



January 10, 2007

GOVERNOR RELEASES PROPOSED 2007-08 BUDGET

Governor Schwarzenegger released his Proposed 2007-08 Budget on January 10. The following update provides a "quick and dirty" summary of key provisions of the Governor's Proposed Budget. As additional details become available, the California Budget Project (CBP) will update this document. The CBP will also prepare in-depth analyses of major proposals contained in the budget over the upcoming days and weeks. Please check the CBP website (www.cbp.org) for corrections and additions to this analysis as additional information becomes available.

A number of the major policy initiatives in the budget, including the Governor's health coverage proposal and reductions to the CalWORKs Program, were announced prior to January 10. The Governor's budget documents are available at <http://govbud.dof.ca.gov/home.htm>. A summary of the Governor's health coverage proposal, which is not reflected in the Proposed Budget, is available at http://gov.ca.gov/pdf/press/Governors_HC_Proposal.pdf.

The Bottom Line

The Governor's Proposed 2007-08 Budget spends \$103.141 billion and assumes \$101.278 billion in revenues and transfers. The Governor's Proposed Budget transfers \$2.046 billion to the Budget Stabilization Account (BSA), as required by Proposition 58 of 2004. Half of the proposed transfer would be used to prepay a portion of the state's outstanding deficit bonds, and the other half would remain in the BSA as a reserve. The portion of the transfer that would remain in the BSA is scored as a reduction in revenues, while the portion that would be used to prepay the deficit bonds is scored as an increase in expenditures. Thus, according to the Department of Finance, the Proposed 2007-08 Budget has no operating deficit if the BSA-related transactions are taken into account.

In November, the Legislative Analyst's Office (LAO) estimated that the 2007-08 operating shortfall – the gap between expenditures under existing law and projected revenues under current law – would be \$5.5 billion, dropping to \$5.0 billion in 2008-09. Approximately half – \$2.6 billion – of the LAO's projected \$5.5 billion 2007-08 operating deficit is attributable to the cost of repaying debt used to address recent years' budget shortfalls. The Governor's Proposed 2007-08 Budget assumes that revenues and transfers, excluding the Governor's proposed transfer to the BSA, will be \$2.181 billion above the level forecast by the LAO in November, and that expenditures, excluding the \$1.023 billion deficit bond pre-payment, will be \$3.470 billion lower than the level forecast by the LAO.

How Does the Governor Balance the Budget?

In order to bring the budget into balance, the Governor's Proposed Budget reduces spending; shifts costs from the General Fund to special and bond funds; repeals the teacher tax credit; and assumes receipt of revenues from yet-to-be-approved tribal gaming compacts. Specifically, the Proposed Budget:

- Proposes significant cuts in the CalWORKs Program, resulting in savings of \$464 million.
- Uses Public Transportation Account (PTA) funds, rather than General Fund dollars, to pay for Home-to-School transportation (\$627 million) and transportation expenditures made by Regional Centers (\$144 million), and shifts \$340 million in PTA funds to a special fund to help pay debt service costs on the recently approved transportation bonds.
- Uses bond funds to reimburse the state's General Fund for \$200 million in flood protection expenditures.
- Counts \$269 million in CalWORKs Stage 2 child care costs toward the Proposition 98 school funding guarantee.
- Assumes \$100 million in savings from changes to parole policies, shifting certain juvenile offender costs to counties, eliminating certain diagnostic evaluations of adult offenders, and eliminating funding for Juvenile Justice Community Reentry Challenge Grants.
- Eliminates state funding for the Integrated Services for Homeless Adults with Serious Mental Illness Program for savings of \$55 million.
- Changes reimbursement formulas for various programs serving individuals with developmental disabilities in order to replace \$44 million in costs formerly paid by the state with federal dollars.
- Reduces contributions to the State Teachers' Retirement System by \$75 million.
- Assumes \$165 million in revenues from repeal of the teacher tax credit, which was suspended in 2004, 2005, and 2006.
- Assumes \$506 million in revenues attributable to tribal gaming compacts that have yet to be approved by the Legislature.
- Makes a \$100 million unallocated reduction to state department expenditures.

The Budget's Revenue Forecast Does Not Reflect Tax Cuts in the Governor's Health Care Plan

The Governor proposes to repeal the teacher tax credit, generating \$165 million in additional 2007-08 revenues. The Governor's health care plan includes close to \$1 billion in tax cuts; however, the impact of his proposal is not reflected in the budget forecast. The largest share of the reductions would come from expanding workers' ability to use pre-tax dollars to purchase health coverage, at a cost to the state of \$900 million per year. The Governor's plan would also allow tax deductions for contributions to Health Savings Accounts (HSAs) linked to high-deductible health plans. A recent CBP *Budget Brief*, "Health Savings Accounts: No Solution for the Uninsured," examines the policy issues associated with HSAs.

The Governor's Health Care Proposal

On January 8, the Governor proposed a wide-ranging plan to provide health coverage for the estimated 6.5 million Californians who are uninsured by calling for "shared responsibility" from individuals, public programs, health care providers, employers, insurers, and counties. The proposal does not contain any additional General Fund spending, and neither funding for nor the cost of the plan are reflected in the Governor's Proposed Budget. Specifically, the Governor proposes to:

- Require families and individuals with incomes above 250 percent of the federal poverty level (FPL), equivalent to \$41,500 for a family of three, to carry health coverage through their employer or purchased in the individual

market. Families and individuals with incomes at or below 250 percent of the FPL would be required to enroll in public programs, receive subsidized coverage through a new purchasing pool, or opt for job-based coverage. The minimum coverage required would be a health plan with a \$5,000 deductible and maximum out-of-pocket costs of \$7,500 for an individual and \$10,000 for a family. Details on enforcement of the mandate are unclear, although the proposal envisions using providers and the state's income tax system to ensure that all individuals meet the requirement.

- Expand the Medi-Cal and Healthy Families programs to cover all children with family incomes below 300 percent of the FPL, or \$49,800 for a family of three, regardless of immigration status.
- Expand Medi-Cal to cover citizen and legal immigrant adults without children with incomes below 100 percent of the FPL, or \$9,800 for an individual.
- Coordinate and purchase subsidized private health coverage for adults with incomes between 100 percent and 250 percent of the FPL through a state "purchasing pool." The pool would offer coverage with a comprehensive set of benefits, including prescription drugs, but would not include dental or vision benefits. Families and individuals with incomes between 100 percent and 150 percent of the FPL would pay premiums equivalent to 3 percent of their income; those with incomes between 151 percent and 200 percent of the FPL would pay 4 percent of their income; and those with incomes between 201 percent and 250 percent of the FPL would pay 6 percent of their income. These amounts appear to be in addition to any premiums families would owe for children enrolled in Healthy Families. In addition, the proposal does not specify how much individuals would be expected to pay in deductibles and other cost sharing. The Managed Risk Medical Insurance Board would administer the new pool.
- Move some Medi-Cal enrollees to Healthy Families or require them to receive coverage through the new purchasing pool. For example, children enrolled in Medi-Cal with incomes above 100 percent of the FPL would receive coverage through Healthy Families. Adults with incomes above 100 percent of the FPL who are currently covered by Medi-Cal would be required to instead purchase coverage through the new pool. The proposal also eliminates the Access for Infants and Mothers (AIM) Program, which provides temporary comprehensive coverage for pregnant women with incomes between 200 percent and 300 percent of the FPL. Pregnant women with incomes between 200 percent and 250 percent of the FPL could receive subsidized coverage through the purchasing pool, but pregnant women with incomes between 251 percent and 300 percent of the FPL would not be eligible for subsidized coverage under the Governor's plan. The proposal would also eliminate the Major Risk Medical Insurance Program, which provides coverage for individuals unable to obtain insurance in the individual market.
- Require counties to provide or coordinate coverage to uninsured undocumented immigrants. However, the Governor would reduce the funding counties currently receive for treating the indigent and uninsured by \$2 billion and "redirect" it to support other components of the proposal.
- Increase payments to Medi-Cal providers by \$4.0 billion, including \$2.2 billion in state funds and \$1.8 billion in federal funds.
- Require employers with 10 or more workers to pay a fee equivalent to 4 percent of payroll if they do not offer health coverage to their workers, which is estimated to raise \$1.0 billion. Nationally, employers paid an average of 7.6 percent of total payroll toward health care in 2006, according to the Employee Benefit Research Institute.
- Require employers to establish "Section 125" plans, which allow employees to use pre-tax dollars to purchase health coverage. The revenue impact of this proposal is not reflected in the Proposed Budget.
- Require hospitals to pay 4 percent, and physicians to pay 2 percent, of their gross revenues, which the Governor describes as a "coverage dividend" and expects to raise \$3.5 billion. The Administration estimates that, overall, these payments would be more than offset by new funds to providers from decreasing the number of uninsured and from increased Medi-Cal payments.
- Require health insurers to offer health coverage to individuals and families, regardless of pre-existing conditions or health usage, also known as "guaranteed issue." The Governor also proposes to limit the amount insurers

could charge based on age and health status and require that insurers spend at least 85 percent of premiums on patient care.

- Give a state income tax break for individuals with Health Savings Accounts (HSAs) tied to high-deductible health plans. The revenue impact of this proposal is not reflected in the Proposed Budget.
- Establish financial and other incentives to promote prevention and wellness, develop a program intended to prevent and better manage diabetes, reduce medical errors by requiring that prescriptions be submitted electronically by 2010, and launch a media campaign to encourage people to make “healthy choices.”

The Governor estimates the total cost of the changes to be \$12.1 billion. The Governor assumes \$5.5 billion in federal funding for his plan, though a portion of these funds are redirected and are not additional dollars. The state would need to obtain a waiver of federal Medicaid rules to receive some, but not all, of the new federal dollars.

Other Health Care

The Governor’s Proposed Budget:

- Assumes increased enrollment in Medi-Cal and Healthy Families by allowing families to self-certify their income as required by SB 437 (Chapter 328, Statutes of 2006). Enrollment in Healthy Families is estimated to increase by 13,237 and enrollment in Medi-Cal is estimated to increase by 16,472 as a result of the implementation of a pilot program in two counties beginning in July 2007.
- Assumes state savings of \$44 million due to higher reimbursements to the state for prescription drugs purchased for Medi-Cal recipients. The Governor proposes to base reimbursement calculations on a drug’s Average Manufacturer Price, rather than on the Average Wholesale Price, which is currently used.
- Reflects state savings of \$14.4 million from limiting the increase in payments for certain nursing homes. The Governor limits payment increases to 4.5 percent, compared to the 5.5 percent authorized by AB 1629 (Chapter 875, Statutes of 2004).
- Allocates \$8.8 million to implement the California Discount Prescription Drug Program, which would provide discounted drugs to individuals with family incomes below 300 percent of the FPL (\$49,800 for a family of three) and other individuals.
- Includes a decrease of \$10.1 million in state funds for the Licensing and Certification Program, which licenses health care facilities. The savings result, in part, from replacing state General Fund dollars for the program with licensing fee revenues. The Proposed Budget also includes \$7.2 million for increased reporting and follow-up investigations for serious medical errors at hospitals.
- Reflects savings of \$25 million for treatment services for substance abuse offenders. The Governor proposes to reduce Proposition 36 funding by \$60 million and increase funding for the Substance Abuse Offender Treatment Program (OTP) by \$35 million. Proposition 36 supports, and the OTP provides, services for the same population. However, changes to Proposition 36 have been suspended by court order, and the OTP “contains some of the Proposition 36 reforms sought by the Administration.”
- Eliminates the Integrated Services for Homeless Adults with Serious Mental Illness Program, which provides funding for local mental health agencies to serve homeless and other adults with a serious mental illness. The Governor claims similar services can be funded from revenues raised by Proposition 63.

CalWORKs

The Governor proposes significant changes to the California Work Opportunity and Responsibility to Kids (CalWORKs) Program, which provides cash assistance and services to low-income families with children. These changes are projected to reduce the number of families receiving CalWORKs cash assistance by more than 55,000 (11.8 percent) in 2007-08, for net savings of \$324.4 million. The Governor’s proposals depart from the state’s historic, bipartisan

approach to CalWORKs, which aimed to provide a strong work incentive for parents, while ensuring the well-being of children. Specifically, the Governor's Proposed 2007-08 Budget:

- Eliminates cash assistance for children if their parents do not comply with CalWORKs requirements within 90 days. Currently, when an adult fails to meet CalWORKs requirements, counties reduce the family's grant by the amount attributable to the adult, while cash aid is continued to the children. This policy is designed to provide a basic subsistence allowance to children, even if their parents have been sanctioned.
- Restricts "safety net" cash assistance for children after a parent has reached the state's 60-month time limit. Current state law limits adult recipients to 60 months of cash assistance, but children continue to receive cash aid as long as the family meets CalWORKs' eligibility guidelines, regardless of how many hours their parents work after "timing out." More than 100,000 children in more than 40,000 families received safety net benefits as of September 2006. The Governor proposes to provide safety net benefits to children only if their parents work sufficient hours to meet federal work participation requirements.
- Terminates cash assistance after 60 months for certain children whose parents or caretakers are ineligible for CalWORKs, including US citizen children of undocumented immigrants. These children are currently eligible for CalWORKs, but their parents cannot receive aid due to their immigration status.

In addition, the Governor's Proposed Budget:

- Suspends the CalWORKs cost of living adjustment (COLA) for a third consecutive year, for savings of \$140.3 million in 2007-08. The maximum grant of \$723 per month for a family of three in high-cost counties is worth less than two-thirds (62.6 percent) of the grant's value in 1989-90, due to prior COLA suspensions and grant cuts.
- Continues to withhold the October 2003 CalWORKs COLA, for savings of \$553 million in 2007-08. In 2004, a superior court judge ruled that the COLA denial violated state law and that the Administration must provide the COLA retroactively to October 1, 2003. However, the state appealed the ruling, staying the payments until the appeal is resolved. The Administration assumes it will win on appeal, thereby avoiding \$553 million in additional grant payments to CalWORKs families.
- Counts \$268.9 million in CalWORKs Stage 2 child care costs toward the Proposition 98 guarantee. This proposal would shift costs that have not historically been counted as Proposition 98 expenditures under the school funding guarantee. This shift, in essence, requires the Proposition 98 guarantee to cover a broader range of programs than it has previously.
- Reduces funding provided to counties for CalWORKs employment services, child care, and administration by \$16 million in 2007-08. The Administration suggests that counties can use "fraud recovery incentive funds" to backfill the reduction.
- Proposes to allow CalWORKs and food stamp recipients to submit paperwork required to renew their eligibility every six months, rather than the current three months, starting in 2008-09.

Other Human Services

The Governor's Proposed Budget:

- Freezes the dollar amount up to which the state will contribute toward In-Home Supportive Services (IHSS) workers' wages and benefits, for savings of \$14.1 million in 2007-08. Projected General Fund revenue growth for 2007-08 is above the 5 percent level needed to trigger a required increase from the current limit of \$11.10 per hour to \$12.10 per hour. The Governor's proposal would require counties and the federal government to pay for any wage and/or benefit increases provided to IHSS workers after January 10, 2007.
- Uses \$144 million in Public Transportation Account funds to pay for transportation services provided by Regional Centers, thus reducing General Fund spending by the same amount.

- Generates savings by replacing \$56.4 million in state Child Welfare Services funding with an equal amount of federal TANF block grant dollars.
- Assumes the state will not have to pay a federal penalty in 2007-08 associated with the delayed implementation of a statewide computer system to collect and distribute child support payments. The state has requested federal certification of the new system and will not be assessed a penalty during the review period. The state budgeted \$220 million for the penalty in 2006-07, most of which will be reimbursed after the system is certified. In addition, the Governor's Proposed Budget reduces funding for the Franchise Tax Board by \$139.8 million (\$44.1 million General Fund), primarily due to implementation of the new system.

K-12 Education

The Governor's Proposed Budget:

- Reflects a total 2007-08 Proposition 98 funding level of \$56.8 billion for K-14 education, a 3.3 percent increase over the 2006-07 level of \$55.0 billion. The state's share of 2007-08 Proposition 98 funding is budgeted at \$41.2 billion. The Proposed Budget translates into K-12 Proposition 98 per pupil spending of \$8,569 in 2007-08, up from \$8,293 in 2006-07, a 3.2 percent increase.
- Includes \$300 million in Proposition 98 "settle-up" funds attributable to the 2004-05 suspension of the Proposition 98 guarantee. Of this amount, \$268 million would fund approximately 450 to 500 low-performing schools to reduce class sizes, reduce the number of students per counselor, and provide professional development. Participating schools, in turn, would be required to show improved performance on standardized test scores after five years of receiving funds.
- Uses \$627 million in Public Transportation Account revenues to fund Home-to-School transportation, which has been historically funded by Proposition 98. In effect, this reduces the General Fund's obligation under the Proposition 98 guarantee by an identical amount.
- Reflects a reduction of \$283.6 million in general purpose funds for schools due to an estimated enrollment drop of 0.39 percent.
- Funds a 4.04 percent COLA (\$1.9 billion), including \$1.4 billion for revenue limits, \$62.1 million for child care programs, \$49.6 million for class size reduction, \$133 million for special education, and \$277.9 million for various categorical programs. Revenue limits provide general purpose funds for schools.
- Reduces the state's contribution to the California State Teachers' Retirement System for retiree purchasing power protection from 2.5 percent to 2.2 percent of teacher payroll, for savings of \$75 million, based on an actuarial study which found the benefit to be adequately funded.
- Allocates \$52 million to expand career technical education (CTE) courses offered at middle schools, high schools, and community colleges. Of this amount, \$32 million would support creating career exploration opportunities at middle schools, establishing career-themed high schools, creating career academies for young adults and high school dropouts, and streamlining the process to become a CTE teacher. The remaining \$20 million would support CTE programs at community colleges.
- Allocates \$100 million for school facility emergency repairs pursuant to the Williams v. California agreement, \$50 million to recruit and retain teachers and principals in high-priority schools, \$43.9 million for charter school facilities, \$25.7 million for CalWORKs child care, \$8.8 million for teacher induction programs, and \$5 million for instructional materials for pupils who have failed, or are at risk of failing, the California High School Exit Exam (CAHSEE). The Budget identifies these as one-time expenditures.
- Proposes a \$69 million short-term loan for the 2006-07 year to school districts in national forest areas in order to offset reduced federal funds.
- Includes \$10 million to establish the EnCorps Teachers Program, which would actively recruit retired professionals with expertise in math, science, and career technical education to become teachers.

Budget documents state the Governor's intention to seek legislation to simplify the teacher credentialing process and to work with the Legislature and the Superintendent of Public Instruction to redesign the School Accountability Report Cards in order to increase the accessibility of school performance and expenditure data.

Community Colleges

The Governor's Proposed Budget:

- Allocates \$8.6 billion for the California Community Colleges. The Proposed Budget includes \$109.1 million to support a 2 percent increase in enrollment and \$224.9 million to support a 4.04 percent COLA.
- Increases funding for categorical programs by \$19.6 million to reflect enrollment growth and a COLA.
- Redirects \$33.1 million from funds dedicated for student instruction to provide services including counseling, academic assessment, advice on course selection, and tutoring.
- Allocates \$9 million in one-time funds for start-up costs for five new nursing programs and \$9 million for services and incentives aimed at maintaining enrollment in nursing programs and expanding nursing prerequisite course offerings.
- Assumes no increases in student fees. The Proposed Budget allocates \$33.2 million to offset the 2006-07 revenue loss incurred by colleges due to a reduction in student fees from \$26 to \$20 per unit in the spring of 2007 and other workload adjustments.

University of California and California State University

The Governor's Proposed Budget:

- Allocates \$5.5 billion for the University of California (UC), an increase of \$345 million above the revised 2006-07 budget level, and \$4.4 billion for the California State University (CSU), an increase of \$270.6 million above the revised 2006-07 budget level. The new funding level supports a 2.5 percent increase for enrollment growth and a 4 percent increase for basic budget support consistent with the Higher Education Compact.
- Assumes a 7 percent increase in fees for UC undergraduate, graduate, and most professional students and a 10 percent fee increase for some business and law programs. The Governor's Proposed Budget also assumes a 10 percent fee increase for CSU undergraduate, graduate, and teacher credential candidates. Both the UC and CSU budgets earmark a portion of the higher fee revenues to support increased student financial aid.
- Eliminates funding for Student Academic Preparation and Education Programs, a reduction of \$19.3 million for the UC and \$7 million for the CSU.
- Eliminates funding for UC's Labor Institutes, a reduction of \$6 million.
- Allocates \$95 million to the UC for a new Strategic Research and Innovation Initiative, which includes funding for research projects in the areas of energy technology, biotechnology, and nanotechnology.
- Increases funding for the CSU by \$2 million to implement the next phase of the Science and Math Teacher Initiative created by the 2005 Budget Act.

California Student Aid Commission

The Governor's Proposed Budget:

- Increases funding for the Cal Grant Program by \$61.3 million over the revised 2006-07 budget level to reflect increased participation and proposed UC and CSU fee increases; and

- Increases funding for the Assumption Program of Loans for Education (APLE) by \$2.9 million over the revised 2006-07 budget level.

Governor's Strategic Growth Plan, Part Two

The Governor proposes a followup initiative to last year's "Strategic Growth Plan" (SGP). The new SGP includes \$44.7 billion for state infrastructure projects, funded primarily through General Obligation (GO) bonds (65.7 percent) and lease-revenue bonds (26.7 percent). The Governor proposes to allocate:

- \$11.6 billion for K-12 education (all GO bonds);
- \$11.5 billion for higher education (\$11.4 billion in GO bonds and \$70 million in lease-revenue bonds);
- \$10.9 billion for state and local correctional facilities (\$9.5 billion in lease-revenue bonds, \$300 million General Fund, and \$1.1 billion in local matching funds);
- \$6.0 billion for flood control, water supply, and conveyance (\$4.0 billion in GO bonds and, \$2.0 billion in revenue bonds);
- \$2.6 billion for various other projects, including seismic retrofit of state buildings, a new DNA laboratory, and replacement or renovation of 75 fire stations and related facilities (\$2.3 billion in lease-revenue bonds and \$300 million in GO bonds); and
- \$2.0 billion for court facilities (all GO bonds).

The new SGP also includes proposals to establish new public-private partnerships and issue contracts for design-build projects. Traditionally, the state has issued separate contracts for the design and construction phases of a project, rather than combining the two. Design-build proposals were rejected by the Legislature last year.

GO bonds must be approved by a two-thirds vote of the Legislature and a majority of the voters. The SGP would place the proposed GO bonds on the 2008 and 2010 ballots. Lease-revenue bonds require a majority vote of the Legislature but do not require voter approval. Revenue bonds are repaid with revenues produced by the projects. According to the LAO, after adjusting for inflation, each dollar borrowed will cost the state approximately \$1.30. Debt service on the \$29 billion in GO bonds proposed in the Governor's 2007 SGP would cost approximately \$1.9 billion per year over a 30-year period.

The Governor also announced his intention to require performance and outcome measures for bond spending, and indicated that the Department of Finance will launch a website providing access to bond spending information.

State Employees and State Operations

The Governor:

- Recently created a Public Employee Post-Employment Benefits Commission through an executive order. The commission is charged with submitting a plan to address rising pension and retiree health care obligations to the Legislature and Governor by January 1, 2008. The 12 commission members will be appointed by the Governor, Assembly Speaker, and Senate President pro Tempore.
- Anticipates \$447.4 million for employee compensation increases in current collective bargaining contracts and for managers and others who are excluded from collective bargaining. Of the 21 collective bargaining units, 20 have approved new contracts. The California Correctional Peace Officers Association represents the outstanding unit.
- Includes a \$100 million unallocated General Fund reduction across department budgets.
- States that a task force headed by the Department of Personnel Administration and the State Personnel Board will create a strategic plan to reform the civil service, including speeding up the hiring process, instituting regular

reviews of employee compensation, and reducing the number of job classifications in the civil service. The Administration will report the task force's findings to the Legislature in the spring of 2007.

- Includes \$35.7 million for several departments to begin the process of modernizing and standardizing the state's financial management systems.
- Proposes to eliminate four boards and commissions, but to create a new Professional Fiduciaries Bureau at a cost of \$1.1 million.

Transportation

The Governor's Proposed Budget:

- Allocates \$1.5 billion to fully fund Proposition 42 of 2002, which requires revenues from state sales taxes on gasoline to be transferred from the General Fund to transportation programs.
- Includes \$83 million for the minimum Proposition 42 debt repayment required by Proposition 1A of 2006.
- Proposes an implementation plan to allocate \$2.8 billion of bond funds in 2007-08 from Proposition 1B of 2006.
- Uses Public Transportation Account revenues to fund home-to-school transportation (\$627 million), Department of Developmental Services' Regional Center transportation services (\$144 million), and debt service on transportation-related GO bonds (\$340 million). The Legislature rejected a proposal by the Governor last year to direct so-called spillover revenues to bond debt service. The PTA allocation includes \$617 million in spillover revenues, which come from a portion of the sales tax on gasoline.
- Proposes to postpone the vote on the high-speed rail bond measure indefinitely. This measure is currently scheduled to appear on the 2008 ballot.
- Cautions that the Department of Motor Vehicles will need additional funding to implement the federal Real ID Act once federal regulations are issued. This act requires that all individuals who live or work in the US must have a federally-approved ID card in order to travel on an airplane, collect Social Security, or obtain any federal services, beginning in 2008. Currently, 24 million individuals hold driver licenses or ID cards in California; all of these individuals will have to go to the DMV in person to obtain new cards. The National Governors Association estimates that Real ID will cost an estimated \$11 billion over five years to implement in the US.

Housing

The Governor's Proposed Budget:

- States that the \$344.4 million in bond funds remaining from Proposition 46 of 2002 will be distributed in 2006-07 and 2007-08; and
- Allocates \$653 million in bond funds from Proposition 1C of 2006 in 2007-08, \$280 million of which requires legislative approval.

Local Government

The Governor proposes to significantly revise the mandate process to help reduce the backlog of mandate claims. Currently, the Commission on State Mandates determines whether local government activities are eligible for reimbursement under various state mandates after the local government submits a request for reimbursement. Under the Governor's proposal, the Department of Finance would work with local agencies up front to simplify both compliance with new laws and the reimbursement process. (Proposition 1A of 2004 requires the Legislature to either fund mandates each year or suspend them.)

Corrections and the Courts

The Governor's Proposed Budget:

- Allocates \$10 billion (\$9.7 billion General Fund) for the Department of Corrections and Rehabilitation, an increase of 2.6 percent over the revised 2006-07 budget level. The Governor also proposes to allocate \$10.9 billion to increase prison and jail capacity as part of his Strategic Growth Plan.
- Includes \$457,000 for a proposed California Sentencing Commission, which would review and make recommendations on sentencing guidelines.
- Assumes savings of \$56.7 million in 2007-08 by modifying adult parole policies to allow automatic discharge from parole if an individual has had a clean record for 12 months and by eliminating parole for low-level offenders upon release from prison, among other changes.
- Includes \$50 million in 2007-08 for local adult probation services. The funding will specifically target individuals between the ages of 18 and 25.
- Includes \$122.8 million in 2007-08 to implement the Comprehensive Sex Offender Management Plan, which includes implementation of Proposition 83 (Jessica's Law), which increased punishment and monitoring of sex offenders. The Budget also allocates \$53.8 million in 2007-08 to the Department of Mental Health to implement Proposition 83.
- Assumes savings of \$32.9 million by keeping female juvenile offenders and offenders with non-serious, non-violent offenses in local facilities, rather than housing them at Division of Juvenile Justice facilities. The state would pay local jurisdictions \$94,000 per year to house these juvenile offenders, but state savings would result since it is more expensive to house juveniles in state, rather than local, facilities.
- Allocates \$10.3 million in 2006-07 and \$13.2 million in 2007-08 to transfer 2,260 inmates to prisons in five other states to ease prison overcrowding.
- Includes \$1.7 million in 2007-08 to provide 4,350 beds to move non-violent female inmates to rehabilitation facilities in their local communities.
- Allocates \$278.9 million to comply with various court cases. This includes \$150 million for the state to respond to new health care costs that may be required by the court-appointed health care receiver.
- Increases funding for anti-recidivism programs, such as substance abuse and community re-entry services, and services for mentally ill parolees by \$41.1 million, for a total of \$93.9 million in 2007-08.
- Provides \$27.8 million in 2007-08 to add 100 new judgeships over two years.

Environmental Protection

The Governor's Proposed Budget:

- Allocates \$35.8 million to implement the California Global Warming Solutions Act. This includes \$3.5 million to require mandatory reporting of emissions and to develop emission reduction measures; \$1.8 million to develop a plan that will attain 1990 emission levels by 2020; \$12.0 million for alternative and market-based solutions, such as emissions trading; \$7.1 million to implement emission reduction through the use of energy efficiency standards and alternative fuels; \$7.4 million for economic analyses that lead to cost-effective solutions; and \$4.0 million to provide program oversight and coordination; and
- Includes \$6.0 million for the Air Resources Board to continue to develop the Hydrogen Highway. Budget documents state that priority will be given to stations that use renewable technologies, such as biomass, solar, and wind energy, to produce hydrogen.