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January 10, 2006

To: Chairs of the Board
CSAC Board of Directors
County Administrative Officers

From: Jim Keene, CSAC Executive Director
Steve Keil, CSAC Legislative Coordinator
Jean Kinney Hurst, CSAC Legislative Representative

Re: **Highlights of the 2006-07 State Budget**

This afternoon, Governor Arnold Schwarzenegger released his 2006-07 Proposed Budget with a major focus on infrastructure, K-12 and higher education, transportation, health, and disaster preparedness.

To review the Governor's plan, please visit the Department of Finance website: <http://www.ebudget.ca.gov/>. Please note that printed, bound copies of the Budget Summary and Governor's Budget are no longer available.

Budget Aggregates

The Governor's 2006-07 proposed budget provides a General Fund spending plan of \$97.902 billion, representing an increase of \$7.608 billion, or a 8.4 percent increase over the prior fiscal year. Nearly 90 percent of the proposed budget is confined to only three program areas: K-12 and higher education (52.2 percent); health and human services (29.1 percent); and youth and adult corrections (8.2 percent). State General Fund expenditures have grown by a total of \$32.1 billion, or a cumulative 48.8 percent since 1998-99.

The proposed budget anticipates \$91.545 billion in General Fund revenues, representing an increase of \$3.854 billion, or a 4.4 percent increase over last year. Three primary revenue sources constitute 95 percent of General Fund revenues: personal income tax (53.2 percent); sales tax (30.9 percent); and bank and corporation tax (10.9 percent). State General Fund revenues have grown by a total of \$26.3 billion, or a cumulative 40.3 percent since fiscal year 1998-99.

The budget proposes to deposit \$920 million into the Budget Stabilization Account, established by Proposition 58 and use half of those revenues (\$460 million) to pay a portion of the Economic Recovery Bond debt. The reserve amount is \$613 to guard against unforeseen expenditure increases and revenue shortfalls, representing 0.62 percent of estimated 2006-07 revenues.

Recent General Fund Revenues and Expenditures

(\$ in billions)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenues	65.2	76.9	77.1	79.3	77.6	81.7	87.7	91.5
Expenditures	65.8	79.7	78.4	78.8	78.0	82.3	90.3	97.9

Figures do not include one-time carry-over balances in the revenue data or reserves in the expenditure data.

2006-07 General Fund Expenditure Estimates by Category

(\$ in millions)

Expenditure Category	\$	%
K-12 & Higher Education	\$39,881	40.7
Health & Human Services	28,473	29.1
Youth & Adult Corrections	8,081	8.3
Other	21,467	21.9
TOTAL	\$97,902	100.0

2006-07 General Fund Revenues Estimates by Category

(\$ in millions)

Revenue Category	\$	%
Personal Income Tax	\$48,716	53.2
Sales Tax	28,295	30.9
Bank and Corporation Tax	10,024	11.0
Other	4,510	4.9
TOTAL	\$91,545	100.0

2006-07 General Fund Budget Summary

(\$ in millions)

Carry-Over Fund Balance	\$7,031
Revenues and Transfers	\$91,545
TOTAL REVENUES	\$98,576
TOTAL EXPENDITURES	\$97,902
Fund Balance	\$674
Liquidation of Encumbrances	\$521
Special Fund for Economic Uncertainties	\$153
Budget Stabilization Account	\$460
Total Available Reserve	\$613

Strategic Growth Plan

The cornerstone of the Governor's proposed budget is his previously announced Strategic Growth Plan, the first installment of a 20-year investment in California's economic growth and quality of life. The plan outlines the first 10 years of a 20-year vision.

Financing Plan. The plan lays out more than \$222 billion in infrastructure investments, of which \$68 billion will be financing with General Obligation (GO) bonds. The Governor requests that the Legislature approve the entire plan as a single package, but the GO bonds would be put before the voters over a series of elections between 2006 and 2014, outlined below.

**General Obligation Bonds
Election Year Proposals**
(\$ in billions)

Program	2006	2008	2010	2012	2014	Ten-Year Totals
Transportation/Air Quality	\$6.0	\$6.0				\$12.0
Education*	12.4	4.2	\$7.7	\$8.7	\$5.0	38.0
Flood Control/Water Supply	3.0		6.0			9.0
Public Safety	2.6		4.2			6.8
Courts/Other Public Service Infrastructure	1.2		1.0			2.2
Total	\$25.2	\$10.2	\$18.9	\$8.7	\$5.0	\$68.0

*Education bonds include K-12 and Higher Education.

Additionally, the Governor is proposing a constitutional amendment to prohibit the state from issuing debt that would exceed the 6 percent debt service ratio.

Transportation. The Governor's strategic growth proposal includes \$107 billion targeted for state system transportation purposes. The proposal targets several laudable state system goals with funds targeted at freeway congestion, air quality improvements, state system safety and preservation, and trade corridors and goods movement surrounding our ports.

The \$107 billion can be broken down as follows:

- A new funding source of \$12 billion in two \$6 billion transportation bond measures slated for the June 2006 and November 2008 ballots.
- A Constitutional Amendment to permanently protect and stabilize Proposition 42 funds valued at \$13 billion, which excludes the city and county local rehabilitation funds from that value amount. An additional \$34 billion in existing transportation funding sources, such as the gas tax and federal funds.
- A total of \$48 billion in new funding is proposed from leveraging existing funds and new bond funds to attract increased federal, private, and local funding, as well as using revenue bonds repaid from state gas tax and federal funds.

The \$12 billion in transportation bonds would include \$5.6 billion for "highway projects" with a specific project list already identified that supposedly draws from current Regional Transportation Plans. Highway 99 improvements capture \$1 billion of the \$5.6 billion. The projects will be nominated by the administration and adopted by the CTC in a process similar to the ITIP. In fact all projects are for ITIP eligible purposes.

The remaining \$6.4 billion of the \$12 billion in bonds would be for the following purposes:

- \$200 million for ITS/technology
- \$500 million for intercity rail - including some funds for security and safety
- \$200 million for park and ride and bicycle paths
- \$4 billion for ports including, \$1 billion for air quality and mitigation- subject to a 50% local match and \$3 billion for trade corridors and goods movement - subject to an 80% local match
- \$1.5 billion for the SHOPP

Passage of the bonds would be tied to enactment of design sequencing, design build and public private partnership legislation.

These bond measures also presume that the High Speed Rail Bond would not go forward in 2006.

Senate President Pro Tempore Don Perata has an alternative proposal contained in SB 1024 and Assembly Speaker Fabian Nuñez has introduced AB 1783, which outlines his bond priorities.

Notably there was no money in the Strategic Growth Plan directed at housing, planning, critical lands preservation, or other strategic growth issues contained in the Perata bond proposal (SB 1024/SB 832).

Thus, there is significant focus and momentum and bipartisan support to provide an infrastructure bond to move forward this year, but the ultimate product that will emerge is uncertain. CSAC will remain very involved in all of these efforts to help shape the outcome in a manner that is equitable and beneficial to all Californians.

Education. The Strategic Growth Plan includes a series of GO bond measures totaling \$26.3 billion for K-12 education facilities needs through 2016-17. Of this amount, the Governor's proposal would authorize the placement of an initial \$7 billion GO bond measure on the June 2006 primary election ballot, with the remaining \$19.3 billion spread over election cycles through the year 2014. The plan includes funds for the traditional needs for new construction and modernization projects, provides funds for charter schools and career technical education facilities, and encourages development and renovation for small high schools of no more than 500 students where much larger schools are the norm. Total program funds are estimated to construct approximately 40,000 new classrooms and 141,000 renovated classrooms serving more than 4.7 million students statewide in new or remodeled facilities.

Higher Education. The plan provides funding for the University of California, California State University, and California Community Colleges by proposing \$5.2 billion GO bonds for the next five years. The plan also proposes \$6.1 billion GO bonds for fiscal years 2011-12 through 2015-16. Additionally, the proposal contains \$400 million GO bonds for the expansion of UC telemedicine programs.

Flood Control and Water Supply. In the next five years, the Governor proposes a total of \$11 billion in funding for flood control and water supply, with \$3 billion coming from general obligation bonds and \$8 billion from new funding sources. He also proposes another \$24 billion for flood control and water management in the second (2011-2016) five years, with \$6 billion in general obligation bonds, \$13 billion from existing funding sources and \$5 billion from new funding sources. The general obligation bonds would be put to a vote over a series of elections between 2006 and 2014, with \$3 billion in 2006, \$6 billion in 2010, for a total of \$9 billion by 2016. The Governor indicates that his Strategic Growth Plan is consistent with the user-pay principle, meaning that the state will require the beneficiaries of new infrastructure improvements to pay the costs of such improvements.

Water Supply. The Governor has indicated that one of the goals of his Strategic Growth Plan is to increase the state's water supply to serve an additional 8.5 million people. To achieve this, the Governor has proposed issuing \$6.5 billion in bonds to support water supply development and integrated regional water management:

- \$4.5 billion to complete surface water storage planning, develop water efficiency measures, improve drinking water quality, implement the Integrated Regional Water Management Program and pursue key elements of the CALFED Bay-Delta Program. The Governor expects these actions to increase the state's water supply by 2.5 million acre-feet annually, reduce water demand by 2.1 million acre-feet annually and improve system reliability by protecting water quality and ecosystem health.
- \$1.5 billion to fund public investment in new surface storage reservoirs, restore fisheries and improve water quality.

- \$500 million for research and development of desalination, resulting in an additional 250,000 acre-feet of new water desalination capacity over the next ten years.

Flood Control. The Administration is proposing \$2.5 billion in bonds for Central Valley and Delta flood management activities, and anticipates that such activities will also be supported by \$26 billion in other non-state funding resources to achieve the following:

- Map more than 1 million acres of Central Valley flood plains to guide development.
- Repair Central Valley levees and upgrade other flood protection facilities such as the Folsom Dam.
- Upgrade Delta levees and begin seismically fortifying critical levees to ensure their long-term reliability.
- Fund current and future flood control projects in other regions of the state.

In addition, the Administration intends to pursue a package of reforms including the establishment of a Water Resources Investment Fund for additional sustained water management efforts on a regional and statewide basis, the enactment of AB 1665 to reform flood management and the financing of flood control improvements, and enactment of ACA 13 to allow flood management projects to proceed as other necessities such as water and sewer service.

Department of Forestry and Fire Protection. The Governor's Strategic Growth Plan also includes \$600 million in general obligation bonds to help fund replacement or relocation of old and deteriorated emergency response facilities, including Department of Forestry and Fire protection facilities such as forest fire stations, air attack bases and conservation camps.

Public Safety. The Governor's Strategic Growth Plan contains \$12 billion for local jail construction (\$4 billion in general obligation bonds) and \$1.2 billion for state adult and juvenile detention facility construction. The ten-year bond program will seek to address capacity needs in both state and local correctional facilities by providing 45,000 beds for offenders. Of the new capacity, approximately two-thirds would be devoted to local facilities and the remaining one-third for inmates in state facilities, especially for those detainees who are within 90 days of release. In the first five years, the bond program anticipates \$2 billion of state GO bonds for local jail construction programs; \$2 billion of required matching funds from local agencies; and \$2 billion from local bonds secured by the portion of revenues received by local agencies from the state as payment to use jail beds in the new facilities. The second round of bond financing contemplates another \$6 billion for local jail construction (\$2 billion GO bonds) as well as an additional \$1.1 billion GO bonds for construction of adult prisons or juvenile detention facilities within the California Department of Corrections and Rehabilitation (CDCR).

Courts and Other Public Service Infrastructure. To provide for the facility needs of the trial courts, the Governor's infrastructure initiative proposes GO bonds of \$1.8 billion over the 10-year growth period, with \$800 million expected in the first five years and an additional \$1 billion in the second five years. Details on how the money will be dedicated to specific projects are not yet known. The Governor's budget documents indicate that a significant number of "current facilities do not meet security standards, working conditions, or accessibility standards," and that funding is needed to improve these facilities. We will share additional details on the Governor's court facility funding proposal as they become available.

Additionally, the SGP proposes \$400 million in GO bonds over the next five years to address the state's most critical needs for the infrastructure of other public services, including seismically retrofitting high-risk state buildings and addressing health and safety issues at state parks facilities.

Statewide Issues

Increase Minimum Wage. The Governor's budget proposes legislation to increase the state's minimum wage from \$6.75 per hour to \$7.25 per hour, effective September 1, 2006.

Mid-year Correction Authority. The Administration proposes to restore mid-year correction authority similar to that which existed prior to 1983. The mid-year correction authority would allow the Director of Finance to reduce General Fund appropriations (non-Proposition 98) if necessary to protect the financial interests of the state. Reductions would be limited to 25 percent of the affected appropriation and require notification of the Legislature within 30 days.

Unallocated Reductions. The Governor's budget proposes to reduce General Fund spending by a total of \$150 million, comprised of \$50 million in 2005-06 and \$100 million in 2006-07. The Department of Finance will work with Agency Secretaries and other cabinet members to reduce General Fund spending \$150 million on a one-time basis in addition to the \$100 million in 2005-06 and 2006-07 required by Control Section 4.05 of the 2005 Budget Act.

Administration of Justice

Public Safety Infrastructure. As further detailed in the overarching discussion of the Governor's Strategic Growth Plan, the infrastructure initiative contemplates support for state and local detention facilities as well as court facilities. Please refer to that section for additional information.

Citizens' Option for Public Safety (COPS) and Juvenile Justice Funding. The Governor's 2006-07 budget contains \$100 million to maintain the current-year level of support for the COPS program, which supports local law enforcement front-line services. The budget also contains \$73.9 million in funding for the Juvenile Justice Crime Prevention Act, which, as we understand it, will result in a full-year funding level (\$100 million), but on an altered (April to March) grant cycle.

Proposition 36. The Governor's budget contains a one-time grant to maintain the current-year level of funding for the Substance Abuse Crime Prevention Act (Proposition 36). As counties will recall, the provisions of Proposition 36 appropriated \$120 million through fiscal year 2005-06, with the funding — but not program requirements — sunseting on June 30, 2006 unless a new appropriation is made. The Governor's budget intends to maintain the \$120 million funding level for 2006–07, conditioned upon significant program reforms, including provision of jail sanctions, mandated drug testing as a condition of probation, dedicated drug court calendars, assurance of culturally competent services, and enhanced assessment and delivery of treatment tailored to individual participant needs.

After School Programs. As counties will recall, the Governor, prior to his election, sponsored Proposition 49, a 2002 voter initiative that sought to expand the state After School Education and Safety (ASES) program. The initiative provided for commencement of enhanced funding in future years, and only after certain revenue thresholds were met. Beginning in 2006–07, Proposition 49 will provide an increase of \$428 million for after-school programs, including such services as tutoring, homework assistance, and educational enrichments weekdays from 3 to 6 p.m. The Governor's Office has established a temporary Proposition 49 Steering Committee to develop a statewide master plan to ensure timely and efficient distribution of these funds.

Booking Fees. The Governor's budget contains a \$40 million "placeholder" to fund a comprehensive solution to the booking fee issue. As counties may be aware, the California State Sheriffs' Association and the California Police Chiefs' Association have been discussing a new approach to booking fees, and the Administration indicates its positive inclination to support this effort with the promise of funding should those discussions produce a mutually accepted resolution to the booking fee issue. Counties will recall that, as of July 1, 2005, pursuant to SB 1102 (2004), counties retain the authority to collect one-half of actual administrative costs for booking and processing arrestees, and the state subvention to cities and special districts for fees paid to counties lapsed.

Local Assistance for Housing State Prisoners. The budget contains an augmentation to the budget of the Department of Corrections and Rehabilitation for local assistance associated with the housing of state prisoners in local facilities. For 2006-07, the budget contains an additional \$11.9 million to reimburse local entities for housing and non-routine medical costs related parolees who are detained for parole violations.

Department of Juvenile Justice (formerly the California Youth Authority). As part of a settlement stemming from a lawsuit (*Farrell v. Hickman*) that challenged the state on a wide range of conditions at the state's juvenile detention facilities, the state is currently engaged a remediation process in a number of areas in state juvenile justice system, including Safety and Welfare, Healthcare/Medical, Mental Health, and Education. The Governor's budget contains \$55 million in 2006–07 to implement the Safety and Welfare as well as the Medical Care Remedial Plans, which were submitted late in 2005. There is no mention in the budget documents of any proposed juvenile justice reform concepts that have been floated in prior years, which contemplated realignment of certain responsibilities between the state and counties.

Judiciary and Trial Court Funding. The Governor proposes \$3.7 billion in total judicial branch budget funding, which supports the Supreme Court, Courts of Appeal, the Administrative Office of the Courts, Commission on Judicial Performance, Judges' Retirement System, and the trial courts. The budget includes \$18.7 million to address court security needs, and is intended to permit local courts to add 97 entrance screening stations, with a plan to replace this equipment on a regular five-year cycle.

Further, it should be noted that the budget also contains \$5.5 million to support facilities, staff, salaries and benefits for up to 150 new judgeships to be phased in, beginning in Spring of 2007, over a three-year period. Funding of the 150 new judgeships and conversion of 161 judicial officers is conditioned upon passage of legislative authorizing the creation of such judgeships.

Rural and Small County Local Assistance Program. It is our understanding that the Governor's budget does contain \$18.5 million to maintain the Rural and Small County Local Assistance Program. As counties will recall, this program (except for a one-year suspension in 2003–04) has provided a \$500,000 assistance grant to 37 specified local sheriffs' departments for purposes of enhancing local law enforcement efforts.

Other Criminal Justice Local Assistance Programs. The Governor's 2006-07 budget proposes a number of new or expanded local assistance initiatives:

- *Sexual Assault Felony Enhancement (SAFE) Task Force* – The budget proposes \$6 million in local assistance grants through the Office of Emergency Services to support SAFE teams statewide, with an anticipated increase of an additional \$2 million (for an overall program level of \$8 million) beginning in 2007–08. The SAFE Task Forces will seek to reduce violence sexual offenses through proactive surveillance and apprehension of sexual offenders.
- *Gang Suppression Enforcement Teams (GSET)* – The budget contains an increase of \$9.8 million in funding to the Department of Justice's budget to be phased in over two years, which will permit the DOJ to add six new enforcement teams that will assist and coordinate with local law enforcement agencies to target high-level gang leaders. Once fully in place, the GSETs are expected to arrest up to 600 gang leaders and assist local law enforcement agencies with as many as 2,000 gang member arrests per year.
- *California Methamphetamine Strategy Program (CALMS)* – The budget proposed \$6 million and 29.6 new positions within the DOJ to augment three existing CALMS programs. In coordination with multijurisdictional law enforcement partners, the teams will help coordinate investigations and lab seizures and work cooperatively with federal agencies to combat the methamphetamine problem. It is anticipated that the new resources will be primarily dedicated to the rural areas of the state.

- *Special Crimes Unit* – The budget includes \$1.3 million and 12.6 positions in the DOJ to enhance investigation and prosecutorial efforts related to complex financial and identity theft crimes. In addition to helping support DOJ involvement in these cases, the augmentation will permit the unit staff to assist and advise local district attorneys and law enforcement agencies at all levels of government in conducting these investigations.
- *Enhancement of the California Law Enforcement Telecommunications Systems (CLETS)* – The budget contains \$2.3 million and 5.6 positions within the Department of Justice to enhance the CLETS system, the statewide telecommunications network relied upon by state and local law enforcement and criminal justice agencies. The augmentation is intended to improve and protect transmission of data and to address service upgrades.

State Criminal Alien Assistance Programs (SCAAP). The Governor’s budget indicates that the Administration will continue to seek increased federal funding to offset costs of housing undocumented felons.

Agriculture and Natural Resources

Flood Control. The Governor’s Budget reflects additional revenues from the state’s tidelands oil leases and intends to invest this funding in one-time programs, including \$35 million for a multi-year Central Valley flood management program administered by the Department of Water Resources, \$84 million for lining the All-American and Coachella canals in concrete, and \$244 million for CALFED.

Additionally, the budget proposes \$801 million from special funds for the operation of the State Water Project and \$152 million on flood control and dam safety activities.

Also, as a result of the *Paterno v. State of California* court decision, which placed increasing liability for the structural integrity of 1,600 miles of aging levees in the Sacramento and San Joaquin flood control system, the Governor’s budget includes \$35 million in General Fund and 30 new positions to improve and maintain the flood control system. The budget also includes \$41.3 million (\$31.4 million General Fund) for six flood control capital projects:

- Folsom Dam Modifications
- American River Common Features
- Sacramento River Bank Protection
- Folsom Dam Raise
- American River Natomas Features
- Upper Sacramento River Levee Restoration

Storm Water. While the Governor’s budget does not allocate specific funds for structural storm water treatment and total maximum daily load mandates, he indicates that Caltrans will request additional resources in the spring to help meet these needs as they relate to the state highway system.

Water Quality Monitoring. The Governor’s budget proposes an additional \$8.5 million (\$4.5 million in federal funds and \$4 million in Waste Discharge Permit funds) to enhance existing water monitoring efforts by the State Water Resources Control Board. Not only would these funds be used to expand the Water Board’s monitoring activities, but also to integrate existing data collected by various state and local agencies into the Surface Water Ambient Monitoring Program.

Williamson Act. The Governor’s 2006-07 budget would fund the Williamson Act at the same level as last year – \$39.6 million – for subventions to counties for property tax losses incurred by enrolling agricultural land in Williamson Act contracts.

Department of Forestry and Fire Protection. The Governor's Strategic Growth Plan includes \$600 million in general obligation bonds to help fund replacement or relocation of old and deteriorated emergency response facilities, including Department of Forestry and Fire protection facilities such as forest fire stations, air attack bases and conservation camps.

Emergency Preparedness and Disaster Planning. The Governor's budget includes \$62.3 million (\$55.1 million General Fund and \$7.2 million other funds) and 108.3 positions to enhance system-wide emergency preparedness, mitigation and response activities. This includes \$45,000 to commission a series of studies to test the effectiveness of state, local and federal responses to specific emergency scenarios. The budget also includes an increase of \$617,000 General Fund and 8 positions to ensure 24-hour staffing and timely notification processes by the California State Warning Center, which is operated by the Office of Emergency Services.

Disaster Relief Funding. The Governor's budget proposes \$1.6 million in disaster relief funding to backfill property tax revenues lost by local governments due to various natural disasters.

Economic Development

Small Business Loan Program. The Governor has proposed to repay a \$10.7 million General Fund loan to the Small Business Loan Reserve Fund. This repayment, including interest, will enable the program to guarantee approximately 200 more small business loans. This program provides guarantees for loans issued to small businesses by private financial institutions whose loan criteria would ordinarily exclude those businesses from consideration.

California Travel and Tourism Commission. The Governor's budget proposes to expend an additional \$2.6 million General Fund – for a total of \$10 million – to promote California. The Governor also indicates that these funds will be matched by approximately \$15 million from the private sector, for a total promotional marketing program of \$25 million.

California Film Commission. The Governor's budget contains no new funding for the commission, but instead reiterates the availability of tax credits for in-state film production outlines his support for bipartisan legislative efforts to address the economic impact of out-of-state film production.

Elections

2005 Special Election Reimbursement. The Governor's 2006-07 Budget proposal includes \$54 million in the current year for the costs associated with the November 2005 statewide special election. Of this amount, \$45 million is earmarked for county costs and \$9 million for state costs. The proposal also explains that the funding is an augmentation to the current year budget (2005-06) to ensure sufficient resources for the upcoming June statewide primary election.

Energy

Creation of a Department of Energy. The Governor's budget resurrects a 2005 proposal to create a Department of Energy to assist the state in setting a strategic direction for California's future energy needs, sharpen policy development and program implementation, and eliminate any current duplication of effort. This reorganization would include a Cabinet-level Secretary of Energy position.

Government Finance and Operations

The End of ERAF III. Under the provisions of Proposition 1A, local governments will no longer be required to transfer additional property tax revenues to the state under the ERAF III provisions.

In 2004-05 and 2005-06, counties were required to transfer \$350 million in local property tax revenue to ERAF.

Property Tax Administration Grants. In accordance with the agreement reached with the Legislature as part of the 2005 Budget Act, the Governor's budget proposes to continue suspension of the Property Tax Administration Program (PTAP) grants through 2006-07, for a General Fund savings of \$60 million. However, the Administration is willing to work with the Legislature and local government representatives on alternatives for creating a new PTAP program for implementation in 2007-08.

Mandates. The Governor's budget includes \$98.1 million for the first year of a 15-year payment plan to reimburse cities and counties for deferred mandate costs prior to 2004-05.

The Governor's budget includes \$50 million non-Proposition 98 General Fund as a set-aside in the Commission on State Mandates (COSM) budget for funding mental health services to pupils. Please refer to the Health and Human Services section of this Bulletin for additional information.

The Governor's budget includes \$243.4 million (\$241.6 million General Fund) for the COSM, which includes funding for ongoing mandate reimbursements and COSM operating costs. We are awaiting detail on specific funding amounts for various mandates from the Department of Finance.

The Governor's budget also includes \$537,000 reimbursements from mandate savings and 3.8 positions for a unit at the Department of Finance devoted to addressing issues related to reimbursable state-mandated local programs. The purpose of the unit is to perform policy and legislative analyses, develop policy and processes to improve the mandates system, and ensure fair and equitable payment of costs associated with mandated local programs.

Board of Equalization. The Governor's budget includes additional funding for the BOE to develop more accurate property tax valuation factors for biopharmaceutical and non-production computer equipment. Valuation factors are used by county assessors to determine the value of commercial business equipment for property tax purposes. Additionally, the Governor's budget includes additional funds for the BOE to identify and register businesses that fail to pay sales and use taxes on the goods and services these businesses provide. BOE estimates these enforcement efforts will generate \$12.6 million in additional sales and use tax revenues (state and local) in 2006-07.

Health and Human Services

The following is a description of the spending proposals – both reductions and augmentations – for health and human services programs.

HUMAN SERVICES

CalWORKs. The January budget proposes a number of cuts and revised estimates for the CalWORKs program. Net reductions to CalWORKs total \$198.9 million. Proposals include the following:

- *CalWORKs Child Care Expenditures.* The Governor proposes reducing the 2005-06 allocation to counties for child care by \$120 million. The Administration is assuming that counties will not have increased child care costs in 2005-06. Please note that the Administration is proposing to recoup these funds administratively. However, CSAC does not believe that the state has the statutory authority to reduce funds mid-year without legislative approval.
- *Pay for Performance.* The Administration is proposing to delay \$30 million in incentive payments in 2006-07 to counties for the Pay for Performance Program. The Administration is

delaying payments while the state Department of Social Services works with counties to fully implement the work requirement changes included in the 2004 and 2005 State budgets.

- *County Single Allocation.* The budget reduces the 2006-07 CalWORKs single allocation funds to counties by \$40 million. The state asserts that counties have sufficient unspent performance incentive funds available to offset this reduction.

The Administration is proposing to utilize these federal TANF funds to offset General Fund costs associated with Child Welfare Services (\$39.1 million) and Foster Care (\$0.9 million).

Additionally, the Department of Finance indicates that the Administration is proposing trailer bill language to prevent counties from shifting funds within the single allocation to county administrative costs. Please recall that counties have not received a cost of doing business adjustment for CalWORKs since 2001.

- *Prospective Budgeting.* The Administration is reviewing data to estimate the impact of prospective budgeting on county administration. The Governor's budget sets aside \$25 million in 2005-06 in the TANF reserve and includes \$25 million in 2006-07 to account for potential additional expenditures based on a revised estimate for prospective budgeting. This would reduce the estimated savings for prospective budgeting in 2006-07 from \$127.7 million to \$102.7 million.

Foster Care. The 2006-07 budget proposes a \$3.8 billion budget for Child Welfare Services (Foster Care, Adoptions, Adoption Assistance and Child Abuse Prevention).

The Governor's budget proposes to continue \$12.9 million in support of county efforts to improve outcomes for vulnerable children, which results in an increase of \$3.9 million of General Fund from the 2005-06 budget. An additional \$15 million will be used to expand permanent homes for children who cannot reunify with their parents.

The Governor's budget proposes \$14.4 million to implement Chapter 640, Statutes of 2005, which requires social workers to identify adult mentors to promote and establish relationships with children in foster care.

The Governor proposes \$2.6 million to expand Transitional Housing services for the 4,000 kids transitioning or aging out of foster care. Additionally, the Governor proposes to increase the Kinship Support Services Program by \$2.5 million. Kin-GAP caseloads have increased from an average monthly figure of 15,091 in 2005-06 to 15,492 in 2006-07.

Please note that funding for the *Rosales v. Thompson* court case was reduced to \$4.7 million based on actual claims data.

The federal Department of Health and Human Services disallowed \$33.8 million of Title IV-E foster care funds for relative cases to be repaid in fiscal years 2005-06 and 2006-07. However, the state will backfill with General Fund.

In-Home Supportive Services. The Administration is proposing \$1.3 billion in General Fund for the IHSS program in 2006-07. This represents a 4.1% increase from the revised 2005-06 budget. However, the average monthly caseload is estimated to be 396,195 recipients in 2006-07, which represents a 6.4 percent increase from last years projected level.

Supplemental Security Income/State Supplementary Payment. The Governor proposes \$5.4 billion in federal funds and \$3.6 billion in General Fund for the SSI/SSP Program in 2006-07. This reflects a 1.7 percent increase from the 2005-06 budget. Please note, that the average monthly caseload is estimated to be 1.2 million recipients, a 2.4 percent increase over the 2005-06 projected level.

The Administration is proposing to extend the withholding of pass-through for the January 2007 federal COLA until July 2008. This proposal projects a savings to the General Fund of \$48.1 million on 2006-07 and \$185 million in 2007-08.

Extension of the current statutory sponsored deeming period for the Cash Assistance Program for Immigrants (CAPI) Program is proposed in the Governor's budget for an additional 5 years.

Child Support. The Governor's budget includes \$1.4 billion (\$517.3 million in General Fund) for child support in the 2006-07 proposed budget, which reflects an increase of \$9 million.

The budget continues to fund the federal penalty associated with the state's delay in implementing a single statewide, automated child support system. The January budget includes \$220 million General Fund to pay the federal fiscal year (FFY) 2006 penalty and assumes there will be no penalty in FFY 2007.

HEALTH

Medi-Cal. State spending on the Medi-Cal program for 2006-07 is proposed to be \$34.7 billion (\$13.7 billion General Fund). This is a \$974.7 million (\$542.3 million General Fund) increase over 2005-06. Increase costs are due to a number of factors, including increases in caseload and cost per eligible and growth in the number of aged, blind, and disabled persons eligible for Medi-Cal. Approximately 6.8 million Californians are estimated to be eligible, up from 6.7 million.

Additionally, the federal Medicare Modernization Act of 2003 (also known as Medicare Part D) requires states to pay the federal government a General Fund contribution to assist Medicare in the cost of covering the dual eligibles. California will pay approximately \$72.3 million General Fund more in 2005-06 than the state would otherwise paid for drugs for dual eligibles. In 2006-07, the state will pay \$59.1 million more than what the state would have otherwise paid for dual eligibles.

- *Medi-Cal Managed Care.* The state indicates that the first two of the 13 counties approved for Medi-Cal Managed Care expansion in the 2005 state budget are still scheduled for a 2008 transition.
- *Increase Seniors and Persons with Disabilities in Medi-Cal Managed Care.* The budget includes \$2 million (\$936,000 General Fund) for DHS to phase in expanded enrollment of seniors and persons with disabilities by: 1) developing and implementing statewide managed care performance standards and requirements; 2) designing specific education and outreach efforts aimed at increasing voluntary enrollment in managed care counties; and 3) initiating a mandatory enrollment of seniors and persons with disabilities not eligible for Medicare in two counties. The document does not indicate which two counties will pilot the mandatory enrollment project.
- *Coordinated Care Management Pilot Project.* The budget includes \$473,000 (\$208,000 General Fund) for a pilot project to coordinate the provision of health care to beneficiaries with chronic conditions who may be seriously or at the end of life, and persons with serious mental illness and chronic health conditions.
- *Hospital Financing Waiver.* The Governor's budget includes an additional \$246 million in federal funding for hospitals under the new federal Hospital Financing Waiver in 2005-06 and \$570.7 million in 2006-07. Please note that the state is still working with the federal government on developing a definition for Certified Public Expenditures under paragraph 14 of the federal waiver.

- *Medi-Cal County Administration.* The Governor's budget proposes freezing state funding for county administration of the Medi-Cal program. This cost-of-doing business freezes results in state savings of \$42.4 million (\$21.2 million General Fund).
- *Medi-Cal Provider Rates.* Please recall that as of January 1, 2006, the state cut Medi-Cal reimbursement rates by 5 percent. The Budget does NOT propose to extend the 5 percent Medi-Cal provider rate decrease into 2007. In other words, the rate decrease will be in effect for the 2006 calendar year only.

Increase Eligible Children in Medi-Cal and Healthy Families (HFP). The Governor proposes \$72.2 million (\$34.2 million General Fund) and the following activities to enroll more eligible children in these programs:

- Provide counties with \$20.8 million (\$9.1 million General Fund) for service contracts to perform outreach and enrollment activities.
- Providing for caseload growth through form simplification by making \$45.5 million (\$22.7 million General Fund) available for caseload growth by simplifying the Medi-Cal re-determination form and encouraging the use of electronic application through the Health-e-App.
- Partnering with the First 5 Commission for public education campaign by including \$3.4 million (\$1.4 million General Fund) to promote awareness of Healthy Families and Medi-Cal programs by encouraging enrollment and the importance of children's health coverage.
- Offering incentive payments to Certified Applicant Assistants by providing \$2.5 million (\$1.0 million General Fund) to encourage CAAs who increase their productivity from quarter to quarter by enrolling more children in Medi-Cal and Healthy Families.

PUBLIC HEALTH

Preventing and Responding to Disease Outbreaks and Natural or Intentional Disasters. The Governor's budget proposes to increase \$49 million (\$47.3 million General Fund) to support state and local capacity to respond to bioterrorism, outbreaks of infectious diseases, and other public health threats. Of the total increase, \$17.9 million General Fund is identified for local health departments to support local activities related to the prevention of a pandemic influenza outbreak. Another \$4.2 million General Fund is provided to expand state efforts and to assist local agencies in how to plan, respond, train, and recover from disasters and terrorist incidents that could result from chemical and radiological contamination of food, water, and the environment. Lastly, \$1.3 million General Fund is added to expand and maintain state and local capacity to conduct communicable disease surveillance. Additionally, supplemental legislation is needed for a 2005-06 allocation of \$4.8 million General Fund to local health departments for the support of activities related to pandemic influenza outbreak.

Obesity prevention. The Governor continues to be interested in obesity prevention and reduction. The budget includes \$85 million in Prop. 98 education funds to schools for physical education programs. There is not a piece of the initiative that will include funds for counties.

MENTAL HEALTH

Mental Health Services to Special Education Students (AB 3632). When the Governor signed the 2005 Budget Act, he expressed interest in shifting the program from a state-mandated program to a categorical program effective in 2006-07. The Administration indicates in the January budget document that they would like to continue these discussions. To date, no meetings have been convened.

The budget provides \$100 million in special education funding in the Department of Education budget for these mental health services. Of this funding, \$69 million is for counties to provide these services under contract with local education agencies and \$31 million is Proposition 98 General Fund for local education agencies for pre-referral mental health services pursuant to SB 1895. In addition, the budget includes \$50 million non-Proposition 98 General Fund as a set-

aside in the Commission on State Mandates' budget for funding mental health services under the newly created categorical program.

Permanent General Fund transfer for the Early and Periodic Screening, Diagnosis, and Treatment (ESDPT) Program from the Department of Health Services Budget to the Department of Mental Health. The budget includes \$714.4 million (\$352.3 million General Fund), a net decrease of \$100.6 million from the revised 2005-06 budget, which allocated funds to the Department of Health Services. The adjustments include an increase of \$57.9 million (\$27.2 million General Fund) for an increased number of projected claims, and a reduction of \$19.1 million (\$8.4 million General Fund) for audit disallowances and county self-corrected claims.

Mental Health Services Act (Proposition 63). The budget provides the following for county implementation expenditures from the Mental Health Services Fund (MHSF): \$648.9 million in 2005-06 and \$655.5 million in 2006-07.

REALIGNMENT

Realignment revenues in 2005-06 are estimated to total \$4.4 billion (\$2.8 billion in sales tax revenues and \$1.6 billion in Vehicle License Fees). Realignment revenues in 2006-07 are estimated to be \$4.6 billion (\$2.9 billion in sales tax revenues and \$1.7 billion in VLF).

Sales tax revenues have not grown sufficiently to cover the shortfall in the Caseload Subaccount. The 2002-03 caseload growth has been fully paid. There is \$87.5 million in 2003-04 caseload growth that remains unpaid. Additionally, none of the 2004-05 caseload growth has been paid; please note that CSAC has not yet received the 2004-05 caseload growth estimates from Department of Finance.

Indian Gaming

Special Distribution Fund. The Governor has proposed \$30 million in SDF allocations to local agencies impacted by tribal gaming in 2006-7, but also indicated his desire to ensure that SDF funding is being fairly distributed and accurately reported by local agencies prior to supporting the \$30 million allocation.

Gambling Control Commission/Department of Justice. The budget also includes an augmentation of \$5.3 million – comprised of \$1.1 million General Fund and \$4.2 million in SDF funds – and 32.7 positions to the Division of Gambling Control within the Department of Justice and the California Gambling Control Commission to help ensure a comprehensive approach to the regulation of gaming.

Within the Gambling Control Commission, the Governor has also proposed a \$1.3 million (\$359,000 General Fund and \$911,000 in SDF funds) augmentation and 9.9 new positions to address ingoing licensing and audit workload, and to implement a new field inspection program. The budget also includes \$732,000 (\$336,000 General Fund and \$366,000 in SDF funds) and 4.8 positions to establish a Technical Services Program to test and inspect gaming devices and equipment.

Within the Department of Justice, the Governor proposes \$19 million (\$367,000 General Fund and \$18.6 million in other funds) and 149.8 positions for the DOJ's Division of Gambling Control. The Division of Gambling Control would also receive \$3.3 million (\$367,000 General Fund and \$3 million in SDF funds) and 18 positions to address tribal gaming compliance and enforcement related to all Tribal-State Gaming Compacts.

Transportation

Proposition 42. The Governor should be applauded as the budget released today proposes to fully fund Proposition 42 – valued at \$1.4 billion for the 2006-07 fiscal year. These funds would be allocated as follows: \$678 million to the Traffic Congestion Relief Projects (TCRP), \$582 million to the State Transportation Improvement Program (STIP), and \$146 million to the Public Transportation Account. Cities and counties will not receive revenues from Proposition 42 funds attributed to 2006-07 and 2007-08 since we received funds from the state in 2001-02 and 2002-03, even though no funds were provided to transportation in those years due to fiscal constraints.

However, the budget does propose to advance the repayment of Proposition 42 funds from the suspension in 2004-05. This loan is currently scheduled for repayment in 2007-08, thus this represents payment one year earlier. The budget proposes to payback \$920 million of the \$1.35 billion borrowed. This would be allocated as follows: \$410 million to the TCRP, \$255 million to the STIP, and \$255 million to cities and counties. This amount includes \$46 million in interest as well.

Further, the \$1 billion in outstanding transportation loans, including Proposition 42 funds due from the suspension back in 2003-04, remains dependent upon the sale of tribal gaming bonds. The budget assumes the bond sale will now occur in the spring of 2006 due to several lawsuits that have impeded the sale of the bonds. Should the bonds become a reality, funds would be allocated as follows: \$465 million to the State Highway Account (SHA), \$290 million to the TCRP, \$122 million to the PTA, and \$122 million to cities and counties. However, this date will continue to be adjusted as the legal issues are evaluated.

There are other components related to increased transportation funding of interest to counties found in the Governor's Strategic Growth Plan, which are outlined in that section of this Bulletin. One important point to reiterate of direct interest to counties in this section is that the Strategic Growth Plan proposes a constitutional amendment to eliminate the option for future governors and legislatures to suspend the Proposition 42 allocation.

In summary, counties would receive \$127 million next fiscal year, should this proposal to accelerate the payback be embraced by the Legislature. Further, the permanent fix to stabilize those revenues in the future is also of great importance to counties that stand to gain significantly from Proposition 42 revenues beginning in 2008-09.

State Transportation Improvement Program (STIP). As mentioned above, the Governor's budget reflects an acceleration of \$920 million in loan repayments, and the recent reauthorization of federal transportation funding has also produced over \$550 million more in both 2005-06 and 2006-07 than was assumed in the STIP Fund Estimate. Consequently, significantly more funding is proposed to be available than assumed in September by the California Transportation Commission (CTC) in preparing the Fund Estimate. The CTC will reflect the amounts finally included in the budget in the 2006 STIP.

Federal Transportation Reauthorization. The budget reports that California highway apportionments increased from an annual average of \$2.6 billion, to an annual average of \$3.3 billion. This is an approximate 28 percent increase in average annual funding levels over provisions of the previous transportation authorization bill, which expired in September 2003. The budget includes approximately \$2 billion in 2005-06 and 2006-07 due to the increased apportionments included in SAFETEA-LU.

It should be noted that the budget forecasts gas and diesel excise tax revenues to increase by approximately 2.4 percent in 2006-07.

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FOR IMMEDIATE RELEASE

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**California Counties React to Proposed State
Budget**

***Local Government Leaders Pledge to Work
with Governor, Legislators to Provide the Best Services for Californians***

SACRAMENTO – California’s counties continue to express appreciation for Governor Schwarzenegger’s ongoing inclusion of local government partners in budget discussions.

"The Governor's budget reflects the value he places on local government," said CSAC Executive Director James Keene. "Working together -- this year and beyond -- we can build a better California for all our citizens."

Keene referenced the Governor’s inclusion of funding for vital programs such as increased outreach for children’s health care, 2005 special election reimbursement, and permanent funding of Proposition 42 local transportation funding, which is included his major infrastructure plan.

"Prop. 42 funds are a necessity for our counties to invest in much-needed maintenance and upgrades for the streets and roads that families and businesses depend on," he said.

As counties continue their dialogue with the governor on his budget plans, they will address proposed reductions in the funding and administration of county programs that help children and working families.

"Counties -- as well as the governor and Legislature -- know the value of smart budgeting, as well as the value of the vital services we provide to the people of California," said Keene. "We look forward to continuing to work with the governor and legislators to provide the best county services and create winning solutions for all Californians."

CSAC is a nonprofit corporation that promotes the interests of California's 58 counties at the state and federal level. One of the association's primary goals is to educate the public about the value and necessity for county programs and services. Founded in 1895, CSAC is based in Sacramento.

