



STATE BUDGET 2007-08

INTRODUCTION

The 2007 Budget Act signed by Governor Schwarzenegger includes the largest reserve of any budget act in the state's history. The May Revision proposed a total reserve of \$2.2 billion. Due to the shortfall in revenue collections that came to light in June, and in recognition of the state's continuing structural deficit and other potential threats, the Legislature took actions to reduce spending and increase funds available, thereby increasing the total reserve to an unprecedented \$3.4 billion. The Governor further reduced spending with \$703 million in General Fund vetoes, raising the total reserve to \$4.1 billion. As a result, General Fund spending growth in this budget is held to \$0.6 billion, or 0.6 percent.

Figure INT-01 displays the major changes to the amounts proposed in the May Revision.

These actions eliminate the gap between spending and revenues in 2007-08, after discounting the \$1.023 billion of transfer to the Budget Stabilization Account for rainy-day purposes.

INTRODUCTION

Figure INT-01
Major General Fund Changes Since May Revision

(millions)

	Total Reserve	
	Total Impact	Ongoing Impact
Total Reserve at May Revision	\$2,199	
Overall Proposition 98 Changes	\$749	\$0
Reject Economic Recovery Bonds Pre-payment	595	0
Repay Prior Year Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Claims Over Three Years	174	-69
Reduce Medi-Cal Estimate	332	332
Funded Various Capital Outlay Projects with Lease Revenue Bonds	101	0
Use TANF Reserve	84	0
Integrated Services for Homeless Mentally Ill Adults Program	55	55
Medi-Cal Managed Care Rates	53	0
Unallocated Reduction	72	72
Reverse Price Increase (except the Legislature, Judicial Branch and Constitutional Officers)	40	40
Continue Funding for Williamson Act	-39	-39
Use Public Transportation Account for Various Purposes	-41	-119
Reverse STRS Supplemental Benefit Maintenance Account Contribution Savings	-75	-75
Enhance Effort to Reunite Owners and Their Unclaimed Property	-87	-77
Reverse CalWORKs Reform Proposals	-314	-314
Net of All Other Changes	171	-20
Total Changes	\$1,870	-\$214
Total Reserve at Budget Act	\$4,069	

Despite the modest year-over-year increase in General Fund spending in the Budget Act, it still fully funds K-12 education (providing a 3.4-percent increase in per-pupil spending from all funds), law enforcement and the Governor’s compacts with higher education and the judiciary. It also continues the commitment to reform the state’s prison system by reducing recidivism, improving prison health care and reducing overcrowding. The Budget Act also continues the commitment to improve the state’s critical infrastructure through prudent use of the general obligation bonds authorized by the people in 2006.

LEGISLATIVE, JUDICIAL, AND EXECUTIVE

Governmental bodies classified under the Legislative, Judicial, and Executive section of the Governor's Budget are either independent entities under the California Constitution or departments with a recognized need to operate outside of the administrative oversight and control of an agency secretary. Constitutionally established bodies include the Legislature, Judicial Branch, Governor's Office, and Constitutional Officers. This section also includes such independent entities as the Inspector General, the Office of Emergency Services, the Office of Homeland Security, and the California State Lottery.

JUDICIAL BRANCH

The Budget includes \$126.6 million General Fund to reflect the application of the annual growth factor adjustment to the Trial Courts, which is based on the year-over-year change in the State Appropriations Limit (SAL). This adjustment is consistent with the statutory requirement that provides an annual SAL adjustment to fund the general operations of the Trial Courts.

The Budget includes \$27.8 million General Fund for 50 new judgeships, which is the second installment of a plan to add 150 judges over a three-year period. These additional judges will increase access to the courts and address court backlogs.

OFFICE OF THE CHIEF INFORMATION OFFICER

The Budget includes \$4.6 million Department of Technology Services Revolving Fund and 25 positions to establish the Office of the Chief Information Officer. The State Chief Information Officer (CIO) will be responsible for the following duties:

- Advising the Governor on the strategic management and direction of the state's information technology resources.
- Establishing and enforcing state information technology strategic plans, policies, standards, and enterprise architecture.
- Minimizing overlap, redundancy, and cost in state operations.
- Coordinating activities of agency information officers and the Director of Technology Services.
- Improving organizational maturity and capacity in the effective management of information technology.
- Establishing performance management and ensuring state information technology services are efficient and effective.
- Approving, suspending, terminating, and reinstating information technology projects.

Effective January 1, 2008, the State CIO will assume responsibility for review and oversight of projects and department-specific activities, a function that has been the responsibility of the Department of Finance. Accordingly, the Department of Finance staff who have been performing this function will move to the Office of the State Chief Information Officer on January 1, 2008. The Department of Finance will continue to perform fiscal oversight of the state's information technology projects, including the determination of the availability of project funding from appropriate sources and ensuring consistency with state fiscal policy. To facilitate this effort, the Department of Finance will retain five positions for an information technology consulting unit.

OFFICE OF THE INSPECTOR GENERAL

The Budget includes \$517,000 General Fund for the Office of Inspector General to support the California Rehabilitation Oversight Board (C-ROB) created by AB 900 (Chapter 7, Statutes of 2007). The C-ROB, chaired by the Inspector General, is tasked with examining the various

mental health, substance abuse, educational and employment programs for inmates and parolees operated by the California Department of Corrections and Rehabilitation.

OFFICE OF EMERGENCY SERVICES

The Budget includes \$14.8 million for various programs to support anti-gang efforts which include:

- \$4.9 million in federal funds for two federal anti-gang programs: the 2006 Anti-Gang Initiative and the 2006 Six-City Comprehensive Anti-Gang project.
- \$446,000 General Fund to establish and support a State Anti-Gang Coordinator position in the Office of Emergency Services (OES). This position will coordinate anti-gang programs at all state agencies, track all federal anti-gang funding and grants, and collect, evaluate, and promote anti-gang effort best practices.
- \$9.5 million Restitution Fund for local anti-gang programs. The OES will administer this grant program and allocate funding to eligible cities and community-based organizations for local anti-gang suppression, intervention, and prevention programs.

The Budget includes \$1 million Restitution Fund to augment four Internet Crimes Against Children Task Forces, one each in Sacramento, San Jose, San Diego, and Los Angeles. This funding will enhance the investigative response to offenders who use the internet to sexually exploit children.

OFFICE OF HOMELAND SECURITY

The Budget includes \$177.6 million transportation bond funds, as approved by Proposition 1B, to establish two homeland security grant programs:

- \$76.1 million for the Port Security Grant Program to be allocated to various ports in California to purchase security equipment in order to prevent and respond to acts of terrorism.
- \$101.5 million for the Transit Security Grant Program to be allocated to various mass transit systems to purchase security and communications equipment, lighting, and other security improvements in order to prevent and respond to acts of terrorism.

DEPARTMENT OF JUSTICE

The Budget includes \$3.7 million Restitution Fund for the California Witness Protection Program. This adjustment will allow the Department of Justice to better support district attorneys in their effort to protect witnesses and their families who are endangered because of ongoing or expected testimony.

The Budget includes \$2 million DNA Identification Fund to implement a DNA Live Scan Automation Project to provide automated fingerprint verification systems throughout all California law enforcement agencies to enhance the efficiency of the state's DNA collection efforts, and \$418,000 General Fund and 3 positions to establish a satellite office of the California Criminalistics Institute in Southern California (currently located only in Sacramento) to provide critical training to state and local forensic scientists and law enforcement personnel to meet the scientific needs of state and local crime laboratories.

STATE CONTROLLER

The Budget includes \$8 million General Fund and 86.9 positions for the Unclaimed Property Program to strengthen notification efforts to reunite owners with their unclaimed property.

CALIFORNIA GAMBLING CONTROL COMMISSION

The Budget includes \$900,000 Indian Gaming Special Distribution Fund and 14 positions to establish an audit and compliance unit to review and enforce the internal control standards adopted by gaming tribes pursuant to the terms of their respective gaming compacts. These standards govern the way each tribe will conduct its business on a day-to-day basis and seek to ensure fair play for gaming patrons.

BOARD OF EQUALIZATION

The Budget provides \$1.1 million (\$696,000 General Fund and \$404,000 from other funds) to add 11.5 positions to the U.S. Customs Program. The Program collects California import data from the federal government and matches it against California sales and use tax records. When the records comparison indicates a California-based purchaser failed to pay use taxes on an imported product, the Program initiates collection activities.

The Board of Equalization estimates the proposed positions will generate \$15.2 million in revenues in 2007-08, of which \$9.4 million will accrue to the General Fund, and \$5.8 million will accrue to local governments.

SECRETARY OF STATE

The Budget includes \$11.7 million one-time General Fund for the February 2008 Presidential Primary Election. The primary election was added by Chapter 2, Statutes of 2007 (SB 113) and the funds provided in the Budget will be used by the Secretary of State to conduct the election.

In addition, consistent with the intent of SB 113, the state plans on reimbursing counties for their February 2008 Presidential Primary Election costs as part of the 2008-09 Budget. The Administration plans to address those costs once county claims for reimbursement are available, which is anticipated to occur by mid-May of 2008.

This page intentionally blank to facilitate double-sided printing.

STATE AND CONSUMER SERVICES

The State and Consumer Services Agency's (SCSA) mission is to help educate consumers and make government more efficient, effective, and accountable for all California taxpayers. SCSA entities are responsible for civil rights enforcement, consumer protection, and the licensing of 2.3 million Californians in more than 230 professions. The SCSA handles the procurement of nearly \$4 billion worth of goods and services, the management and development of state real estate, oversight of two state employee pension funds, collection of state taxes, hiring of state employees, providing information technology services, adopting state building standards, and administering two state museums. Effective January 1, 2008, the SCSA will also oversee the Office of Information Security and Privacy Protection. The Secretary for the SCSA is Chair of the California Building Standards Commission and the Victim Compensation and Government Claims Board.

OFFICE OF INFORMATION SECURITY AND PRIVACY PROTECTION

The Budget includes half-year funding of \$845,000 General Fund and 7 positions to establish the Office of Information Security and Privacy Protection within the State and Consumer Services Agency beginning January 1, 2008. This reflects the transfer of privacy protection responsibility from the Department of Consumer Affairs and information security responsibility from the Department of Finance. The Office will be responsible for leading state agencies in securing and protecting the state's information by identifying critical technology assets and addressing vulnerabilities, deterring identity theft and security incidents, sharing information and technology lessons promptly, enhancing government response and recovery, and developing consumer education programs.

CALIFORNIA SCIENCE CENTER

OPERATIONAL STARTUP FOR THE PHASE II PROJECT

The Budget includes \$1.9 million General Fund and 4.3 positions to begin hiring key employees and purchasing critical equipment necessary to bring the Phase II project online. The Phase II project is a 146,000-square-foot facility that will almost double the amount of exhibit space at the Science Center, and will include the World of Ecology exhibit. Construction of the Phase II project will be completed in 2009.

DEPARTMENT OF CONSUMER AFFAIRS

ESTABLISHMENT OF THE PROFESSIONAL FIDUCIARIES BUREAU

The Budget includes \$1.1 million Professional Fiduciary Fund and 4.8 positions to fund the Professional Fiduciaries Bureau effective January 1, 2007. The Bureau is responsible for licensing and regulating professional fiduciaries in California. By July 1, 2008, all professional fiduciaries must be licensed by the Bureau, which will be funded through fees paid by licensees.

BUREAU OF AUTOMOTIVE REPAIR: VISIBLE SMOKE TEST

The Budget includes \$12.3 million (\$1.3 million Vehicle Inspection and Repair Fund and \$11 million High Polluter Repair or Removal Account) and 8.6 positions for the Bureau of Automotive Repair to implement the provisions of Chapter 761, Statutes of 2006, which requires the Bureau to incorporate a visible smoke test into the Smog Check Program by January 1, 2008. Chapter 761 also increases the payment to any consumer retiring a vehicle that fails its biennial Smog Check inspection from \$1,000 to \$1,500. The Program is funded through smog abatement fees paid by California motorists.

FRANCHISE TAX BOARD

TAX GAP INITIATIVES

The Budget provides \$19.3 million General Fund and 228.5 positions for various efforts to reduce the state's estimated \$6.5 billion tax gap. The "tax gap" is the difference between the amount of tax owed, and the amount paid. Of the proposed resources, \$13.6 million and 180.5 positions are for six existing pilot programs that are being established permanently. These programs concentrate on detecting non-filers and filers of fraudulent returns, and on audit and collections activities. The FTB estimates associated revenues of \$64.7 million in 2007-08 and \$68.5 million in 2008-09.

The remaining \$5.7 million and 48 positions are for new initiatives to educate independent contractors about filing requirements, expand the corporate non-filer program, address out-of-state tax avoidance, and increase investigations of persons who fail to file a return, or who file fraudulent returns. The FTB estimates these initiatives will generate revenues of approximately \$15 million in 2007-08 and \$32 million in 2008-09.

DEPARTMENT OF GENERAL SERVICES

GREEN BUILDING INITIATIVE

The Budget includes \$3.4 million Service Revolving Fund to implement required energy savings programs and projects as specified in the Governor's Executive Order S-20-04 and the accompanying Green Building Action Plan. These resources will enable the state to systematically reduce energy and water consumption by the state by retrofitting, building, and operating energy and resource efficient buildings consistent with the cost-effective measures of the Green Building Action Plan. These resources will enable the state to operate state-owned facilities that are rated "Silver" or higher as determined by the United States Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system. Implementing the LEED standard will result in energy, water, and waste cost savings in the management of state buildings. In addition to increased energy efficiency and resource conservation, the Green Building Initiative also contributes to meeting the greenhouse gas emission reduction requirements of the California Global Warming Solutions Act of 2006.

This page intentionally blank to facilitate double-sided printing.

BUSINESS, TRANSPORTATION, AND HOUSING

The Business, Transportation and Housing Agency oversees programs that promote the state's business and economic climate, transportation infrastructure, affordable housing, and patients' rights. The Agency also promotes public safety through the Department of Motor Vehicles, the California Highway Patrol and the Department of Alcoholic Beverage Control. Funding for all programs exceeds \$19.6 billion, which is largely derived from special fund revenues, federal funds, and the proceeds of bonds.

DEPARTMENT OF TRANSPORTATION (CALTRANS)

The Budget includes approximately \$13.9 billion for the state's transportation programs. This is an increase of \$2.7 billion over funding available in 2006-07.

Included in this funding is \$1.5 billion for the State Transportation Improvement Program (STIP), \$2.5 billion for the State Highway Operations and Protection Program, \$929 million for the Traffic Congestion Relief Program (TCRP), \$2.1 billion for local streets and roads maintenance (including \$950 million reflected in the General Government portion of the Budget), and \$1.4 billion for transit projects. The Proposition 42 transfer also is fully funded at an estimated \$1.5 billion and \$182.7 million is included to pay outstanding loans from previous years.

TRANSPORTATION BOND FUNDING

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 authorizes \$19.925 billion over the next 10 years to fund existing and new statewide transportation-related infrastructure programs and projects. Legislation enacted together with the budget further defines how several of these programs will work and includes

accountability provisions. The Budget includes \$4.2 billion in 2007-08 as shown in Figure BTH-01.

Figure BTH-01
Proposition 1B Implementation
 (Dollars in Millions)

	2007-08
Corridor Mobility	\$608
Local Transit	\$600
State Transportation Improvement Program	\$727
Local Streets and Roads	\$950
State Highway Operation and Protection Program	\$403
Grade Separations	\$123
Highway 99	\$14
Local Seismic	\$14
Intercity Rail	\$188
School Bus Retrofit	\$193
Air Quality	\$250
Transit Security	\$101
Port Security	\$41
Total Appropriations	\$4,212

PROPOSITION 42

Proposition 42, enacted in March 2002, amended the State Constitution to transfer state sales taxes on gasoline, other than revenues calculated under the spillover formula, from the General Fund to transportation purposes beginning in 2003-04. The Budget reflects full Proposition 42 funding of \$1.5 billion, including \$703 million for STIP, \$602 million for TCRP, and \$176 million for the Public Transportation Account (PTA), as provided in existing law. In November 2006, Proposition 1A was enacted to limit the conditions under which Proposition 42 transfers can be suspended and require that all outstanding loans of Proposition 42 funds to the General Fund be repaid in annual increments by June 30, 2016. The Budget fully funds the 2007-08 \$83 million incremental repayment.

MASS TRANSPORTATION

The Budget provides funding for the following transit, rail and planning programs, as reflected in Figure BTH-02.

The Budget reflects the state’s major emphasis on infrastructure. The reduction in operating grants reflects several one-time components of funding in 2006-07, including repayment of Proposition 42 loans and a correction in 2007-08 for an overestimate of revenues allocated

Figure BTH-02
Public Transportation
(Dollars in Millions)

	2007-08	Change Over 2006-07
<u>Public Transportation Account Funding</u>		
Planning	\$20	\$0
Intercity Rail Operations	\$111	\$9
Rail Projects	\$36	-\$5
Local Transit Grants	\$316	-\$307
Local Transit Projects	\$632	\$102
<u>Traffic Congestion Relief Program Funding</u>		
Local Mass Transportation Projects	\$548	\$235
State Rail Projects	\$51	-\$21
<u>Proposition 1B Funding</u>		
Transit	\$600	\$600
Rail	\$190	\$190
Transit Security	\$101	\$101
Total	\$2,605	\$904

to this program in 2006-07. Future year amounts for this program are estimated to increase significantly under the provisions of the transportation budget trailer bill.

The Public Transportation Account receives funds from sales tax on diesel fuel, a portion of the sales tax increase provided by Proposition 111, Proposition 42, and the “spillover” sales tax on gasoline. Spillover revenues occur when revenue derived from gasoline sales taxes is proportionately higher than revenue derived from all taxable sales pursuant to a statutory formula, and generally reflect higher gas prices. These revenues have been growing at an extremely rapid rate, from \$88.6 million in 2003-04 to \$827 million projected in 2007-08, and are expected to continue to grow to well over \$1 billion by 2010-11. These revenues, in addition to increases in gasoline and diesel fuel sales tax revenues, have enabled the state to fund the following transportation programs in 2007-08 that were previously funded by the General Fund:

Transportation General Obligation Bond Debt Service (\$948 million)

Developmental Services-Regional Center Transportation (\$129 million)

Home-to-School Transportation (\$99 million)

Proposition 42 Loan Repayment Pursuant to Proposition 1A (\$83 million)

BUSINESS, TRANSPORTATION, AND HOUSING

CAPITAL OUTLAY SUPPORT STAFFING

The Budget includes an increase of \$157.7 million and 527 position equivalents, including state staff, overtime and contractual services to provide capital outlay support including bond-related workload in 2007-08.

STATE HIGHWAY OPERATION AND PROTECTION PROGRAM

The Budget provides \$2.5 billion to fund projects in the State Highway Operation and Protection Program that reduce collisions and hazards to motorists, preserve and rehabilitate bridges and roadways, enhance and protect roadsides, and improve the operation of the state highway system. This is an increase of \$189 million over 2006-07.

MAINTENANCE

The Budget provides \$1.1 billion for maintenance of approximately 15,000 centerline miles of highway, over 230,000 right-of-way acres, and over 12,000 state highway bridges. This reflects an increase of \$162 million over 2006-07.

LOCAL STREETS AND ROADS

The Budget provides \$2.1 billion for local streets and roads maintenance, including \$950 million from bonds authorized by Proposition 1B, enacted in November 2006. This is an increase of \$533 million and 34 percent over 2006-07.

RAIL OPERATIONS

The Budget provides \$111 million to manage and coordinate intercity rail passenger services and local transit projects that provide commuters with a range of transportation options, help to improve the state's air quality, and reduce highway congestion and fuel consumption. Caltrans manages two state-supported routes operated by Amtrak, the San Joaquin and Pacific Surfliner, and financially supports the Capitol Corridor.

HIGH-SPEED RAIL AUTHORITY

The budget provides \$20 million to continue development of the high-speed rail project. Activities include completion of a more detailed and achievable financial plan, and completion of preliminary engineering and environmental studies.

CALIFORNIA HIGHWAY PATROL

The Budget includes \$1.8 billion and 11,214 positions for support of the CHP. This is an increase of \$231.5 million over 2006-07.

PATROL STAFFING EXPANSION

The Budget includes \$16.6 million to add 120 uniformed and 41 nonuniformed positions to address workload growth associated with population growth. The full-year cost for this staff increase is \$20 million.

CALIFORNIA GANG REDUCTION, INTERVENTION AND PREVENTION PROGRAM

The Budget includes \$7 million from the Motor Vehicle Account for the Highway Patrol to provide additional support to local police and sheriff agencies to suppress and prevent gang activities. CHP officers will rotate through 90 day deployments in High Intensity Gang Areas.

REPLACEMENT OF CHP RADIO SYSTEM

The Budget includes \$41.7 million to continue the replacement of the CHP's antiquated radio system. The project is estimated to cost \$481 million over five years to complete, and will substantially improve the CHP's ability to communicate with other state and local emergency personnel.

**DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT**

The Budget includes \$1.2 billion (\$15.8 million General Fund) and 599 positions to fund the state's housing assistance programs. This is an increase of \$690.9 million over 2006-07.

PROPOSITION 1C IMPLEMENTATION

The Housing and Emergency Shelter Trust Fund Act of 2006, enacted in November 2006, authorizes \$2.8 billion to improve housing opportunities in the state. The Department of Housing and Community Development awarded \$166 million for existing programs in 2006-07 and expects to make awards totaling \$808 million in 2007-08 for the following program areas:

- Affordable homeownership programs—\$88 million to help families become or remain homeowners.
- Affordable rental housing construction—\$140 million to provide affordable rental housing for the state's lower income workforce, the elderly, disabled, and veterans.
- Housing for farmworkers—\$40 million for new rental housing and affordable home ownership opportunities for farmworker families.

BUSINESS, TRANSPORTATION, AND HOUSING

- Permanent housing for the homeless—\$95 million to build permanent housing for the homeless, those transitioning out of homelessness, and emancipated foster care youth.
- Homeless shelter housing—\$10 million to construct and expand shelters of last resort and transitional housing for the homeless.
- Building Equity and Growth in Neighborhoods (BEGIN)—\$40 million for grants to cities and counties to make deferred-payment second mortgage loans to qualified buyers of new homes.
- Transit-oriented development—\$95 million to develop and construct new housing close to transit stations.
- Infill Incentive Grants—\$300 million for a competitive-based grant program to construct critical infrastructure that will stimulate the construction of new housing in existing neighborhoods and encourage efficient land use and development.

DEPARTMENT OF CORPORATIONS

The Budget provides \$4 million from the State Corporations Fund for 30 new positions at the Department of Corporations (DOC). The positions will address issues noted in a January 2007 audit of DOC operations conducted by the Bureau of State Audits. Among other things, the audit identified concerns regarding DOC's conduct of statutorily required licensee examinations, and handling of consumer complaints.

Of the 30 positions, 11 will relieve backlogs in the examination of escrow companies, four will be assigned to examine residential lending companies, and eight will conduct examinations of deferred deposit licensees. The remaining seven positions will be assigned to the Enforcement and Education Division, where they will respond to consumer inquiries and complaints.

RESOURCES

The Budget provides significant funding for programs that protect California's natural resources for current and future generations. These programs not only preserve and restore the state's pristine coastline, unique forests, and diverse fish and wildlife habitat, but also protect the public from wildfires, floods, and other natural disasters. The Budget includes funding for the following programs critical to maintaining and enhancing California's natural resources:

FLOOD PROTECTION

The Disaster Preparedness and Flood Prevention Bond Act of 2006 (Proposition 1E) authorizes \$4.1 billion in general obligation bonds for levee repair and other flood control system improvements. This proposition was part of a coordinated effort to address California's infrastructure needs, and it reflected a recognition that California's aging levees and other flood control infrastructure are in urgent need of repair and improvement. This recognition was strengthened by the devastation produced by failed levees in New Orleans during and after Hurricane Katrina in 2005. Governor Schwarzenegger has made improving flood protection a high priority, as evidenced by his 2006 Emergency Proclamation that directed the Department of Water Resources to repair critical levee erosion sites in the Central Valley.

Proposition 1E provides the following amounts in total:

- \$3.0 billion for Central Valley flood control system repairs and improvements
- \$500 million for flood control subventions outside the Central Valley

RESOURCES

- \$300 million for stormwater flood management outside the Central Valley
- \$290 million for flood protection corridors and bypasses and floodplain mapping

To address the state's urgent flood control needs, the Budget appropriates \$774.4 million from Proposition 1E and the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) bond funds to continue the repair and evaluation of critical levees, provide subventions to help local governments protect their communities from flooding, and continue development of the state's strategic flood management capability. This funding will be dedicated to the following flood control projects: Mid-Valley Area Levee Reconstruction, South Sacramento County Streams, American River Watershed (Folsom Dam Raise), American River Watershed (Folsom Dam Raise, Bridge Element), American River Flood Control—Natomas Features, West Sacramento Project, Sutter Pumping Plant, Sutter Bypass East Water Control Structures, and for feasibility studies on additional projects.

PROPOSITION 84

Proposition 84 authorizes an additional \$5.4 billion in general obligation bonds to increase water supplies, improve flood protection, support state and local parks, acquire land to protect wildlife habitat, and restore impaired ecosystems. Proposition 84 will provide the following amounts:

- \$1.5 billion for drinking water and water quality projects
- \$800 million for flood control
- \$65 million for water planning and project design
- \$928 million for protection of rivers, lakes, and streams
- \$450 million for forest and wildlife conservation
- \$540 million for protection of beaches, bays, and coastal waters
- \$500 million for parks and nature education facilities, including construction of new facilities and renovation and rehabilitation of existing facilities
- \$580 million for sustainable communities and climate change reduction

The Budget appropriates \$1 billion in Proposition 84 funds for expenditure in 2007-08, including \$859 million for programs administered by the Resources Agency. Some important uses of those funds are highlighted below.

OCEAN PROTECTION

California has placed a high priority on developing comprehensive programs to protect our increasingly threatened marine resources. Under this Administration, \$20 million in one-time funding and \$10.6 million in ongoing annual funding has been spent to create marine protected areas, ensure sustainable fisheries, and regulate marine industries.

Proposition 84 allocates a total of \$90 million specifically for ocean protection. This will sustain and enhance marine protection and management programs in coming years, and ensure the development of additional marine protected areas and additional management plans for marine species. The Budget appropriates the first \$28.1 million for this purpose in 2007-08.

SIERRA NEVADA CONSERVANCY

The Sierra Nevada Conservancy was established by statute in 2004 to initiate, encourage, and support efforts to improve the environmental, economic, and social well-being of the Sierra Nevada Region. Proposition 84 allocates \$54 million to the Conservancy for the protection of rivers, lakes, and streams in the Sierra Nevada region, along with their watersheds and associated land, water, and other natural resources. The Budget appropriates the first \$17.5 million to the Conservancy in 2007-08.

WATER SUPPLY PROJECTS

Maintaining an adequate and reliable water supply is essential for a strong and growing economy. The state must adapt and improve its water supply systems and infrastructure to address the significant challenges associated with population growth, environmental needs in the Delta, and the effects of climate change.

Proposition 84 provides \$1 billion for integrated regional water management and \$65 million for statewide planning activities to address California's future water supply needs. Although the Administration's water supply proposals were not ultimately approved in the Budget, the Governor is interested in working with the Legislature to develop a comprehensive water package this year that includes the following components:

RESOURCES

- Water Storage Projects
- Delta Sustainability and Conveyance
- Water Stewardship and Restoration
- Water Conservation

ENVIRONMENTAL PROTECTION

California Environmental Protection Agency programs restore and protect environmental quality, and protect public health. The Secretary coordinates the state's environmental regulatory programs and ensures fair and consistent enforcement of environmental law, which safeguards the state's residents and promotes the state's economic vitality.

CALIFORNIA GLOBAL WARMING SOLUTIONS ACT

The Budget provides \$23.7 million and 125 positions for the Air Resources Board (Air Board) to continue the implementation of AB 32, the California Global Warming Solutions Act. The Air Board will use these positions to evaluate the broadest possible array of source and sector specific greenhouse gas (GHG) emissions reduction opportunities. The major activities that the Air Board will engage in include the following:

- Emissions Inventory Development and Mandatory Reporting. By collecting GHG emissions data from throughout California, the Air Board will be able to identify the major sources of emissions and focus its efforts on those sources where the largest reductions may be obtained.
- Emissions Reduction Scoping Plan. The Act requires the Air Board to develop a comprehensive scoping plan to reduce California's GHG emissions to 1990 levels by 2020. To this end, the Air Board will evaluate the cost-effectiveness and technological feasibility of all feasible reduction strategies, analyze economic and other impacts, and ultimately make recommendations for a series of actions.

ENVIRONMENTAL PROTECTION

- Early Action Measures. The Air Board will utilize staff to implement approved early action measures and evaluate additional actions that will accelerate the reduction in GHG emissions called for by AB 32.
- Scientific and Economic Analysis. Scientific, technical, and economic analyses will be conducted to ensure that the emission reductions ultimately approved will be technologically feasible and cost effective. In doing so, the Air Board will seek to identify measures that maximize additional environmental and economic benefits for California.
- Additionally, 4.0 positions have been approved to enhance the ability of the Secretary of the California Environmental Protection Agency to continue her role administering the Climate Action Team (CAT). The CAT is made up of the major state entities involved in addressing climate change, including the Environmental Protection Agency, the Resources Agency, the Air Board, the California Public Utilities Commission, the State Energy Commission, the Business, Transportation and Housing Agency, the Department of Food and Agriculture, the Integrated Waste Management Board, and the Governor's Office of Planning and Research. Through the operation of the CAT, the Secretary is responsible for ensuring effective coordination of California's climate change activities.

PROPOSITION 1B IMPLEMENTATION

Proposition 1B provides \$1 billion to fund projects intended to improve air quality along four of California's major transportation corridors: from the Los Angeles ports to the Inland Empire, State Route 99 in the Central Valley, the San Francisco Bay Area, and the San Diego border region. The Air Board will be developing program guidelines and will solicit project proposals. The projects to be funded are intended to achieve air quality improvements above and beyond anything required by current law or regulation. The Budget Act contains \$250 million for the Air Board to award during 2007-08.

Proposition 1B also provides \$200 million to replace older, higher-polluting school buses. This funding will allow all school buses of model year 1976 and earlier to be replaced. Once this is accomplished, the Air Board will allocate the balance of the remaining funds to local air districts in proportion to the number of school buses of model years 1977 through 1986 operating in each district. The air districts will then allocate the funding for either the retrofit of the buses, or their complete replacement. The Budget contains \$193 million to be awarded in 2007-08 for this purpose.

HYDROGEN HIGHWAY

The Budget includes \$6.03 million and 7.7 positions from the Motor Vehicle Account (MVA) for the Governor’s Hydrogen Highway Initiative, which promotes the use of hydrogen as a means of diversifying California’s sources of transportation energy. The funds will be used to provide matching funds for up to eight publicly accessible hydrogen fueling stations. The Air Board will prioritize funding for stations that generate hydrogen from promising renewable technologies such as biomass, solar, and wind energy.

PROPOSITION 84—WATER QUALITY

Proposition 84 provides \$5.4 billion to address a wide array of natural resource and environmental protection needs. The Budget provides \$105.3 million to the State Water Resources Control Board (Water Board), to be used for the following programs:

- \$75.7 million and 8 positions for the State Water Pollution Control Revolving Fund Program, which provides low-interest loans or grants to construct municipal wastewater treatment facilities, storm water pollution control projects, non-point source pollution projects, and estuary enhancement projects. This funding will provide the state share so that locals may obtain federal matching funds.
- \$6.2 million and 1.5 positions for the Agricultural Water Quality Grant Program, which provides grants for public agencies or nonprofit organizations to improve agricultural water quality, including research projects and construction of agricultural drainage water improvements.
- \$14.6 million and 3 positions for the Urban Storm Water Grant Program, which provides grants to local public agencies for projects that contain stormwater runoff, such as facilities that divert the runoff to treatment plants.
- \$8.8 million and 5.7 positions for the Clean Beaches Grant Program, which provides grants to public agencies for water quality projects in coastal waters, estuaries and bays. Projects include septic system upgrades, stormwater pollution reduction programs, and clean beach projects in Santa Monica. Proposition 84 specifies that 20 percent of the funds for clean beaches be allocated to the Santa Monica Bay Restoration Commission.

BROWNFIELDS

- Brownfields are abandoned industrial or commercial properties that are contaminated by hazardous materials. Typically, brownfields are located in urban areas on land that would otherwise be valuable for infill residential or business uses. Cities and counties are routinely interested in eliminating the blighted conditions of these properties, aware that their redevelopment will optimize the use of existing infrastructure, limit urban sprawl, and protect natural resources. In order to bring these properties back to usable condition, various cleanup activities are required, and the state plays a critical role in overseeing the cleanup efforts.
- The Water Board and the Department of Toxic Substances Control administer voluntary brownfield cleanup programs to assist local governments and private developers in the cleanup of brownfield sites. The Budget includes \$3.1 million Cleanup and Abatement Account and 25.1 positions for the Water Board to accelerate the cleanup of approximately 750 brownfield sites. The Budget also includes \$219,000 special funds and 1.9 positions for the Department of Toxic Substances Control to implement three brownfields-related measures signed into law in 2006: SB 354 (Chapter 523), SB 989 (Chapter 510), and AB 2144 (Chapter 562).

BIOMONITORING

Biomonitoring is a method of assessing human exposure to chemicals based on sampling and analysis of an individual's tissues and fluids. The results of these measurements provide information about the amounts of chemicals that enter and remain in the body. By monitoring the levels of chemicals in a given population, scientists can gauge the level of chemical exposure in a community. Actions to protect public health may then be designed to mitigate unacceptable exposure risk.

SB 1379 (Chapter 599, Statutes of 2006) established the California Environmental Contaminant Biomonitoring Program in order to initiate a biomonitoring effort in California. The Budget contains \$5.2 million General Fund for the first year of biomonitoring activities. The funding will be divided among the Department of Toxic Substances Control (\$1.6 million), the Office of Environmental Health Hazard Assessment (\$0.4 million), and the Department of Public Health (\$3.2 million). The first year is expected to be spent on planning the biomonitoring effort, and additional funding will be provided for implementation in subsequent budgets.

HEALTH AND HUMAN SERVICES

Health and Human Services programs provide essential medical, dental, mental health, and social services to many of California's most vulnerable and at-risk residents. These programs touch the lives of millions of Californians and provide access to critical services that promote their health, well-being, and ability to more effectively function in society. The Budget reflects the Administration's efforts to maintain a strong and responsible safety net for California's most vulnerable residents, guided by an overall vision for Health and Human Services which ensures that residents are protected against and prepared for natural and intentional disasters, that Californians have access to affordable health care coverage, that children are raised in safer, more stable, and permanent homes, that persons with developmental disabilities are given opportunity to work in the community, and that seniors and persons with disabilities live in the most integrated and appropriate community setting.

Effective July 1, 2007, Chapter 241, Statutes of 2006 (SB 162) created the new Department of Public Health (DPH) and the Department of Health Care Services (DHCS) from the former Department of Health Services. This organizational change will increase accountability, improve the effectiveness of public health programs and health care purchasing activities, enhance state leadership in public health, and increase organizational focus on the departments' respective core missions.

In order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year, the Budget includes reductions in various areas, including Health and Human Services programs. These reductions were selected using criteria such as minimizing the impact to services and preserving entitlements and other nondiscretionary activity.

REDUCTIONS TO BUILD A PRUDENT FISCAL RESERVE

The budget includes reductions to various Health and Human Services programs to help build a prudent reserve, including the following major adjustments:

- A decrease of \$331.9 million General Fund in the DHCS Medi-Cal estimate. This reduction is based on historical data showing that on average over the last three fiscal years, Medi-Cal expenditures have fallen short of the estimate by more than \$400 million General Fund.
- Deletion of one-time funding of \$106.3 million (\$53.1 million General Fund) in the DHCS that was intended to fund Medi-Cal managed care rates.
- Elimination of a total of \$32.1 million (\$15.4 million General Fund), on a one-time basis, in the DHCS, the DPH, and the Managed Risk Medical Insurance Board to delay implementation of a pilot program for self-certification of income at enrollment for Medi-Cal and development of feasibility study reports related to information technology system changes proposed by Chapter 328, Statutes of 2006 (SB 437). This reduction will result in a delay of one year in implementing the bill.
- A reduction of \$34.6 million (\$15 million General Fund) for the county grants portion of the Children's Outreach initiative in Medi-Cal and the Healthy Families Program. With this reduction, \$147 million (\$64.7 million General Fund) remains to fund other components of the initiative that streamline enrollment processes, improve retention, and support county-based enrollment efforts for children.
- A reduction of \$54.9 million General Fund for the Integrated Services for Homeless Adults with Serious Mental Illness Program. To the extent counties find this program beneficial and cost-effective, it can be restructured to meet the needs of each county's homeless population using other county funding sources, such as federal funds, realignment funds, or Proposition 63 funds.

DEPARTMENT OF HEALTH CARE SERVICES

The Budget includes total Medi-Cal expenditures of \$37 billion (\$14.3 billion General Fund), an increase of \$1.6 billion (\$642.2 million General Fund) over the revised 2006 Budget Act. The average monthly Medi-Cal caseload is expected to be 6,586,211 beneficiaries in 2007-08. This represents an increase of 0.8 percent above the revised 2006 Budget Act level.

NEW RATE METHODOLOGY FOR MEDI-CAL MANAGED HEALTH CARE PLANS

The Budget includes \$108 million (\$54 million General Fund) to provide rate adjustments to the Medi-Cal managed health care plans as determined by a new rate methodology, which will be implemented at the beginning of each plan's new rate year. These plans play a crucial role in ensuring adequate access to health care for vulnerable Californians, serving approximately 3.2 million Medi-Cal beneficiaries each year.

INCREASE RATE REIMBURSEMENTS FOR LONG-TERM CARE FACILITIES

The Budget includes \$146.3 million (\$73.1 million General Fund) for a 5.5-percent rate increase to freestanding level B nursing homes and adult sub-acute care facilities that provide long-term care to Medi-Cal beneficiaries.

IMPLEMENTATION OF FEDERAL DEFICIT REDUCTION ACT CITIZENSHIP REQUIREMENTS

The Budget includes \$50.8 million (\$25.4 million General Fund) and 3.8 positions to focus on implementing new federal requirements under the Deficit Reduction Act of 2005. Of this amount, \$50.4 million (\$25.2 million General Fund) is for county administrative activities.

HUMAN PAPILLOMAVIRUS VACCINATIONS (HPV)

The Budget includes \$11.1 million (\$5.6 million General Fund) in 2007-08 to provide HPV to approximately 52,000 Medi-Cal-eligible women ages 19 through 26. The United States Food and Drug Administration recently approved this new vaccine, which has been shown to reduce the risk of contracting cervical cancer by up to 70 percent.

NURSING FACILITY A/B WAIVER CAP INCREASE

The Budget includes \$6.1 million (\$3 million General Fund) to increase the waiver cap for the Nursing Facility A/B waiver. This is a federal home- and community-based services waiver that provides services and support to Medi-Cal beneficiaries to allow them to remain safely in their homes and avoid institutional placements. These services are a critical component of the state's efforts to implement the Olmstead court decision.

ADULT DAY HEALTH CARE REFORM

The Budget includes \$2.6 million (\$1.2 million General Fund) and 36 positions to phase in program reforms and develop a new rate methodology to increase California's ability to retain federal funding and help ensure services remain available for qualified beneficiaries, as required by Chapter 691, Statutes of 2006 (SB 1755).

DEPARTMENT OF PUBLIC HEALTH

The Budget includes \$3.1 billion (\$390.7 million General Fund) for the Department of Public Health (DPH).

BIOMONITORING

The Budget includes \$3.2 million General Fund and 7.6 positions to implement the Environmental Contaminant Biomonitoring Program pursuant to Chapter 599, Statutes of 2006 (SB 1379). This funding will support a contract to develop a sampling design and establish parameters for this program, and hire staff and purchase equipment to establish laboratory protocols for the test design, field sampling, and the accelerated implementation of this program. This is a collaborative effort that also includes \$1.6 million for the Department of Toxic Substances Control and \$380,000 for the Office of Environmental Health Hazard Assessment.

PROPOSITION 84

The Budget includes \$47.3 million Proposition 84 bond funds and 15.7 two-year limited-term positions to administer a program to provide emergency and infrastructure improvement grants and grants and loans for drinking water projects.

GENETIC DISEASE

The Genetic Disease Screening Program, within the Center for Family Health, screens newborns and pregnant women for genetic and congenital disorders in a cost-effective and clinically efficient manner. The screening programs provide testing, follow-up and early diagnosis of disorders to prevent adverse outcomes or minimize the clinical effects of such disorders. The Budget Act includes \$118.4 million from the Genetic Disease Testing Fund, a net increase of \$20.7 million above the Budget Act of 2006. The Budget Act includes \$4.2 million from the Birth Defects Monitoring Fund, \$16.1 million from the Genetic Disease Testing Fund and 5.7 positions to implement Chapter 484, Statutes of 2006 (SB 1555), which expands research efforts and prenatal screenings for birth defects.

FOODBORNE ILLNESS

The Budget includes \$903,000 General Fund and 4.7 positions to enhance the state's capabilities to respond to foodborne illnesses and outbreaks such as E. coli. These resources will allow the DPH to quickly respond to and investigate the source of future outbreaks.

AIDS DRUG ASSISTANCE PROGRAM

The Budget includes \$288.9 million to fully fund the AIDS Drug Assistance Program (ADAP). ADAP provides life-saving medications to low-income persons living with HIV/AIDS. Drugs

provided by ADAP have been shown to prolong quality of life and delay the deterioration of health among individuals living with HIV. The ADAP will serve nearly 32,905 clients in 2007-08.

HIV/AIDS CARE AND TREATMENT PROGRAMS

As a result of additional drug rebate revenues, the Budget Act reflects one-time General Fund savings of \$9.3 million and a one-time redirection of \$7.8 million General Fund to other HIV care and treatment programs. The one-time redirection of General Fund will better meet the needs of persons living with HIV, while ensuring that the state maintains compliance with federal maintenance-of-effort requirements and continues to receive federal Ryan White HIV/AIDS Treatment Modernization Act funds totaling approximately \$122 million in 2007-08. The Budget includes redirected funding for the following programs:

- \$4 million for the Therapeutic Monitoring Program to provide more than 33,000 viral load and resistance tests to approximately 17,000 clients.
- Up to \$1.8 million to backfill the expected loss of federal funds to designated Eligible Metropolitan Areas or Transitional Grant Areas.
- \$1.5 million for the AIDS Regional Information and Evaluation System, a web-based case management system that supports client access to care and treatment.
- \$500,000 to support the development and delivery of capacity-building activities.

HIV REPORTING

The Budget includes \$2 million General Fund to provide additional local assistance funding to increase surveillance staff for HIV reporting activities. This funding will accelerate the state's implementation of names-based HIV reporting, which is critical for the state's continued receipt of \$50 million in federal grants to support critical services for persons living with HIV.

LICENSING AND CERTIFICATION

The Budget includes \$83.6 million (\$9.1 million General Fund) for Licensing and Certification (L and C) activities including:

- \$2.8 million General Fund to help offset L and C fee increases to facilities.
- \$7.2 million L and C Program Fund and 42.7 positions to implement Chapter 647, Statutes of 2006 (SB 1301) related to the reporting of and follow up on adverse events in hospitals.

HEALTH AND HUMAN SERVICES

- \$2.5 million L and C Program Fund and 15.2 positions to conduct periodic licensing surveys of long-term care facilities, pursuant to Chapter 895, Statutes of 2006 (SB 1312).
- \$0.7 million (\$0.4 million L and C Program Fund and \$0.4 million Federal Funds) and 5.7 positions to provide legal and administrative support for the 155.5 new L and C staff included in the 2006 Budget Act.
- \$0.2 million and 1.4 positions in the DPH and \$0.5 million (\$0.3 million General Fund) and 4.3 positions in the DHCS to ensure hospitals apply fair pricing to uninsured and underinsured patients, pursuant to Chapter 755, Statutes of 2006 (AB 774).

MANAGED RISK MEDICAL INSURANCE BOARD

HEALTHY FAMILIES PROGRAM

The Budget includes Healthy Families Program (HFP) expenditures of \$1.1 billion (\$398.7 million General Fund), an increase of \$93.6 million (\$36.5 million General Fund) above the revised 2006 Budget Act level. Year-end caseload is expected to reach 908,912 children, an increase of 64,629 children compared to 844,283 in 2006-07.

ENROLLING ELIGIBLE CHILDREN IN HEALTH COVERAGE

The Budget includes \$58.9 million (\$21 million General Fund) to continue program changes that promote and maximize enrollment in the HFP, improve retention of children already enrolled, and support county-based efforts to enroll eligible children. These changes include streamlining of the application process, providing incentives to Certified Application Assistants, and developing an electronic application (know as Health-e-App) for public use. These changes are expected to increase HFP enrollment by over 38,800 children.

ACCESS FOR INFANTS AND MOTHERS PROGRAM

The Budget includes Access for Infants and Mothers (AIM) program expenditures of \$133.2 million, an increase of \$8.8 million above the revised 2006 Budget Act level. Enrollment is expected to reach 13,912 women, an increase of 1,815 women compared to 12,097 in 2006-07.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Budget includes \$4.4 billion (\$2.6 billion General Fund) for the Department of Developmental Services (DDS), an increase of \$289.9 million (\$93.9 million General Fund) above the revised 2006-07 budget. Total caseload is expected to reach 221,840 consumers in 2007-08, compared to 214,057 in 2006-07.

DEVELOPMENTAL CENTERS

The Budget provides \$720.3 million (\$391.5 million General Fund) for developmental centers, a net decrease of \$14.2 million (\$14.8 million General Fund) from the revised 2006-07 budget, primarily due to a reduction in the developmental center population as consumers transition into the community. The Budget supports a population of 2,610, a decrease of 267 consumers from 2006-07.

AGNEWS DEVELOPMENTAL CENTER CLOSURE

The Budget continues to provide funding to achieve the authorized closure of Agnews Developmental Center in June 2008 and includes a decrease of \$12 million (\$9.3 million General Fund) due to the anticipated movement of 188 consumers from Agnews into the community and the movement of an estimated 10 consumers to other developmental centers. The regional centers' budget is projected to increase by \$45.1 million (\$30.3 million General Fund) for the costs of providing services to the additional consumers in the community. The Budget includes \$1 million redirected from the Wellness Initiative grant to provide two mobile health clinics in the Golden Gate Regional Center, Regional Center of the East Bay, and San Andreas Regional Center catchment areas to help ensure the continuity of health care as Agnews consumers transition into the community.

REGIONAL CENTERS

The Budget includes \$3.6 billion (\$2.2 billion General Fund) for regional centers, a net increase of \$302.9 million (\$107.6 million General Fund) above the revised 2006-07 budget, primarily due to increases in the costs of community care facilities, day programs, support services, miscellaneous services and the increase in the minimum wage. The Budget supports a population of 219,230, an increase of 8,050 consumers above 2006-07. The Budget also includes \$503,000 (\$126,000 General Fund) to provide health care community specialists to facilitate the transition of Agnews consumers into residential placements and to act as coordinators between the health care plans, consumers, families and other community-based services.

SALARY ADJUSTMENTS FOR CLINICAL HEALTHCARE CLASSIFICATIONS

The Budget includes salary adjustments for clinical staff that provide direct care services to DDS consumers. These adjustments are in response to the following court decisions:

- Salary Enhancements for Medical Services Personnel (Plata Case)—The Budget includes an increase of \$12.6 million (\$7.4 million General Fund) to bring salaries for classifications providing medical services to within 18 percent of the Plata court-ordered salaries for

HEALTH AND HUMAN SERVICES

the same classifications at the California Department of Corrections and Rehabilitation. This will allow hiring and retention of medical staff at the developmental centers.

- Salary Enhancements for Dental Staff (Perez Case)—The Budget includes an increase of \$1.3 million (\$747,000 General Fund) in order to provide salary increases to all budgeted Department of Developmental Services dental staff to retain existing staff and enhance the recruitment of additional staff.
- Salary Enhancements for Mental Health Personnel (Coleman Case)—The Budget includes an increase of \$7.2 million (\$4.2 million General Fund and \$3 million reimbursements) to fund salary increases for impacted mental health classifications to improve hiring and staff retention at the developmental centers.

MINIMUM WAGE INCREASE

On January 1, 2007, California's minimum wage increased by \$0.75 to \$7.50 per hour. This increase impacts entry-level direct care staff who provide services in community care facilities, day and work activity programs and respite care. The Budget reflects costs of \$53.3 million (\$37.2 million General Fund) in 2007-08 to fund this increase. On January 1, 2008, California's minimum wage will increase by an additional \$0.50 to \$8.00 per hour. The Budget also includes \$18.1 million (\$12.6 million General Fund) to fund this increase.

DEPARTMENT OF MENTAL HEALTH

The Budget includes \$4.8 billion (\$1.9 billion General Fund) for the Department of Mental Health (DMH), an increase of \$1.2 billion (\$48.7 million General Fund) from the revised 2006 Budget Act level. This net change primarily reflects continued growth in the Early and Periodic Screening, Diagnosis and Treatment Program, the impact of Proposition 83, also known as Jessica's Law, elimination of the Integrated Services for Homeless Adults with Serious Mental Illness program, and the removal of one-time costs for prior-year AB 3632 mandate claims.

STATE HOSPITALS

The Budget includes \$1.2 billion (\$1.1 billion General Fund) and 10,445 positions for 2007-08, an increase of \$137.4 million (\$110.2 million General Fund) and 821.2 positions from the revised 2006-07 budget. This funding will support a total population of 6,095, an increase of 506 patients from the revised 2006-07 population level. This includes an increase of \$4.3 million General Fund to contract for competency restoration services at the local level. Contracting for local mental health beds will expand services and address state hospital capacity issues.

SALARY ADJUSTMENTS FOR CLINICAL HEALTHCARE CLASSIFICATIONS

The Budget includes salary adjustments for clinical staff that provide direct care services to patients at the state hospitals and psychiatric programs. These adjustments are in response to the following court decisions:

- Salary Enhancements for Medical Services Personnel (Plata Case)—The Budget includes an increase of \$7.1 million (\$6.9 million General Fund) to bring salaries for classifications providing medical services to within 18 percent of the Plata court-ordered salaries for the California Department of Corrections and Rehabilitation. This will allow hiring and retention of medical staff at state hospitals.
- Salary Enhancements for Dental Staff (Perez Case)—The Budget includes an increase of \$1.6 million General Fund in order to provide salary increases to DMH dental staff to retain existing staff and enhance the recruitment of additional staff.
- Salary Enhancements for Mental Health Personnel (Coleman Case)—The Budget includes an increase of \$5.5 million General Fund to increase the salaries of the same classifications of staff working in DMH psychiatric programs operating within Salinas Valley State Prison and the California Medical Facility at Vacaville. The Budget also includes \$35.5 million (\$34.7 million General Fund) to fund salary increases for impacted mental health classifications to improve hiring and staff retention at the state hospitals.

COMMUNITY MENTAL HEALTH SERVICES

The Administration recognizes the importance of providing mental health services in communities to reduce institutionalization. The Budget includes \$3.5 billion (\$776.8 million General Fund), an increase of \$1.1 billion (a decrease of \$72.9 million General Fund) compared to the revised 2006-07 budget for community mental health services.

EARLY AND PERIODIC SCREENING, DIAGNOSIS AND TREATMENT (EPSDT) PROGRAM

The Budget includes \$1 billion (\$454 million General Fund) for EPSDT, a decrease of \$37 million (an increase of \$47.8 million General Fund) from the revised 2006-07 budget. In addition, \$86.7 million General Fund is available to begin reimbursing counties for prior years' costs, which will be repaid over a three-year period commencing in 2007-08. Under this program, approximately 186,000 Medi-Cal-eligible children and young adults receive services to ameliorate a diagnosed mental illness.

EARLY MENTAL HEALTH INITIATIVE (EMHI)

The Budget includes a \$5 million increase in Proposition 98 General Fund to augment the EMHI program, which provides grants to local education agencies for supportive, non-clinical

HEALTH AND HUMAN SERVICES

mental health intervention and prevention services to children (grades K-3) who have mild or moderate school adjustment difficulties. This augmentation will increase total program funding to \$15 million in 2007-08.

DEPARTMENT OF CHILD SUPPORT SERVICES

RESTORING THE LOSS OF FEDERAL FUNDS

Effective October 1, 2007, the federal Deficit Reduction Act of 2005 (DRA) will eliminate California's ability to claim federal matching funds for earned federal incentive payments. These incentive payments are awarded to all states based upon program performance in a number of areas, such as paternity establishment. The Budget includes increased funding of \$23 million General Fund to maintain the current funding level for local child support agencies.

DEPARTMENT OF SOCIAL SERVICES

The Budget includes \$19.1 billion (\$9 billion General Fund) for the Department of Social Services, an increase of \$698.3 million (a decrease of \$222.1 million General Fund) from the revised 2006 Budget Act level.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The Budget includes total California Work Opportunity and Responsibility to Kids (CalWORKs) expenditures of \$7.2 billion. Caseload is projected to decrease by a modest amount after many consecutive years of decline. The revised caseload projections are 461,200 cases in 2006-07 and 457,500 in 2007-08.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT PROGRAM

Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program are \$3.7 billion in 2007-08, an increase of \$118.7 million from the revised 2006 Budget Act level. The average monthly caseload in this program is estimated to increase to 1.3 million recipients, a 1.8-percent increase over the 2006-07 projected level.

The Budget provides a pass-through of the federal cost-of-living adjustment (COLA) for the SSI/SSP program on January 1, 2008, which will increase the monthly grant payment levels from \$856 for aged or disabled individuals and from \$1,502 for aged or disabled couples to \$868 and \$1,521 respectively. The Budget delays provision of the state SSI/SSP COLA from January 2008 to June 2008. On June 1, 2008, monthly grant payment levels will increase to \$888 for aged or disabled individuals and to \$1,558 for aged or disabled couples. California's

SSI/SSP payment levels for individuals and couples are projected to maintain rankings of second and first in the nation, respectively.

IN-HOME SUPPORTIVE SERVICES

Total General Fund expenditures for the In-Home Supportive Services (IHSS) program are \$1.6 billion in 2007-08, an increase of \$97.1 million from the revised 2006 Budget Act level. The average monthly caseload in this program is estimated to increase to 389,100 recipients, a 5.1-percent increase over the 2006-07 projected level. Effective July 1, 2007, state participation in IHSS provider wages and health benefits increased from \$11.10 per hour to \$12.10 per hour, based on the projected growth of General Fund revenues.

CHILD WELFARE SERVICES

The child welfare services system in California provides a continuum of services through programs, including Child Welfare Services, Child Abuse Prevention, Foster Care, Adoption Assistance, and Adoptions to children who are either at risk of or have suffered abuse and neglect. The Budget includes \$4.1 billion (\$1.6 billion General Fund) to provide assistance payments and services to children and families under these programs. This is a \$175.4 million, or a 4.5-percent increase, from the revised 2006 Budget Act level. Major investments in the child welfare system include:

- An increase of \$3.7 million (\$2 million General Fund), effective February 1, 2008, to double the reimbursement rate for non-profit private adoption agencies that specialize in finding permanent homes for children with high needs.
- An increase of \$17.2 million (\$9.6 million General Fund), effective January 1, 2008, to provide a 5-percent increase to foster family home base rates, specialized care increments, and group home rates; Adoption Assistance Program cases prospectively; and all Kin-GAP and Emergency Assistance cases.
- An increase of \$30.8 million (\$15.2 million General Fund) to create a standard rate paid to foster care and adoptive families who care for children with developmental disabilities. These children are served by both the Department of Social Services and the Department of Developmental Services. The effect of this change will be an expedited and streamlined process for families accessing services through this program. Under this change, the vast majority of families will receive a rate increase and no family will see a decrease. Children will continue to receive all necessary services related to their developmental disability through the regional center system.

HEALTH AND HUMAN SERVICES

- An increase of \$20.2 million General Fund to increase participation in the Transitional Housing Plus Program, which provides services to youth between 18 and 24 years of age emancipating from the foster care system.

CORRECTIONS AND REHABILITATION

The following represents the significant funding issues included in the 2007 Budget Act for the Department of Corrections and Rehabilitation (CDCR).

RECIDIVISM REDUCTION STRATEGIES

The Administration is strongly committed to improving public safety by reducing California's high recidivism rate through evidence-based programming for inmates and parolees. Building upon the 2006 Budget Act's investment in evidence-based programs that improve public safety and reduce victimization, the Budget expands funding for programs that reduce recidivism and prepare inmates to transition back into the community. The Budget includes \$90.1 million General Fund for inmate education programs, community partnerships, parolee services, institutions rehabilitative and treatment programs, and research and support services. This funding represents a comprehensive approach to inmate and parolee programming by providing program enhancements and community services to both male and female inmates and parolees.

IMPLEMENTATION OF AB 900 (CHAPTER 7, STATUTES OF 2007)

On May 3, 2007, the Governor signed AB 900 (Chapter 7, Statutes of 2007), also known as the Public Safety and Offender Rehabilitation Services Act of 2007, which takes important steps toward solving California's prison overcrowding crisis. AB 900 emphasizes expanding rehabilitative programs and measuring outcomes through performance goals to reduce the high rate of recidivism among adult offenders, and appropriates \$50 million General Fund for additional rehabilitative programming activities. To ensure the additional rehabilitation funding

CORRECTIONS AND REHABILITATION

is utilized on the most effective evidence-based programs, the Governor established the Rehabilitation Strike Team to help implement the programming requirements of AB 900.

The Rehabilitation Strike Team will focus on evaluating existing education, training and substance abuse programs, developing leading-edge rehabilitation classes, delivering the services to inmates and parolees in order to improve public safety, designing facilities to best accommodate rehabilitation programs, and working with communities to continue services in local settings.

In addition to enhanced programmatic resources, AB 900 also authorizes the construction of infill beds, secure reentry facilities, local jail beds, and health care facilities, and allows the CDCR to transfer inmates to out-of-state correctional facilities for up to four years. AB 900 authorizes over \$6.1 billion in lease-revenue bonds to build 16,000 infill beds, 16,000 reentry facility beds, and 8,000 health care beds, and authorizes \$1.2 billion in lease-revenue bonds to add 13,000 county jail beds. AB 900 also appropriates \$300 million General Fund to make infrastructure improvements at state prisons. To ensure best practices are used and cost containments are in place, the Governor established the Facilities Construction Strike Team to help implement the construction requirements of AB 900.

The Facilities Construction Strike Team has evaluated all alternative construction methods for the construction of reentry facilities and infill capacity, and is working within CDCR to look at any options for housing inmates in existing facilities within the state that are not being utilized before inmates are transferred, develop cost containments for proposed construction, evaluate regulatory impediments to construction and whether waiver of regulations benefit the state, and address local mitigation issues for communities that are impacted by current prison facilities.

The Budget includes \$11.9 million, comprised of \$2.4 million General Fund and \$9.5 million in Reimbursement authority, for the CDCR's Office of Facilities Management and Support Services Division to address workload associated with these prison construction projects. The Budget also includes \$1.7 million General Fund for the Corrections Standards Authority to administer the local jail bed construction program authorized by AB 900. These resources are necessary to ensure that these critical infrastructure projects are effectively managed and standards of quality and accountability are not compromised.

The Administration is committed to improving the space issues for medical, mental health, and dental care through the use of AB 900 funding. The CDCR will be working in conjunction with the Coleman and Perez courts and the federal Receiver appointed by the Plata court

to provide the most efficient, consolidated use of space in order to provide constitutionally adequate health care to all CDCR inmates.

In order to increase the transparency and accountability of the use of AB 900 funds, the Budget requires the CDCR to provide the Legislature specific information defining project scope, cost, and schedule, as well as quarterly reports tracking the authorized projects. These reporting requirements will ensure the management of the \$7.7 billion prison reform package in a transparent and responsible fashion.

This comprehensive approach to solving California's prison overcrowding crisis will allow the CDCR to fulfill its core mission of improving public safety through evidence-based crime prevention and recidivism reduction strategies.

SEX OFFENDER MANAGEMENT

The Administration is committed to ensuring that the public is protected from sex offenders. In 2006, the Governor convened the High Risk Sex Offender (HRSO) Task Force, which made a number of recommendations relating to the handling of HRSO inmates and parolees. Some of these recommendations were enacted in 2006 legislative measures. Based upon these recommendations, and along with the overwhelming mandate from voters in enacting Proposition 83 (also known as Jessica's Law), the Administration has begun implementation of the Comprehensive Sex Offender Management Plan to address this population of inmates and parolees in order to ensure the safety of all Californians, especially children.

The Comprehensive Sex Offender Management Plan is comprised of the HRSO Task Force recommendations, related legislation, and implementation of Proposition 83. The Budget includes \$106 million General Fund for the CDCR to implement the Comprehensive Sex Offender Management Plan. The Budget provides resources for Global Positioning System monitoring of paroled sex offenders as well as lower caseload ratios for parole agents who supervise this population. In addition, the Budget provides funding for treatment of paroled High Risk Sex Offenders, enhanced training for parole agents and additional funds for inmate screenings, and resources to address various community issues associated with this population.

JUVENILE OFFENDER POPULATION REHABILITATION AND MANAGEMENT

Before the 2005 Youth and Adult Correctional Agency consolidation, the Division of Juvenile Justice (DJJ) was known as the California Youth Authority (CYA). The CYA was created by law in 1941 and began operating “reform schools” in 1943, when the Governor transferred management of three state reformatories, 1,080 wards in institutions and 1,625 wards on parole to the CYA for the purpose of providing institutional training and parole supervision for juvenile and young adult offenders. By June 1996, the CYA had reached an institution population high of 10,114 and parole population high of 6,249. Since that time, due to legislation that increased the cost for locals to house wards in state institutions and efforts to enhance local services, the DJJ’s population has steadily declined.

For example, local juvenile justice services have been improved through efforts such as the Juvenile Justice Crime Prevention Act (JJCPA). The JJCPA involves a partnership between the state of California, 56 counties and more than 200 community-based organizations. Local officials and stakeholders determine where to direct resources through an interagency planning process; the state appropriates funds to counties on a per capita basis; and community-based organizations play a critical role in delivering services. It is a partnership that recognizes the value of local discretion in addressing the problem of juvenile crime in our communities. Data collected by counties clearly indicates that JJCPA programs continue to curb juvenile crime and delinquency in California.

As a result of programs like the JJCPA and the increased costs to locals, counties have consistently sent fewer juvenile offenders to the DJJ over the last decade, a trend that is projected to continue. By June 30, 2006, DJJ’s institution population had decreased to 2,887 (a 71-percent drop from June 1996) and its parole population had decreased to 3,162 (a 49-percent drop from June 1996). Currently, less than one percent of juveniles arrested in California end up in DJJ facilities. The rest are retained at the local level.

In 2005-06, the DJJ began implementing reforms, as stipulated by the Farrell consent decree, in areas of mental health, sex behavior, disability, education, medical care, and safety and welfare. The Farrell reforms are intended to enhance the state’s juvenile justice services and focus on the rehabilitation of the state’s juvenile offender population. Consistent with enhancing the services it provides, the DJJ has reevaluated its mission in an effort to determine where juvenile offenders would best be served in their rehabilitation.

Beginning September 1, 2007, the DJJ will no longer accept juvenile court commitments or parole violators, except those convicted of violent, serious, or sex offenses. The non-serious,

non-violent juvenile offenders will now be the responsibility of local jurisdictions, where they can benefit from programs within their communities and be closer to potential support networks.

The Budget includes \$24 million General Fund, growing to a total of \$92 million by 2009-10, in Juvenile Offender Block Grant funding that will provide counties with resources to provide services to juvenile offenders who will no longer be housed in DJJ facilities or supervised by the Division of Juvenile Parole Operations (DJPO). This is based on approximately 700 juvenile offenders being housed or supervised on parole at the county level, growing to approximately 1,300 by 2009-10.

Due to the reduction of juvenile offenders housed in DJJ facilities and supervised by the DJPO and the associated costs of housing and supervising these juveniles, there will be a reduction to the DJJ's operating budget of \$25 million, growing to \$169 million by 2009-10.

The Budget also includes \$100 million in lease-revenue bonds to finance the acquisition, design, renovation, or construction of local juvenile facilities in order to ensure that locals have adequate capacity and program space to house and serve juvenile offenders.

COURT AND LAWSUIT RELATED ISSUES

The Budget includes \$526.4 million General Fund to fund various program enhancements for the medical, mental health and dental care programs for the CDCR.

- The Budget includes \$125 million for the Receiver in 2007-08, which is intended to address costs associated with the California Prison Health Care Receivership Corporation's operational budget, coordinated activities undertaken by the Coleman, Perez, and Plata courts, potential but unknown additional health care guarding and transportation costs, and unidentified Receiver-driven activities within the medical program. This is in addition to \$200.8 million to address costs associated with salary enhancements, the establishment of various medical and custody positions, and additional medical equipment.
- The Budget includes \$79.2 million to comply with the Perez lawsuit. Included in these funds are \$22.5 million to rollout Phase IV of the Inmate Dental Services Program in response to a stipulation agreement and to provide additional headquarters staffing within the Dental Program as ordered by the court, and \$56.7 million is to provide salary enhancements for various dental classifications.

CORRECTIONS AND REHABILITATION

- The Budget includes \$121.4 million to comply with the Coleman lawsuit. This includes \$40.2 million to implement the Revised Program Guide for the Mental Health Services Delivery System, \$17.8 million to retrofit administrative segregation and mental health cells to help prevent suicides in those cells, \$7.7 million to staff a new Mental Health Crisis Bed Unit at the California Medical Facility that was constructed in response to a Coleman court order, \$5.1 million to implement the Reception Center Enhanced Outpatient Program to deliver mental health treatment to individuals who have been identified as having a serious mental disorder resulting in a serious level of impairment in functioning, and \$50.6 million to provide salary increases for mental health professionals.

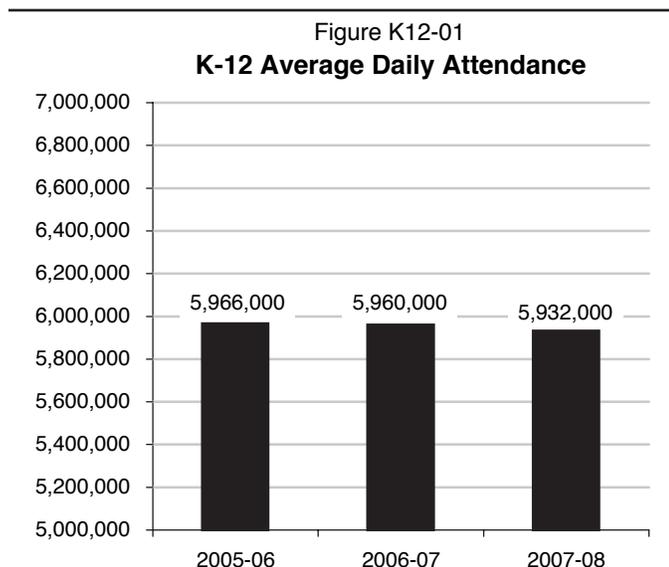
K THRU 12 EDUCATION

Kindergarten through 12th grade (K-12) education programs provide a variety of academic and support services primarily to pupils between the ages of three and 19. The programs equip California's young people with the skills to become successful adults, achieve career goals, obtain gainful employment and pursue higher education. Services include standards-based academic instruction, special education, career technical education programs, child care and development, teacher recruitment and development and adult education and remedial instruction, among others.

TOTAL K-12 FUNDING

The 2007-08 Budget Act includes \$66.8 billion (\$41.4 billion General Fund and \$25.4 billion other funds) for K-12 education programs in 2007-08. This reflects an increase of \$3.5 billion (\$1.6 billion General Fund and \$1.9 billion other funds) over the 2006-07 revised budget. More notable funding changes are further described below.

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools is also declining (see Figure K12-01). For the current year, K-12 average daily attendance (ADA) is estimated to be 5,960,000, a decrease of 6,000 or 0.09 percent from the 2005-06 fiscal year. For the budget year, the Administration estimates K-12 ADA

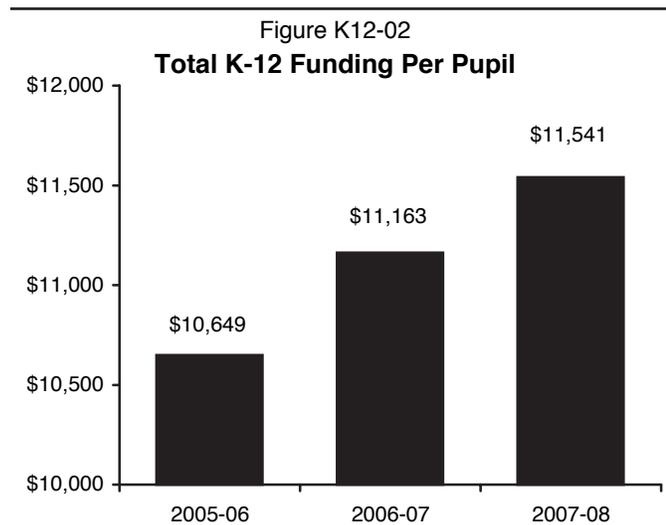


K THRU 12 EDUCATION

will decrease at a greater rate. The ADA for 2007-08 is projected to decline by 28,000 ADA or 0.48 percent, to 5,932,000.

PER-PUPIL SPENDING

Total per-pupil expenditures from all sources are projected to be \$11,163 in 2006-07 and \$11,541 in 2007-08, including funds provided for prior year settle-up obligations (see Figure K12-02). This is an indicator of the relative level of spending in California for support of K-12 education programs and not the actual level of funding allocated to each school for a pupil.



MAJOR WORKLOAD ADJUSTMENTS

Major workload adjustments for 2007-08 include the following:

- **Cost-of-Living Adjustment (COLA) Increases**—The Budget includes a \$2.1 billion increase to fund the 4.53-percent statutory COLA: \$1.6 billion for revenue limits; \$150.9 million for special education; \$69.7 million for child care programs; \$58.6 million for class size reduction; and \$303 million for various other categorical programs.
- **ADA**—The Budget includes an \$11 million net reduction in 2007-08 to reflect the decline in ADA. The majority of this amount consists of a \$42.1 million reduction in school district and county office of education revenue limit apportionments (general purpose funding for schools). Due to the decrease in the attendance for 2006-07, there is an \$89 million decrease in revenue limit apportionments for that year.

- Special Education—The Budget provides a Proposition 98 General Fund increase of \$93.4 million and a Federal Fund increase of \$10.9 million. These changes include adjustments for revised figures for local property tax and ADA growth.

The major policy adjustments included in the Budget are discussed in the Program Adjustments section below.

PROPOSITION 98 GUARANTEE

A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to a multitude of factors, including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 was adopted to allow for a third funding test in low revenue growth years. As a result, three calculations or (“Tests”) determine funding for school districts and community colleges (K-14). The calculation or Test that is used depends on how the economy and General Fund revenues grow from year to year (see Figure K12-03).

The Legislature, noting concerns about the uncertainty of the economy and in particular General Fund revenues, chose to fund the Proposition 98 Guarantee for the 2006-07 fiscal year at a minimum level of \$55 billion, which is \$411 million lower than the amount proposed in the May Revision. The final Budget Act reflects the budget year impact on the Proposition 98

Figure K12-03

Propositon 98 Test Calculations

Test 1—Percent of General Fund Revenues

Test 1 is based on a percentage or share of General Fund tax revenues. Historically, school districts and community colleges (K-14) received approximately 40 percent in the 1986-87 fiscal year. As a result of the recent shifts in property taxes between K-14 schools and cities, counties, and special districts, the current rate is approximately 41 percent.

Test 2—Adjustments Based on Statewide Income

Test 2 is operative in years with normal to strong General Fund revenue growth. This calculation requires that school districts and community colleges receive at least the same amount of combined state aid and local tax dollars as they received in the prior year; adjusted for enrollment growth and growth in per capita personal income.

Test 3—Adjustment Based on Available Revenues

Test 3 is utilized in low revenue years when General Fund revenues decline or grow slowly. During such years, the funding guarantee is adjusted according to available resources. A low revenue year is defined as one in which General Fund revenue growth per capita lags behind per capita personal income growth more than one-half percentage point. Test 3 was designed so that education is treated no worse in low revenue years than other segments of the state budget.

In years following a Test 3 funding level, the state is required to provide funding to restore what was not allocated the previous year. This is often referred to as a maintenance factor.

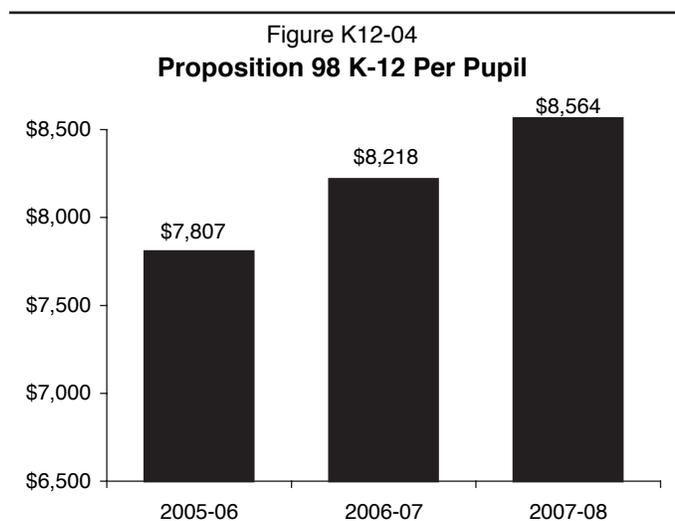
K THRU 12 EDUCATION

guarantee as a result of the revised current year minimum Proposition 98 guarantee level. This adjustment results in General Fund savings of \$427 million.

Despite the adjustment in the Proposition 98 guarantee, K-14 education spending remains at \$57.6 billion from a combination of one-time and ongoing funding. To accomplish this, the Budget Act replaces \$429 million in ongoing Proposition 98 General Fund for K-12 Home-to-School Transportation and K-12 School Deferred Maintenance with funding from the Public Transportation Account (PTA) and the Proposition 98 Reversion Account. Specifically, the Budget provides for the following:

- A \$349 million reduction in the Proposition 98 appropriation for K-12 Home-to-School Transportation;
- An \$115.5 million reduction in the Proposition 98 appropriation for the State School Deferred Maintenance Fund;
- A shift of \$250 million from the School Facilities Emergency Repair Account back to the Proposition 98 Reversion Account;
- An appropriation of \$99 million from the PTA for the K-12 Home-to-School Transportation Program;
- An appropriation of \$250 million from the Proposition 98 Reversion Account for the K-12 Home-to-School Transportation Program; and
- An appropriation of \$115.5 million from the Proposition 98 Reversion Account for the State School Deferred Maintenance Fund.

Proposition 98 funding for 2007-08 is proposed at \$57.1 billion, a 3.9-percent increase over the 2006-07 funding level. The General Fund comprises \$41.5 billion of total proposed Proposition 98 funding. The totals include funding for K-12, community colleges and other state agencies



that serve students. K-12 Proposition 98 per-pupil expenditures are \$8,564 in 2007-08 (see Figure K12-04).

For fiscal year 2005-06, Proposition 98 funding was \$53.3 billion (this number reflects the guarantee level as recalculated pursuant to the Proposition 98 Settlement Agreement), of which the General Fund share was \$39.7 billion. Local property taxes covered the balance. The 2006-07 Proposition 98 funding is estimated to be \$55 billion, a 3.1-percent increase over 2005-06. The General Fund share in 2006-07 is \$40.8 billion. These funding levels reflect the higher attendance estimates and the cost of apportionments for that year.

PROGRAM ADJUSTMENTS

SECOND GRADE TESTING

The Budget provides \$2.1 million in Proposition 98 General Fund to continue second grade testing under the Standardized Testing and Reporting (STAR) program. Without second grade testing, the first information about student performance related to state-aligned standards would not be available until the beginning of fourth grade. Continuation of second grade testing will continue to provide valuable information on whether or not a student has mastered basic reading skills. It will also continue to provide teachers and school administrators a critical tool for early identification of students who need additional support.

MAKING SCHOOL MEALS HEALTHY

The Budget provides \$24.9 million in Proposition 98 General Fund for a 4.7-cent increase to the school meal reimbursement rate if legislation is enacted that improves the nutritional quality of meals served to California's students. Specifically, the Administration supports legislation that would prohibit food items that contain artificial trans fat and foods fried in unhealthy oils from being served in the Child Nutrition Program. It is widely accepted that trans fats are unhealthy and contribute to the current childhood obesity epidemic and that foods fried in unhealthy oils have a negative effect on cardiovascular health. This funding increase will allow school districts to serve healthier meals to California's students and illustrates the Administration's continued commitment to improving student health.

CAREER TECHNICAL EDUCATION

As discussed in greater detail in the higher education section, the Budget continues substantial investments in career technical education (CTE), consistent with the Governor's initiative begun in 2005-06. In total, the Budget provides \$52 million (\$20 million in ongoing Proposition 98 General Fund and \$32 million pursuant to the CTA vs. Schwarzenegger settlement appropriated by Chapter 751, Statutes of 2006) to continue systematic

K THRU 12 EDUCATION

investments aimed at restoring and reinvigorating high school vocational programs through curriculum enhancements, as well as course sequencing and articulation between K-12 tech-prep programs and community college economic development programs.

A specific 2007-08 expenditure plan is currently being finalized by the Chancellor's Office in conjunction with the State Department of Education, and is anticipated to include new grant opportunities in a variety of critical areas that will better prepare students for employment in high-demand technical careers and further skill development in postsecondary education. The Administration has also sponsored legislation to streamline the credentialing process for CTE instructors that should assist in the current teacher shortage.

DEFERRED MAINTENANCE AND EMERGENCY REPAIRS

The Budget provides a total of \$277.4 million to fully fund the Deferred Maintenance program. For the 2007-08 fiscal year, this program will be funded with \$161.9 million in ongoing Proposition 98 General Fund and \$115.5 million in one-time Proposition 98 Reversion Account funding.

The Budget also provides another \$100 million transfer from the Reversion Account to the Emergency Repair Account in satisfaction of the Williams settlement agreement. This reflects the third increment of funding for the program bringing the total transfers to \$438 million. However, the unspent balance in this account is currently \$300 million. Therefore, in order to maximize the available revenue for other school spending, the budget transfers \$250 million of the existing balance back to the Reversion Account on a temporary basis, which will still leave \$150 million available in the near term. Nevertheless, the Budget's control provisions insure that funds from the Reversion Account will be transferred back when needed in the event that actual demand on the Emergency Repair Account exceeds budget year expectations.

CALIFORNIA PUPIL ACHIEVEMENT DATA

The Budget includes \$3.9 million (from all funds) to support the development of the California Longitudinal Pupil Achievement Data System. The state is currently reviewing bids for implementation, and plans on initiating development in 2007-08. The funding complements \$31 million provided by the state in 2006-07 over three years to support all districts in preparing for the transition to the longitudinal system—\$1.5 million for the California School Information Services for technical support, and \$29.5 million in local preparation grants.

CHILD CARE

The Budget Act appropriates more than \$3.3 billion for K-12 child care programs, including funding for general child care, CalWORKs child care, preschool, and before and after

school programs. Allocated through all the K-12 child care programs, these funds will provide almost 950,000 child care slots.

The Budget also continues \$50 million in Proposition 98 funding for the first phase of a three-year initiative to expand preschool opportunities for four-year olds residing in attendance areas of schools ranked in the lowest three deciles of the 2005 Academic Performance Index, pursuant to the provisions of the Pre-Kindergarten Family Literacy program.

In addition, the Budget Act appropriates \$6.8 million to provide for an increase in the income eligibility threshold for subsidized child care. The income eligibility threshold will be raised to \$50,250 for a family of four to reflect an increase in the 2007-08 State Median Income.

This page intentionally blank to facilitate double-sided printing.

HIGHER EDUCATION

TOTAL FUNDING

The Budget continues to recognize the significant contributions and benefits to society from broad access to higher education at the University of California (UC), the California State University (CSU), and California Community Colleges (CCC). The 2007-08 Budget marks the third year of funding for UC and CSU under the terms of the Higher Education Compact with the Administration.

The Budget provides for total Higher Education funding of \$19.7 billion from all revenue sources. UC funding totals over \$5.4 billion, including almost \$3.3 billion General Fund. (See Figure HED-01). The amount budgeted from the General Fund for UC is 6.4 percent above the 2006-07 budget. CSU funding totals almost \$4.4 billion, including approximately \$3.0 billion General Fund. The amount budgeted from General Fund for CSU is 6.2 percent above the 2006-07 budget. Community College funding totals over \$8.5 billion, including approximately \$6.5 billion from General Fund and Proposition 98 sources, of which almost \$4.5 billion is from the General Fund alone. The amount budgeted from General Fund and Proposition 98 sources for CCC is 5.5 percent above the revised 2006-07 level.

HIGHER EDUCATION COMPACT FUNDING LEVELS

In accordance with the Higher Education Compact, the Budget provides stable funding to UC and CSU for enrollment growth and basic budget support. In particular, the Budget reflects the following:

- Fee Levels—Undergraduate fees increase to \$6,636 (7 percent) for UC and to \$2,772 (10 percent) for CSU. Graduate fees increase to \$7,440 (7 percent) for UC, to \$3,216

Figure HED-01
Higher Education Expenditures
General Fund, Lottery Funds, State School Fund,
Local Revenues and Student Fees
(Dollars in Millions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Change from 2006-07	
							Dollar	Percent
University of California ^{1/}								
Total Funds	\$4,418.5	\$4,516.1	\$4,514.7	\$4,812.4	\$5,104.0	\$5,452.9	\$348.9	6.8%
General Fund	3,150.0	2,868.1	2,698.7	2,838.6	3,078.0	3,273.9	\$195.9	6.4%
California State University ^{1/}								
Total Funds	3,525.9	3,651.4	3,586.3	3,834.5	4,087.1	4,368.3	\$281.2	6.9%
General Fund	2,697.1	2,625.7	2,475.8	2,596.0	2,810.4	2,985.9	\$175.5	6.2%
Community Colleges								
Total Funds	6,588.5	6,697.8	7,300.8	7,764.8	8,269.4	8,585.0	\$315.6	3.8%
General Fund & P98 ³	4,869.9	4,505.3	5,031.9	5,735.0	6,194.5	6,536.0	\$341.5	5.5%
Student Aid Commission (GF)								
Total Funds	594.0	689.3	776.5	830.8	857.6	903.4	\$45.8	5.3%
General Fund	569.0	658.8	595.4	733.5	802.9	873.0	\$70.1	8.7%
Other Higher Education ^{2/}								
Total Funds	180.6	199.4	301.1	307.1	326.2	396.6	\$70.4	21.6%
General Fund	165.0	179.6	274.9	280.4	298.0	367.5	\$69.5	23.3%
Total Funds	\$15,307.5	\$15,754.0	\$16,479.4	\$17,549.6	\$18,644.3	\$19,706.2	\$1,061.9	5.7%
General Fund	\$11,451.0	\$10,837.5	\$11,076.7	\$12,183.5	\$13,183.8	\$14,036.3	\$852.5	6.5%

^{1/} For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income, but exclude self-supporting functions such as auxiliary enterprises and extramural programs among others. This provides consistency in comparing magnitudes and growth among the various segments of education.

^{2/} The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

^{3/} For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue, as a component of the state's obligation under Proposition 98.

(10 percent) for CSU teacher preparation students, and to \$3,414 (10 percent) for other CSU graduate programs. Despite these increases, fees at UC remain below the average of other comparable research universities and CSU fees remain the lowest among comparable comprehensive public colleges.

- Enrollment Growth—The Budget provides funding for enrollment growth of 2.5 percent per year at the marginal cost of instruction. For UC, this growth rate represents an increase of 5,000 students. For CSU, the increase is 8,355 students.
- Basic Budget Support—The Budget provides a 4-percent general increase to help preserve and enhance the quality of university instruction by addressing competitive faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases.

COMMUNITY COLLEGES

The Budget continues to recognize the extraordinary role of the Community Colleges in addressing the economic well-being of California. For the fourth year in a row, the Budget provides significant new investments in this higher education segment, including funding for substantial enrollment growth, a large cost-of-living adjustment, and additional funding for important statewide initiatives that include addressing the nursing shortage, career technical education, and increasing the success rates for students who lack adequate preparation for college-level work. In total, the Budget provides General Fund and Proposition 98-related increases of over \$341 million compared to 2006-07, including \$21.2 million in one-time resources from the Proposition 98 reversion account. These increases are detailed in the traditional highlights for the Community Colleges below.

Student fees remain at the \$20 per unit and continue to be the lowest in the nation— just 24 percent of the national average.

CAREER TECHNICAL EDUCATION INITIATIVE

The Budget continues substantial investments in career technical education (CTE), consistent with the Governor's initiative begun in 2005-06. The Budget provides \$52 million, consisting of \$20 million in ongoing funds in the Community Colleges budget and the first increment of \$32 million from the CTA vs. Schwarzenegger settlement appropriated by Chapter 751, statutes of 2006 (SB 1133). This initiative seeks to systematically reinvigorate high school vocational programs through curriculum enhancements, course sequencing and articulation between K-12 tech-prep programs and community college economic development programs. A specific 2007-08 expenditure plan is currently being finalized by the Chancellor's Office in conjunction with the State Department of Education, and is anticipated to include new grant opportunities that include financial incentives for high schools to enroll additional students in high-quality career programs that are linked with business, a career advancement academy pilot program for drop-outs and other adults lacking basic and vocational skills, new projects to enhance CTE leadership development and business partnerships, as well as substantial increases in CTE teacher recruitment and professional development. Overall, the expenditure plan addresses known problems that currently limit student access to programs that prepare them for employment in high-demand technical careers and further skill development in postsecondary education. The Administration has also sponsored legislation to streamline the credentialing process for CTE instructors that should assist in the current teacher shortage.

NURSE EDUCATION INITIATIVE

The Budget continues to provide new investments to address the statewide nursing shortage in the higher education segments and financial aid programs totaling over \$21 million. Included are augmentations totaling \$17.1 million for Community Colleges to further reduce attrition in nursing enrollments, startup funding for 4 new nursing programs, and one-time funding for equipment and other uses to stimulate expansion of enrollments in both nursing and allied health programs. The Budget also provides \$3.6 million for CSU to increase undergraduate nursing enrollments by 340 students in the budget year, \$757,000 for UC associated with increased enrollments in accelerated masters nursing degree programs, and authorization for the Student Aid Commission to award new cohorts of 100 loan assumption warrants each for the State Nursing Assumption Program of Loans for Education (SNAPLE) and for the Nurses in State Facilities APLE program to help meet clinical nursing position needs for state agencies. These additions are further detailed in the respective traditional highlights for each segment or agency below. Finally, it is noted that \$2.5 million of the budget-year CTE funding plan is reserved to support second-year grants for the K-12 nursing career pathway program for school districts. With this budget, the cumulative funding provided over the last four years above normal enrollment growth totals approximately \$130 million.

CCC STUDENT SUCCESS INITIATIVE

The Budget sets aside \$33.1 million Proposition 98 General Fund for the Community Colleges in anticipation of legislation that would appropriate this amount to increase the rate of successful outcomes for students who are not adequately prepared for college-level work. Many students enter college without the requisite basic skills necessary to succeed in college. Despite the availability of remedial courses, most of those students do not persist long enough to complete a meaningful outcome such as attainment of an Associates Degree, a skill certificate necessary to enter a high-paying career, or completion of the required courses necessary to transfer to a four-year postsecondary institution. This circumstance threatens our future economic competitiveness and under-optimizes the potential of many of California's young adults. In order to address this situation, especially for students transitioning from high school, the Administration proposes funding to enhance counseling and other student services, including improved aptitude assessments, development of a meaningful academic plan for each student, and hands-on tutoring, as necessary, to ensure these students complete that plan. This funding would be distributed in a way that provides front-end accountability incentives for improving those success rates, thereby eliminating the need for tedious reporting on each college's choice of expenditures.

SALE OF EDFUND

Budget trailer legislation (SB 89 and SB 91) provide for the sale of the Student Aid Commission's loan guarantee function and nonprofit auxiliary organization, known as EdFund, in order to maximize the value of the state's assets related to implementation of the Federal Family Education Loan Program. Because the loan guaranty function is not a core mission of state government and is often conducted by independent, non-governmental entities in other states, it is anticipated that a sale or other arrangement would have the benefit of generating up to \$1 billion of revenue to the state without affecting either student access to or interest rates on federal guaranteed loans for postsecondary education. This legislation authorizes the Director of Finance to determine the most cost-effective course of action, to hire a sale advisor, and provides \$300,000 for legal expenses to ensure that all details of the transaction are conducted in compliance with both federal requirements and state laws and regulations to ensure no interruption of guaranty services to students. It is anticipated that the sale would take place during the last quarter of the fiscal year, after due diligence has been completed by prospective purchasers, competitive bidding conducted, and approval of the federal Department of Education.

As a consequence of this transaction, the state will resume funding for the cost of the Commission's state operations and financial aid awareness programs.

UNIVERSITY OF CALIFORNIA

The Budget provides total funding from all sources of \$5.5 billion for UC, an increase of \$348.9 million or 6.8 percent above the 2006-07 level. This funding level includes \$3.3 billion General Fund, reflecting an increase of \$195.9 million or 6.4 percent above the 2006-07 level. The Budget includes the following significant General Fund and fee related adjustments for UC:

CURRENT YEAR

The Budget includes the following significant current-year General Fund adjustments for UC:

- \$1.3 million increase for lease purchase payments.

BUDGET YEAR

- \$116.7 million increase (4 percent) for basic budget support.
- \$52.9 million increase (2.5 percent) for enrollment growth consistent with the Compact. This funding will enable UC to enroll an additional 5,000 state-supported students.

HIGHER EDUCATION

- \$104.7 million increase in fee revenue associated with the 7-percent fee increase for undergraduate, graduate, and professional school students. One-third of the revenue generated by the fee increases for undergraduate and professional programs and 45 percent of the revenue generated by the graduate fee increase will be set aside for financial aid.
- \$14 million in one-time funds for costs associated with sustaining UC Merced operations in 2007-08 for a total funding level of \$24 million.
- \$757,000 to restore nursing funding for expansion of entry-level master's nursing programs pursuant to Chapter 592, Statutes of 2005 (SB 73).
- \$570,000 increase for the next cohort of 38 students for the PRIME Program, which targets prospective medical doctors for underserved populations.
- \$500,000 increase for the COSMOS program that provides summer enrichment for talented K-12 students in math and science.
- \$15.8 million increase for lease purchase payments.
- \$10.5 million increase for annuitant health benefits.

CALIFORNIA STATE UNIVERSITY

The Budget provides total funding from all sources of \$4.4 billion for CSU, an increase of \$281.2 million or 6.9 percent above the 2006-07 level. This funding level includes \$3.0 billion General Fund, an increase of \$175.5 million or 6.2 percent above the 2006-07 level.

The Budget includes the following significant General Fund and fee related adjustments for CSU:

CURRENT YEAR

The Budget includes the following significant current-year General Fund adjustments for CSU:

- \$23.3 million increase for retirement costs.
- \$3.0 million reduction for lease purchase payments.

BUDGET YEAR

- \$108.7 million increase (4 percent) for basic budget support.
- \$64.4 million increase (2.5 percent) for enrollment growth. This funding will enable CSU to enroll an additional 8,355 state-supported students.

- \$97.8 million increase in fee revenue associated with a 10-percent fee increase for undergraduate, graduate, and teacher credential candidates. One-third of the revenue generated by the fee increases will be set aside for financial aid.
- \$3.6 million to support an increase of 340 FTES enrollments in undergraduate nursing programs at full marginal cost in recognition of cost pressures on CSU and the need for increased enrollments.
- \$2 million increase for the next phase of the Science and Math Teacher Initiative that began with the 2005 Budget Act.
- \$120,000 increase (4 percent) for the Capitol Fellows Program consistent with the Compact.
- \$23.3 million to continue the increase for retirement costs.
- \$2.7 million reduction for lease purchase payments.

CALIFORNIA COMMUNITY COLLEGES

The Budget provides total funding from all sources of \$8.585 billion for CCC, an increase of \$315.6 million or 3.8 percent above the 2006-07 level. This funding level includes \$341.5 million net General Fund and Proposition 98-related increases or 5.5 percent above the 2006-07 level. The Budget includes the following significant Proposition 98 General Fund related adjustments for CCC:

CURRENT YEAR

- \$19.2 million increase in property tax revenue based on revised estimates.

BUDGET YEAR

- \$248.4 million increase for cost-of-living (4.53-percent COLA) for general-purpose Apportionments.
- \$107.5 million increase (2 percent) for enrollment growth for Apportionments. This funding will enable CCC to enroll an additional 23,000 full-time-equivalent (FTE) students.
- \$21.2 million increase for Categorical Program enrollment growth and COLA (2 percent and 4.53 percent, respectively) for Basic Skills, Matriculation, Disabled Students Programs and Services, Campus Childcare Tax Bailout, and Extended Opportunity Programs and Services.

HIGHER EDUCATION

- \$80 million base reduction for unused growth from current and prior years. Notwithstanding this adjustment, when coupled with the 2-percent new growth funding and additional capacity retained in the base budget associated with declining enrollment funding, the apportionment budget is sufficient to enable the system to increase full-time-equivalent (FTES) enrollment by at least 3 percent over the estimated current-year actual workload levels for total growth of more than 34,000 FTES.
- \$5.2 million increase for additional attrition reduction related investments to increase the graduation rate in Associate Degree Nursing programs.
- \$1.9 million increase for textbook assistance for low-income students.
- \$570,000 for the Fiscal Crisis Management Assistance Team to prevent insolvency for financially struggling districts.
- \$500,000 increase for the Foster Care/Kinship Program.
- \$31.5 million increase to offset the remaining fee revenue reduction incurred by colleges in the budget year due to the reduction in student fees from \$26 per unit to \$20 per unit in the spring of 2007 and other workload adjustments.
- \$203.1 million reduction to Apportionments to reflected estimated growth in local property taxes of an identical amount.

The Budget sets aside a total of \$46.9 million Proposition 98 General Fund for pending legislation that would appropriate these funds for the following purposes:

- \$33.1 million from surplus Basic Skills overcap incentive funding to support additional services to increase successful student outcomes, particularly for recent high school graduates who lack basic skills, as discussed in the Student Success initiative above.
- \$13.8 million for other Proposition 98 priorities.

The Budget also provides \$21.2 million in one-time funding from the Proposition 98 Reversion Account for the following purposes:

- \$8.1 million for equipment and other one-time expenses associated with nursing and allied health programs that will stimulate increased enrollment capacity for these high-demand occupations.
- \$8.1 million for deferred maintenance and instructional materials.
- \$4 million for startup costs for four new nursing programs.

- \$1 million for the Cal-Pass program that facilitates institutional research for multiple education segments.

HASTINGS COLLEGE OF THE LAW

The Budget provides total funding from all sources of \$39.8 million, an increase of approximately \$900,000 or 2.3 percent above the 2006-07 level. This funding includes \$10.6 million General Fund, reflecting a decrease of \$40,000 or 0.4 percent.

The Budget includes the following significant General Fund and fee related adjustments for Hastings College of the Law:

- \$406,000 increase (4 percent) for basic budget support, consistent with the Compact.
- \$77,000 increase for retired annuitant health benefit costs.
- \$523,000 reduction of one-time relocation costs related to a capital outlay project.
- \$2 million increase in fee revenue associated with an 8 percent fee increase. One-third of the fee revenue generated by the increase will be set aside for financial aid.

STUDENT AID COMMISSION

The Budget provides total funding from all sources of \$903.4 million, an increase of \$45.8 million or 5.3 percent above the revised 2006-07 level. This funding includes \$873 million General Fund, reflecting an increase of \$70.1 million or 8.7 percent above the revised 2006-07 level. The Budget includes the following significant adjustments for the Student Aid Commission:

CURRENT YEAR

- \$43.9 million in savings in the Cal Grant and APLE programs.

BUDGET YEAR

- \$41.4 million increase over the revised 2006-07 level for anticipated growth in the Cal Grant Program, reflecting increased participation and the anticipated undergraduate fee increases of 7 percent and 10 percent at UC and CSU, respectively.
- \$6.7 million increase over the revised 2006-07 level for anticipated growth in costs in the Assumption Program of Loans for Education (APLE).

HIGHER EDUCATION

- \$15.3 million to shift the cost of the Commission's state operations from the Student Loan Operating Fund to the General Fund as a result of the pending sale of EdFund.
- \$6.4 million to shift the cost of the Commission's financial aid awareness program known as CalSOAP from the Student loan Operating Fund to the General Fund as a result of the pending sale of EdFund.
- Authorization for 600 new warrants for a total of 8,000 for the Assumption Program of Loans for Education (APLE) to help increase the teacher supply in critical shortage areas including math and science (payments estimated to begin no sooner than 2009-10).
- Authorization for 100 new warrants for the State Nursing Assumption Program of Loans for Education (SNAPLE) (payments estimated to begin no sooner than 2009-10).
- Authorization for 100 new warrants for the Nurses in State Facilities APLE program (payments estimated to begin no sooner than 2009-10).

GENERAL GOVERNMENT

The General Government Section includes departments, commissions and offices responsible for oversight of distinct policy areas that are not easily consolidated into other oversight areas such as ensuring peace officer competence, seismic safety, reasonable public utility rates, food and agricultural issues, and services to veterans.

DEPARTMENT OF FOOD AND AGRICULTURE

LIGHT BROWN APPLE MOTH

The Budget provides \$2.0 million General Fund to address the Light Brown Apple Moth (LBAM). This pest has the potential to harm California's natural ecosystem and cause annual economic losses exceeding \$100 million. The LBAM is not native to the continental United States and has no natural enemies to control its population. The Department is working with the United States Department of Agriculture to obtain federal funding.

HIGH-RISK PEST EXCLUSION

The Budget provides \$1.5 million General Fund for County Agricultural Commissioners for additional inspection activities at airports, ports, and public and private parcel facilities to detect and exclude new pests and diseases from California's agriculture and natural environment.

BORDER INSPECTION STATIONS

The Budget provides \$677,000 General Fund and 11.4 positions to inspect additional vehicles and shipments entering California for assurance the vehicles and shipments are pest-free and compliant with plant quarantine regulations.

PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (PUC) regulates the electricity, natural gas, water, telecommunications, and transportation industries, such as railroads and household goods carriers. The 2007 Budget Act contains funding to enable the PUC to implement several new efforts:

- The Budget includes \$2,460,000 Reimbursements and 2.9 positions to implement the California Solar Initiative. These staff will administer required PUC proceedings and assist in developing a pricing structure that provides an incentive to generate solar electricity during peak demand hours. The vast majority of these funds, \$2,166,000, will be used to hire independent consultants to provide program monitoring and evaluation.
- The Budget includes \$950,000 (\$850,000 Public Utilities Commission Utilities Reimbursement Account and \$100,000 Public Utilities Commission Ratepayer Advocate Account) and 10.3 positions to implement the Video Competition Act. These positions will enable the PUC to ensure that video services are non-discriminatory, review applications, and issue state franchises. This proposal includes one position for the Division of Ratepayer Advocates to promote service and quality standards on behalf of ratepayers.
- The Budget includes \$2,043,000 Universal Lifeline Telephone Service Administrative Committee Fund and 31 positions to enable the PUC to address a large increase in appeals affecting the Universal Lifeline Telephone Service program. The appeals have resulted from eligibility denials issued to telephone users who fail to comply with new federal requirements, which require users to re-apply for the program and provide proof of income eligibility.
- The Budget provides \$500,000 Public Utilities Commission Utilities Reimbursement Account to fund critical contracts in support of implementation of the California Global Warming Solutions Act.

MILITARY DEPARTMENT

MILITARY FUNERAL HONORS

The Budget includes \$1.8 million General Fund and 22 positions to provide the additional resources needed to meet the increased demand for military funeral honors ceremonies in California. This augmentation will provide an additional 300 funeral honors per month which would include, among other things, California National Guard (CNG) members folding the United States flag and presenting it to the next of kin during the funeral ceremony. Federal

regulations require the CNG to serve as the primary provider of these ceremonies for veterans who request, or whose families request, funeral services in California with military honors.

DEPARTMENT OF VETERANS AFFAIRS

BARSTOW 40-BED SKILLED NURSING FACILITY

The Budget provides \$2.3 million (\$2.1 million General Fund and \$245,000 federal funds) and 18 positions to reopen the 40-bed Skilled Nursing Facility (SNF) at the Barstow Veterans Home. The opening of the SNF unit will provide a level of care needed by veterans and will allow for greater utilization of the Barstow Home. The activation of the unit will occur over two fiscal years.

GREATER LOS ANGELES AND VENTURA COUNTY VETERANS HOMES CONSTRUCTION

The Budget includes \$621,000 General Fund and 5.2 positions for the initial construction and pre-activation phases of the Greater Los Angeles and Ventura County Veterans Homes project. At completion, the new facilities will bring Adult Day Health Care, assisted living and Skilled Nursing Facility care to veterans in the greater Los Angeles area.

ENTERPRISE WIDE INFORMATION SYSTEM

The Budget provides \$11.4 million General Fund (\$7 million one-time) and 26.4 positions to procure and implement a statewide Veterans Home Information System. This system will be implemented in the veterans homes proposed for construction and in the existing veterans homes over the next seven fiscal years. The new system will be based upon the federal veterans health care information system and will improve health care tracking, improving the continuum of care provided to veterans.

SALARY INCREASES FOR CLASSIFICATIONS AFFECTED BY THE PLATA, COLEMAN, AND PEREZ COURT CASES

The Budget reflects an increase of \$3.5 million General Fund to increase salaries for personnel classifications providing medical, mental health, and dental services for the California Veterans Homes in Yountville, Barstow, and Chula Vista. This augmentation brings salaries to appropriate levels consistent with decisions for non-Department of Corrections and Rehabilitations personnel pursuant to the Plata, Coleman, and Perez court orders. These increases will improve hiring and retention of health service staff at the California Veterans Homes and enhance the level of service provided to veterans.

This page intentionally blank to facilitate double-sided printing.

STATEWIDE ISSUES

This section includes issues that affect multiple departments in various major program areas.

STATE CIVIL SERVICE HUMAN RESOURCES REFORM

The state's civil service system is a cumbersome and difficult system to administer. For the state's more than 215,000 employees, there are more than 4,000 separate job classifications which are duplicative and generally reflect narrow program or department specific desires to tailor job descriptions. The Department of Personnel Administration administers the civil service compensation program and job classifications. The State Personnel Board is responsible for the merit aspects of civil service, including determining eligibility for appointment into civil service positions and for promotions. The two agencies are working collaboratively to create a comprehensive plan to reform how the state brings new employees into civil service, how they are paid, and how they become eligible for promotion once they are working for the state.

One of the goals of this civil service reform is to shorten the timeframe for hiring so people interested in working for the state will know in a week or two whether or not they qualify for a desired job. Another goal is for state departments to have a continuously updated list of appointment-eligible people they can contact to interview for vacancies. The state is also moving toward a system under which all forms of employee compensation will be reviewed periodically to determine the best way to attract new employees and retain existing employees.

In order to ensure that there are sufficient numbers of qualified people to replace retiring employees, the state will need to provide a salary and benefits package that appeals to

STATEWIDE ISSUES

the next generation of California workers. The same salary and benefits that attracted the “baby boomers” may not be as attractive to a generation which is more focused on lifetime employability than lifetime employment with a single employer. The traditional lower salary combined with a defined benefit retirement may not entice younger workers to join the state workforce. This civil service reform will standardize the pay scale and attract employees to the state by working to create a competitive and flexible compensation package.

STATEWIDE INTEGRATED FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI\$CAL)

The Budget includes \$6.6 million General Fund to continue planning activities for the Financial Information System for California (FI\$Cal) Project. A partnership of the Department of Finance, the State Controller’s Office, the State Treasurer’s Office and the Department of General Services will prepare the state back office systems and financial management workforce to function in a single statewide financial management system environment. The FI\$Cal Project will also play a major role in succession planning for the changing financial management workforce.

UNALLOCATED REDUCTION

The Budget reduces the amount of General Fund appropriated for employee compensation increases for 2007-08 by \$72 million. This reduction was made to help build a prudent reserve in light of the various uncertainties in revenues and expenditures in 2007-08. With this reduction, \$453.3 million still remains to be allocated to departments for employee compensation increases. The reduced amount available for allocation to departments will not affect pay or benefits for employees. Employees will still receive full pay, but now departments will need to reallocate money within their existing budgets to pay a portion of compensation increases for their employees.

MAXIMIZING THE VALUE OF PUBLIC ASSETS

STATE'S STUDENT LOAN GUARANTEE FUNCTION—OPERATED THROUGH EDFUND

The Budget assumes the sale of, or other contractual arrangement for the operation of, California's student loan guarantee function, generating \$1 billion in one-time revenue to the state. The state's student loan guarantee function under the Federal Family Education Loan (FFEL) Program is operated through a contract between the California Student Aid Commission (CSAC) and EdFund, a non-profit public benefit corporation established by CSAC.

EdFund services student loans for students attending schools in California and throughout the nation. In fact, over half of all loans serviced by EdFund are held by non-California students. EdFund is the second largest guaranty operator in the nation and currently maintains a loan portfolio in excess of \$27 billion.

The state's participation in the FFEL Program through EdFund is an inherently valuable asset because the student loan guarantee business is a fundamentally attractive financial venture. The student loan guarantee business is not a core mission of government. Recognition of this fact led to spinning off the loan guarantee servicing business to a quasi-governmental, private non-profit that is now EdFund. Selling to, or contracting for the operation of this activity with, a private company could produce a significant one-time financial benefit to the state without adversely affecting students. There are many student loan guarantee firms throughout the country that compete vigorously with each other. Nearly all of them are private firms, not governmental entities. Potential buyers or operators of the state's participation in the FFEL Program will be attracted to the opportunity of benefiting from EdFund's substantial portfolio and brand name. In addition, potential buyers or operators may be attracted by the indications of recent analyses that there could be significant opportunities to increase the current efficiency of EdFund and diversify into other compatible lines of business such as loan

MAXIMIZING THE VALUE OF PUBLIC ASSETS

servicing and collections, thereby generating higher revenues and profit margins. The Budget assumes that the sale or contracting for the operation of the state's participation in the FFEL Program would generate at least \$1 billion.

This proposal will not adversely affect students' access to loans or the interest rates students pay for loans (which are set by the federal government). Neither CSAC nor EdFund sets loan interest rates or charge students fees. Revenues come primarily from the banks that EdFund does business with and the federal government.

SUMMARY CHARTS

This section provides various statewide budget charts and tables.

Figure-SUM-01
General Fund Budget Summary
 (Dollars in Millions)

	<u>2006-07</u>	<u>2007-08</u>
Prior Year Balance	\$10,454	\$4,339
Revenues and Transfers	<u>\$95,541</u>	<u>\$101,239</u> ^{1/}
Total Resources Available	\$105,995	\$105,578
Non-Proposition 98 Expenditures	\$60,875	\$60,766 ^{1/}
Proposition 98 Expenditures	<u>\$40,781</u>	<u>\$41,492</u>
Total Expenditures	\$101,656	\$102,258
Fund Balance	\$4,339	\$3,320
Reserve for Liquidation of Encumbrances	\$745	\$745
Special Fund for Economic Uncertainties	\$3,594	\$2,575
Budget Stabilization Account	\$472	\$1,494
Total Available Reserve	\$4,066	\$4,069 ^{2/}

1/ A total of \$2,045 million will be transferred to the Budget Stabilization Account pursuant to Proposition 58. Half will remain in the Account for future purposes (displayed as a reduction in revenues). The other half will be further transferred for the purpose of early retirement of Economic Recovery Bonds (displayed as an increase in expenditures).

2/ Includes \$699 million for Proposition 98 set-aside.

Figure-SUM-02
2007-08 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2006-07
Personal Income Tax	\$55,236	\$1,589	\$56,825	\$3,160
Sales Tax	28,820	5,757	34,577	1,572
Corporation Tax	11,055	-	11,055	338
Highway Users Taxes	-	3,546	3,546	60
Motor Vehicle Fees	26	5,506	5,532	278
Insurance Tax	2,181	-	2,181	15
Liquor Tax	324	-	324	3
Tobacco Taxes	120	981	1,101	11
Other	3,477	9,437	12,914	2,052
Total	\$101,239	\$26,816	\$128,055	\$7,489

Note: Numbers may not add due to rounding.

Figure-SUM-03
2007-08 Total Expenditures by Agency
(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$3,792	\$2,045	\$427	\$6,264
State and Consumer Services	577	806	24	1,407
Business, Transportation & Housing	1,567	8,640	3,078	13,285
Resources	1,674	2,060	1,790	5,524
Environmental Protection	90	1,046	696	1,832
Health and Human Services	29,719	8,130	158	38,007
Corrections and Rehabilitation	9,836	22	-	9,858
K-12 Education	41,341	93	3,990	45,424
Higher Education	11,980	42	2,957	14,979
Labor and Workforce Development	103	321	-	424
General Government	1,579	6,008	952	8,539
Total	\$102,258	\$29,213	\$14,072	\$145,543

Note: Numbers may not add due to rounding.

Figure SUM-04
General Fund Expenditures by Agency
 (Dollars in Millions)

	<u>2006-07</u>	<u>2007-08</u>	<u>Change</u>	<u>%</u>
Legislative, Judicial, Executive	\$3,522	\$3,792	\$270	7.7%
State and Consumer Services	613	577	-36	-5.9%
Business, Transportation & Housing	3,019	1,567	-1,452	-48.1%
Resources	2,109	1,674	-435	-20.6%
Environmental Protection	88	90	2	2.3%
Health and Human Services	29,418	29,719	301	1.0%
Corrections and Rehabilitation	9,293	9,836	543	5.8%
K-12 Education	39,761	41,341	1,580	4.0%
Higher Education	11,331	11,980	649	5.7%
Labor and Workforce Development	108	103	-5	-4.6%
General Government	2,394	1,579	-815	-34.0%
Total	\$101,656	\$102,258	\$602	0.6%

Note: Numbers may not add due to rounding.

Figure SUM-05
Vetoes by Agency
General, Special, and Bond Funds
(Dollars in Millions)

Agency	Legislative Spending Plan	Governor's Vetoes		Enacted Budget Totals
		General Fund	Special and Bond Funds	
Legislative, Judicial, Executive	\$6,319	-\$23	-\$32	\$6,264
State and Consumer Services	1,407	-	-	1,407
Business, Transportation & Housing	13,385	-	-100	13,285
Resources	5,612	-17	-71	5,524
Environmental Protection	1,854	-	-22	1,832
Health and Human Services	38,535	-527	-1	38,007
Corrections and Rehabilitation	9,897	-39	-	9,858
K-12 Education	45,439	-15 ^{1/}	-	45,424
Higher Education	14,990	-11 ^{1/}	-	14,979
Labor and Workforce Development	437	-1	-12	424
General Government	8,611	-70	-2	8,539
Total	\$146,486	-\$703	-\$240	\$145,543

Note: Numbers may not add due to rounding.

^{1/} Excludes \$52 million of Proposition 98 set asides.

^{2/} Excludes \$0.6 million related to veto in Item 0540-492. Dollars are reflected as a prior year adjustment, not in 2007-08.

This page intentionally blank to facilitate double-sided printing.

EXECUTIVE OFFICE

Michael C. Genest
 Director of Finance
 (916) 445-4141

Vincent P. Brown
 Chief Deputy Director, Budget
 (916) 445-9862

H.D. Palmer
 Deputy Director, External Affairs
 (916) 323-0648

Anne Sheehan
 Chief Deputy Director, Policy
 (916) 445-8582

Thomas Sheehy
 Deputy Director, Legislation
 (916) 445-8610

Fred Klass
 Chief Operating Officer
 (916) 445-4923

Molly Arnold
 Chief Counsel
 (916) 324-4856

BUDGET PROGRAM AREAS

Revenue Forecasting; Economic Projections; Demographic Data; Business, Transportation, and Housing; Local Government

Mark Hill, PBM* (916) 322-2263

Education

Jeannie Oropeza, PBM (916) 445-0328

Health and Human Services

Michael Wilkening, PBM (916) 445-6423

Corrections and Rehabilitation, Judicial, Justice, General Government, State and Consumer Services

Todd Jerue, PBM (916) 445-8913

Resources, Energy, Environment, Capital Outlay, Technology Investment Review, Technology Oversight and Security

Karen Finn, PBM (916) 324-0043

Employee Relations, Retirement Systems, Departmental Administration, Local Mandates, Audits and Evaluations

Tom Dithridge, PBM (916) 445-3274

Budget Planning and Preparation, Cash Management, Statewide Issues CALSTARS, FSCU

Veronica Chung-Ng, PBM (916) 445-5332

Statewide Systems Development

Sue V. Bost, PBM (916) 445-8918

*Program Budget Manager

This page intentionally blank to facilitate double-sided printing.

State of California
Governor's Office

I object to the following appropriations contained in Senate Bill 77.

Item 0250-001-0001—For support of Judicial Branch. I revise this item by deleting Provision 5.

I am deleting Provision 5, which would state the Legislature's intent that the Administrative Office of the Courts (AOC) prioritize existing resources to provide a \$5 increase to the hourly rates paid to attorneys in the Court Appointed Counsel Program (Program). A study of the Program's attorney rates is currently underway and is due to be completed by the end of August 2007. To the extent that the study justifies rate increases, the AOC has the ability to provide increases commensurate with the needs as determined by the study.

Item 0250-101-0932—For local assistance, Judicial Branch. I reduce this item from \$3,056,153,000 to \$3,035,796,000 by reducing:

(1) 45.10-Support for Operation of the Trial Courts from \$2,632,142,000 to \$2,611,785,000; and by revising Provision 4.

I am reducing this item by \$20,357,000, which includes a reduction of \$17,377,000 for funding to support the implementation of the Omnibus Conservatorship and Guardianship Reform Act of 2006 (Act) and a reduction of \$2,980,000 for one month of savings related to the 50 new trial court judgeships established in 2006-07. It is my intention for the Judicial Branch to delay implementation of the Act until the 2008-09 fiscal year. Due to the timing of appointments and hiring, one month of the funding for new judgeships will not be necessary in 2007-08. These reductions are necessary in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

I am revising Provision 4, which would require the Judicial Council to allocate not less than \$5,250,000 for court interpreter pay increases and other recruiting and retention incentives. Requiring the Judicial Council to allocate funds for court interpreter recruiting and retention incentives would alter the collective bargaining process by shifting the focus from the actual need for pay increases and other recruiting and retention measures, as negotiated through the normal process, to the minimum level of funding allocated.

Provision 4 is revised as follows:

"The funds appropriated in Schedule (4) shall be for payments for services of contractual court interpreters, and certified and registered court interpreters employed by the courts, and the following court interpreter coordinators: 1.0 each in counties of the 1st through the 15th classes, 0.5 each in counties of the 16th through the 31st classes, and 0.25 each in counties of the 32nd through the 58th classes. For the purposes of this provision, "court interpreter coordinators" may be full- or part-time court employees, or those contracted by the court to perform these services.

The Judicial Council shall set statewide or regional rates and policies for payment of court interpreters, not to exceed the rate paid to certified interpreters in the federal court system. The Legislature finds and declares that there exists a shortage in the availability of certified and registered interpreters in the state courts that reduces the state's ability to provide meaningful access to justice for all court users, including parties, witnesses, and victims. Therefore, every effort must be made to recruit and retain qualified interpreters to work in the state courts.

~~Of the amount appropriated in Schedule (4), not less than five million dollars (\$5,000,000), not including funds provided pursuant to Section 77202 of the Government Code, shall be provided to the trial courts for the purpose of adjusting or creating pay ranges for court interpreter employees that, at the top of the range, do not exceed the top step of the full performance range for staff interpreters in the Federal Courts as of the effective date of this provision. The establishment of pay ranges and their application to specific employee classifications shall be subject to meet and confer in good faith as provided in Chapter 7.5 (commencing with Section 71800) of Title 8 of the Government Code. The Judicial Council shall adjust statewide or regional rates for contract court interpreters in a manner that is equivalent to the average rate of increase provided to court interpreter employees. The Judicial Council shall notify the courts in each region of the availability of these funds for the purposes set forth in this provision, and shall allocate the funds upon notification that ranges and salary adjustments have been established and implemented as provided herein. In no event shall the daily rate set by the Judicial Council for contract interpreters exceed the equivalent median wage of court interpreters employed by the courts in each region.~~

~~Of the amount appropriated in Schedule (4), the Judicial Council shall allocate not less than two hundred fifty thousand dollars (\$250,000) to develop and make available to trial courts, interpreter training and recruitment programs including, but not limited to: 1) training programs designed for working interpreters who are subject to new certification exams in Russian, Western Armenian, Mandarin, Cambodian and Punjabi; 2) certification exam preparation courses for all languages subject to state certification exams; and 3) development of mentoring and internship programs in the trial courts for exam candidates attending educational institutions that train legal interpreters, subject to meet and confer in good faith as provided in Chapter 7.5 (commencing with Section 71800) of Title 8 of the Government Code. The Judicial Council shall adopt appropriate rules and procedures for the administration of these funds. The Judicial Council shall report to the Legislature and Director of Finance annually regarding expenditures from this schedule, which shall also include a report of expenditures for; equivalent work days of, non-certified and non-registered contract interpreters that provide interpretation services in the state trial courts; and number of interpreter vacancies filled."~~

Item 0250-111-0001—For local assistance, Judicial Branch. I reduce this item from \$1,813,729,000 to \$1,793,372,000.

I am reducing this item by \$20,357,000 to conform with the action taken in Item 0250-101-0932.

Item 0530-001-9732—For support of Secretary of Health and Human Services Agency. I reduce this item from \$182,976,000 to \$177,841,000 by reducing:

(1) 30-Office of Systems Integration from \$182,976,000 to \$177,841,000.

This reduction conforms to the action taken in Item 5180-151-0001.

Item 0540-492—Reappropriation, Secretary for Resources. I revise this item by deleting Schedule 1.

“Notwithstanding any other provision of law, the period to liquidate encumbrances of the following citations is extended to June 30, 2008:

0001-General Fund

- (1) ~~Item 0540-101-0001, Budget Act of 1999 (Ch. 50, Stats. 1999), as reappropriated by Item 0540-492, Budget Act of 2002 (Ch. 379, Stats. 2002), Item 0540-490, Budget Acts of 2003 (Ch. 157, Stats. 2003), 2005 (Chs. 38 and 39, Stats. 2005), and 2006 (Chs. 47 and 48, Stats. 2006), and Item 0540-491, Budget Act of 2004 (Ch. 208, Stats. 2004)~~
- (2) Item 0540-101-0001, Budget Act of 2000 (Ch. 52, Stats. 2000), as reappropriated by Item 0540-490, Budget Acts of 2003 (Ch. 157, Stats. 2003), 2005 (Chs. 38 and 39, Stats. 2005), and 2006 (Chs. 47 and 48, Stats. 2006) and Item 0540-491, Budget Act of 2004 (Ch. 208, Stats. 2004)
- (3) Item 0540-101-0001, Budget Act of 2001 (Ch. 106, Stats. 2001), as reappropriated by Item 0540-491, Budget Act of 2004 (Ch. 208, Stats. 2004), and Item 0540-490, Budget Acts of 2005 (Chs. 38 and 39, Stats. 2005) and 2006 (Chs. 47 and 48, Stats. 2006)”

I am eliminating the expenditure availability for two projects funded from the Coastal Resources Grant program. Funds for these projects have been available since 1999 and no funds have been expended on either project as required by the grant agreements. Several obstacles remain, making progress on these projects unlikely in the near future. Consequently, it would not be prudent to continue earmarking General Fund for these projects. This action will result in \$577,500 of General Fund savings.

Item 0552-001-0001—For support of the Office of the Inspector General. I reduce this item from \$19,265,000 to \$18,306,000 by reducing:

- (1) 10-Office of Inspector General from \$19,265,000 to \$18,306,000,

and by deleting Provision 1.

I am deleting the \$959,000 augmentation for the Office of the Inspector General (OIG) to implement their review of all candidates for superintendent in Division of Juvenile Justice facilities. Superintendent review was mandated by Chapter 709, Statutes of 2006 (AB 971). While I believe these activities are important, I am directing the OIG to delay implementation of this measure in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

Provision 1 would require the OIG to complete a study of custody resources within the California Department of Corrections and Rehabilitation’s (CDCR) budget related to the transfer of various medical guarding and transportation positions within the CDCR. I am concerned about the large number of programs being created and expanded within the OIG. The Budget includes additional resources for audits and investigations, auditing the budget of the California Prison Receivership, monitoring compliance with court orders in the Armstrong case, and chairing the California Rehabilitation Oversight Board created by Chapter 7, Statutes of 2007 (AB 900). Because of the increased workload requirements within their programmatic expansions and responsibilities, the OIG will not be able to complete this study. However, I am directing the

CDCR's reactivated Program Support Unit, whose historical responsibilities have included studying and making recommendations on custody staffing levels within the CDCR, to conduct this study.

Item 0690-002-0001—For Support of Office of Emergency Services. I delete Provision 4.

I am deleting Provision 4, which specifies that the duties and responsibilities of the State Anti-Gang Coordinator will be subject to additional definition in legislation. However, I will continue to work with the Legislature to further define the role of the Coordinator to assist state and local agencies in combating gang violence.

Item 0690-102-0214—For local assistance, Office of Emergency Services. I delete Provision 1.

I am deleting Provision 1, which specifies that funds for grants to cities and community-based organizations are for gang prevention, intervention, reentry, education, job training and skills development, and family and community services. In addition, the language in Provision 1 specifies that none of the funds can be used for law enforcement suppression activities or front-line police services.

While prevention and intervention are necessary components of a comprehensive anti-gang strategy, so is suppression. Therefore, I am vetoing Provision 1 and directing the State Anti-Gang Coordinator to draft and provide cities with grant instructions specifying that suppression activities are an allowable use of the funds, along with the other activities listed in Provision 1.

Item 0820-001-0001—For support of Department of Justice. I revise this item from \$404,237,000 to \$403,237,000, by reducing:

- (8) 45-Public Rights from \$92,478,000 to \$89,312,000;
- (15) Amount payable from Hazardous Waste Control Account (Item 0820-001-0014) from -\$1,973,000 to -\$987,000;
- (26) Amount payable from the Toxic Substances Control Account (Item 0820-001-0557) -\$2,361,000 to -\$1,181,000;

and by deleting Provision 12.

I am deleting the \$1,000,000 legislative augmentation that would have provided funding for the Department of Justice (DOJ) to independently pursue climate change litigation as the plaintiff on behalf of the state. In the area of law related to climate change, the Air Resources Board (ARB) is the state agency with the responsibility to oversee litigation in that arena and has the funds to request the DOJ to pursue such litigation.

I am deleting Provision 12 to conform to this action.

I am reducing the Environmental Law Section's appropriations from the Hazardous Waste Control Account and the Toxic Substances Control Account by a total of \$2,166,000 to reflect half-year funding for the program, and I urge the Legislature to pass legislation that redirects these funds to the California Environmental Protection Agency's (Cal/EPA) and the Department

of Toxic Substances Control's (DTSC) green chemistry initiative and returns the litigation oversight role in hazardous waste cases to Cal/EPA and DTSC. DTSC is increasingly turning to our local government partners and district attorneys to enforce California's hazardous waste laws. In addition, Cal/EPA and DTSC are developing a green chemistry initiative that will change the paradigm of toxic and chemical use and enforcement in California. The combination of these activities will improve our environment and human health through greater enforcement of current hazardous waste laws and usher in a new future to the approach of chemical use in California. In addition, when developing the 2008-09 Budget, we will review the litigation needs in this area and budget the necessary funds for legal services within DTSC's budget.

I am sustaining the \$541,000 legislative augmentation for the first year of a multi-year project to update the DOJ Automated Firearms Systems database. However, I am concerned that there has been no review done to ensure the information technology solution addresses the program needs. In addition, I am concerned that competing demands for the Dealers' Record of Sale Special Account funds could necessitate an increase in fees on the sale of firearms. Therefore, in addition to having an approved feasibility study report prior to expending any funds, I am also requesting the DOJ to provide the Department of Finance and the Legislature with a long-term analysis of the fund, including any known pressures on that fund, to ensure that there are sufficient resources to cover the program costs without necessitating a fee increase.

Item 0820-001-0014—For support of Department of Justice. I reduce this item from \$1,973,000 to \$987,000.

I am revising this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0557—For support of Department of Justice. I reduce this item from \$2,361,000 to \$1,181,000.

I am revising this item to conform to the action I have taken in Item 0820-001-0001.

Item 0855-101-0367—For local assistance, California Gambling Control Commission. I reduce this item from \$30,283,000 to \$283,000 and delete Provision 1.

I am deleting the \$30,000,000 for grants to local government agencies to mitigate the impacts on the local governments by tribal casinos. As evidenced in a recent Bureau of State Audits report, there is great concern regarding whether these funds are being used solely for their intended purpose, which is to mitigate the impacts of having tribal casinos in their communities. I will support legislation that includes an appropriation for mitigation funds if the process is reformed.

I am deleting Provision 1 to conform to this action.

With this reduction, there still remains \$283,000 for payment to Del Norte County which reflects local mitigation grant funding not received by Del Norte County from the Indian Gaming Special Distribution Fund in fiscal years 2003-04, 2004-05, and 2005-06.

Item 0860-001-0001—For support of State Board of Equalization. I reduce this item from \$218,835,000 to \$218,435,000 by reducing:

(2) 300000-Operating Expense and Equipment from \$96,269,000 to \$95,869,000,

and by deleting Provision 3.

I am deleting this legislative augmentation of \$400,000 for a county assessor pilot program designed to promote taxpayer awareness of the requirement to pay use tax on non-exempt purchases if sales tax has not been paid. This reduction is necessary to limit program expansions and provide for a prudent General Fund reserve in light of the various uncertainties in revenues and spending that we face this year.

Item 0890-001-0001—For support of Secretary of State. I reduce this item from \$48,157,500 to \$47,822,000 by reducing:

(2) 20-Elections from \$46,933,500 to \$46,598,000.

I am deleting the \$335,500 legislative augmentation for 4.0 positions which would provide staffing to expand voter outreach and education efforts to support the three elections scheduled for 2008. During a time of limited General Fund resources, the counties, political parties, and civic organizations must step up and encourage and promote increased voter participation.

Item 3110-101-0001—For local assistance, Special Resources Program. I delete this item and Provision 1.

I am deleting the \$200,000 legislative augmentation for the Tahoe Regional Planning Agency for regulation enforcement and transit system development. It is premature to provide additional funding until the bi-state commission completes its report. With these reductions, \$3,800,000 still remains to provide California's share of funding for the Tahoe Regional Planning Agency.

I am deleting Provision 1 to conform to this action.

Item 3340-101-6051—For local assistance, California Conservation Corps. I delete this item.

I am deleting the \$12,000,000 legislative augmentation that would provide \$1,000,000 to each of the 12 certified Local Conservation Corps. Notwithstanding the merit of the Local Corps programs, the California Conservation Corps is still in the process of developing grant guidelines for Proposition 84 bond funds. Furthermore, a recent audit of Proposition 12 and 40 bond funds identified a need for the Corps to improve its oversight of bond expenditures. The audit recommended that the Corps develop a corrective action plan prior to receiving additional bond funds. Therefore, it is necessary to delete this funding to ensure that bond proceeds are spent efficiently, effectively, and in a manner consistent with my Executive Order S-02-07 regarding bond accountability. I support funding for the Local Corps grant program when the grant guidelines and a corrective action plan that identifies appropriate oversight measures are in place.

Item 3360-001-0465—For Support, State Energy Resources Conservation and Development Commission. I revise this item by reducing:

(1) 30-Development from \$128,807,000 to \$127,841,000, and

(6) Reimbursements from -\$6,711,000 to -\$5,745,000.

I am eliminating a fund shift of \$966,000 from the Energy Resources Programs Account to reimbursements for the support of two contracts. Funding for these contracts was included in the budget of the Energy Commission (Commission) when I introduced the Governor's Budget last January. However, the Legislature removed the funds from the Commission's budget, placed them in the budget of the Air Resources Board, and indicated that the Commission may seek the funds by contracting with the Air Resources Board. This would have the effect of requiring both the Commission and the Air Board to engage in unnecessary work that would delay these important projects, and as such is unacceptable.

Item 3600-001-0001—For support of Department of Fish and Game. I reduce this item from \$84,503,000 to \$82,998,000 by reducing:

- (3) 30-Management of Department Lands and Facilities from \$54,180,000 to \$53,342,000;
- (4) 40-Enforcement from \$61,705,000 to \$60,200,000; and
- (22) Amount payable from the Coastal Wetlands Account (Item 3600-001-3104) from -\$974,000 to -\$136,000.

I am reducing the \$3,000,000 legislative augmentation for Fish and Game Warden recruitment and retention by \$1,505,000. Last year, for the first time in several years, I increased salaries by 25 percent during the three years of the bargaining agreement. I am sustaining \$1,495,000 to provide overtime funding for wardens and lieutenants, which continues my commitment to address compensation issues. However, this partial veto is necessary in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

I am also revising this item to conform to the actions I have taken in Item 3600-001-3104.

Item 3600-001-3104—For support of Department of Fish and Game. I reduce this item from \$974,000 to \$136,000.

I am deleting the \$838,000 legislative augmentation for the maintenance and management of Department of Fish and Game coastal wetlands properties. Last year, I sustained a \$5,000,000 transfer from the General Fund to the Coastal Wetlands Account to create an endowment to provide ongoing, sustainable funding for coastal wetlands management activities. This augmentation, if sustained for 2007-08 and continued in future years, would spend down the endowment in approximately six years, and place additional cost pressure on the General Fund at that time. With this reduction, \$1,400,000 million and 18.1 positions remain for coastal wetlands management.

Item 3720-001-0001—For support of California Coastal Commission. I reduce this item from \$11,881,000 to \$11,501,000 by reducing:

- (1) 10—Coastal Management Program from \$15,909,000 to \$15,529,000.

I am deleting the \$380,000 legislative augmentation for coastal enforcement. The California Coastal Commission has the authority to adjust its fees, and I am willing to consider augmentations that address the Commission's workload needs once fees have been adjusted to cover associated costs. Currently, however, the proposed augmentation would result in

additional General Fund costs. This reduction is necessary in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. With this reduction \$15,529,000 still remains to support the Commission's coastal management program.

Item 3780-001-0001—For support of Native American Heritage Commission. I reduce this item from \$970,000 to \$770,000 by reducing:

- (1) 10—Native American Heritage Commission from \$975,000 to \$775,000.

I am deleting the \$200,000 legislative augmentation for 2.0 positions to implement legislative mandates. This reduction is necessary in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. With this reduction \$775,000 remains to support the Native American Heritage Commission.

Item 3790-301-6051—For capital outlay, Department of Parks and Recreation. I reduce this item from \$60,878,000 to \$45,878,000 by reducing:

- (3.7) 90.RS.412-Statewide: State Park System Opportunity and Inholding Acquisitions—Acquisition from \$30,000,000 to \$15,000,000.

I am vetoing \$15,000,000 of the \$25,000,000 augmentation to allow the Department sufficient resources for opportunity purchases and inholding acquisitions. The Department expended \$324,000,000 between 2000 and 2006 to acquire nearly 100,000 acres to expand the state park system. Given this recent significant investment, the Department should proceed cautiously to limit future operating costs.

Item 3790-492—Reappropriation, Department of Parks and Recreation. I revise this item by deleting Schedule 1.

"Notwithstanding any other provision of law, the period to liquidate encumbrances in the following citation is extended as cited below:
6029--California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund

~~(1) Subdivision (b) of Section 2 of Chapter 1126 of the Statutes of 2002. The liquidation period for the grant of \$3,000,000 to the City of Oroville is extended to December 31, 2009."~~

I am eliminating the expenditure availability for this project funded from the Proposition 40 Historical and Cultural Resources Preservation Opportunity Grant Program. Funds for this project have been available for five years and have not yet been spent.

Item 3860-001-0001—For support of Department of Water Resources. I revise this item by reducing:

- (1) 10-Continuing Formulation of the California Water Plan from \$120,292,000 to \$116,047,000, and
- (29) Amount payable from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Fund of 2006 (Item 3860-001-6051) from -\$12,165,000 to -\$7,920,000.

I am revising this item to conform to the action taken in Item 3860-001-6051.

Item 3860-001-6051—For support of Department of Water Resources. I reduce this item from \$12,165,000 to \$7,920,000.

I am deleting the legislative augmentation of \$4,245,000 for watershed basin planning activities. Although I support this program, I believe that these activities should be funded through Proposition 84 funds available for the development of regional and local land use plans. Statewide water planning activity funds should be reserved for activities such as planning future water storage, adaptations of the state's water systems to climate change, and other activities that address the state's future water supply needs.

Item 3860-101-6051—For local assistance, Department of Water Resources. I reduce this item from \$229,340,000 to \$219,340,000.

I am deleting the legislative augmentation of \$10,000,000 for the Flood Protection Corridor Program. My proposal includes \$24,000,000 Proposition 84 funds for projects to implement Flood Protection Corridor Program. This funding is sufficient to meet the needs of the program for the budget year, and I will propose additional funds to implement Flood Protection Corridor projects in future budgets.

Item 3860-101-6052—For local assistance, Department of Water Resources. I reduce this item from \$197,450,000 to \$167,450,000.

I am deleting the legislative augmentation of \$30,000,000 for the Floodway Corridor Program. This augmentation is unnecessary because criteria have not been developed for this new program created by Proposition 1E. Thus, it is not feasible for grants to be solicited and awarded during the fiscal year. The Department of Water Resources will develop criteria for this program during the fiscal year, and funds to implement Floodway Corridor Program projects will be included in future budgets.

Item 3900-001-0465—For support of State Air Resources Board. I delete this item.

I am eliminating this item by reducing \$966,000 in funding from the Energy Resources Programs Account. This funding was intended to support two contracts that were proposed in the budget of the Energy Commission when I introduced the Governor's Budget last January. However, the Legislature removed the funds from the Commission's budget, placed them in the budget of the Air Resources Board, and indicated that the Commission may seek the funds by contracting with the Air Resources Board. This would have the effect of requiring both the Commission and the Air Board to engage in unnecessary work that would delay these important projects, and as such is unacceptable.

Item 3900-001-6053—For support of State Air Resources Board.

I am sustaining the legislative augmentation of an additional \$96,500,000 provided for school bus replacement and retrofits to reduce the air pollution emissions of older, high-polluting school buses. However, I note a concern with respect to the ability of the State Air Resources Board to allocate almost \$200 million in lower-emission school bus funding within the next two years. It is important that we do not sacrifice accountability in the interests of expediency. Therefore, while

acknowledging the challenge that the State Air Resources Board faces in distributing these funds, I am directing the State Air Resources Board to allocate these funds expeditiously while ensuring consistency with the accountability safeguards identified in my Executive Order S-02-07 for the bonds that were approved by the voters in the November 2006 general election.

Item 3900-001-6054—For support of State Air Resources Board.

I am sustaining the legislative augmentation of an additional \$139,000,000 provided for trade corridor emissions reductions to be expended in the budget year for this new program authorized by the voters in Proposition 1B in the November 2006 general election. Proposition 1B provides \$1 billion to fund projects intended to improve air quality along four of California's major transportation corridors: from the Los Angeles ports to the Inland Empire, State Route 99 in the Central Valley, the San Francisco Bay Area, and the San Diego border region. The State Air Resources Board will be developing program guidelines and will solicit project proposals. The projects to be funded are intended to achieve air quality improvements above and beyond anything required by current law or regulation.

The travelers on our busy trade corridors and the individuals who reside along their routes are demanding relief now—not many years from now. However, I am concerned about taxing the ability of the State Air Resources Board to develop program guidelines and allocate \$250,000,000 in the 2007-08 fiscal year. We must ensure effective expenditure of this bond funding. It is important that we do not sacrifice accountability in the interests of expediency. Therefore, while acknowledging the challenge that the State Air Resources Board faces in distributing these funds, I am directing the State Air Resources Board to ensure that this funding be allocated consistent with the accountability safeguards identified in my Executive Order S-02-07 for all bond funds approved by the voters in the November 2006 general election.

I am requesting the State Air Resources Board to develop program administrative guidelines that make sense, reduce bureaucratic red tape, simplify and expedite project application and award procedures, and ensure projects are completed in record time. The people who voted for Proposition 1B are demanding this action. I know that my colleagues in the Legislature agree with these goals, and that the staff of the State Air Resources Board is up to this challenge.

In addition, because the language adopted by the Legislature relies heavily on local and regional entities to carry out this program, I am calling on those entities to work closely with the State Air Resources Board and ensure they are prepared to submit applications to receive and allocate funding as soon as possible in this fiscal year.

Item 4260-001-0001—For support of Department of Health Care Services. I reduce this item from \$136,412,000 to \$136,218,000 by reducing:

- (1) 20-Health Care Services from \$385,348,000 to \$382,971,000;
- (6) Amount payable from the Childhood Lead Poisoning Prevention Fund (Item 4260-001-0080) from -\$198,000 to -\$142,000;
- (8) Amount payable from the Federal Trust Fund (Item 4260-001-0890) from -\$224,133,000 to -\$224,036,000;

and by deleting:

- (10) Amount payable from the California Discount Prescription Drug Program Fund (Item 4260-001-8040) (-\$2,030,000);

and Provision 4.

I am deleting the \$56,000 legislative augmentation to restore 1.0 special funded position that was redirected from the Department of Health Services (DHS) to the new Department of Health Care Services. This will ensure the split of the DHS into two departments remains budget-neutral, consistent with the intent of Chapter 241, Statutes of 2006 (SB 162). This action is consistent with the deletion of \$744,000 and 11.0 positions in the Department of Public Health.

I am also reducing \$56,000 in Item 4260-001-0080 to conform to this action.

Provision 4 prohibits the Department of Health Care Services from expending any funds to relocate the Fresno Medi-Cal Field Office. I am deleting Provision 4 because it interferes with the Executive Branch's ability to effectively administer programs. Maintaining the Department's ability to consolidate operations is an important component of increasing operational efficiencies.

I am deleting \$195,000 (\$98,000 General Fund and \$97,000 Federal Trust Fund) and 2.0 positions for the implementation of Chapter 328, Statutes of 2006 (SB 437), which included a pilot program for self-certification of income at enrollment for Medi-Cal and development of feasibility study reports to begin implementing changes to several automated eligibility systems. While I remain committed to implementation of these reforms, this reduction is needed to build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. I am directing the Department of Health Care Services to delay implementation for one year.

In order to further build a prudent reserve, I am deleting \$2,030,000 intended to specifically fund implementation costs for the California Discount Prescription Drug Program. I am directing the Department of Health Care Services to identify resources to move forward with implementation.

I am also deleting Item 4260-001-8040 to conform to this action.

I am deleting \$96,000 General Fund intended to fund implementation costs for the California Rx Prescription Drug Website Program and am directing the Department of Health Care Services to delay implementation of the program for one year.

Item 4260-001-0080—For support of Department of Health Care Services. I reduce this item from \$198,000 to \$142,000.

I am reducing this item to conform to the action I have taken in Item 4260-001-0001.

Item 4260-001-0890—For support of Department of Health Care Services. I reduce this item from \$224,133,000 to \$224,036,000.

I am reducing this item by \$97,000 to conform to the action I have taken in Item 4260-001-0001, related to the delayed implementation of Chapter 328, Statutes of 2006 (SB 437).

Item 4260-001-8040—For support of Department of Health Care Services. I delete this item.

I am deleting this item to conform to the action I have taken in Item 4260-001-0001 regarding the California Discount Prescription Drug Program.

Item 4260-006-0001—For transfer by the Controller to the California Discount Prescription Drug Program Fund. I delete this item and Provision 1.

I am deleting the \$6,330,000 in this item to conform to the actions I have taken in Items 4260-001-0001, 4260-001-8040, and 4260-119-8040 regarding the California Discount Prescription Drug Program.

I am also deleting Provision 1 to conform to this action.

Item 4260-101-0001—For local assistance, Department of Health Care Services. I reduce this item from \$14,313,728,000 to \$13,903,340,000 by reducing:

- (1) 20.10.010-Eligibility (County Administration) from \$2,660,676,000 to \$2,633,842,000;
- (3) 20.10.030-Benefits (Medical Care and Services) from \$32,222,681,000 to \$31,447,632,000; and
- (8) Amount payable from the Federal Trust Fund (Item 4260-101-0890) from -\$20,595,964,000 to -\$20,204,469,000.

I am deleting the legislative augmentation of \$4,260,000 (\$2,130,000 General Fund and \$2,130,000 Federal Trust Fund) for workstation replacement to conform to the action taken in Item 5180-141-0001.

I am deleting \$106,286,000 (\$53,143,000 General Fund and \$53,143,000 Federal Trust Fund) of the funding for rates for managed health care plans in the Medi-Cal Program. This reduction is necessary to provide for a prudent General Fund reserve in light of the various uncertainties in revenues and spending that we face this year. With this reduction, \$108,000,000 (\$54,000,000 General Fund) still remains to fund rate increases for plans to ensure adequate access to care for low-income Californians.

I am reducing the Medi-Cal Program by \$644,893,000 (\$331,893,000 General Fund and \$313,000,000 Federal Trust Fund). This reduction is necessary to provide for a prudent General Fund reserve in light of the various uncertainties in revenues and spending that we face this year. This reduction is based on historical data showing that on average over the last three fiscal years, Medi-Cal expenditures have been more than \$400 million General Fund lower than the estimate.

I am deleting \$26,792,000 (\$13,396,000 General Fund and \$13,396,000 Federal Trust Fund) to delay the implementation of Chapter 328, Statutes of 2006 (SB 437), which included a pilot program for self-certification of income at enrollment for Medi-Cal and development of feasibility study reports to begin implementing changes to several automated eligibility systems. This

action will delay implementation of SB 437 for one year. This reduction is necessary to provide for a prudent General Fund reserve in light of the various uncertainties in revenues and spending that we face this year.

I am reducing the \$19,652,000 (\$9,826,000 General Fund and \$9,826,000 Federal Trust Fund) in funding for the county grants portion of the Children's Outreach Initiative. This appropriation reduction is necessary to provide for a prudent General Fund reserve in light of the various uncertainties in revenues and spending that we face this year. With this reduction, \$147,020,000 (\$64,680,000 General Fund) still remains to fund other components of the Children's Outreach Initiative that streamline enrollment processes, improve retention, and support county-based enrollment efforts for children. The Department of Health Care Services will pay for any valid county claims for the Children's Outreach Initiative for the 2006-07 fiscal year from remaining funds within this item.

Item 4260-101-0890—For local assistance, Department of Health Care Services. I reduce this item from \$20,595,964,000 to \$20,204,469,000.

I am reducing this item by \$391,495,000 to conform to the action I have taken in Item 4260-101-0001.

Item 4260-111-0001—For local assistance, Department of Health Care Services. I reduce this item from \$172,616,000 to \$162,616,000 by reducing:

(3) 20.35-Primary and Rural Health from \$53,289,000 to \$43,289,000,

and by deleting Provision 3.

I am reducing \$10,000,000 General Fund from Expanded Access to Primary Care (EAPC) in order to help build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. I will seek a subsequent bill this session to fund this program with Proposition 99 funding and maintain a constant level of funding in the program.

Provision 3 directs the Department of Health Care Services to work with various constituency groups to resolve issues with the timely discharge of patients enrolled in the California Children's Services Program. This requirement would result in an expenditure increase without regard to the availability of revenues. Consequently, I am vetoing this language.

Given the Legislature's interest in this area and the importance of this program, I am instructing the director of the Department of Health Care Services to continue the activities of this legislative request to the extent such activities can be achieved using existing resources and without impairing the Department of Health Care Services ability to perform its essential functions.

Item 4260-113-0001—For local assistance, Department of Health Care Services. I reduce this item from \$190,394,000 to \$185,171,000 by reducing:

(1) 20.10.010-Eligibility (County Administration) from \$20,783,000 to \$5,860,000, and

(4) Amount payable from the Federal Trust Fund (Item 4260-113-0890) from -\$330,184,000 to -\$320,484,000.

I am reducing the \$14,923,000 (\$5,223,000 General Fund and \$9,700,000 Federal Trust Fund) in funding for the county grants portion of the Children's Outreach Initiative to conform to the action I have taken in Item 4260-101-0001. The Department of Health Care Services will pay for any valid county claims for the Children's Outreach Initiative for the 2006-07 fiscal year from remaining funds within this item.

Item 4260-113-0890—For local assistance, Department of Health Care Services. I reduce this item from \$330,184,000 to \$320,484,000.

I am reducing this item by \$9,700,000 to conform to the action I have taken in Item 4260-113-0001.

Item 4260-119-8040—For local assistance, Department of Health Care Services. I delete this item.

I am deleting the \$4,300,000 intended specifically to fund local assistance implementation costs for the California Discount Prescription Drug Program. This action is necessary to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

Item 4265-001-0001—For support of Department of Public Health. I reduce this item from \$96,897,000 to \$95,460,000 by reducing:

- (2) 20-Public and Environmental Health from \$504,804,000 to \$502,502,000;
- (3) 30-Licensing and Certification from \$151,366,000 to \$150,935,000;
- (6) Reimbursements from \$-36,726,000 to \$-36,605,000;
- (14) Amount payable from the Radiation Control Fund (Item 4265-001-0075) from -\$22,620,000 to -\$22,402,000;
- (16) Amount payable from the Childhood Lead Poisoning Prevention Fund (Item 4265-001-0080) from -\$9,471,000 to -\$9,368,000;
- (18) Amount payable from the Clinical Laboratory Improvement Fund (Item 4265-001-0098) from -\$5,571,000 to -\$5,517,000;
- (24) Amount payable from the Genetic Disease Testing Fund (Item 4265-001-0203) from -\$113,633,000 to -\$113,577,000;
- (31) Amount payable from the Safe Drinking Water Account (Item 4265-001-0306) from -\$11,383,000 to -\$11,204,000;
- (37) Amount payable from the Federal Trust Fund (Item 4265-001-0890) from -\$212,090,000 to -\$211,956,000;
- (41) Amount payable from the Licensing and Certification Trust Fund (Item 4265-001-3098) from -\$84,033,000 to -\$83,602,000;

and by deleting Provision 6.

I am reducing the \$744,000 legislative augmentation to restore 11.0 special funded positions that were redirected from the Department of Health Services (DHS) to administrative and managerial positions in the new Department of Health Care Services and Department of Public Health. This will ensure the split of the DHS into two departments remains budget-neutral, consistent with the intent of Chapter 241, Statutes of 2006 (SB 162). This action is consistent with the deletion of \$56,000 and 1.0 position in the Department of Health Care Services.

I am also reducing \$218,000 in Item 4265-001-0075, \$103,000 in Item 4265-001-0080, \$54,000 in Item 4265-001-0098, \$56,000 in Item 4265-001-0203, \$179,000 in Item 4265-001-0306, and \$134,000 in Item 4265-001-0890 to conform to this action.

I am also reducing \$1,314,000 and 9.0 positions to reflect a delay in implementation of the Healthcare Associated Infections Program under Chapter 526, Statutes of 2006 (SB 739) for one year. This action is necessary to help build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

I am also reducing \$431,000 and 3.0 positions in Item 4265-001-3098 to conform to this action.

I am reducing \$123,000 General Fund and 2.0 positions for the implementation of Chapter 328, Statutes of 2006 (SB 437), which required development of feasibility study reports to implement changes to several automated eligibility systems. I am taking this action to delay implementation for one year in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

I am also deleting Provision 6 which would require the Department of Public Health to provide an action plan to the Legislature by November 1, 2007, and addresses temporary management appointment issues identified by the Bureau of State Audits. This requirement would result in an expenditure increase without regard to the availability of revenues. Consequently, I am vetoing this language. Nevertheless, in recognition of the Legislature's desire to obtain this information, I am instructing the director of the Department of Public Health to comply with this legislative request to the extent compliance can be achieved using existing resources and without impairing the department's ability to perform its essential functions.

Item 4265-001-0075—For support of Department of Public Health. I reduce this item from \$22,620,000 to \$22,402,000.

I am reducing this item to conform to the action I have taken in Item 4265-001-0001.

Item 4265-001-0080—For support of Department of Public Health. I reduce this item from \$9,471,000 to \$9,368,000.

I am reducing this item to conform to the action I have taken in Item 4265-001-0001.

Item 4265-001-0098—For support of Department of Public Health. I reduce this item from \$5,571,000 to \$5,517,000.

I am reducing this item to conform to the action I have taken in Item 4265-001-0001.

Item 4265-001-0203—For support of Department of Public Health. I reduce this item from \$113,633,000 to \$113,577,000.

I am reducing this item to conform to the action I have taken in Item 4265-001-0001.

Item 4265-001-0306—For support of Department of Public Health. I reduce this item from \$11,383,000 to \$11,204,000.

I am reducing this item to conform to the action I have taken in Item 4265-001-0001.

Item 4265-001-0890—For support of Department of Public Health. I reduce this item from \$212,090,000 to \$211,956,000.

I am reducing this item to conform to the action I have taken in Item 4265-001-0001.

Item 4265-001-3098—For support of Department of Public Health. I reduce this item from \$84,033,000 to \$83,602,000.

I am reducing this item by \$431,000 and 3.0 positions to conform to the action I have taken in Item 4265-001-0001 related to the Healthcare Associated Infections Program.

Item 4265-111-0001—For support of Department of Public Health. I reduce this item from \$273,999,000 to \$265,499,000 by reducing:

- (1) 10.10-Emergency Preparedness from \$198,220,000 to \$189,720,000.

In order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year, I am reducing \$8,500,000 from this item on a one-time basis from the ongoing discretionary funding provided for allocation to local health departments for local pandemic influenza preparedness and response planning. Even with this reduction, \$10,000,000 remains to fund local health departments' emergency preparedness activities. In addition, \$8,500,000 remains to provide storage to protect the state's investment in medical supplies and equipment to address health care surge capacity needs.

Item 4280-001-0001—For support of Managed Risk Medical Insurance Board. I reduce this item from \$2,516,000 to \$2,400,000 by reducing:

- (3) 40-Healthy Families Program from \$9,495,000 to \$9,162,000, and
- (9) Amount payable from Federal Trust Fund (Item 4280-001-0890) from -\$7,000,000 to -\$6,783,000.

I am reducing \$333,000 (\$116,000 General Fund and \$217,000 Federal Trust Fund) and 3.0 positions for the implementation of Chapter 328, Statutes of 2006 (SB 437) which provided for a program to test self-certification of income at the Annual Eligibility Review for the Healthy Families Program. I am directing the Managed Risk Medical Insurance Board to delay implementation for one year to contribute to a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

Item 4280-001-0890—For support of Managed Risk Medical Insurance Board. I reduce this item from \$7,000,000 to \$6,783,000.

I am reducing this item by \$217,000 to conform to my actions in 4280-001-0001, related to the delayed implementation of Chapter 328, Statutes of 2006 (SB 437).

Item 4280-101-0890—For local assistance, Managed Risk Medical Insurance Board. I reduce this item from \$732,337,000 to \$729,841,000.

I am reducing this item by \$2,496,000 to conform to the action I have taken in Item 4280-101-0001, related to the delayed implementation of Chapter 328, Statutes of 2006 (SB 437).

Item 4280-102-0001—For local assistance, Managed Risk Medical Insurance Board. I reduce this item from \$26,520,000 to \$26,240,000 by reducing:

- (1) 40-Healthy Families Program from \$75,190,000 to \$74,396,000, and
- (3) Amount payable from the Federal Trust Fund (Item 4280-102-0890) from -\$41,053,000 to -\$40,539,000.

I am deleting \$794,000 (\$280,000 General Fund and \$514,000 Federal Trust Fund) to conform to the action I have taken in Item 4280-001-0001, related to the delayed implementation of Chapter 328, Statutes of 2006 (SB 437).

Item 4280-102-0890—For local assistance, Managed Risk Medical Insurance Board. I reduce this item from \$41,053,000 to \$40,539,000.

I am reducing this item by \$514,000 to conform to the action I have taken in Item 4280-102-0001, related to the delayed implementation of Chapter 328, Statutes of 2006 (SB 437).

Item 4440-101-0001—For local assistance, Department of Mental Health. I revise this item from \$518,723,000 to \$463,873,000 by reducing:

- (1) 10.25-Community Services—Other Treatment from \$705,124,000 to \$638,274,000, and
- (6) Reimbursements from -\$1,132,671,000 to -\$1,120,671,000.

I am deleting the \$54,850,000 legislative augmentation for the Integrated Services for Homeless Adults with Serious Mental Illness Program. While I support the goals of the program, this reduction is necessary to limit program expansions and to help bring ongoing expenditures in line with existing resources. To the extent counties find this program beneficial and cost-effective, it can be restructured to meet the needs of each county's homeless population using other county funding sources, such as federal funds, realignment funds, or Proposition 63 funds.

I am reducing Schedule (6) to eliminate the \$12,000,000 legislative augmentation for the 5 percent rate restoration for mental health managed care. This technical veto is consistent with the legislative action taken in Item 4440-103-0001.

Item 4700-001-0001—For support of Department of Community Services and Development. I reduce this item from \$250,000 to \$150,000 by reducing:

- (1) 47-Naturalization Services from \$250,000 to \$150,000.

I am deleting the \$100,000 legislative augmentation to expand the Naturalization Services Program. This action is necessary for a prudent reserve for economic uncertainties. With this reduction, \$3,000,000 still remains to support the Naturalization Services Program, and to assist legal immigrants in completing their citizenship application, citizenship testing, and in preparing for the interview. In addition, similar services are provided by the California Department of Education, such as instruction in civics and English.

I am also taking conforming action to reduce Item 4700-101-0001.

Item 4700-101-0001—For local assistance, Department of Community Services and Development. I reduce this item from \$4,750,000 to \$2,850,000 by reducing:

- (1) 47-Naturalization Services from \$4,750,000 to \$2,850,000.

I am reducing this item by \$1,900,000 to conform to my action in Item 4700-001-0001.

Item 5180-001-0001—For support of Department of Social Services. I reduce this item from \$102,904,000 to \$102,717,000 by reducing:

- (2) 25-Social Services and Licensing from \$161,486,000 to \$161,212,000;
- (8) Amount payable from the Federal Trust Fund (Item 5180-001-0890) from -\$347,576,000 to -\$347,489,000;

and by deleting Provision 8.

I am reducing this item by \$274,000 (\$187,000 General Fund and \$87,000 Federal Trust Fund) for 3.0 positions on a one-time basis. This funding would have provided resources for the Department of Social Services to assist in sibling searches within the Adoptions Program, pursuant to legislation enacted during fiscal year 2006-07. While I support efforts to remove barriers to sibling reunification and facilitate the release of information between siblings, I am delaying implementation of this program for one year in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. I am reducing Item 5180-151-0001 by \$1,046,000 and Item 5180-151-0890 by \$794,000 to conform to this action.

Provision 8 requires the Department of Social Services to display legal accusations filed by the Department against a provider's license on the Community Care Licensing public website pages as a condition to spending set-aside funding of \$1,475,000 to implement its Licensing Reform Automation proposal. I am delaying implementation of this project for one year, to provide for a prudent General Fund reserve in light of the various uncertainties in revenues and spending that we face this year. I am also deleting the provisional language related to this project funding.

Item 5180-001-0890—For support of Department of Social Services. I reduce this item from \$347,576,000 to \$347,489,000 and delete Provision 4.

I am reducing this item to conform to the action I have taken in Item 5180-001-0001 related to sibling searches within the Adoptions Program.

I am deleting Provision 4 to conform to the action I have taken in Item 5180-001-0001 related to licensing reform automation costs.

Item 5180-151-0890—For local assistance, Department of Social Services. I reduce this item from \$1,222,557,000 to \$1,218,641,000.

I am reducing this item to conform to the actions I have taken in Item 5180-151-0001 related to workstation replacement, sibling searches within the Adoptions Program, and foster youth identify theft.

Item 5180-153-0001—For local assistance, Department of Social Services. I revise this item by deleting Provision 2.

Provision 2 requires the Department of Social Services to collaborate with stakeholders to develop the timeline, components, and execution of the evaluation of the Title IV-E Waiver. This requirement would result in an expenditure increase without regard to the availability of revenues. Consequently, I am vetoing this language. Nevertheless, I am directing the Department to work with stakeholders to facilitate the successful implementation of the Title IV-E Waiver, which allows participating counties flexibility in using federal Title IV-E foster care funds for direct services and supports.

Item 5225-001-0001—For support of the California Department of Corrections and Rehabilitation. I reduce this Item from \$6,980,353,000 to \$6,958,609,000 by reducing:

- (1) 10-Corrections and Rehabilitation Administration from \$376,992,000 to \$369,580,000;
- (4) 20-Juvenile Operations from \$183,097,300 to \$181,168,300;
- (8) 25-Adult Corrections and Rehabilitation Operations from \$4,904,883,000 to \$4,892,480,000;

and by revising Provisions 10 and 16 and deleting Provisions 8, 11, and 19.

I am reducing funds for the second phase of the Consolidated Information Technology Infrastructure Project by \$4,408,000 and eliminating the \$3,004,000 augmentation for the Division of Juvenile Justice Infrastructure Migration Project. In addition, I am reducing the augmentation provided for facility maintenance and special repair projects by \$10,000,000 and eliminating \$4,332,000 for equipment replacement. These reductions are necessary in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. I am revising Provisions 10 and 16 to conform to these actions as follows:

“10. In implementing the Consolidated Information Technology Infrastructure Project (CITIP), the department shall, when possible, give first priority to data drops for business services and rehabilitative programming. ~~Of the funds appropriated in this item, \$4,408,000 may not be expended sooner than 30 days after the department provides a report to the Joint Legislative Budget Committee certifying that CITIP design and engineering work has been completed at~~

~~12 institutions. This report shall also identify the revised cost estimates to implement the CITIP at these 12 institutions as compared to the original estimated costs. The report shall also identify the reasons for any differences between the original and revised estimates.”~~

- “16. Of the funds appropriated in this item, ~~\$698,514,000~~ \$679,774,000 is available for expenditure only for the purposes identified below. Any unexpended funds shall revert to the General Fund.
- (a) Facility Maintenance Funding: ~~\$46,000,000~~ \$36,000,000
 - (b) Coleman v. Schwarzenegger, Administrative Segregation Unit Mental Health Cells Modification: \$3,550,000
 - (c) Coleman v. Schwarzenegger, Administrative Segregation Intake Cells: \$13,203,000
 - (d) Coleman v. Schwarzenegger, Salary Enhancements: \$13,108,000
 - (e) Plata v. Schwarzenegger: Salary Enhancements: \$1,521,000
 - (f) Coleman v. Schwarzenegger, CMF Acute Cells Modification: \$1,075,000
 - (g) Coleman v. Schwarzenegger: Reception Center Enhanced Outpatient Program: \$2,916,000
 - (h) Perez v. Tilton, Comprehensive Inmate Dental Services Program: \$8,477,000
 - (i) Farrell v. Tilton, Safety and Welfare Remedial Plan: \$66,747,000
 - (j) Farrell v. Tilton, Mental Health Remedial Plan: \$25,145,000
 - (k) Implementation of Revised Program Guide for Mental Health Services Delivery System (Ch. 511, Stats. 2006): \$8,706,000
 - (l) Sex Offender Management Funding: \$113,327,000
 - (m) Reducing Recidivism Strategies: \$90,136,000
 - (1) The department is authorized to make changes to the Reducing Recidivism Strategies supported by this subdivision not sooner than 15 days after notifying the fiscal committees of both houses of the Legislature of any proposed changes.
 - (n) Basic Correctional Officer Academy: \$61,105,000
 - (o) Records Staffing and Automation: \$7,759,000
 - (p) Garrison Johnson v. California, Racial Integration: \$1,214,000
 - (q) Coleman v. Schwarzenegger, Court Order Compliance: \$2,325,000
 - (r) Comprehensive Health Care Recruitment: \$3,928,000
 - (s) Life Prisoner Parole Hearing Staffing: \$6,646,000
 - (t) Farrell v. Tilton Healthcare Remedial Plan: \$9,064,000
 - (u) Farrell v. Tilton, Consent Decree: \$1,327,000
 - (v) Strategic Offender Management System: \$3,611,000
 - (w) Consolidated Information Technology Infrastructure Project: ~~\$148,466,000~~
\$114,058,000
 - (x) Teacher Pay Parity: \$13,868,000
 - ~~(y) Equipment Funding: \$4,332,000~~
 - (z) Mandatory Aftercare/Drug Treatment Furlough: \$65,615,000
 - (aa) Valdivia Case Records: \$3,344,000
 - (bb) Perez v. Tilton, Salary Enhancements: \$1,999,000”

I am deleting Provision 8, which would require the Department to pass along a portion of its 2.7-percent price increase to public community correctional facilities under contract with the Department. The Budget no longer contains funding for a price increase for the Department. Therefore, this language is unnecessary.

I am deleting Provision 11, which would allow the Department to submit a staffing plan to conduct background investigations and would preclude the use of sworn staff from being

utilized. The Department's use of sworn staff to conduct background investigations has improved the processing time that it takes to conduct a background investigation as compared to non-sworn staff previously used. Because sworn staff have proved to be more effective than non-sworn classifications, and due to the need to aggressively fill the Department's vacant Correctional Officer positions, this provision would prevent the Department from managing their hiring process in a manner that allows Correctional Officer vacancies to be filled in the most effective way possible.

I am deleting Provision 19, which would require the Department to submit a plan for staffing and organizational changes in the Office of Facilities Management and other departmental units to deliver capital outlay projects, including those authorized by Chapter 7, Statutes of 2007 (AB 900). This reporting requirement would result in an expenditure increase without regard to the availability of revenues. Consequently, I am vetoing this language. Nevertheless, in recognition of the Legislature's desire to obtain this information, it will be addressed as though the request had been included in Supplemental Report Language. Therefore, I am instructing the Secretary of the Department of Corrections and Rehabilitation to comply with this legislative request for this report to the extent compliance can be achieved using existing resources and without impairing the Department's ability to perform its essential functions.

Item 5225-002-0001—For support of Department of Corrections and Rehabilitation. I reduce this Item from \$2,126,132,000 to \$2,124,612,000 by reducing:

- (4.2) 50.20-Dental Services-Adult from \$103,292,000 to \$103,129,000;
- (4.3) 50.30-Mental Health Services-Adult from \$303,093,000 to \$302,930,000; and
- (4.5) 50.50-Dental and Mental Health Services Administration-Adult from \$59,283,000 to \$58,089,000.

I am deleting the \$1,520,000 legislative augmentation to support positions to improve hiring efforts within the California Department of Corrections and Rehabilitation's (CDCR) Dental and Mental Health programs. While I am supportive of these activities, my budget proposed to fund these limited-term positions using the salary savings available from the vacancies within CDCR's Dental and Mental Health programs.

I expect that the recruitment efforts of the Department of Personnel Administration, the salary increases provided to dental and mental health classifications, and the hiring efforts of the CDCR will greatly improve the CDCR's ability to fill the vacancies within these programs. As such, I recognize that funding these positions through salary savings is only a short-term solution and it may be necessary to provide additional funding to support these efforts in the future.

Item 5225-301-0001—For capital outlay, Department of Corrections and Rehabilitation.

I am sustaining Provision 7, which requires the department to report to the Joint Legislative Budget Committee with an update to the facility master plan for juvenile facilities. This report will identify how the projects funded in the 2007-08 Budget implement the master plan. While the department is committed to completing this valuable plan and has every intention of providing the data, it will be unable to meet the October 31, 2007 deadline provided therein because of the necessary time constraints associated with compiling the level of detail as

required by this report. I am directing the department to prepare and deliver the required report by February 29, 2008.

Item 5225-301-0660—For capital outlay, Department of Corrections and Rehabilitation. I reduce this item from \$119,752,000 to \$107,367,000 by deleting:

- (5.1) 61.23.004-California State Prison, Corcoran: Wastewater Treatment Plant Improvements—Construction (\$5,944,000), and
- (5.2) 61.30.004-Centinela State Prison, Imperial: Wastewater Treatment Plant Upgrades—Construction (\$6,441,000).

I am deleting these two wastewater treatment plant projects from this item because they cannot be funded with lease revenue bond financing, I am directing the Department of Corrections and Rehabilitation to fund both projects from the \$300,000,000 General Fund appropriation contained in Chapter 7, Statutes of 2007 (AB 900) for infrastructure improvements at existing prisons. Should this action result in additional funding needs in order to complete the infrastructure work at the various existing institutions, I expect that the Legislature will be supportive of future funding requests.

Item 6110-001-0001—For support of Department of Education. I reduce this item from \$47,380,000 to \$47,127,000 by reducing:

- (1) 10-Instruction from \$62,022,000 to \$60,422,000;
- (2) 20-Instructional Support from \$103,209,000 to \$99,833,000; and
- (9) Amount payable from Federal Trust Fund (Item 6110-001-0890) from -\$163,060,000 to -\$158,337,000.

I am deleting the legislative augmentation of \$133,000 and 1.0 position to coordinate education programs for incarcerated youth and support implementation of alternative school programs. This reduction is necessary to limit program expansion and in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. Further, the Department of Education already has existing positions that support alternative school programs and there is not sufficient workload justification for this additional position.

I am deleting Provision 28 to conform to this action.

I am deleting the \$120,000 legislative augmentation to support implementation of the English language learner component of the Mathematics and Reading Professional Development Program. Chapter 524, Statutes of 2006 (SB 472), appropriated \$120,000 to the Department of Education without regard to fiscal year and authorized the Department to establish one position for this purpose. The Department has not filled the position and, consequently, the \$120,000 remains available for expenditure. Therefore, it is unnecessary to provide additional expenditure authority in the budget year. However, I am sustaining authority for 1.0 limited-term position for one year to enable the Department to fill the position in order to conduct one-time activities associated with this program.

I am also revising this item to conform to the actions I have taken in Item 6110-001-0890.

Item 6110-001-0890—For support of Department of Education. I reduce this item from \$163,060,000 to \$158,337,000.

I am reducing a legislative augmentation by \$198,000 in federal Title II funds and 6.0 positions to implement the Compliance, Monitoring, Interventions, and Sanctions (CMIS) program related to the highly qualified teacher requirements under the federal No Child Left Behind Act. The Department of Education did not provide sufficient workload justification for these positions. Further, the Legislature rejected the Administration's proposal to shift funding from federal Title V to Title II for 4.0 professional development positions, with a priority on meeting the highly qualified teacher requirements, as Title V will no longer be available to support these positions. Therefore, I am sustaining \$929,000 to support 2.0 new positions and the 4.0 existing but unfunded positions for the purpose of assisting school districts to meet the highly qualified teacher requirements. When combined with the positions that are currently dedicated for this purpose, the Department will have a total of 8.0 positions for the CMIS program.

I am revising Provision 34 to conform to this action as follows:

"34. Of the funds appropriated in this item, ~~\$1,127,000~~ \$929,000 of federal Title II funds is for the Compliance, Monitoring, Intervention, and Sanctions (CMIS) program. This program is designed to help school districts meet the highly qualified teacher requirements specified in the federal No Child Left Behind Act of 2001 (20 U.S.C. Sec. 6301 et seq.). By April 1, 2008, the State Department of Education shall submit a report on the CMIS program to the budget and policy committees. The report shall identify (a) the number of school districts that received CMIS support in the 2007-08 fiscal year, and (b) the major components of the plans that those districts developed to respond to the federal highly qualified teacher requirements. For each participating district, the report also shall provide longitudinal data on the number and percent of teachers who are and are not highly qualified. At a minimum, the 2007-08 report shall include finalized data for the 2004-05, 2005-06, and 2006-07 fiscal years, and initial data for the 2007-08 fiscal year. The report shall provide data separately for high-poverty and low-poverty schools. For comparison, the report shall provide the same longitudinal data for the statewide average of all school districts as well as the average for school districts not receiving CMIS support."

I am reducing this item by \$1,600,000 and 4.0 positions to monitor and provide technical assistance to alternative, county court, and Division of Juvenile Justice schools serving English learners. An increase in staff to monitor these schools has not been justified. Furthermore, monitoring and providing technical assistance for these schools is an ongoing activity and the use of one-time monies would be inappropriate. With this veto, these funds will be available to be distributed to local educational agencies for direct classroom instruction of English learner students.

I am deleting Provision 37 to conform to this action.

I am technically revising Provision 39 to eliminate references stipulating that \$450,000 of one-time funds is made available for special education dispute resolution contract "cost-of-living increases". This program does not receive a cost-of-living adjustment, but rather receives funding on a workload basis. Accordingly, the funds will be used for addressing new workload claims to ensure that the public receives prompt and appropriate due process for consideration of dispute resolution matters, as required by law.

I am revising Provision 39 to conform as follows:

“39. Of the funds appropriated in this item, \$450,000 is made available on a one-time basis for the special education dispute resolution contract ~~for cost-of-living-increases~~. The State Department of Education, in coordination with the Office of Administrative Hearings, shall provide quarterly caseload and expenditure data to the appropriate budget committees of the Legislature, the Department of Finance, and the Legislative Analyst’s Office by March 1, 2008. The information shall also include updated budget detail and payment provisions, as shown in Exhibit B of the interagency agreement.”

I am deleting the \$150,000 legislative augmentation to provide an independent evaluation of the special education dispute resolution services provided by the Office of Administrative Hearings. The proposal essentially is a request for data, some of which is duplicative. Instead, I am directing the Office of Administrative Hearings to provide the remaining data requested using existing resources, including specified workload and mediator use data, and efficiency options for the program.

I am deleting Provision 40 to conform to this action.

I am deleting the \$1,050,000 legislative augmentation to expand special education focused monitoring and technical assistance services in alternative, county court, and Division of Juvenile Justice schools. This program essentially provides auditing for compliance with individualized education plans and follow-up for necessary corrections. I am unable to support this augmentation. Individualized education plan compliance should already be a part of the Special Education program not only for alternative schools but in all educational settings. Students are entitled to receive the quality services required by law and included in their individual education plans. This particular funding should be allocated instead to local grants to fund direct special education instruction.

I am deleting Provision 41 to conform to this action.

I am reducing this item to delete the legislative augmentation of \$125,000 for a study to identify options for improving indicators of student socioeconomic status. Because the study is vague, I am concerned that \$125,000 augmentation may not be adequate to complete the study and may lead to future cost pressures to complete or expand the study. With this veto, these funds will be available to be distributed to local educational agencies for direct classroom instruction to improve the academic performance of schools. In lieu of this funding, I request that the Legislative Analyst's Office partner with the Department of Finance to explore the issue with existing resources and staff.

I am deleting Provision 43 to conform to this action.

I am reducing this item by \$350,000 and 4.0 positions for assistance to local educational agencies (LEAs) that are expected to face federal No Child Left Behind corrective action sanctions. Until more definitive results from a privately funded pilot project are available and a resulting plan for expenditure of the local assistance dollars is fully developed, it is premature to add staff to support these activities. Further, until the final determination is made on how to allocate local assistance funding, it is not clear that it is necessary for the State Department of Education to provide a higher level of assistance or that additional positions are needed.

I am deleting Provision 44 to conform to this action.

I am reducing this item to delete the legislative augmentation of \$300,000 intended to support a pilot project that allows schools to use non-adopted reading language arts materials for English learner students. The proposed new program would allow the use of instructional materials that are not aligned to state standards, which is a concern because all students should have access to standards-aligned materials. In addition, an alternate \$20 million pilot project is already underway, and that project will be assessing what educational practices work best for improving the academic performance of English learners.

I am deleting Provision 46 to conform to this action.

I am deleting the \$400,000 legislative augmentation to create an advisory committee and perform a best practices study that would assist local education agencies in implementing evidence-based practices intended to assist students with specific learning disabilities to improve academically. However, I believe local grants for direct instruction would be a more prudent and timely use of this funding.

I am deleting Provision 47 to conform to this action.

I am reducing this item by \$500,000 for an evaluation of the English Learner Best Practices Pilot Program (Pilot) pursuant to the requirements of Chapter 561, Statutes of 2006 (AB 2117). During last year's development of Assembly Bill 2117, which established the Pilot, the understanding was that the evaluation would be funded by a not-for-profit organization. However, this funding has not materialized. The legislative augmentation of \$1,000,000 for the evaluation appears to be excessive. Instead, I am sustaining \$500,000 of the augmentation which would be consistent with similar evaluations done in the recent past. I believe the evaluation is an important component of ensuring that the \$20 million Proposition 98 General Fund provided in the Budget Act of 2006 for the Pilot would produce conclusions that could lead to improvements in English learner academic performance.

I am revising Provision 48 to conform to this action.

"48. Of the funds appropriated in this item, ~~\$1,000,000~~ \$500,000 of one-time federal Title III funds is available on a one-time basis for five years for an independent evaluation administered by the State Department of Education pursuant to the requirements of Chapter 561 of the Statutes of 2006."

I am reducing this item by \$50,000 for an evaluation to ensure that local educational agencies (LEAs) are employing methods to ensure effective and timely oral communication with non-English-speaking parents. To the extent that this is a problem for LEAs, they already receive federal funds that can be used for these purposes. Specifically, the Budget includes over \$165 million in federal Title III funds that can be used for parent outreach activities such as interpreter services. With this veto, these funds will be available to be distributed to LEAs for direct classroom instruction of English learner students.

I am deleting Provision 49 to conform to this action.

Item 6110-123-0001—For local assistance, Department of Education. I revise Provision 1 of this item.

I am deleting provisional language added by the Legislature that allocates funds to Intervention Underperforming Schools Program (II/USP) schools that are still subject to state sanctions and are working with school assistance and intervention teams (SAITs). The last cohort of II/USP schools qualified for funding in 2002-03 and since that time, some schools, even with the assistance of SAITs, still have not met bare minimum academic benchmarks to improve student achievement and to exit the program. Consequently, I do not believe that the state should continue to fund these activities given the efforts to consolidate state and federal accountability programs. In addition, I am concerned that the Legislature's shift of these II/USP costs from another Budget item to this item may create cost pressures within the II/USP successor program, the High Priority Schools Grant Program. I continue to support focusing efforts on improving low-performing schools and request that the State Board of Education assign the full spectrum of more effective sanction strategies available under current law to these schools to help them improve student achievement.

I am revising Provision 1 as follows to conform to this action.

“1. Funds appropriated in Schedule (1) are provided solely for the purpose of implementing the High Priority Schools Grant Program pursuant to Article 3.5 (commencing with Section 52055.600) of Chapter 6.1 of Part 28 of the Education Code. Of these funds, \$10,000,000 or whatever greater or lesser amount is necessary, shall be available to support schools working with school assistance and intervention teams or schools subject to state sanctions by the Superintendent of Public Instruction as part of the High Priority Schools Grant Program ~~or the Immediate Intervention/Underperforming Schools Program.~~”

Item 6110-134-0890—For local assistance, Department of Education. I reduce this item from \$77,900,000 to \$70,800,000 by deleting:

(7) 10.30.013-District Assistance and Intervention Teams (\$7,100,000),

and by deleting Provision 9.

I am deleting \$7,100,000 and setting these funds aside for appropriation in subsequent legislation. This Legislative augmentation provided funding for District Assistance and Intervention Teams (DAITs) to work with local educational agencies (LEAs) facing sanctions under the federal accountability system. The augmentation is premature because a privately funded pilot project and evaluation of the effectiveness of DAITs is underway. Until the evaluation is completed, or an interim report shows that DAITs are effective, I cannot support funding for these new activities. I recognize the problem of a growing number of LEAs and schools entering federal No Child Left Behind sanctions and note that funding is set aside in this item, pursuant to subsequent legislation, for implementation of an effective plan that supports LEAs and schools and their attempts to improve the academic performance of their students.

Item 6110-196-0001—For local assistance, Department of Education (Proposition 98). I reduce this item from \$1,761,366,000 to \$1,756,366,000 by reducing:

(1) 30.10.010-Special Programs, Child Development, Preschool Education from \$418,644,000 to \$413,644,000,

and by revising Provision 3 to conform.

I am reducing \$5,000,000 from preschool programs and revising Provision 3 by eliminating language that would expand the authorized use of these funds to include wrap-around child care for children participating in any state preschool program. These funds were provided to continue support of the Pre-Kindergarten Family Literacy program (PKFL) that was authorized by Chapter 211, Statutes of 2006 (AB 172) by providing ongoing funding for full-day child care for children participating in the PKFL program (AB 172 utilized one-time funding to provide this service in 2006-07). I believe that making these funds available to all preschool programs would undermine the PKFL program and negatively impact the ability of families to participate in the program. I am therefore setting these funds aside for legislation that would restore the priority for these funds to the PKFL programs.

I am revising Provision 3 to conform to this action as follows:

"3. Of the amount appropriated in Schedule (1), \$50,000,000 is available for pre-Kindergarten and Family Literacy Preschool programs pursuant to Chapter 211 of the Statutes of 2006. ~~Of the amount appropriated in Schedule (1), \$5,000,000 is available for wraparound care in order to provide direct child care for children in the state preschool program for the portion of the day that is not otherwise covered by services provided as part of the state preschool program."~~

Item 6120-211-0001—For local assistance, California State Library. I reduce this item from \$21,342,000 to \$14,342,000 by reducing:

(1) 20.30-Direct Loan and Interlibrary Loan Programs from \$18,616,000 to \$11,616,000.

I am deleting \$7,000,000 for Direct Loan and Interlibrary Loan services. This reduction is necessary in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

Item 6120-221-0001—For local assistance, California State Library, Public Library Foundation Program. I reduce this item from \$22,360,000 to \$14,360,000.

I am deleting the discretionary \$1,000,000 legislative augmentation to the Public Library Foundation. This reduction is necessary to limit program expansions and help bring ongoing General Fund expenditures in line with existing resources. In addition, I am deleting \$7,000,000 in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

Item 6440-001-0001—For support of University of California. I reduce this item from \$3,019,559,000 to \$3,016,059,000 by reducing:

(1) Support from \$2,936,063,000 to \$2,932,563,000,

and by revising Provisions 11,13, and 24 and deleting Provisions 26 and 27.

I am deleting the legislative augmentations for agricultural research (\$1,500,000) and for oceanographic research at the Scripps Institute of Oceanography (\$1,500,000) to limit program

expansions and to help bring ongoing expenditures in line with existing resources. With these reductions, over \$77,000,000 of state and university funds remains to support agricultural research and over \$9,700,000 of state and university funds remains to support research at the Scripps Institute of Oceanography.

I am deleting provisions 26 and 27 to conform to these actions.

I am deleting \$500,000 for UC-Mexico research, which represents the amount of funding for the financing of a facility located in Mexico, in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. The University of California should use other sources for this purpose at its discretion.

I am revising Provision 11 to conform as follows:

~~“11. Notwithstanding Section 3.00, for the term of the financing, the University of California may use funds appropriated in Schedule (1) for debt service and costs associated with the purchase, renovation, and financing of a facility for the UC-Mexico research and academic programs in Mexico City. The amount to be financed shall not exceed \$7,000,000. The university shall report to the Legislature by March 15, 2008, on the (a) amount of funds spent to support the UC-Mexico facility, including the specific use of these funds, (b) amount of funds spent to support UC-Mexico research and academic programs, and (c) different types of research conducted and programs operated at the UC-Mexico facility.”~~

I am sustaining the legislative augmentation of \$19,300,000 for student academic preparation and education programs. However, the reporting requirement would result in an expenditure increase without regard to the availability of revenues. Consequently, I am vetoing this language. Nevertheless, in recognition of the Legislature’s desire to obtain this information, it will be addressed as though the request had been included in Supplemental Report language. Therefore, I am instructing the President of the University of California to comply with this legislative request for this report to the extent compliance can be achieved using existing resources and without impairing the University’s ability to perform its essential functions.

I am revising Provision 24 to conform as follows:

~~“24. Of the funds appropriated in Schedule (1), \$19,300,000 is for student academic preparation and education programs (SAPEP) and is to be matched with \$12,000,000 from existing university resources, for a total of \$31,300,000 for these programs. The University of California shall provide a plan to the Department of Finance and the fiscal committees of each house of the Legislature for expenditure of both state and university funds for SAPEP by September 1, 2007. It is the intent of the Legislature that the university report on the use of state and university funds provided for these programs, including detailed information on the outcomes and effectiveness of academic preparation programs consistent with the accountability framework developed by the university in April 2005. The report shall be submitted to the fiscal committees of each house of the Legislature not later than April 1, 2008.”~~

Finally, I am revising Provision 13 to delete language that describes a new methodology for determining the marginal cost of each additional state-supported student in the future. The new formula is not transparent, is too difficult to either replicate or verify allowing for potential manipulation in future years, and does not properly reflect the full mix of new faculty associated with the system-wide growth in students.

I am revising Provision 13 to conform as follows:

~~“13. Of the funds appropriated in Schedule (1), \$52,930,000 is to fund 5,000 additional state-supported full-time equivalent students (FTES) at the University of California, based on a marginal General Fund cost of \$10,586 per additional student. This funding rate is based on a methodology for determining the marginal cost of each additional state-supported student, as adopted by the Legislature for the 2006-07 fiscal year. This methodology calculates a total marginal cost (including operation and maintenance costs and faculty costs based on the salaries of recently hired professors) and then subtracts from this cost the fee revenue the university anticipates from each additional student (after adjusting for financial aid), in order to determine the amount of General Fund support needed from the state. It is the intent of the Legislature that enrollment growth funding provided to the university in subsequent fiscal years be based on this specific methodology.—The Legislature expects the University of California to enroll a total of 198,455 state-supported FTES during the 2007-08 academic year. This enrollment target does not include nonresident students and students enrolled in non-state-supported summer programs. The University of California shall report to the Legislature by March 15, 2008, on whether it has met the 2007-08 enrollment goal. For purposes of this provision, enrollment totals shall only include state-supported students. If the University of California does not meet its total state-supported enrollment goal by at least 250 FTES, the Director of Finance shall revert to the General Fund by April 1, 2008, the total amount of enrollment funding associated with the total share of the enrollment goal that was not met.”~~

Item 6440-305-6048—For capital outlay, University of California.

I am sustaining the \$10,000,000 provided for the Life Sciences Research and Nursing Education Building in this item.

In my efforts to continue to support programs and projects that will alleviate the nursing shortage California is suffering, I am sustaining this legislative augmentation for the Charles R. Drew University of Medicine and Science to build a Life Sciences Research and Nursing Education Building. However, I note that a number of issues both legal and programmatically need to be resolved before funds may be expended. Specifically, there are legal concerns regarding the use of general obligation bonds for this project and may require the state to acquire and maintain ownership of the facility being built. Additionally, the nursing program that will utilize this facility needs to be fully developed before the scope of this new facility can be generated. Until these concerns are resolved, no funds for this project may be expended.

Item 6610-001-0001—For support of California State University. I revise this item by revising Provision 7.

I am revising Provision 7 to delete language that describes a new methodology for determining the marginal cost of each additional state-supported student in the future. The new formula is not transparent, is too difficult to either replicate or verify allowing for potential manipulation in future years, and does not properly reflect the full mix of new faculty associated with the system-wide growth in students.

I am revising Provision 7 to conform as follows:

“7. Of the amount appropriated in Schedule (1), \$64,417,000 is to fund 8,355 additional state-supported full-time equivalent students (FTES) at the California State University (CSU), based on a marginal General Fund cost of \$7,710 per additional student. ~~This funding rate is based on a methodology for determining the marginal cost of each additional state-supported student, as adopted by the Legislature for the 2006-07 fiscal year. This methodology calculates a total marginal cost (including operation and maintenance costs and faculty costs based on the salaries of recently hired professors) and then subtracts from this cost the fee revenue the university anticipates from each additional student (after adjusting for financial aid), in order to determine the amount of General Fund support needed from the state. It is the intent of the Legislature that enrollment growth funding provided to the university in subsequent fiscal years be based on this specific methodology.~~—The Legislature expects CSU to enroll a total of 342,553 state-supported FTES during the 2007-08 academic year. This enrollment target does not include nonresident students and students enrolled in non-state-supported summer programs. The CSU shall provide a preliminary report to the Legislature by March 15, 2008, and a final report by May 1, 2008, on whether it has met the 2007-08 enrollment goal. For purposes of this provision, enrollment totals shall only include state-supported students. If CSU does not meet its total state-supported enrollment goal by at least 418 FTES, the Director of Finance shall revert to the General Fund by May 15, 2008, the total amount of enrollment funding associated with the total share of the enrollment goal that was not met.”

Item 6870-101-0001—For local assistance, Board of Governors of the California Community Colleges, Proposition 98. I reduce this item from \$3,906,649,000 to \$3,859,753,000 by reducing:

- (1) 10.10.010-Appportionments from \$3,093,135,000 to \$3,079,349,000;
- (2) 10.10.020-Basic Skills and Apprenticeship from \$48,339,000 to \$15,229,000;

and by deleting subdivision (c) of Provision 7.

I am reducing Schedule (1) by \$13,786,000 and Schedule (2) by \$33,110,000 to delete the legislative augmentations for a noncredit course rate increase and a basic skills student funding increase, respectively. However, I am setting these funds aside for legislation that appropriates these funds for improving outcomes for at-risk students in a manner more consistent with the priorities of my proposed Student Success Initiative (\$33,110,000) and the remainder for other more compelling Proposition 98 funding needs.

The Legislature’s proposed \$13,786,000 augmentation to support a second consecutive noncredit rate increase is premature and inconsistent with the agreement reached in last year’s compromise on Chapter 631, Statutes of 2006 (SB 361). As part of that agreement, my Administration indicated that any future noncredit rate increase would be subject to improved student outcomes from last year’s initial investment of \$30,000,000. To date, no accountability measures have been developed to evaluate this investment, nor has my Administration received a comprehensive list of courses and programs that have been approved by the Chancellor’s Office for funding from the 2006-07 increase. While I cannot sustain this augmentation, the budget does provide a 4.53-percent COLA, which, when combined with the ongoing \$30,000,000 increase from 2006-07, provides for a 23-percent increase in per student funding for selected noncredit courses since the 2005-06 fiscal year.

I am deleting Provision 4.6 to conform to this action.

I cannot support the Legislature's \$33,110,000 redirection of funds proposed for my May Revision's Student Success Initiative because the accompanying control provisions do not contain the appropriate accountability and distribution mechanisms necessary to ensure this investment improves student outcomes, particularly for at-risk students transitioning from high schools. With this reduction, the community colleges still retain \$33,110,000 in unspent current year funds that carryover for expenditure in the budget year to address strategies for improving basic skills instruction. My Administration is prepared to work with the Chancellor's Office to reinstate the ongoing funding pending agreement on revised accountability and distribution provisions that address my priority for improving meaningful outcomes for students transitioning from high school.

I am deleting subdivision (c) of provision 7 to conform to this action.

Item 6870-486—Reappropriation, Proposition 98, Board of Governors of the California Community Colleges. I reduce this item from \$26,668,000 to \$21,168,000 by deleting legislative augmentations for the Part-time Faculty Health Insurance Program in Schedule (4) and the proposed Construction College Pilot Program in Schedule (6).

I am deleting the one-time augmentation of \$4,000,000 from the Proposition 98 Reversion Account for the Part-time Faculty Health Insurance Program because this program was established as an incentive grant program to encourage additional district investments in benefits for part-time faculty. However, these programs were not intended to require additional one-time or ongoing contributions from the state. Given the significant general purpose increases provided in this Budget for community colleges, I believe that districts have sufficient resources to provide additional benefits to part-time faculty at their discretion.

I am also deleting the one-time augmentation of \$1,500,000 for a Construction College pilot program at San Jose City College and another, unspecified site. While this program may have merit from a local perspective, significant investments are already proposed for apprenticeship and pre-apprenticeship programs, as well as traditional K-12 career path programs including construction technology, within my anticipated 2007-08 Career Technical Education Initiative expenditure plan. Additional funding for a construction-specific program would establish an undesirable precedent for singling out a local project for funding without competing for limited resources with other meritorious local projects. It is also premature to fund this program until other construction and related program grants can be evaluated.

Item 7980-001-0001—For support of Student Aid Commission. I reduce this item from \$15,449,000 to \$15,349,000 by reducing:

(1) 15-Financial Aid Grants Program from \$13,886,000 to \$13,786,000,

and by deleting Provision 5.

I am deleting the \$100,000 legislative augmentation for one position for purposes of administering the Public Interest Attorney Loan Repayment Program to conform to my action on Item 7980-101-0001.

I am deleting Provision 5 to conform to this action.

Item 7980-101-0001—For local assistance, Student Aid Commission. I reduce this item from \$859,814,000 to \$857,614,000 by reducing:

(1) 15-Financial Aid Grants Program from \$889,950,000 to \$887,750,000,

and by revising Provision 5 and deleting Provision 9.

I am reducing the legislative augmentation for the California Student Opportunity and Access Program (CalSOAP) by \$2,200,000. This program provides financial aid awareness as well as student academic preparation and education services to public school students. This reduction is necessary in order to build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. Additionally, I am concerned that this program's various student academic support and preparation activities have not been subjected to a cost-effectiveness analysis in many years. With this reduction, \$6,367,000 still remains for CalSOAP to support financial aid awareness activities. Further, it is my understanding that the California Student Aid Commission recently approved \$2,200,000 from the Student Loan Operating Fund for similar financial aid outreach purposes. Therefore, this augmentation is largely redundant with planned expenditures.

I am revising Provision 5 to conform to this action:

"5. Of the funds appropriated in Schedule (1), ~~\$8,567,000~~ \$6,367,000 is for the California Student Opportunity and Access Program established pursuant to Article 4 (commencing with Section 69560) of Chapter 2 of Part 42 of the Education Code and shall be available to provide financial aid awareness and outreach to students who are preparing to enter, or are currently enrolled in, college."

Additionally, I am deleting the legislative language augmentation included in Provision 9 that authorizes 100 new warrants for the Public Interest Attorney Loan Repayment Program. The authorization of 100 loan assumption warrants would commit the state to out-year costs in excess of \$1,000,000. Furthermore, this program authorizes warrants for attorneys employed by local government. Thus, in effect, this augmentation would serve to subsidize local government employee recruitment and retention with state funds. Therefore, this action is necessary to limit program expansions.

Item 7100-001-0185—For support of Employment Development Department. I reduce this item from \$79,495,000 to \$67,435,000.

I am reducing the \$27,060,000 legislative augmentation for the Job Services Program by \$12,060,000. This program provides employment services in the One-Stop Career Centers, facilitating a match between employers' needs and job seekers' skills, and while I agree with the Legislature that some additional resources would benefit job seekers, I am confident that the \$168,000,000 available will be sufficient in meeting the employment demands of California communities. Finally, I am directing the Employment Development Department to minimize the number of positions to be reduced in job services locations by making reductions in Administration and facility operations.

I am deleting Provision 4 to conform to this action.

Item 7350-001-0001—For support of Department of Industrial Relations. I reduce this item from \$67,768,000 to \$67,383,000 by reducing:

(6) 50-Division of Labor Standards Enforcement from \$49,933,000 to \$49,548,000.

I am deleting \$385,000 and 5.0 positions for the Licensing and Registration Unit provided for recently enacted legislation including the registration of employers in the car washing and polishing industry. This reduction is necessary to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

Item 7350-011-0223—For support of Department of Industrial Relations. I revise this item by deleting Provision 1.

I delete Provision 1, which would require the Department of Industrial Relations to provide a long-term plan and a detailed repayment schedule by January 10, 2008, for the California Occupational Safety and Health Administration, Targeted Inspection and Consultation Fund loan.

This reporting requirement would result in an expenditure increase without regard to the availability of revenues. Consequently, I am vetoing this language. Nevertheless, in recognition of the Legislature's desire to obtain this information, it will be addressed as though the request had been included in Supplemental Report language. Therefore, I am instructing the Director of the Department of Industrial Relations to comply with this legislative request for this report to the extent compliance can be achieved using existing resources and without impairing the Department of Industrial Relations' ability to perform its essential functions.

Item 8120-011-0268—For support of Commission on Peace Officer Standards and Training. I revise this item by deleting Provision 3.

I am deleting Provision 3, which would require the Commission on Peace Officer Standards and Training to report to the Legislature on the findings of the local law enforcement agency audits conducted by the Controller on behalf of the commission. This reporting requirement would result in an expenditure increase without regard to the availability of revenues. Consequently, I am vetoing this language. Nevertheless, in recognition of the Legislature's desire to obtain this information, it will be addressed as though the request had been included in Supplemental Report language. Therefore, I am instructing the Executive Director of the Commission on Peace Officer Standards and Training to comply with this legislative request for this report to the extent compliance can be achieved using existing resources and without impairing the Commission on Peace Officer Standards and Training's ability to perform its essential functions.

Item 8660-001-0042—For support of Public Utilities Commission. I reduce this item from \$3,526,000 to \$3,354,000.

I am deleting a legislative augmentation of \$172,000 and 2.0 positions for Public Utilities Commission's (PUC) rail crossing safety staff. In the 2006 Budget Act, I included three positions for the rail safety crossing program, giving the PUC 20.0 base positions for rail crossing safety. To date, all those positions are not filled. It would be premature to authorize additional positions until the positions at the PUC are filled and the impact on workload can be determined. With these reductions, \$3,354,000 still remains to support the rail crossing safety staff.

Item 8660-001-0462—For support of Public Utilities Commission. I revise this item by reducing:

- (1) 10-Regulation of Utilities from \$120,157,000 to \$119,857,000;
- (3) 20-Regulation of Transportation from \$19,911,000 to \$19,739,000;
- (7) Amount payable from the State Highway Account, State Transportation Fund (Item 8660-001-0042) from -\$3,526,000 to -\$3,354,000; and
- (18) Amount payable from the Public Utilities Commission Rate payer Advocate Account (Item 8660-001-3089) from -\$21,632,000 to -\$21,332,000.

I am revising this item to conform to the actions I have taken in Item 8660-001-3089 and Item 8660-001-0042.

Item 8660-001-3089—For support of Public Utilities Commission. I reduce this item from \$21,632,000 to \$21,332,000.

I am deleting a legislative augmentation of \$300,000 and 3 positions for the Division of Ratepayer Advocates' (DRA) water audits division. The Budget Act of 2006 provided additional auditors to the Public Utilities Commission (Commission) that were intended to meet the needs of the DRA as well as the balance of the Commission. With these reductions, \$2,200,000 and 22.0 positions still remain to support the Division of Ratepayer Advocates water auditing staff.

Item 8770-001-0462—For Support of the Electricity Oversight Board. I reduce this item from \$3,579,000 to \$2,684,000 by reducing:

- (1) 30-Administration from \$4,128,000 to \$3,096,000, and
- (2) Amount payable from the Energy Resources Programs Account (Item 8770-001-0465) from -\$549,000 to -\$412,000.

I am reducing Schedule (1) to reflect my expectation that by April 1, 2008, the Electricity Oversight Board (EOB) will have transferred its remaining duties to the Public Utilities Commission. The EOB was established in 1996 as part of the state's attempt to restructure the electricity industry, and was given the responsibility for overseeing the California Independent System Operator, a non-profit entity that operates most of California's electric transmission grid. Since that time, changes in state and federal law have eliminated the need for the EOB; the duties it performs are now also performed either by the California Independent System Operator or the California Public Utilities Commission. When I first took office, the California Performance Review determined that the EOB should be eliminated, with its remaining functions transferred to other entities. It is time to implement this recommendation. With this reduction, sufficient funding will remain in the EOB budget to allow for an orderly staffing reduction plan so staff will have every opportunity to transfer to new duties within California state government. I am requesting the Department of Personnel Administration to fully assist the EOB in this effort.

Item 8770-001-0465—For support of the Electricity Oversight Board. I reduce this item from \$549,000 to \$412,000.

I am revising this item to conform to actions I have taken in Item 8770-001-0462.

Item 8910-001-0001—For support of Office of Administrative Law. I revise this item by deleting Provision 1.

I am deleting Provision 1, which would require the Office of Administrative Law to report to the Legislature on the use of positions assigned to underground regulation review. This reporting requirement would result in an expenditure increase without regard to the availability of revenues. Consequently, I am vetoing this language. Nevertheless, in recognition of the Legislature's desire to obtain this information, it will be addressed as though the request had been included in Supplemental Report language. Therefore, I am instructing the director of the Office of Administrative Law to comply with this legislative request for this report to the extent compliance can be achieved using existing resources and without impairing the Office of Administrative Law's ability to perform its essential functions.

Item 8955-001-0001—For support of California Department of Veterans Affairs. I revise this item by deleting Provision 5.

I delete Provision 5, which would require the California Department of Veterans Affairs (CDVA) to report on the Department's progress in providing a "restraint-free" environment for residents at the Veterans Homes. This reporting requirement would result in an expenditure increase without regard to the availability of revenues. Consequently, I am vetoing this language. Nevertheless, in recognition of the Legislature's desire to obtain this information, it will be addressed as though the request had been included in Supplemental Report language. Therefore, I am instructing the Secretary of the CDVA to comply with this legislative request for this report to the extent compliance can be achieved using existing resources and without impairing the CDVA's ability to perform its essential functions.

Item 9210-107-0001—For local assistance, Local Government Financing. I delete this item.

I am deleting the \$3,500,000 legislative augmentation for grants to county assessors, which would be made in proportion to the amount of property tax received by their K-14 schools. This reduction is necessary to limit program expansions and provide for a prudent General Fund reserve in light of the various uncertainties in revenues and spending that we face this year.

Local government is anticipated to receive \$28,000,000 in property tax revenue in 2007-08 pursuant to a new method of collecting fractionally owned aircraft property taxes, facilitated by budget trailer bill legislation. As a result, this \$3,500,000 augmentation is unnecessary.

Item 9800-001-0001—For Augmentation for Employee Compensation. I reduce this item from \$525,262,000 to \$453,262,000.

I am reducing funding by \$72,000,000 for employee compensation and instructing my administration to absorb this reduction in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. To effect this reduction, I am directing the Director of Finance to reduce the amount that would have been allocated to each department from Item 9800-001-0001 by an amount equal to 8.576 percent of that department's General Fund expenditures for personal services in April of 2007. With this reduction, \$453,262,000 still remains to be allocated by the Department of Finance for increases in employee compensation that the Department of Personnel Administration has

already agreed to pay. This reduced amount available for allocation to departments will not affect pay or benefits for employees in any way. Employees will receive full pay, and the funding for pay increases not available from Item 9800 will be funded by a redirection within existing resources by individual departments. So, all previously negotiated employee compensation increases, and all employee compensation increases for medical, mental, and dental health positions arising from the Coleman and Plata court cases will be unaffected by my action to reduce this appropriation.

Item SEC 24.55—California Research and Education Network. I delete this control section.

I am deleting Control Section 24.55 because this language is unnecessary and could increase administrative costs at the expense of either direct network services or potentially higher fees. Chapter 552, Statutes of 2006, already provides appropriate oversight for K-12. Similarly, annual program review through the budget process, the governance structure of the higher education segments, and the current business practices of establishing interagency agreements and essentially using cost-based accounting for each educational segment already provide appropriate accountability for higher education.

With the above deletions, revisions, and reductions, I hereby approve Senate Bill 77.

ARNOLD SCHWARZENEGGER

State of California
Governor's Office

I object to the following appropriations contained in Senate Bill 78.

Item 1760-001-0666—For support of Department of General Services. I revise this item by deleting Provision 10.

I delete Provision 10, which would require the Department of General Services to provide an implementation progress report on the Fleet Asset Management System.

This reporting requirement would result in an expenditure increase without regard to the availability of revenues. Consequently, I am vetoing this language. Nevertheless, in recognition of the Legislature's desire to obtain this information, it will be addressed as though the request had been included in Supplemental Report language. Therefore, I am instructing that the Director of the Department of General Services comply with this legislative request for this report to the extent compliance can be achieved using existing resources and without impairing the Department of General Services' ability to perform its essential functions.

Item 2660-001-0042—For support of Department of Transportation.

I am sustaining the Legislature's augmentation for capital outlay support. In the May Revision, reflecting the large increase of work to be done to implement Proposition 1B as well as Caltrans' work funded from other sources, I proposed additional funding necessary to use contractual services for engineering, design, environmental studies, and other work needed to ready projects for construction. This was proposed in lieu of expanding state staff in order to speed up delivery of Proposition 1B projects.

The augmentation was based on 90 percent state staff and 10 percent contract staff. Because it will take a year or more to hire and train state staff, I am very concerned that this action will delay projects by a year or more and end up costing more than using contractual services because of salary costs incurred while training new state hires and the impact of inflation on construction costs while projects are delayed. Moreover, because the funding from Proposition 1B is one-time and will be exhausted over the next five years, the hiring of new permanent state staff could lead to the need for future layoffs. An appropriate balance between state staff and contract staff will enable the state to improve its highways, roads, bridges, and railroad crossings immediately. Therefore, I am directing the Director of the Department of Transportation to take all steps necessary to deliver these projects as quickly as possible, including an increased use of contractual services within the funding level the Legislature has provided.

Item 3790-001-0001—For support of Department of Parks and Recreation. I reduce this item from \$145,359,000 to \$130,359,000 by reducing:

- (1) For support of the Department of Parks and Recreation from 383,495,000 to \$368,495,000.

I am vetoing \$15,000,000 General Fund on a one-time basis for maintenance at state parks. The Department of Parks and Recreation's existing maintenance budget is approximately \$67,000,000, and a one-time augmentation of \$90,000,000 was provided in 2006-07 to address deferred maintenance needs. Furthermore, Proposition 84 provides \$400,000,000 for the development and rehabilitation of state parks, including deferred maintenance. For these reasons, and in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year, I believe a one-time reduction can be made without a significant impact on the department's ability to perform its essential functions in 2007-08.

Item 3900-001-0044—For support of State Air Resources Board. I reduce this item from \$94,533,000 to \$93,875,000 by reducing:

- (1) 15-Mobile Source from \$696,312,000 to \$675,188,000;
- (2) 25-Stationary Source from \$53,845,000 to \$53,345,000;
- (7) Amount payable from the Air Pollution Control Fund (Item 3900-001-0115) from -\$174,541,000 to -\$154,541,000;

and by deleting:

- (9.5) Amount payable from the Energy Resources Programs Account (Item 3900-001-0465) (-\$966,000).

I am reducing Schedule 1 to eliminate the legislative augmentation of \$658,000 and 6.7 positions for additional diesel enforcement efforts. In the past three budgets, I have included additional staff for diesel enforcement every year. In 2005-06, I added 15.3 positions, in 2006-07, I added 5.8 positions, and in the 2007-08 Governor's Budget, I included 6.7 more positions. The Legislature concurred in all of these augmentations, but added 6.7 additional positions this year for reasons which have not been explained. While I recognize that diesel enforcement is important, these augmentations are all funded by the Motor Vehicle Account, which is facing significant fiscal pressures for other high-priority expenditures. In light of this, and the lack of workload justification for the 6.7 position legislative augmentation, it is necessary to make this reduction in order to preserve Motor Vehicle Account funds for other critical needs.

I am also revising this item to conform to the actions I have taken in Items 3900-001-0115 and 3900-001-0465.

Item 3900-001-0115—For support of State Air Resources Board. I reduce this item from \$174,541,000 to \$154,541,000.

I am deleting the \$20,000,000 legislative augmentation for construction equipment grants that would be funded by increasing vehicle-related fees charged to the citizens of California. This proposal would carve out one industry, construction, for a state subsidy to comply with proposed air quality regulatory requirements. This focus on a single industry is inconsistent with the Air Board's overall approach to regulating air quality.

I am sustaining the \$1,000,000 fund shift from General Fund to the Air Pollution Control Fund (APCF) for legal defense costs associated with Chapter 200, Statutes of 2002 and

associated provisional language. I note, however, that the resources expected to be available in the APCF are quite limited. Consequently, should the legal defense costs exceed the \$1,000,000 provided in this item, the Air Board will likely request General Fund deficiency funding rather than additional resources from the APCF.

Item 3940-001-0001—For support of State Water Resources Control Board. I reduce this item from \$39,344,000 to \$39,102,000 by reducing:

- (1) 10-Water Quality from \$463,986,400 to \$459,499,400, and
- (5) Reimbursements from -\$14,244,000 to -\$9,999,000.

I am eliminating a legislative augmentation of \$242,000 and 2.0 positions to accelerate the development of Total Maximum Daily Load standards (TMDLs) in the North Coast Regional Water Board. I support the expeditious implementation of TMDLs throughout the state. However, I believe this can be accomplished within existing resources. In addition, this reduction is necessary in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year. With this reduction, \$1,100,000 still remains to support the development of North Coast Regional Water Board TMDLs.

I am also eliminating a legislative augmentation of \$4,245,000 in reimbursement authority for water basin planning. My budget proposed funding water basin planning from Chapter 9 of Proposition 84. The Legislature shifted this funding to reimbursements, to be provided by the Department of Water Resources from funds made available by Chapter 4 of Proposition 84. However, notwithstanding the merits of this program, it is not appropriately funded from Chapter 4 of Proposition 84, which requires the funding to be used for statewide, rather than basin-specific, water planning activities. With this reduction, \$6,600,000 still remains to support water basin planning.

Item 4280-101-0001—For local assistance of the Managed Risk Medical Insurance Board. I reduce this item from \$373,832,000 to \$372,429,000 by reducing:

- (2) 40-Healthy Families Program from \$1,032,841,000 to \$1,028,942,000, and
- (3) Amount payable from the Federal Trust Fund (Item 4280-101-0890) from -\$732,337,000 to -\$729,841,000.

I am deleting \$3,899,000 (\$1,403,000 General Fund and \$2,496,000 Federal Trust Fund) to conform to the action I have taken in Item 4280-001-0001, related to the delayed implementation of SB 437 (Chapter 328, Statutes of 2006).

Item 5180-101-0001—For local assistance, Department of Social Services. I reduce this item from \$2,210,356,000 to \$2,207,412,000 by reducing:

- (2) 16.65-Other Assistance Payments from \$1,324,322,000 to \$1,321,378,000.

I am reducing by \$2,944,000 the augmentation I included in the May Revision to fund local food banks and Foodlink to provide relief to Californians from the effects of last winter's severe weather conditions. This reduction in funding is possible due to a decrease in the number of disaster victims being served and a reduced timeframe that

these victims will require services. This action will in no way affect the services being provided to victims of the freeze disaster.

Item 5180-141-0001—For local assistance, Department of Social Services. I reduce this item from \$437,764,000 to \$432,941,000 by reducing:

- (1) 16.75-County Administration and Automation Projects from \$1,085,916,000 to \$1,073,349,000;
- (2) Reimbursements from -\$57,871,000 to -\$54,951,000; and
- (3) Amount payable from the Federal Trust Fund (Item 5180-141-0890) from -\$590,281,000 to -\$585,457,000.

I am deleting the legislative augmentation of \$12,567,000 (\$4,823,000 General Fund, \$2,920,000 Reimbursements, and \$4,824,000 Federal Trust Fund) for workstation replacement and help desk support of the Statewide Automated Welfare System, including the CalWORKs Information Network. Although I understand that workstations need to be replaced on a regular basis, this reduction is needed to build a prudent reserve. In addition, I believe this cost may be paid from funds provided for general county administration.

I am also reducing \$2,130,000 in Item 4260-101-0001 and \$2,130,000 in Item 4260-101-0890 to conform to this action.

Item 5180-141-0890—For local assistance, Department of Social Services. I reduce this item from \$590,281,000 to \$585,457,000 and delete Provision 2.

I am reducing this item to conform to the action I have taken in Item 5180-141-0001 related to workstation replacement and help desk support.

Item 5180-151-0001—For local assistance, Department of Social Services. I reduce this item from \$756,589,000 to \$739,528,000 by reducing:

- (1) 25.30-Children and Adult Services and Licensing from \$2,077,314,000 to \$2,056,169,000;
- (3) Reimbursements from -\$115,875,000 to -\$115,707,000; and
- (6) Amount payable from the Federal Trust Fund (Item 5180-151-0890) from -\$1,222,557,000 to -\$1,218,641,000.

In order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year, I am deleting the legislative augmentation of \$12,000,000 General Fund for the Adult Protective Services program. This veto maintains funding for the program at the level proposed in the May Revision.

I am deleting the legislative augmentation of \$5,135,000 (\$2,467,000 General Fund, \$168,000 Reimbursements, and \$2,500,000 Federal Trust Fund) for workstation replacement of the Child Welfare Services/Case Management System. Although I understand that workstations need to be replaced on a regular basis, this reduction is

needed to build a prudent reserve. I am reducing Item 0530-001-9732 by \$5,135,000 to conform to this action.

I am reducing this item by \$4,010,000 (\$2,594,000 General Fund and \$1,416,000 Federal Trust Fund) on a one-time basis. This funding would have provided resources to counties for sibling searches in the Adoptions Program and to help prevent foster youth identity theft, pursuant to legislation enacted in the 2006-07 fiscal year. I am suspending implementation of these programs by one year to further build a prudent reserve and I am directing the Department of Social Services to notify counties that these activities should be suspended during this fiscal year.

Item 5225-101-0001—For local assistance, California Department of Corrections and Rehabilitation. I reduce this item from \$336,791,000 to \$321,891,000 by deleting:

- (8) 60.01-County Juvenile Justice Planning Grants (\$4,900,000);
- (9) 60.02-County Juvenile Justice Competitive Grants (\$10,000,000);

and Provision 10.

I am deleting the \$4,900,000 legislative augmentation, which was intended to provide one-time grants to all counties to plan for changes in state law governing county custody and rehabilitative services for youthful offenders whose offenses are not listed in Welfare and Institutions Code Section 707(b). I am also deleting the \$10,000,000 legislative augmentation, which was intended to provide one-time competitive grants to counties for additional planning and development efforts related to the juvenile offender population that will now be housed locally. These reductions are necessary in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.

I am deleting Provision 10 to conform to this action.

Item 7100-001-0870—For support of Employment Development Department. I revise this item by reducing:

- (1) 10-Employment and Employment Related Services from \$180,125,000 to \$168,065,000, and
- (10) Amount payable from the Employment Development Contingent Fund (Item 7100-001-0185) from -\$79,495,000 to -\$67,435,000.

I am revising this item to conform to the action I have taken in Item 7100-001-0185.

Item SEC. 29.50—2008-09 State Operations and Capital Outlay Budget Restrictions. I delete this Control Section.

This Control Section provides legislative intent language to assist me in preparing the 2008-09 Budget that I will propose. The intent language directs the Department of Finance not to include funding in the Budget for various issues that evidently are low priorities for the Legislature. While controlling expenditures is a worthy and laudable goal every year, I do not think it is appropriate to predetermine funding decisions now,

and I will propose a Budget that reflects my spending priorities within available fiscal resources. I believe it is important that the full and deliberative process take place for each and every program.

California taxpayers expect that we all do our job completely each year, and I would miss an opportunity to continue discussions on these important issues with my legislative friends next year; therefore, I am deleting this control section.

With the above deletions, revisions, and reductions, I hereby approve Senate Bill 78.

ARNOLD SCHWARZENEGGER