



California Budget
& Policy Center

Independent Analysis. Shared Prosperity.

California's Future: Budget Priorities & Policies that Reduce Inequality & Lead to Family Success

CHRIS HOENE, EXECUTIVE DIRECTOR
CALIFORNIA BUDGET & POLICY CENTER
APRIL 2015

calbudgetcenter.org

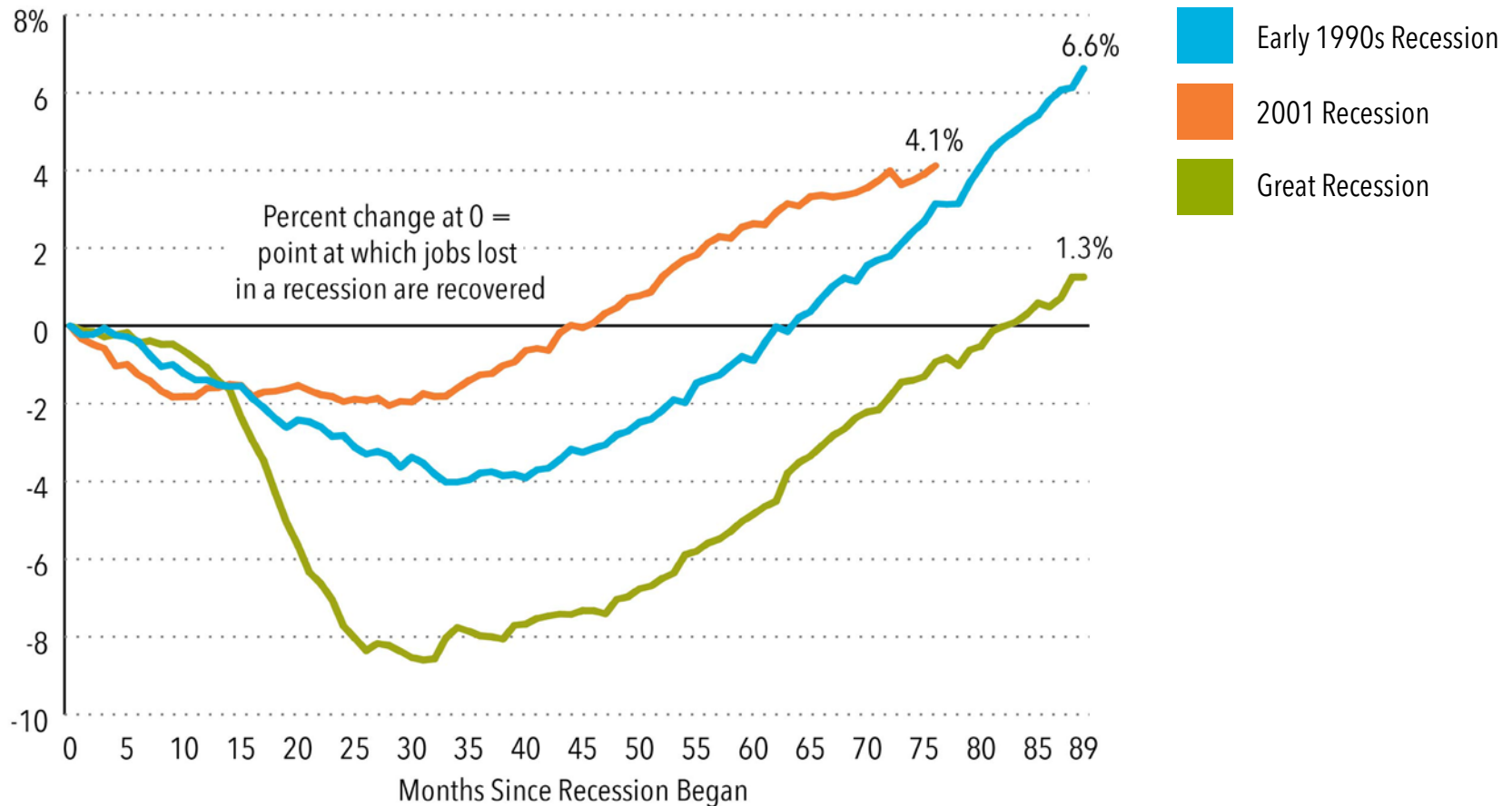
The Social and Economic Context of the State Budget

Despite five years of sustained economic growth the recovery remains uneven and elusive for many Californians.



It Took Much Longer to Regain the Number of Jobs Lost in the Great Recession, Compared to Other Downturns

Percent Change in Total Nonfarm Jobs in California Since Each Recession Began



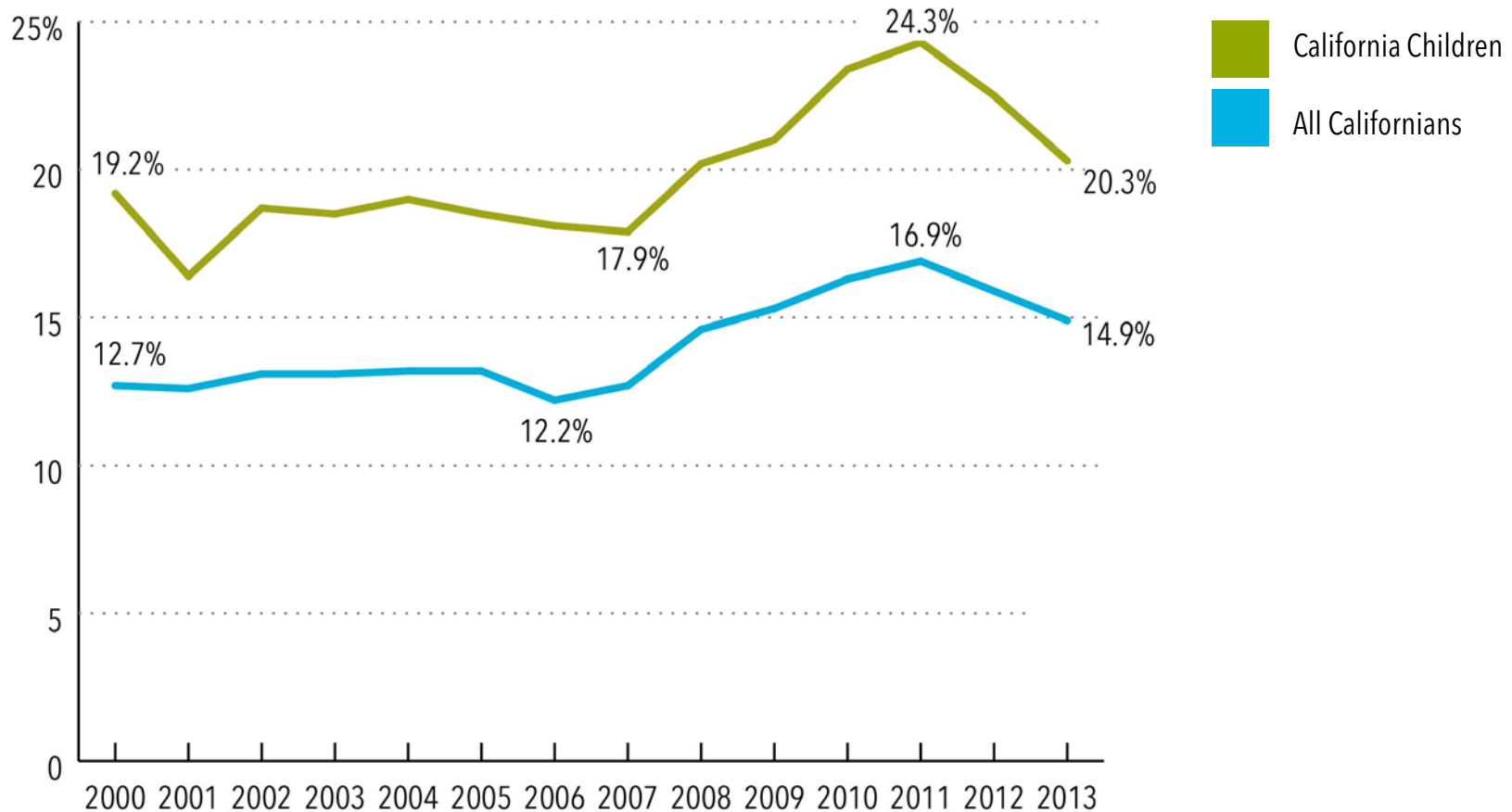
Note: The 2001 recession includes data up to July 2007, the month the Great Recession began in California.

Source: US Bureau of Labor Statistics



One in Seven Californians and One in Five California Children Lived in Poverty in 2013

Percentage of Californians With Incomes Below the Federal Poverty Line



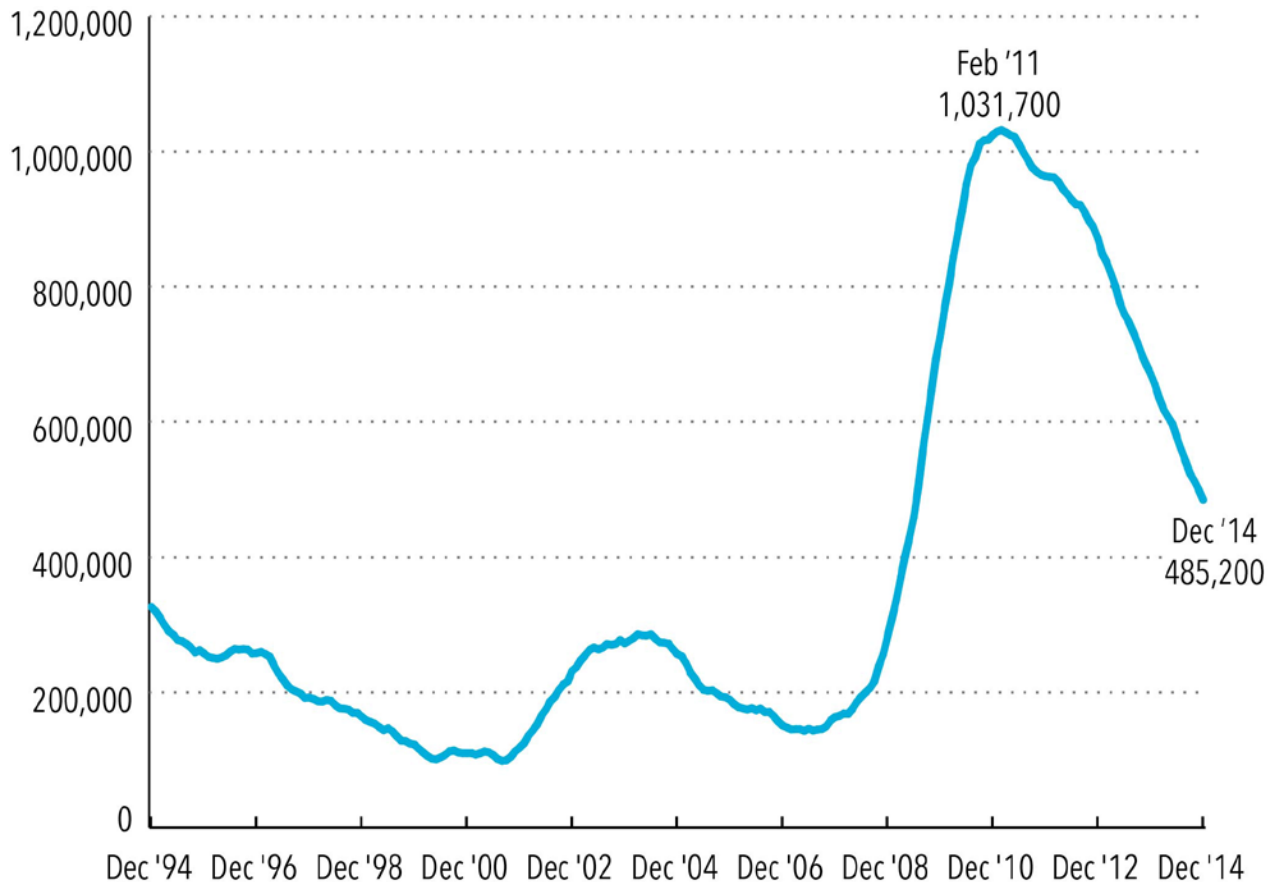
Source: US Census Bureau



California Budget
& Policy Center

The Number of Californians Out of Work for At Least Six Months Continues to Decline as the Economy Improves

Number of California Workers Unemployed 27 Weeks or Longer



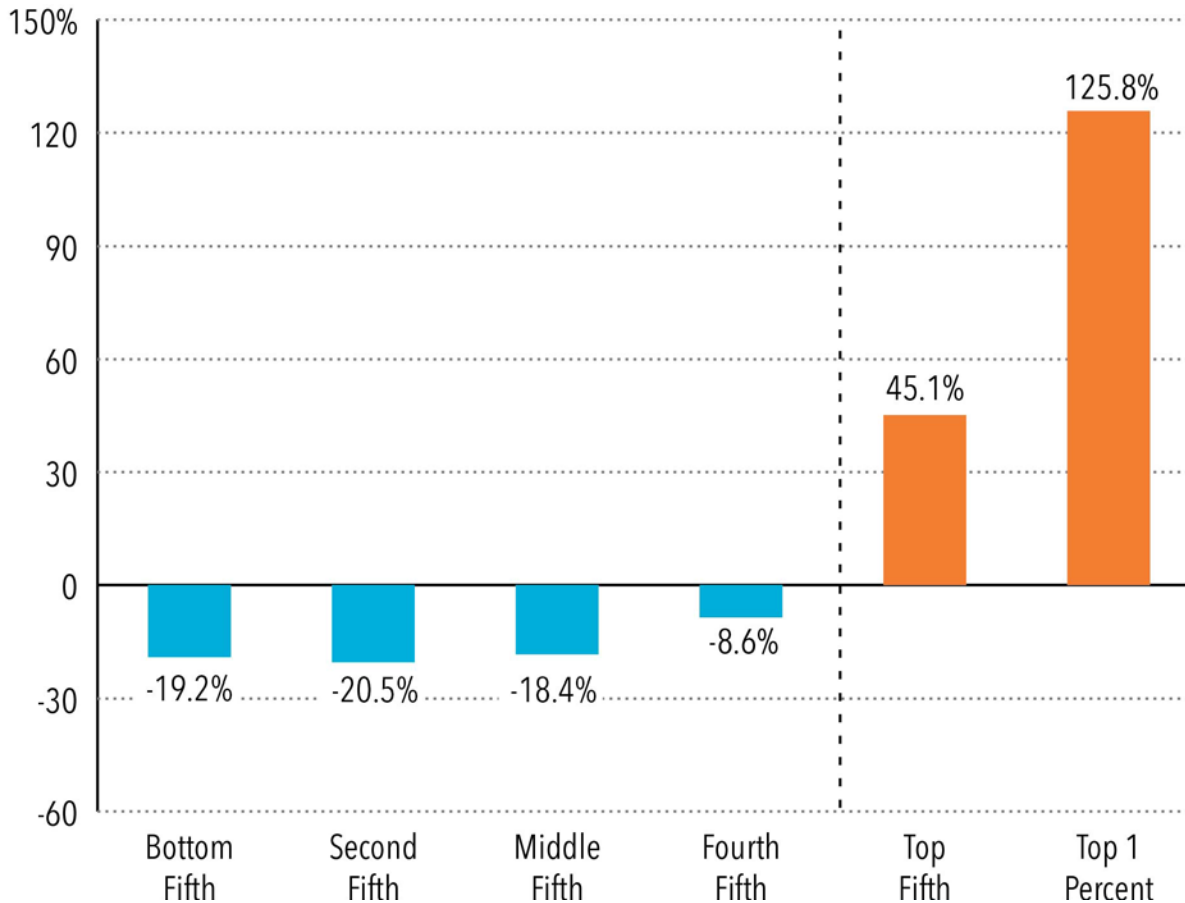
Note: Data reflect 12-month averages ending in the month displayed. Figures are rounded to the nearest 100.

Source: Employment Development Department



Only California's Wealthiest Saw Increases in Average Income Over the Last Generation

Percent Change in Average Adjusted Gross Income (AGI), 1987-2012, Inflation-Adjusted

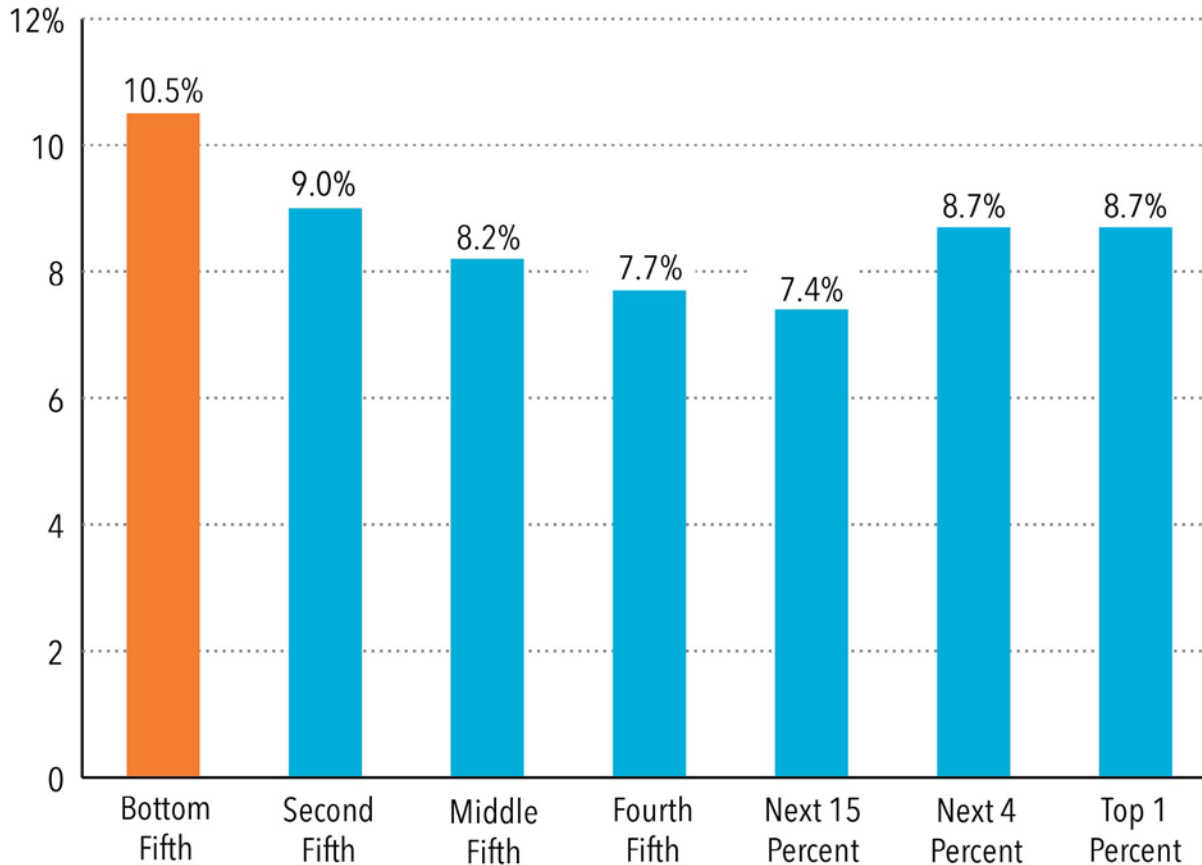


Source: Franchise Tax Board



California's Lowest-Income Families Pay the Largest Share of Their Incomes in State and Local Taxes

Average Percentage of Family Income Paid in State and Local Taxes



Note: Data are for nonelderly taxpayers only and include the impact of Proposition 30 temporary tax rates and the offset for federal deductibility of state and local taxes.

Source: Institute on Taxation and Economic Policy



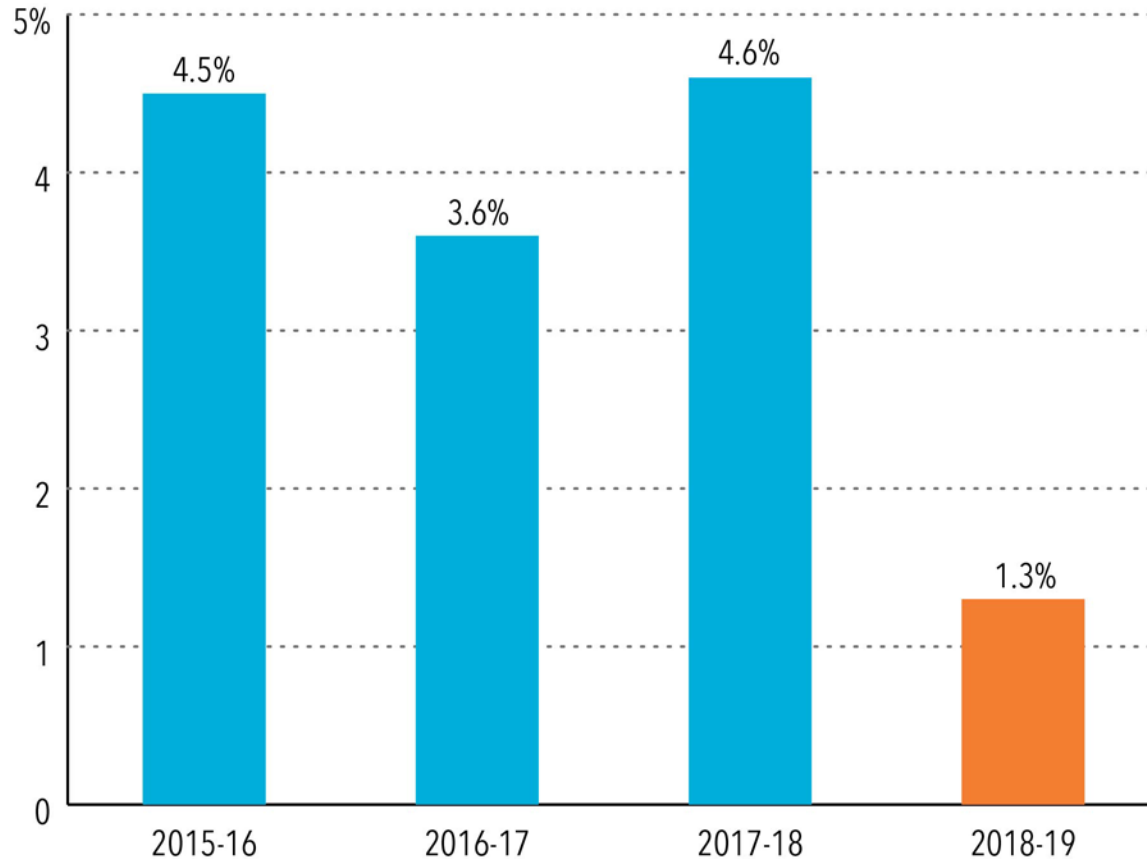
The Governor's Proposed 2015-16 Budget

New revenues would result in increased spending on education, paying down budgetary debt, and saving for a rainy day.



General Fund Revenue Growth Is Projected to Slow Substantially in 2018-19, When Proposition 30 Expires

Projected Year-Over-Year Growth in General Fund Revenues and Transfers



Source: Department of Finance



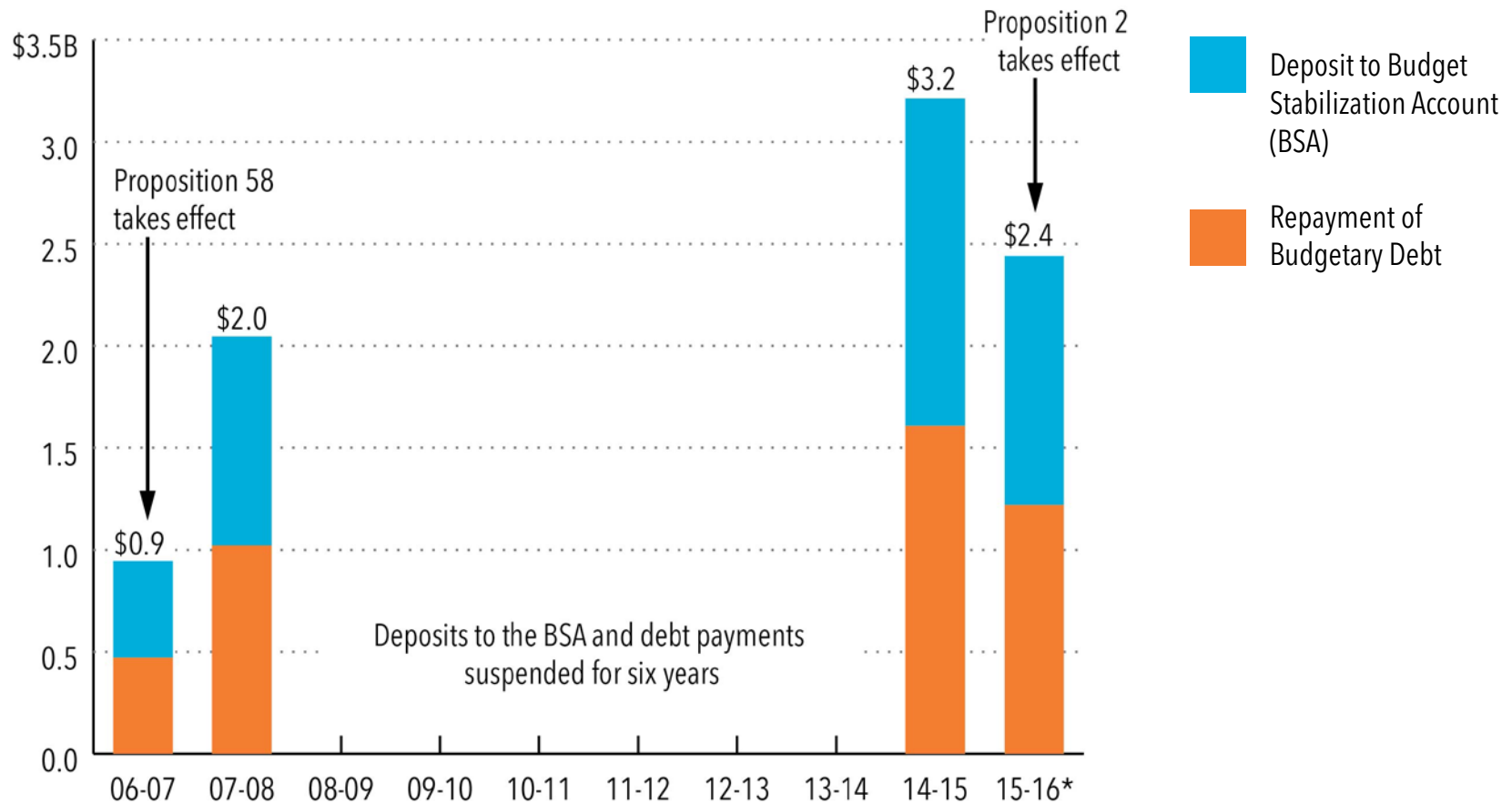
Proposition 2: Paying Down Budgetary Debt and Saving for a Rainy Day

Voter approval of Proposition 2 (2014) would require setting aside \$2.4 billion in 2015-16.



After Being Suspended for Six Years, Required Rainy Day Fund Deposits and Debt Payments Resumed in 2014-15

Dollars in Billions



* 2015-16 proposed.

Note: In 2007-08, state policymakers withdrew the entire \$1.5 billion balance in the BSA to help close a state budget shortfall.

Source: Department of Finance



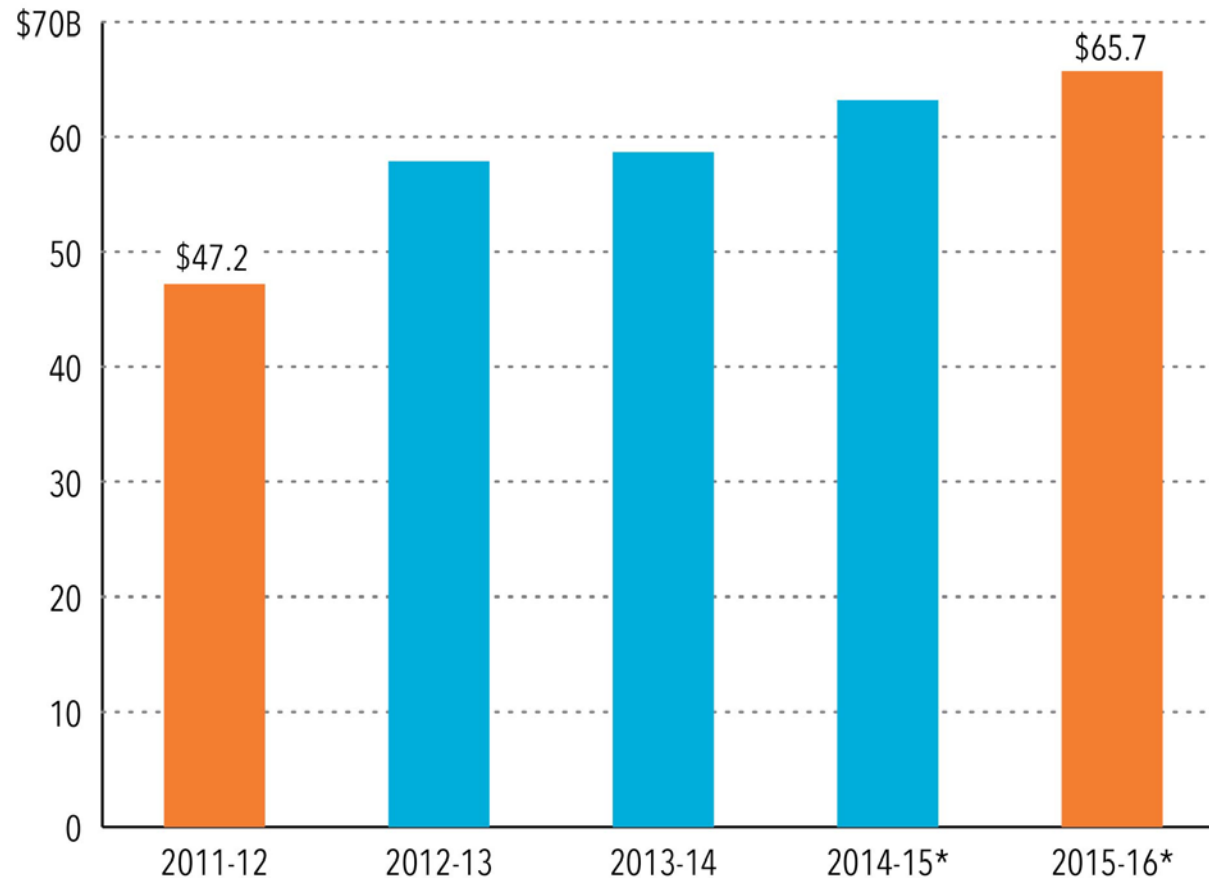
K-12 Education and California's Community Colleges

New revenues would result in increased spending per student, paying down debt, and workforce investments.



Due to Higher State Revenues, the Minimum Funding Guarantee for K-14 Education Would Increase in 2015-16

K-12 Proposition 98 Spending Per Pupil, Inflation-Adjusted



* 2014-15 estimated and 2015-16 proposed.

Note: Figures are in 2015-16 dollars. Figures exclude child care and include preschool spending.

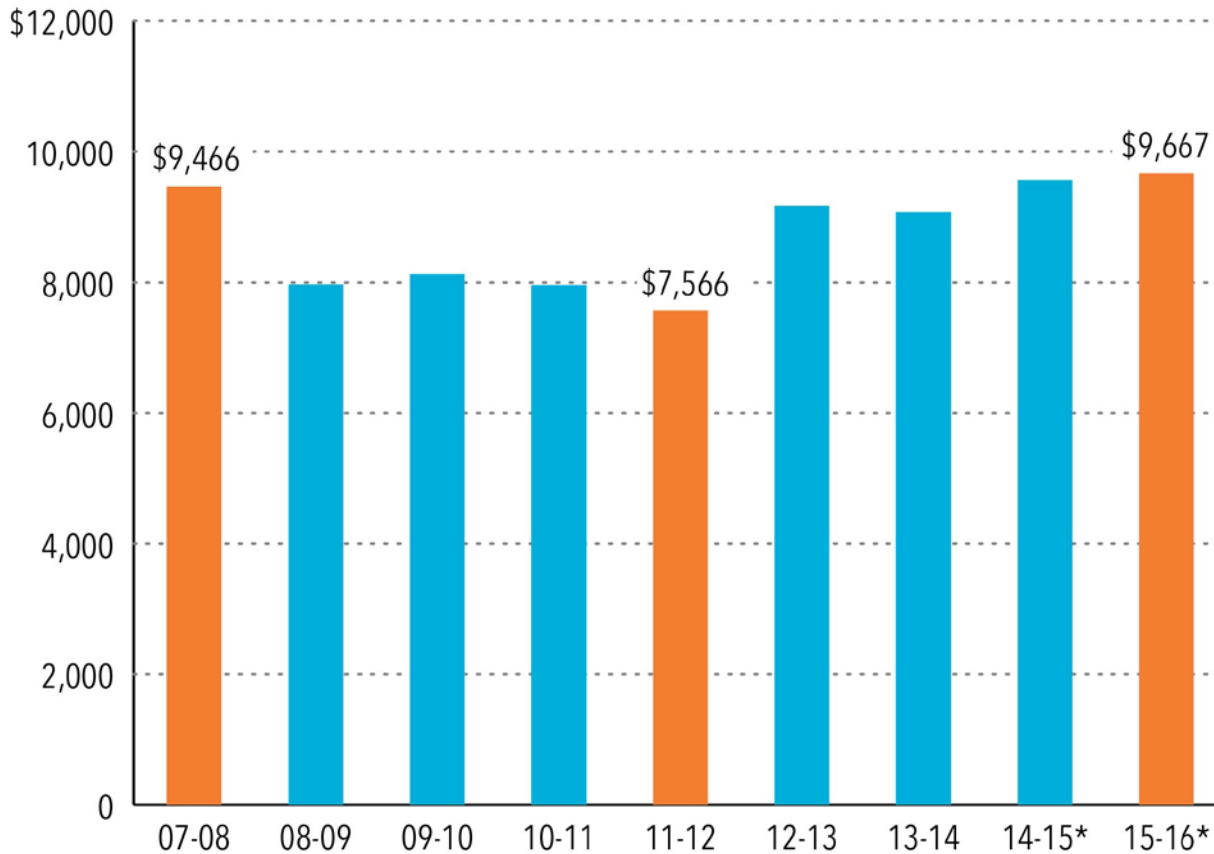
Proposition 98 spending reflects both state General Fund and local property tax dollars.

Source: Legislative Analyst's Office



Due to Higher State Revenues, 2015-16 Spending Per K-12 Student Would Increase to Just Above 2007-08

K-12 Proposition 98 Spending Per Pupil, Inflation-Adjusted



* 2014-15 estimated and 2015-16 proposed.

Note: Figures are in 2015-16 dollars. Figures exclude child care and include preschool spending. Proposition 98 spending reflects both state General Fund and local property tax dollars.

Source: Legislative Analyst's Office



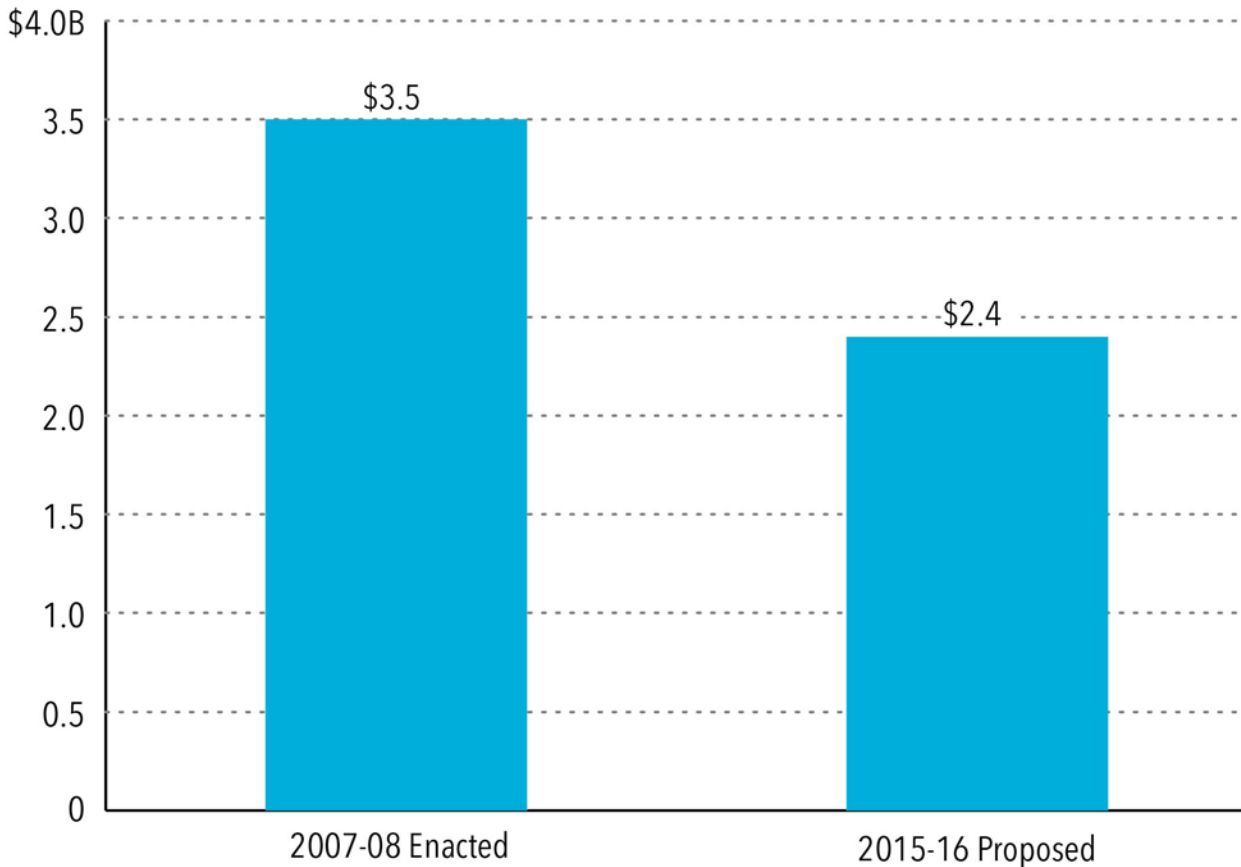
Early Education: Child Care and Preschool

Proposed spending and the number of slots remain below pre-recession levels.



Support for Child Care and Preschool Is \$1.1 Billion Below 2007-08, Even With the Recent Increase in Funding

Total Funding for Subsidized Child Care and Preschool Slots in California, Inflation-Adjusted

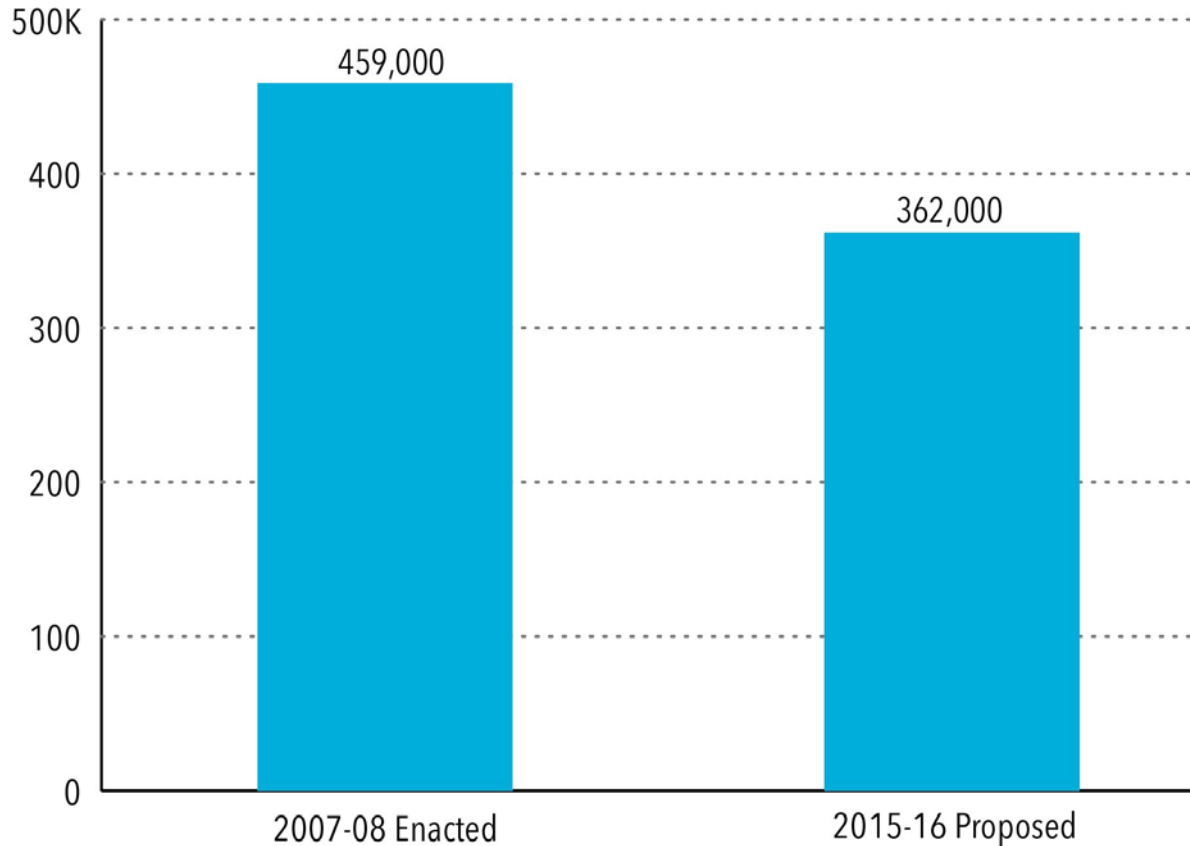


Note: Figures are in 2015-16 dollars and include federal and state funds. Child care includes CalWORKs and non-CalWORKs programs.
Source: Department of Finance



State Budget Cuts Have Reduced Child Care and Preschool Slots by More Than One-Fifth Since 2007-08

Slots in California Funded With Federal and/or State Dollars



Note: Child care includes CalWORKs and non-CalWORKs programs. A portion of the drop since 2007-08, roughly 3,000 slots, is due to a new methodology for calculating funded slots in several small child care programs.

Source: Department of Finance



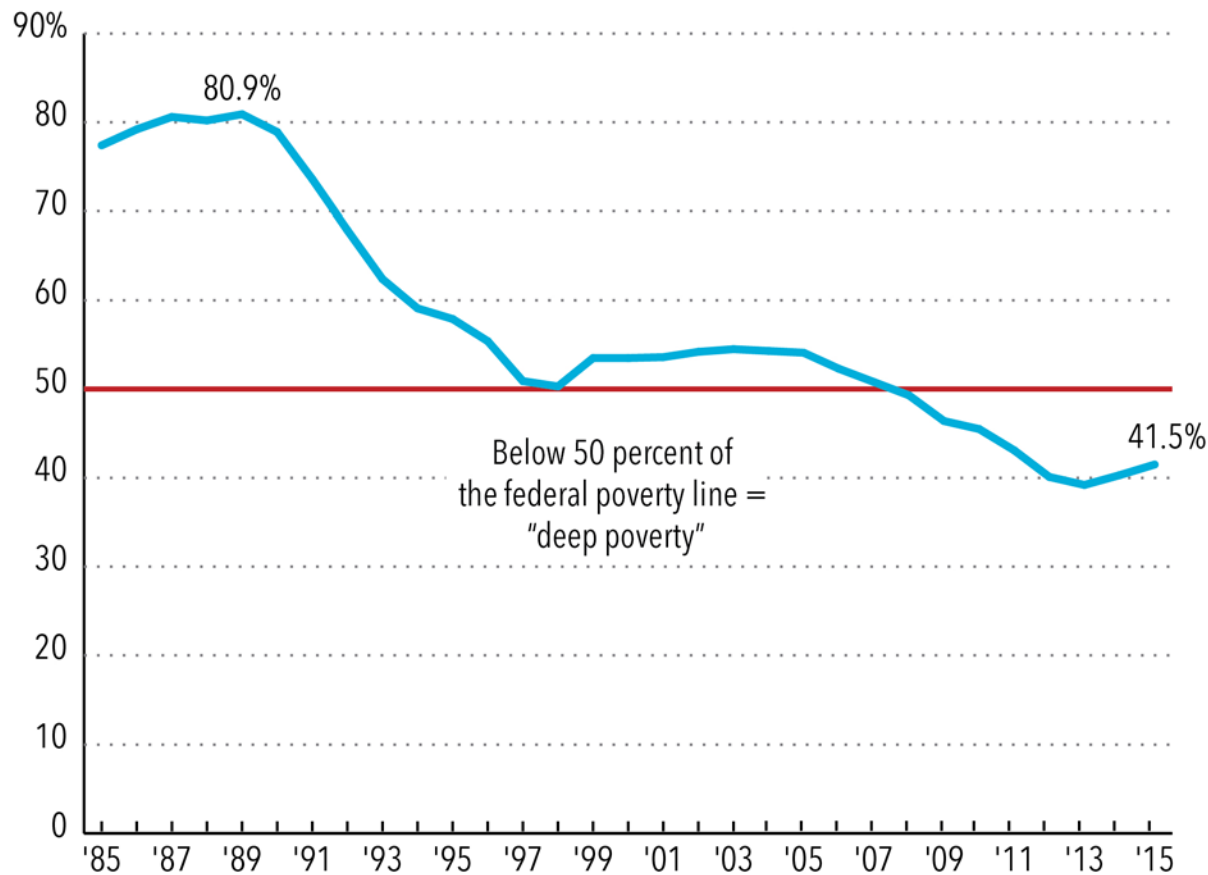
Human Services

A lack of reinvestment leaves the state's safety net severely weakened by years of funding cuts.



Under the Governor's Proposal, CalWORKs Grants Would Remain Far Below the Deep-Poverty Threshold

Annualized Maximum Grant for a Family of Three as a Percentage of the Federal Poverty Line

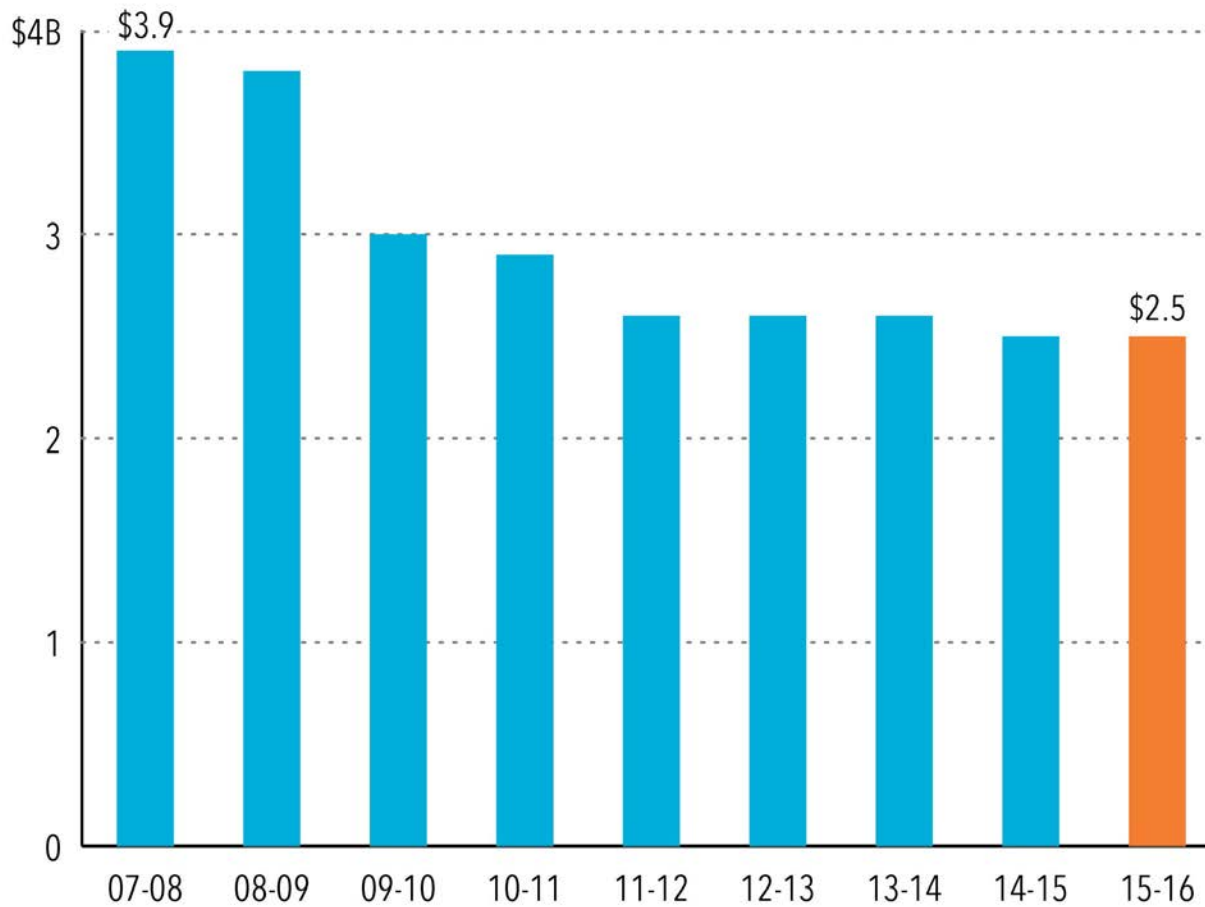


Note: Grants are for high-cost counties beginning in 1996. Prior to 1998, grants were provided through the Aid to Families with Dependent Children Program. The 2015 grant reflects a 5% increase scheduled for April 2015.
Source: CBP analysis of Department of Social Services, US Department of Health and Human Services, and US Social Security Administration data



Due to Budget Cuts, State Spending for SSI/SSP Grants Is More Than One-Third Below the 2007-08 Level

General Fund Expenditures in Billions, Inflation-Adjusted



Note: Figures are in 2015-16 dollars. All figures are estimates except for 2015-16, which is proposed.

Source: Department of Social Services



A California EITC

A State EITC is a necessary component of any sustained policy response to economic hardship in California.



The Benefits of a State EITC

A state EITC would:

- Reward work, allowing low- and middle-income working families to keep more of their earnings.
- Help rebalance California's system of state and local taxes, which currently asks low-income families to pay a larger share of their income in taxes than high-income families.
- Complement other state policies, such as subsidized child care/preschool and CalWORKs.



Current EITC Proposals – AB 43

- Refundable EITC:
 - 35% of federal credit for working families with children under age 5;
 - 60% of federal credit for working adults without dependent children;
 - 15% of the federal credit for all other eligible.
- Average credit:
 - Bottom 5th: \$602
 - 2nd 5th: \$648
 - Middle 5th: \$460.
- Cost to the state: \$1.5 billion annually.



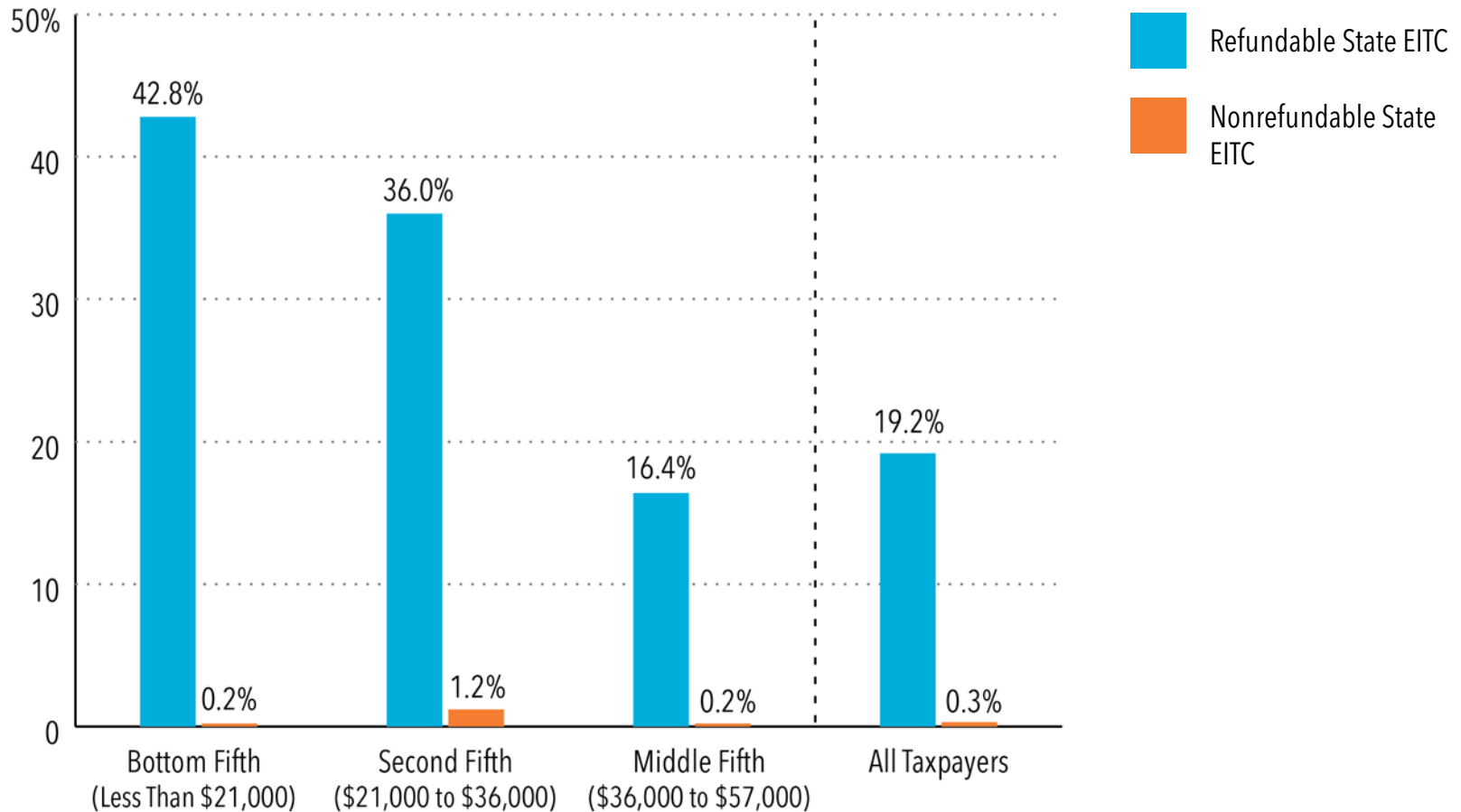
Current EITC Proposals – SB 38

- Refundable EITC:
 - 30% of federal credit for working families with children;
 - 100% of federal credit for working adults without dependent children;
- Average credit:
 - Bottom 5th: \$781
 - 2nd 5th: \$808
 - Middle 5th: \$544.
- Cost to the state: \$1.9 billion annually.



A Nonrefundable State EITC Would Reach Very Few Californians

Percentage of Taxpayers Estimated to Receive a State EITC Equal to 15 Percent of Federal EITC



Note: See California Budget Project, *A State EITC: Making California's Tax System Work Better for Working Families* (December 2014) for technical notes.

Source: Institute on Taxation and Economic Policy



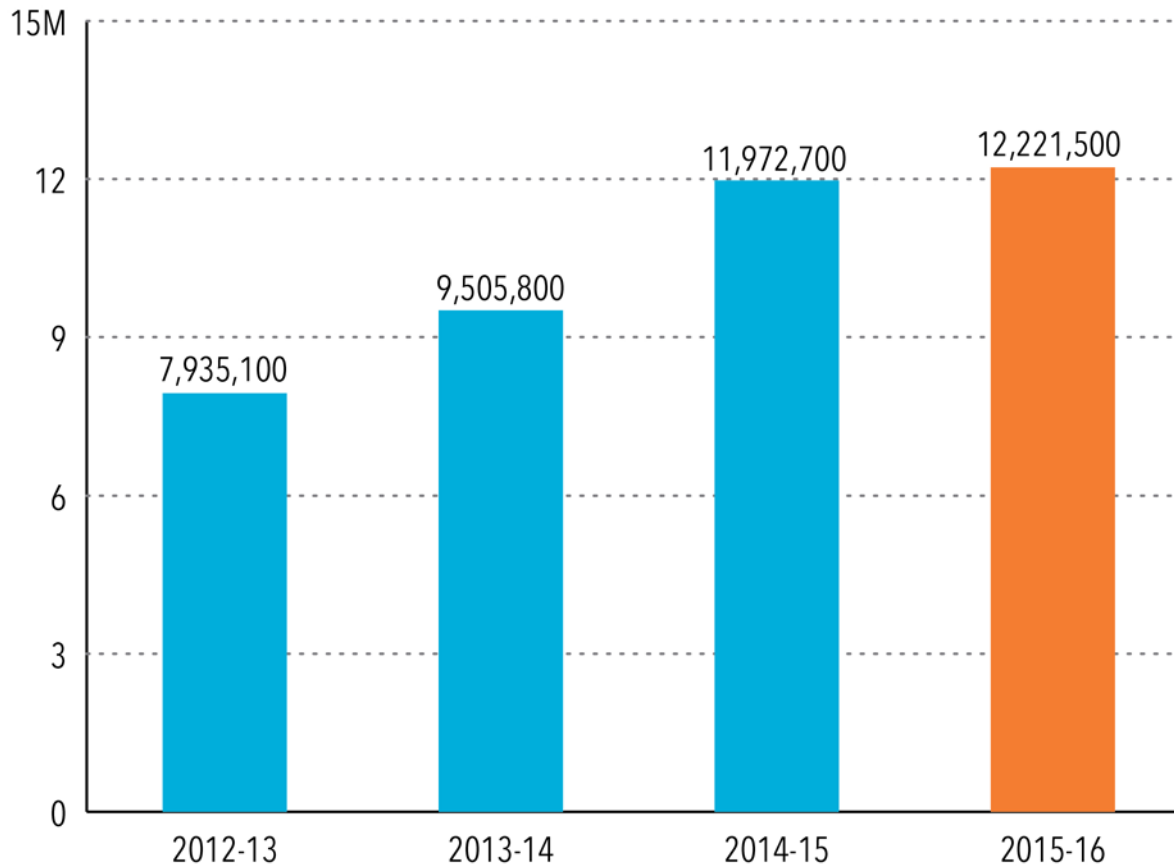
Health Care

The proposed budget reflects the ongoing implementation of federal health care reform, including the expansion of Medi-Cal.



Medi-Cal Enrollment Is Projected to Rise by Just 2 Percent in 2015-16, Following Two Years of Double-Digit Increases

Enrollment Gains in Prior Years Were Largely Due to Implementation of Health Care Reform



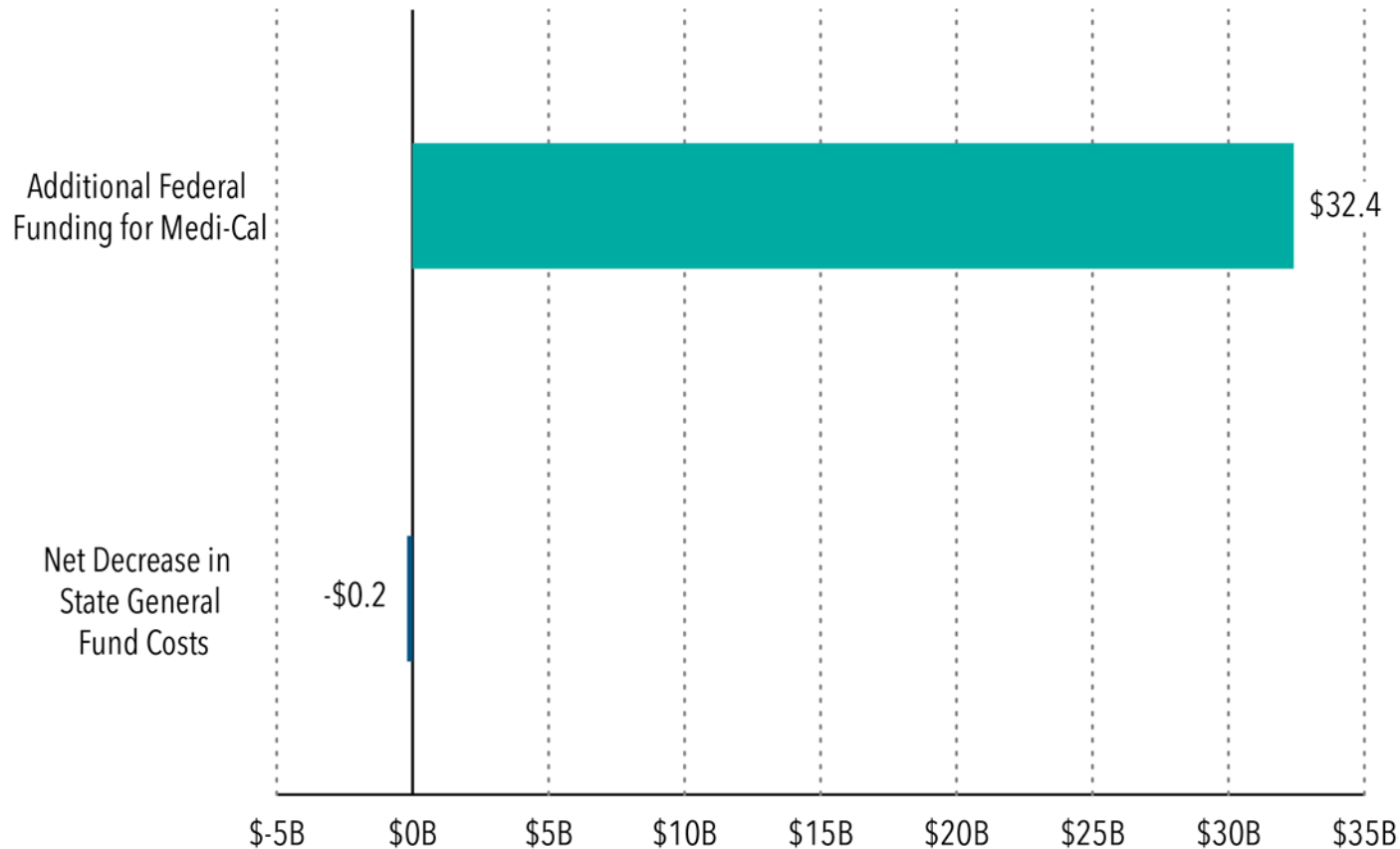
Note: 2012-13 to 2014-15 are estimated, and 2015-16 is projected. Figures reflect average monthly enrollment.

Source: Department of Health Care Services



Federal Funding Is Up, State Costs Are Down, as Medi-Cal Enrollment Rises Due to Health Care Reform

Fiscal Effects of Increased Medi-Cal Enrollment, 2014-15 and 2015-16 Combined, in Billions



Note: 2014-15 is estimated and 2015-16 is proposed. The net decrease in state costs is due to two factors: (1) a shift – back to the state – of certain dollars previously provided to counties for indigent health care and (2) the use of some proceeds from a tax on Medi-Cal managed care plans to offset state spending.

Source: Department of Finance and Department of Health Care Services



Health4All (SB 4)

- The Affordable Care Act (ACA) intentionally restricts undocumented immigrants from accessing Medi-Cal and Covered California.
- SB 4 extends coverage through 2 policy changes:
 - Those eligible (lowest incomes) can access Medi-Cal (paid for by state funds if the feds won't agree);
 - A pathway to a state-run marketplace for others,
 - Covered CA if the feds grant a waiver, or
 - A new marketplace run by the Covered CA board.
- President Obama's executive actions on immigration – "deferred action" – could make some of those impacted in California eligible for Medi-Cal.





California Budget
& Policy Center

Independent Analysis. Shared Prosperity.

1107 9th Street, Suite 310

Sacramento, California 95814

916.444.0500

choene@calbudgetcenter.org

@CalBudgetCenter

@ChrisWHoene

calbudgetcenter.org