable, but we recommend others be rejected or modified because they are overbudgeted or are likely to be ineffective. (*Analysis*, page C-56.)

➤ **Mental Health Mandates Continue to Pose Challenges**

- The cost of two state-mandated programs to provide mental health services for children in special education programs have grown significantly, and are plagued by serious weaknesses including a lack of accountability for ensuring the quality of these services. We comment on administration plans to repeal these mandates and the Legislature’s options for addressing these issues. (*P&I*, “Part V.”)

## SOCIAL SERVICES

➤ **Strategies to Meet Federal Work Participation Requirements**

- The federal Deficit Reduction Act of 2005 significantly raises the required work participation rates for California’s low-income families in the California Work Opportunity and Responsibility to Kids program. Failure to meet these higher participation rates would result in annual federal penalties, which begin in 2008-09 at \$173 million, and increase by about \$70 million each year to a maximum of \$725 million per year in 2016-17. We present a range of strategies for meeting this challenge including: increasing participation among existing recipients, bringing former recipients who are employed back into the participation calculation, and establishing separate programs for those who may face substantial barriers to work. (*Analysis*, page C-188.)

➤ **California Failing to Meet Child Welfare Performance Goals**

- Federal law requires California to improve its performance on federal outcome measures established for the child welfare system. As of January 2006, California is failing all seven outcome measures. Unless California improves its performance by the fall of 2006, the state faces \$59 million in federal penalties. (*Analysis*, page C-206.)

➤ **Reject Freeze for County Administration of Health and Human Services Programs**

- The Governor proposes to freeze future state participation in county administrative costs for health and social services programs at the 2005-06 level. In subsequent years, state support would be adjusted for caseload but not inflation. We recommend rejecting the Governor’s proposal because it would restrict legislative flexibility to adjust funding and services levels. (*Analysis*, page C-65.)

➤ **Funding for Child Welfare Services Should Meet Local Needs**

- The Governor’s proposal to increase funding for adoptions, kinship support, and transitional housing for foster youth represents a “one size fits all”

approach for improving child welfare. We recommend that the Legislature redirect \$15 million from the Governor’s proposal into flexible grants, which allow counties to target resources to the needs they have already identified through the existing child welfare outcome and accountability framework. (*Analysis*, page C-211.)

➤ **Legislature Needs More Information About IHSS Fraud Prevention**

- Recent legislation shifted certain fraud prevention and investigation responsibilities for the In-Home Supportive Services (IHSS) program from the counties to the state Department of Health Services (DHS). Currently, there is a backlog of approximately 1,800 fraud referrals awaiting investigation at DHS, which has only two staff dedicated to IHSS fraud investigation. We recommend that DHS, the Department of Social Services, and the county welfare departments report jointly at budget hearings on IHSS program integrity. (*Analysis*, page C-198.)

## CORRECTIONS

➤ **Autopilot Spending for the Entire Judicial Branch Is Not Justified**

- The Governor’s budget proposes to expand the use of formula-based budgeting to the entire Judicial Branch. However, the proposal lacks a clear policy rationale and would likely lead to overbudgeting of the courts. We recommend rejection of this proposal. (*Analysis*, page D-15.)

➤ **Recidivism Reduction Proposal Requires Modification**

- The Governor’s budget includes funds to develop and expand a number of prison inmate and parole programs designed to reduce recidivism. While some aspects of this proposal have merit, many aspects lack important staffing and implementation details, and it is questionable that the department will be able to successfully implement so many programs at one time. We identify steps that the state should take to improve programming in state prisons, and recommend a reduction of approximately \$28 million pending receipt and review of additional information. (*Analysis*, page D-35.)

➤ **Custody Assistants Would Improve Prison Operations**

- Some county jails utilize nonpeace officer personnel (“custody assistants”) for custody-related tasks that do not require direct control of inmates. Instead of using such custody assistants, state prisons rely on correctional officers for all custody-related work. The creation and use of a custody assistant classification in state prisons would reduce state costs and improve efficiency, while reducing staff vacancies in state prisons. (*Analysis*, page D-63.)



➤ **Settlement Requires Improvements in Inmate Dental Care**

- In December 2005, the state entered into a settlement agreement in the *Perez v. Hickman* lawsuit, which requires the state to increase inmate access to dental care in the prisons over a multiyear period. The Governor’s budget request is consistent with the requirements of the agreement. However, we recommend that the Legislature (1) limit the department’s funding and position authority pending receipt of a court-required staffing study, and (2) direct the department to report on its progress in improving the dental program. (*Analysis*, page D-58.)

➤ **Telemedicine Expansion Would Save State Money, Improve Inmate Health Care**

- The California Department of Corrections and Rehabilitation’s telemedicine program allows the department to deliver health care services to inmates without transporting them to outside medical facilities. Our review finds that opportunities exist for the department to significantly expand its use of telemedicine, thereby improving public safety and reducing the cost of providing inmate health care. We recommend legislation be enacted that requires the department to take steps to expand the use of telemedicine in prisons, which would potentially reduce transportation and medical guarding costs by several million dollars. (*Analysis*, page D-51.)

➤ **Various Department of Justice Requests Lack Justification**

- The Governor’s budget proposes to expand a number of programs administered by the Department of Justice, including programs relating to methamphetamine, gang suppression, identity theft, and the underground economy. The budget fails to provide adequate justification for these proposed expansions. We recommend rejection of several requests totaling \$15 million, pending receipt and review of additional information. (*Analysis*, page D-23.)

## TRANSPORTATION

➤ **Budget Boosts Short-Term Funding—But Not New Projects**

- The budget proposes to fully fund Proposition 42 and repay early \$920 million of a previous suspension. The budget also assumes that \$1 billion in tribal gaming bond revenues will be received. If fully realized, many projects will be able to start to “catch up” on prior-year delays. The funding increase, however, would not provide for additional transportation projects beyond what has already been scheduled for delivery. (*Analysis*, page A-24.)

➤ **Administration Has Failed to Demonstrate Projects' Congestion Benefits**

- The general obligation bonds proposed in the Governor's Strategic Growth Plan would provide a one-time infusion of \$12 billion for additional transportation projects.
- The Governor's plan would allocate these funds in a way that is not consistent with the current, well established process of selecting projects.
- The administration has not provided basic information necessary to assess the merit of these proposed projects. Accordingly, we recommend that the Legislature not approve the Governor's bond proposals until the administration provides the requested information. (*Analysis*, page A-31.)

➤ **Firewalling Proposition 42 Comes With a Big Downside**

- The Governor's proposal to firewall proposition 42 would increase the long-term stability of state transportation funding, but it would come at the expense of removing a budget balancing tool.
- Instead, we recommend that Proposition 42 be repealed and that the gas tax be increased correspondingly to generate an equivalent amount of funds for transportation. We also recommend that the tax be indexed to inflation to prevent the erosion of the revenue over time relative to road use. (*Analysis*, page A-38.)

➤ **Revenue Bond Would Crowd Out Highway Maintenance and Rehabilitation**

- The Governor proposes to use state gas tax and weight fee revenues to pay debt service on a future revenue bond. Without additional revenues, this would reduce the funding for highway maintenance and rehabilitation. We recommend that the Legislature reject the proposal absent additional revenues being provided to back the bonds. (*Analysis*, page A-33.)

➤ **Not Clear If Enhanced Radio System Supports Interoperability**

- The California Highway Patrol (CHP) proposes to modernize its public safety radio system over five years, at a cost of \$491 million. This would improve communications among CHP officers. How it improves communications with other public safety agencies (that is, interoperability) is not clear. We recommend that the Director of the Office of Emergency Services report on the extent the proposal supports the state's goal of interoperability and whether the proposal would hinder or complicate future development of other radio communications systems. (*Analysis*, page A-52.)

➤ **Costs of Complying With Federal Real ID Act Will Be Significant**

- The Department of Motor Vehicles will have to update its aging computing infrastructure, as well as hire and train staff to handle additional workload in order to meet the requirements of the federal Real ID Act by mid-2008. We recommend the department report on anticipated workload requirements to implement the act, how it plans to meet these requirements, and the potential costs related to the act's implementation. (*Analysis*, page A-63.)

## RESOURCES

➤ **CALFED Bay-Delta Program Needs Overhauling**

- Four independent management and fiscal reviews have come to similar conclusions: (1) the current CALFED governance structure is not working well, (2) state priorities for CALFED are not clear, and (3) meaningful performance measures for the program are lacking. However, the Governor's CALFED budget proposal is "business as usual."
- We think that CALFED needs a major overhaul. To accomplish this, we recommend the enactment of legislation addressing the governance problems, setting expenditure priorities, establishing performance measures that tie to the budget process, and defining the beneficiary pays funding principle. (*Analysis*, page B-17.)

➤ **Reorganizing the State's Energy-Related Activities Needs Jump Start**

- Currently, the state has multiple entities that make and implement energy policy. Problems with the current structure include duplicative and overlapping responsibilities, and limited accountability for policy decisions. The Governor's proposal to reorganize the state's energy-related activities is contained in AB 1165 (Bogh).
- We think that the time is ripe for the state to reorganize its multiple energy entities. In contrast to the governor's proposal, we do not recommend transferring the functions of the California Power Authority and the California Energy Resources scheduling operation to the new department, thereby avoiding a potential conflict of interest. (*P&I*, "Part V.")

➤ **Fish and Game Swimming in Fiscal Problems**

- Contrary to legislative direction, the budget fails to address the long-term structural deficit in the Fish and Game Preservation Fund—the fund into which revenues from the sales of hunting and fishing licenses are deposited and the department's largest source of support. We recommend steps for the Legisla-

ture to take to address the long-term deficit problem, including requiring each account in the fund to have a prudent reserve. (*Analysis*, page B-65.)

- The administration has not provided the Legislature with information which it requested regarding departmental activities, funding levels, and outcomes. Because this information is critical to the Legislature in its evaluation of the budget proposal, we recommend that the Legislature withhold appropriating funds to the department until the information is provided. We further recommend that the Legislature conduct oversight hearings on the department's fiscal problems and performance in carrying out its program responsibilities. (*Analysis*, page B-71.)

### ➤ **Legislature Needs to Determine State's Climate Change Policy**

- The budget proposes \$7.2 million across several departments to implement the first steps in the Governor's Climate Change Initiative—a series of strategies designed to reduce the state's emissions of greenhouse gases (GHGs) from various transportation, industrial, and other sources.
- The budget proposal raises a number of policy and fiscal issues for legislative evaluation. We recommend that the Legislature provide statutory direction for a state climate change policy that addresses a number of issues, including GHG emission reduction targets, the appropriate mix of regulatory and voluntary strategies, and lead agency designation. (*Analysis*, page B-38.)

### ➤ **Hydrogen Highway Initiative Needs Legislative Roadmap**

- Last year, the Legislature approved \$6.5 million for the Air Resources Board as initial, one-time funding for the Governor's Hydrogen Highway Initiative. The budget proposes to increase funding for the initiative by an additional \$6.5 million in 2006-07. Because only \$3 million of the original appropriation is likely to be spent in the current year (leaving \$3.5 million available for the budget year), we recommend that the \$6.5 million requested for the budget year be denied. Additionally, the requested funding is premature until the board submits a statutorily required report that will enable the Legislature to evaluate whether continued funding for this purpose is warranted. (*Analysis*, page B-89.)

### ➤ **Less Costly Staffing Patterns Need Consideration in Future Firefighter Contracts**

- A contract signed between the state and firefighters in the California Department of Forestry and Fire Protection will result in significantly increased employee compensation costs and additional staffing resources for the department. At the time that the Legislature considered the proposed contract, its full fiscal implications were not identified.

- We think that it is important for the Legislature—who must approve collective bargaining agreements—to have full information on the fiscal impact of changes to the department’s staffing resources, and whether less costly alternatives exist. We therefore recommend the enactment of legislation directing that alternative, potentially less costly staffing patterns be considered by the Department of Personnel Administration in future firefighter contract negotiations, enabling the Legislature to be provided with sufficient information on the contracts’ fiscal impacts. (*Analysis*, page B-55.)

### ➤ **Monies Intended to Benefit Teachers’ Retirement Fund Sit Idle**

- The Legislature intended that the monies in the School Land Bank Fund, managed by the State Lands Commission (SLC), be invested in land acquisitions that would generate revenue for the Teachers’ Retirement Fund (TRF). However, our review finds that SLC made no such investments over the past five years, nor does it propose to do so in the budget year. As a result, the reserve in the fund continues to mount, and is projected to reach \$59 million at the end of the budget year.
- We recommend that the balance of the School Land Bank Fund be transferred directly to TRF for investment by the California State Teachers’ Retirement System (CalSTRS). In this way, CalSTRS could invest these funds directly for the benefit of teachers. (*Analysis*, page B-62.)

### ➤ **Addressing the State’s Flood Management Problems**

- The budget proposes increases of about \$38 million (mostly General Fund) for flood management-related state operations and local assistance and \$31 million (General Fund) for flood control capital projects. Due to the critical need to improve the Central Valley flood control system, we recommend that the Legislature approve the Governor’s budget proposal.
- With regard to other flood management proposals, including the Governor’s in his Strategic Growth Plan (\$2.5 billion of new bonds for flood management), we suggest the Legislature consider a number of issues. These include: (1) the role of bond funding, (2) the relationship between land use and flood control, (3) application of “beneficiary pays” financing, and (4) the potential for increased state oversight of levees in the Delta region that are outside the Central Valley flood control system. (*Analysis*, page B-83.)

### ➤ **Below-Target Recycling Has Lead to a Swelling Fund Balance**

- As the state’s beverage container recycling rates persist below a statutory target of 80 percent, the balance in the Beverage Container Recycling Fund continues to swell. The fund reserve is projected to be at an all-time high of \$429 million by the end of the budget year. We recommend that the Legislature consider

options to reduce the fund balance, both by reducing monies that flow into the fund and by increasing monies that flow out of the fund to support activities intended to increase the rate of recycling. (*Analysis*, page B-47.)

## GENERAL GOVERNMENT

### ➤ **Continuing Concerns With Help America Vote Act (HAVA) Implementation**

- The Secretary of State (SOS) has provided few details on the department's proposed implementation of HAVA. Based on the information received to date, however, we have a number of serious concerns with the agency's approach. Delays by SOS over the past year in implementing components of the state's HAVA plan have impaired counties' ability to acquire and install HAVA-compliant equipment for the upcoming June 2006 primary election. In addition, SOS's proposal for a statewide voter registration database exposes the General Fund to millions of dollars in costs, despite the state having received over \$350 million in HAVA funds. We withhold recommendation on SOS's HAVA expenditures pending the submittal of detailed justifications. (*Analysis*, page F-43.)

### ➤ **Delete Midyear Reduction Authority for More Honest Budgeting**

- The Governor's budget assumes that proposed authority for the administration to reduce departmental budgets during the year will decrease overall state costs by \$258 million. Since 2002-03, enacted budgets have included similar provisions. In reality, however, the full magnitude of these savings is rarely achieved. We recommend that the Legislature delete the proposed authority. The administration should identify any specific proposed savings in departmental budgets during the spring budget process. (*Analysis*, page F-118.)

### ➤ **Reject More Autopilot Spending From the Administration**

- The administration proposes to switch the Governor's Office budget from traditional budgeting to an automatic annual adjustment. The change would cost about \$1 million annually. The administration has offered no policy reason why the current process is not working. We therefore recommend that the Legislature reject the proposal to put the Governor's Office budget on autopilot spending. (*Analysis*, page F-13.)

### ➤ **Many of Governor's Emergency Preparedness Proposals Are Flawed**

- The Governor's budget contains proposals for increased spending of \$61 million in the budget year related to the state's emergency preparedness and response programs—primarily for public health and agricultural emergencies. While some of the proposals are warranted, most of the proposals suffer from one or more

deficiencies—such as the failure to maximize funds other than the General Fund, poorly designed solutions, and the failure to follow state information technology policy. Consequently, we recommend the Legislature reject many of the administration’s proposals. We also offer a number of key considerations for the Legislature as it evaluates the state’s emergency preparedness. (*P&I*, “Part V.”)

➤ **State Has \$40 Billion to \$70 Billion in Unfunded Liabilities for Retiree Health Costs**

- The costs of providing health care to retired state employees and their dependents—now approaching \$1 billion per year—are increasing significantly. Many other public employers (including the University of California, school districts, cities, and counties) face similar pressures. We find that the current method of funding these benefits defers payments of these costs to future generations.
- Retiree health liabilities soon will be quantified under new accounting standards, but state government’s unfunded liabilities are likely in the range of \$40 billion to \$70 billion—and perhaps more. We recommend legislative action to (1) encourage disclosure and planning for payment of these liabilities and (2) begin to setting aside funds each year that will cover future state benefit expenses and reduce or stop the growth of unfunded liabilities passed on to future taxpayers. (*P&I*, “Part V.”)

## CAPITAL OUTLAY

➤ **Strategic Growth Plan Not Backed by Infrastructure Plan**

- The Governor’s Strategic Growth Plan calls for \$68 billion in general obligation bonds for state infrastructure improvements. The funding proposal, however, is not supported with a statutorily required state infrastructure plan. We recommend the Legislature not approve the bond proposals pending receipt of the plan. We further recommend the Legislature not approve bonds beyond a five-year period because the state infrastructure plan only identifies capital outlay requirements for a five-year period. (*Analysis*, page G-18.)

➤ **Transfer of Trial Court Facilities Barely Happening**

- Current law requires the transfer of about 450 trial court facilities from the counties to the state by June 30, 2007. Only four have transferred to date. The transfer is not proceeding primarily due to (1) disagreement over seismic retrofit payments and (2) complicated calculations of county facilities payments. We recommend the Legislature: (1) clarify law regarding county responsibilities for seismic retrofit costs, and (2) consider simplifying the county facilities payment calculation. (*Analysis*, pages G-27 and G-29.)

➤ **Bonds Not Appropriate for Bats and Balls**

- The California State University at Monterey Bay requests \$257,000 in general obligation bond funds for equipment related to infrastructure improvements. Items such as baseball bats and racks, bases and plates, baseballs, softballs, soccer balls, and volleyballs should be purchased through the support budget and not with bond money. We recommend that the request be rejected. (*Analysis*, page G-56.)

## LOCAL GOVERNMENT

➤ **State Begins to Pay Backlog of Mandate Claims**

- The Governor's budget includes \$242 million under the Commission on State Mandates' budget item to: (1) pay noneducation mandate claims in 2006-07, (2) begin retiring the \$1.1 billion backlog of unpaid mandate claims, and (3) provide a \$50 million "set aside" to transform two mental health mandates into a categorical program.
- We find that the administration's proposal does not provide sufficient resources to carry out its plan for 2006-07 and that the state likely will face a current-year deficiency of about \$140 million. We also review the new way the administration provided information regarding mandates in its 2006-07 budget documents and find it highly disorganized and incomplete. (*Analysis*, page F-91.)