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VIA ELECTRONIC MAIL

May 14, 2007

To: Chairs of the Board
CSAC Executive Committee
County Administrative Officers

From: Steve Keil, CSAC Interim Executive Director and Legislative Coordinator
Jean Kinney Hurst, CSAC Legislative Representative

Re: 2007-08 May Revision to the Governor's Budget

Governor Schwarzenegger released his May Revision this afternoon with a continued focus on restrained spending and pre-paying debt. The May Revision outlines few new proposals, but those that are new are controversial, including proposals to sell or lease state-owned assets. The release of the May Revision marks the beginning of the real work on the state's budget; CSAC will begin its regular updates on budget activities in the coming weeks.

Unless otherwise noted, the Governor's January budget proposals remain a component of the 2007-08 proposed state budget currently under consideration by the Legislature. For a recap of the Governor's January proposed budget, please review CSAC's summary, available on our website [here](#).

A copy of the May Revision can be found online at the Department of Finance's website:
<http://www.ebudget.ca.gov/Revision/BudgetSummary/BSS/BSS.html>.

Budget Aggregates

2007-08 General Fund Budget Summary (\$ in millions)

	January Budget	May Revision	% Difference
Carry-Over Fund Balance	\$3,198	\$3,961	23.9%
Revenues and Transfers	\$101,278	\$101,253	0.0%
TOTAL REVENUES	\$104,476	\$105,214	0.7%
TOTAL EXPENDITURES	\$103,141	\$103,765	0.6%
Fund Balance	\$1,335	\$1,449	8.5%
Liquidation of Encumbrances	\$745	\$745	0.0%
Special Fund for Economic Uncertainties	\$590	\$704	19.3%
Budget Stabilization Account	\$1,495	\$1,495	0.0%
Total Available Reserve	\$2,085	\$2,199	5.5%

2007-08 General Fund Expenditure Estimates by Category
(\$ in millions)

Expenditure Category	January Budget	May Revision	% Difference
K-12 & Higher Education	\$52,614	\$53,361	1.4%
Health & Human Services	29,875	29,907	0.0%
Corrections and Rehabilitation	10,043	9,969	-0.7%
Other	10,609	10,528	-0.8%
TOTAL	\$103,141	\$103,765	0.6%

2007-08 General Fund Revenue Estimates by Category
(\$ in millions)

Revenue Category	January Budget	May Revision	% Difference
Personal Income Tax	\$55,598	\$55,236	-0.7%
Sales Tax	29,347	28,841	-1.7%
Bank and Corporation Tax	10,816	11,053	2.2%
Other	5,517	6,123	11.0%
TOTAL	\$101,278	\$101,253	0.0%

Major General Fund Changes
(\$ in millions)

	Total Reserve
Total June 30, 2008 Reserve Projected as of January 10	\$2,085
(Includes \$1.495 billion in Budget Stabilization Account)	
Baseline Adjustments Since Governor's Budget	-\$1,916
Proposals to Close Budget Gap	
Sell EdFund	\$980
Transfer Tobacco Securitization Reserve to General Fund Reserve	600
Use Additional Spillover to Pay for Home-to-School Transportation in 2006-07	200
Suspend SSI/SSP COLA	185
Eliminate Williamson Act Subsidy	40
Probation Subsidy	25
Total, Proposals to Close Budget Gap	\$2,030
Total Reserve at May Revision	\$2,199

Statewide Issues

GENERATING REVENUE FROM PUBLICLY OWNED ASSETS

EdFund. Stating that it should be managed by the public sector, the Governor has recommended the privatization of EdFund, the state-established non-profit that has guaranteed student loans since 1997. They expect the sale to garner nearly \$1 billion and to displace around 55 state employees.

The Governor and his staff reference a recent analysis showing that EdFund could increase efficiency and diversify into related businesses if sold into private hands, without removing students' loan protections. They also make the point that guaranteeing student loans is not a core mission of government, evinced by the program's 1997 spin off to quasi-governmental status that resulted in the entity as it exists today.

EdFund is currently the second largest guarantor of student loans in the nation and maintains a loan portfolio of over \$27 billion, more than half of which is for students in other states.

California Lottery. The Governor also outlined the possible long-term concessionary lease of lottery operations, as widely reported over the last few days. His reasoning is that the lottery is underperforming

by about half, as measured by per capita sales, compared with the average rake of the other 40 states with lotteries. The Administration seems hesitant to put a specific number on this proposal, but press reports have pegged a 30- or 40-year lease at around \$37 billion and all agree it would be many billions of dollars.

Increasing the lottery's efficiency would increase revenues without relinquishing ownership, and Schwarzenegger and his staff have made sure to emphasize that schools' share of lottery sales would be protected under any arrangement and could well increase due to higher performance. They have also been sure to point out that the 2007-08 proposed budget does not count on any money from this action. Department of Finance Director Mike Genest stated that the earliest the state could see money from such a deal would be sometime in 2008. Complicating this scenario are the approximately 1,000 SEIU employees currently working for the state lottery.

Aside from guaranteeing schools' share of the funds, the Governor said that his first priority for the money, were the Legislature to affirm the proposal, is to pay down state debt. This would free up money over many out-year budgets, thus essentially turning one-time funds into on-going revenue.

Administration of Justice

Adult Corrections Reform. The Governor's May Revision proposes various funding elements to support the implementation of AB 900 (Solorio), the adult corrections reform proposal signed by Governor Schwarzenegger on May 3. While the May Revision does not contain funding for all aspects of AB 900, the Governor recently announced the creation of two [strike teams](#) that, in part, are charged with making certain recommendations regarding AB 900 implementation and related fiscal implementations. AB 900 items funded in the May Revision include:

- **Out-of-state transfers:** To permit the transfer of up to 5,060 inmates to correctional facilities located in other states, the May Revision contains a proposed augmentation of \$9.6 million in 2007-2008 and \$27.8 million in 2008-2009.
- **State and local infrastructure program support:** To administer the state and local construction programs established in AB 900, the May Revision dedicates (1) \$2 million to the Corrections Standards Authority for the jail bed construction program and (2) \$581,000 to the California Department of Corrections and Rehabilitation's (CDCR) Office of Facilities Management to provide staffing needs to support prison construction projects.
- **California Rehabilitation Oversight Board:** To support the activities of the board — created by AB 900 to examine various mental health, substance abuse, educational, and employment programs for inmates and parolees — \$810,000 to the Office of the Inspector General, who is designated as the board chair.

It should also be noted that the May Revision reverts proposed funding to support a Sentencing Commission.

Local Assistance Programs. The Governor's May Revision proposes \$16.9 million to fully reimburse local entities for costs of prosecuting inmate crimes, housing state inmates and other services provided to state inmates at the county level. Included in this funding are a one-time appropriation of \$7.8 million to pay for outstanding current-year claims, \$1.5 million to provide an adequate funding base for projected claims in 2007–08, and an additional \$1.5 million for routine inmate medical care. Further, the May Revision contains a \$5.60 increase to the daily jail rate, bringing the rate from \$71.57 to \$77.17. The May Revision also proposes to make statutory changes that would permit the state to reject local assistance claims that are not submitted in a timely fashion.

Juvenile Justice Realignment. The May Revision slightly amends the Governor's January budget proposal to transfer to counties control and supervision of certain juvenile offenders. The proposal — which would stop intake into the state Division of Juvenile Justice of certain non-violent male offenders and all female offenders on July 1, 2007 — has been adjusted slightly to account for lower-than-expected juvenile institutional and parolee populations in 2007–08.

California Adult Probation Accountability and Rehabilitation Act. The May Revision proposes to fund the California Adult Probation Accountability and Rehabilitation Act (CAPARA) at \$25 million, down from \$50 million proposed in the January budget. This new initiative would provide support to all local probation departments to expand adult probation services, with targeted program and supervision of adult probationers aged 18 to 25.

Court Security. The Governor's May Revision contains an augmentation of \$36.6 million to fund court security needs, pursuant to recommendations of the Court Security Working Group. Further, the May Revision proposes a separate court security line item in the budget and to adopt certain cost containment policies adopted jointly by the Administrative Office of the Courts and the California State Sheriffs' Association.

Local Public Safety Assistance Programs. The Governor's May Revision maintains an overall commitment to supporting existing public safety assistance programs at current-year levels, including the following:

- Citizens' Option for Public Safety (COPS) – \$119 million
- Juvenile Justice Crime Prevention Act (JJCPA) – \$119 million
- Juvenile Probation Camp Funding – \$204 million
- Rural and Small County Sheriffs' Program – \$18.5 million
- Mentally Ill Crime Reduction Grants – \$50 million
- Local Detention Facility Funding (new booking fee paradigm) – \$35 million
- Methamphetamine Abatement Efforts – \$29.5 million
- Standards for Training and Corrections – \$19.5 million

Gang Initiative. Contained in the Governor's May Revision are a number of initiatives to address gang suppression. These activities, and related funding proposals, include:

- **Office of Emergency Services**
 - \$4.9 million in federal funds to establish four new federal anti-gang grants targeting six cities.
 - \$446,000 augmentation to establish a State Anti-Gang Coordinator responsible for overseeing the range of state programs and activities related to anti-gang efforts.
- **Department of Corrections and Rehabilitation**
 - \$8.5 million increase to address in-prison gang problem through an intelligence gathering and analysis. This augmentation will fund a Criminal Intelligence Analysis Unit (CIAU) and, supported by a \$5.5 million grant from the state Office of Homeland Security, a Threat Assessment Center to coordinate, track, and analyze criminal gang intelligence.
 - \$3.3 million to establish three pilot task forces for Los Angeles, the Bay Area, and the Inland Empire to thwart gang activities. Special agents of these task forces will coordinate with local law enforcement agencies and will make use of intelligence gathered by the CIAU.
 - \$820,000 in additional funding for Project IMPACT (Incarcerated Men Putting Away Childish Things) intended to help younger gang members escape the cycle of crime and incarceration associated with gang membership. The funding would allow implementation of the program in more state juvenile detention facilities and help establish two 10-bed transitional homes in the north and south parts of the state.

Court Collections. As described above, the Governor's May Revision contemplates a multi-pronged gang abatement effort. To fund this initiative, the May Revision proposes to increase from 20 to 40 percent the existing state surcharge used to calculate the state penalty assessment. Further, the Governor proposes to realign responsibility for court collections from the counties to the court, for purposes of consistencies and efficiencies. Based on preliminary discussions with AOC staff, the

implementation of the latter proposal regarding the collections responsibility would take into consideration county concerns. Additional details will be sought on this proposal.

Proposition 69. The Governor's May Revision increases Department of Justice funding by \$11.2 million to finance state responsibilities associated with Proposition 69 — the DNA Fingerprint, Unsolved Crime and Innocence Protection Act passed by the voters in November 2004. The budget increase reflects lower-than-anticipated revenues generated by the penalty assessments authorized to help the state fund its DNA collection and analysis pursuant to the initiative. Counties should recall that the unmet revenue projections associated with the initiative led to an [audit request](#) of court and county collection and revenue transfer practices.

State Recruitment for Health, Dental, and Mental Health Professionals. The Governor's May Revision proposes to invest \$1 million to contract with a recruiter to assist in locating and hiring professionals needed in the health care delivery system in the state Departments of Mental Health, Developmental Services, Veteran's Affairs, and Corrections and Rehabilitation. The state would consolidate recruiting and hiring efforts for the most critical classifications and would implement a streamlined examination and hiring process.

Agriculture and Natural Resources

Williamson Act. In his May Revision, the Governor proposes to permanently eliminate all funding, amounting to approximately \$39.1 million, for subventions to counties for property tax losses incurred by enrolling agricultural land in Williamson Act contracts. The Administration claims that due to the state's fiscal condition, they cannot continue to provide funding for this program. Various efforts are already underway to mobilize as much opposition to this proposal as possible.

Elections

Intent to Reimburse for February Presidential Primary. In his May Revision, the Governor stated his intent to reimburse counties for costs associated with the new February Presidential Primary. However, since counties will not know their costs and make their claims until mid-May of 2008, he intends to put those costs in the 2008-09 budget. The Secretary of State is slated to receive \$11.7 million to conduct that election, including funds for ballot printing, registration, reporting results, and other related costs.

Government Finance and Operations

Public Employee Post-Employment Benefit Commission. In January, the Governor created a twelve member Public Employee Post-Employment Benefit Commission (often referred to as the OPEB Commission) consisting of twelve members, six appointed by him including the chair, and three each appointed by the Speaker of the Assembly and the President Pro Tem of the Senate, with staff assistance provided by the Department of Finance (DOF). The Commission is to report to the Legislature by January 1, 2008 regarding: the amount of retiree health and dental benefits to which state and local governments are obligated and the liability that remains unfunded; their evaluation and comparison of various approaches for addressing governments' unfunded OPEB liabilities; and their proposal for a plan to address unfunded OPEB obligations.

OPEB, for purposes of the jurisdiction of the Commission, refers to benefits provided retired former employees of the state, local governments, and schools. As result of Standards 43 and 45 adopted by the Governmental Accounting Standards Board (GASB), governmental agencies will report annual cost and unfunded liabilities for future OPEB obligations beginning next fiscal year. A recent actuarial report released by the State Controller estimated the state-only OPEB unfunded liability to be \$48.8 million.

In his public presentation of his May Revision, the Governor stated he would await recommendations from the Commission prior to making any additional funding proposals regarding the state unfunded liabilities for OPEB. The May Revision does, however, provide additional funding to assist the activities of

the Commission. It would enhance the DOF budget by \$654,000 for additional support to the Commission, including contracts with an economist, health care experts, actuaries, and other staff and operating resources. Additional state general fund money will be spent from other budgets to cover Commission costs associated economic and actuarial modeling, and additional state staff resources will be donated as necessary.

Health and Human Services

HUMAN SERVICES

Cost of Doing Business for County Human Services Programs. The May Revision proposes a new methodology for adjusting county costs for administering human services programs. Please recall that a 2006-07 budget trailer bill (AB 1808) required the state to estimate the costs for county administration of human services programs as part of the May Revision. The Administration is proposing that, subject to appropriation, in 2008-09 and beyond the budget will include a cost of doing business adjustment for the following programs: CalWORKs, Food Stamps, Child Welfare Services, Foster Care, Adoptions, In-Home Supportive Services (IHSS), and Adult Protective Services. This annual adjustment would be tied to the salary and benefit increases provided to state employees (State Bargaining Unit 1). In addition, the Administration is proposing to build additional performance measures into the proposal. At this point, the county cost of doing business allocation is not tied to performance measures; however, it is not clear how performance will affect administrative funding generally in future years. Additionally, the Administration proposes to establish a county share in federal Child Welfare Services penalties and to establish performance and accountability measures for the IHSS program (potentially similar to the Medi-Cal eligibility performance measures).

The Governor's budget documents claim that "these reforms will provide a stable funding base for county administration and services that will grow commensurate with personnel costs, as well as introduce fiscal incentives to meet program goals and ensure the efficient use of state funds." The proposal does not address the \$800 million hole created by seven years of flat funding.

The May Revision displays the results of the county survey, indicating an \$835.8 million (\$459.7 million General Fund) gap in funding. However, the gap includes basic costs only and so does not include the underfunding of individual premise items, which continue to be funded at 2001 costs. The gap includes the following amounts by program:

- CalWORKs Eligibility – \$228.3 million (\$228.3 million General Fund)
- CalWORKs Employment Services – -\$28.8 million (-\$28.8 million General Fund)
- Food Stamps Administration – \$37.1 million (\$33.9 million General Fund)
- Foster Care Eligibility – \$31.9 million (\$12.7 million General Fund)
- In-Home Supportive Services Administration – \$64.3 million (\$22.9 million General Fund)
- Child Welfare Services Basic – \$502.9 million (\$190.8 million General Fund)

CalWORKs. The May Revision continues to reflect the January CalWORKs reform proposals. May Revision documents indicate that the reforms are projected to improve the state's work participation rate by more than 6 percent in 2007-08 and over 11 percent annually in out years.

Child Welfare. The May Revision includes \$4 billion to provide assistance payments and services to various enrollees of Child Welfare Services, Child Abuse Prevention, Foster Care, Adoption Assistance, and Adoptions. This reflects a \$16.5 million increase from the Governor's January Budget.

The May Revision also includes a proposal to establish statewide consistency and avoid double payments in rates to children who receive adoption or foster care payments from both the Department of Social Services and the Department of Developmental Services. The Administration proposes to establish a standard monthly rate of \$2,006 for adoption and foster care payments, effective July 1, 2007. Families who currently receive the higher rate will continue to do so. The May Revision anticipates a savings of \$7.1 million General Fund in 2007-08 as a result of these standardized rates.

Also, on another note, the Department of Social Services (DSS) released their "Child Welfare Services Budget Methodology Report" today. The report – part of a 2006-07 budget trailer bill, AB 1808 (Chapter 75, Statutes of 2006) – required the DSS to create a proposed methodology for budgeting funds for the Child Welfare Services Program. However, the report fails to outline a methodology and instead concludes that DSS must work with stakeholders such as the County Welfare Directors Association (CWDA) to develop such a plan.

The report is not responsive to the charge set forth in AB 1808, which required the development of a proposed budgeting methodology for CWS, nor does it reflect the caseload standards set forth in SB 2030 or those recommended by the Child Welfare League of America (CWLA) and the Council of Accreditation (COA). As the Center for Public Policy Research at UC Davis notes in a report commissioned by the California Department of Social Services, "Do caseloads matter? The answer to this question is clearly yes, as indicated by a host of research studies and the deliberations of the CWLA and COA. ... If California could move toward the 2030 caseload standards or the CWLA caseload standards while keeping its eye on demographic trends and child outcomes ... California could lead the nation in both methods and results."

Transitional Housing Program Plus (THP-Plus). The May Revision budget holds funding flat in 2007-08 for THP-Plus at \$15.5 million. This is the amount provided in the 2006-07 budget. Please recall that this program provides housing supports to youth emancipating from foster care. Counties believe that the operational costs of this program in the budget year are approximately \$35 million. The lack of an increase in THP funding will inhibit the participation of additional counties in the program and cripples those counties who currently participate.

Supplemental Security Income/State Supplementary Payment Program (SSI/SSP). The May Revision proposes to suspend the January 2008 state COLA in this program for a savings of \$185 million in 2007-08 and an ongoing savings of \$369.5 million in future years.

In-Home Supportive Services (IHSS). The May Revision retains the January proposal to limit state participation in the cost of IHSS wages and health benefits to the level in effect in the current year. May adjustments include:

- An increase of \$8.2 million in 2006-07 and \$35.7 million in 2007-08 to funds IHSS provider wages and/or health benefit increases provided in 19 counties since January. These numbers are partially offset by lower-than-projected caseload growth.
- An increase of \$33.2 million in 2006-07 and \$48.5 million in 2007-08 to reflect a lower level of savings resulting from the IHSS Quality Assurance program. Less savings are assumed based on actual implementation data.

MENTAL HEALTH

Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT). The May Revision includes a number of adjustments to the EPSDT program, including an increase of \$67.4 million (\$32.1 million General Fund) in 2007-08. The Administration has not altered its request for deficiency funding in the current year to pay back county Mental Health Plans. The May Revision partially responds to some issues regarding state oversight and administration of EPSDT. Included are the following adjustments:

- A decrease of \$24.3 million (\$12.2 million General Fund) due to lower-than-projected EPSDT claims.
- An increase of \$61.6 million (\$30.8 million General Fund) to remove the cost settlement adjustment factor in the EPSDT methodology. The Department of Mental Health (DMH) uses a "cost settlement" process as part of its EPSDT claims reimbursement (i.e., billing and reconciliation). The cost settlement is completed prior to the end of the third year, after the close of that fiscal year. This means that the 2003-04 fiscal year is "cost settled" at the time of the May Revision for 2006-07, and the 2004-05 fiscal year will be "cost settled" at the time of the May Revision for 2007-08 (i.e., May

2007 date). In essence, it is how DMH closes their books for the EPSDT Program for that fiscal year. This was one issue identified as problematic in a review of the EPSDT estimation methodology.

- An increase of \$39.9 million (\$17.2 million General Fund) for the 2004-05 cost settlement.
- The Office of State Audits and Evaluations will conduct a review of EPSDT local assistance programs and an internal control review of DMH's accounting and administrative controls. The reviews are expected to be completed by September 2007 and January 2008, respectively, with a DMH action plan issued in March 2008.

ALCOHOL AND DRUG PROGRAMS

Proposition 36. The May Revision proposes to provide \$60 million in funding for Proposition 36 and \$60 million in funding for the Offender Treatment Program, which was created in 2006-07. The Administration decided to split funding between the two programs due to recent legislation regarding prison rehabilitative programs. The January Budget indicated that the Governor was interested in moving all \$120 million into the Offender Treatment Program (leaving Proposition 36 without funding).

Drug Medi-Cal. The May Revision provides a total of \$7.4 million General Fund for provider rate increases for regular Drug Medi-Cal and \$603,000 General Fund for provider rate increase for Perinatal Drug Medi-Cal.

MEDI-CAL AND HEALTHY FAMILIES

The Governor's May Revision to the 2007-08 budget reflects a decrease of \$85.8 million from his January Budget proposal, creating total Medi-Cal expenditures of \$35.4 billion. The narrative explains that the decrease in funding is due to a smaller-than-anticipated caseload. The May Revision also makes several changes to key programs within the Medi-Cal system, including:

- **New Rates for Medi-Cal Managed Health Care Plans.** The May Revision proposes that the Department of Health Services implement a new rate-setting methodology for Medi-Cal managed health care plans and includes \$214.3 million in 2007-08 to provide rate adjustments. In the Budget Year (2007-08), the May Revision includes a \$107.1 million increase for implementation of new rates for all Medi-Cal managed care plans. This increase is based on the plan-specific, experience-based rate methodology developed as a result of a recent study.

The rate adjustments will be implemented at the beginning of each plan's new rate year, and provides for a transition period for plans that otherwise will receive a rate reduction under the new methodology.

- **Deficit Reduction Act Citizenship Requirements.** The May Revision also includes \$50.362 million total funds (\$25.1 million General Fund) for one-time and ongoing costs for implementation of federal Deficit Reduction Act (DRA) citizenship verification requirements. Half of that new funding is assumed to be one time in the budget year, and half is assumed to be ongoing. The May Revision document indicates that these funds would be earmarked for county and "other administrative costs" as a result of an update of base costs.
- **State Plan Amendment.** The state will also provide \$30.5 million from the General Fund in the current year due to the continued delay of federal approval of the State Plan Amendment (SPA), which would allow the separation of physician and non-physician costs from certified eligible expenditures under the Hospital Financing Waiver. Approval of the SPA waiver was expected in 2006.

Healthy Families Program. The federal government notified the state that the Healthy Families Program (HFP) to Medi-Cal Bridge will no longer qualify for federal financial participation. The Bridge change is due to California's HFP parental coverage waiver expiring. The May Revision proposes to convert the Bridge Program to a Medi-Cal presumptive eligibility program starting on July 1, 2007. The Bridge

provided children with two months of HFP when a family's income falls below HFP eligibility. Approximately 2,000 new children per month receive coverage through the Bridge.

HEALTH PROFESSIONALS

State Recruitment for Health, Dental, and Mental Health Professionals. The Governor's May Revision proposes to invest \$1 million to contract with a recruiter to assist in locating and hiring professionals needed in the health care delivery system in the state Departments of Mental Health, Developmental Services, Veteran's Affairs, and Corrections and Rehabilitation. The state would consolidate recruiting and hiring efforts for the most critical classifications and would implement a streamlined examination and hiring process. The May Revision also includes \$1.6 million for salary increases for certain job classifications.

Housing, Land Use, and Transportation

Proposition 1B. The Governor's January budget proposed \$7.685 billion in appropriations over the next three fiscal years from the \$19.9 billion transportation bond approved by the voters in November 2006. The Governor's May Revision proposes to increase that by \$3.8 billion. The chart below provides the details of the Governor's multi-year appropriation proposal.

The most significant appropriation level increases are reflected in an additional \$1.297 billion for Corridor Mobility Projects and \$777 million for the STIP. Further, three additional accounts are proposed to receive appropriations in the May Revision including, \$111 million for Air Quality, \$402 million for Port, Harbor, and Ferry Terminal Safety, and \$392 million for Intercity Rail.

Appropriation levels were unchanged for the \$2 billion for Local Streets and Roads from Proposition 1B for cities and counties, thus they remain as reported in January as follows:

- \$600 million for 2007-08
- \$300 million for 2008-09, and
- \$150 million each year thereafter until the full \$2 billion is appropriated.

These funds would be allocated 50 percent to cities and 50 percent to counties.

SB 286 by Senators Lowenthal and Dutton is the CSAC- and League-sponsored bill to provide accountability for the local streets and roads portion of the bond funds. The bill would require a city or county to submit a list of projects expected to be funded with bond funds to the Department of Finance. These projects must be consistent with Proposition 1B provisions as passed by the voters and must also be included in a city or county budget adopted at a public meeting. SB 286 includes further accountability provisions requiring cities and counties to report additional project information to the Department of Finance regarding expenditure of these funds. Cities and counties are also subject to audit by the State Controller's Office to ensure expenditure of these funds is in compliance with statute. This bill was recently amended to require cities and counties to expend funds within three years of allocation or return them to the State Controller for reallocation to other cities and counties.

Planned Proposition 1B Implementation
(\$ in millions)

	Budget Bill Appropriations			Proposed Total 3-year Appropriations		
	2007-08	2008-09	2009-10	Proposed 3-year Appropriation: May Revision	Proposed 3-year Appropriation: January Budget	Difference
Corridor Mobility	\$610	\$1,577	\$1,229	\$3,416	\$2,119	\$1,297
Transit	\$600	\$350	\$350	\$1,300	\$1,300	\$0
State Transportation Improvement Program	\$739	\$799	\$274	\$1,812	\$1,035	\$777
Local Streets & Roads	\$600	\$300	\$150	\$1,050	\$1,050	\$0
Trade Infrastructure	\$202	\$302	\$302	\$806	\$680	\$126
State Highway Operation & Protection Program	\$405	\$267	\$24	\$696	\$518	\$178
State/Local Partnership	\$202	\$197	\$200	\$599	\$502	\$97
Grade Separations	\$123	\$123		\$246	\$174	\$72
Highway 99	\$16	\$109	\$302	\$427	\$171	\$256
School Bus Retrofit	\$97	\$97		\$194	\$97	\$97
Local Seismic	\$14	\$11	\$11	\$36	\$39	-\$3
Air Quality Improvement	\$111			\$111		\$111
Port, Harbor, and Ferry Terminal Safety	\$178	\$123	\$101	\$402		\$402
Intercity Rail	\$190	\$74	\$128	\$392		\$392
Total Appropriations	\$4,087	\$4,329	\$3,071	\$11,487	\$7,685	\$3,802

Proposition 42. The May Revision contains no changes to the Proposition 42 allocations reported in January, which total \$1.558 billion and are as follows:

- \$684 million to the Traffic Congestion Relief Projects (TCRP),
- \$699 million to the State Transportation Improvement Program (STIP), and
- \$175 million to the Public Transportation Account (PTA).

Pursuant to current law, cities and counties do not receive any local streets and roads funds from Proposition 42 next fiscal year due to an obligation to pay back the STIP for funds received in earlier years. Cities and counties will begin receiving their Proposition 42 allocations again in 2008-09.

Public Transit Account – Spillover. Higher gas prices continue to result in significant increases in revenues from the sales tax on gasoline. Proportionately higher revenue derived from the sales tax on gasoline compared to revenue derived from all taxable sales is referred to as “spillover.” Under current law, the spillover revenues are required to go into the Public Transportation Account to fund transit projects statewide. The Governor’s January budget proposed to reallocate spillover revenues (estimated to be \$617 million in 2007-08) in the following manner: Home-to-School Transportation (\$627 million); Developmental Services-Regional Center Transportation (\$144 million); and Transportation General Obligation Bond debt service (\$340 million).

The May Revision estimates an increase in \$210 million in spillover revenues and continues to divert these from transit to the other programs identified above. According to the California Transit Association, this brings the total diversion of public transit dollars in the May Revision to \$1.311 billion, including \$817 million from spillover and \$494 million from the Public Transportation Account.

Tribal Gaming Revenues. The Governor's May Revision includes an adjusted General Fund revenue projection of \$313.5 million from potential gaming revenue dependent upon the ratification of five Tribal-State Gaming Compacts pending in the Legislature. The January Budget assumed \$506 million in revenue from the pending compacts.

California Gambling Control Commission. The May Revision includes funding for 14 new staff positions for the Gambling Control Commission to establish and support an audit and compliance unit which would review and enforce the minimum internal control standards adopted in each Tribe's respective Tribal-State Gaming Compact.

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Revised State Budget Proposal Has Mixed Impact
on California Counties

SACRAMENTO – Following the release today of Governor Schwarzenegger's revised 2007-08 state budget, California's counties expressed their appreciation for the Governor's continued commitment to address the needs of local government, but also voiced concerns about proposed cuts and cost shifts to counties.

"California counties understand the fiscal constraints the state is facing and difficult decisions that had to be made in this budget revision," stated CSAC President and Madera County Supervisor Frank Bigelow. "We appreciate the creative thinking that averts some of the potentially painful cuts to critical programs and services provided by counties. At the same time, we are prepared to work with the Governor's Administration and the Legislature to ensure the budget's impacts to California counties – and the 36 million residents we serve – are minimal."

California's counties are pleased to see that the Governor continues to support improving California's infrastructure, with the additional investment of \$3 billion in transportation and air quality bonds, as well as the additional resources to carry out significant infrastructure and rehabilitation investments in our state and local corrections systems.

"Balancing the budget while providing stability for the state is a task the Governor has not taken lightly," said CSAC Immediate Past President and Tulare County Supervisor Connie Conway. "This budget revise makes a strong statement about the economic realities that we all face. Our job now is to work with the Administration and the Legislature to refine this process in a way that allows local government to function effectively in its service to all Californians."

However, the budget also includes some proposals that remain areas of concern for counties, including the CalWORKs budget proposals, funding for county mental health, the diversion of transit funds, as well as the proposed elimination of \$39.1 million in Williamson Act subsidies to local government.

"We applaud the Governor's efforts to reduce the state's deficit and bring the state closer to a truly balanced budget," said Bigelow. "These efforts must not, however, be made at the expense of painful reductions to California's services to its most vulnerable citizens, or at the cost of Williamson Act funds that we need to maintain our agriculture and open space preserve programs."

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