



California Budget
& Policy Center

California Budget Perspective 2017-18

FEBRUARY 2017

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California Budget & Policy Center

The Budget Center was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The Budget Center engages in independent fiscal and policy analysis and public education with the goal of improving the economic and social well-being of low- and middle-income Californians. Support for the Budget Center comes from foundation grants, subscriptions, and individual contributions. Please visit our website at calbudgetcenter.org.

Acknowledgments

The staff of the Budget Center prepared this chartbook.



The Governor's Proposed 2017-18 Budget:

Top Lines and Key Context



From the Budget Center's *First Look* analysis (1/12/2017):

The Governor's proposed budget "reflects both deep uncertainty about federal actions and a tempered economic and fiscal outlook for the state."



The Governor's Proposed 2017-18 Budget: Top Lines

- Assumes current federal policies and funding levels
- Forecasts revenues that are \$5.8 billion lower (over three-year period) than previously projected
- Foresees \$1.6 billion shortfall for 2017-18 absent policy actions
- Contains no new investments in many key services that help families make ends meet and advance
- Continues emphasis on building up reserves and paying down state budgetary debt



Putting the Governor's Proposed Budget in Context

- Prospect of likely cuts/changes at the federal level coupled with California's comprehensive implementation of federal Affordable Care Act (ACA)
- State revenues coming in lower than projected
- Various key public services and supports still operating at severely diminished levels due to state cuts made during and after the Great Recession
- Economic hardship – overall poverty as well as child poverty – that remains very high in most parts of the state, even more than seven years after the end of the recession



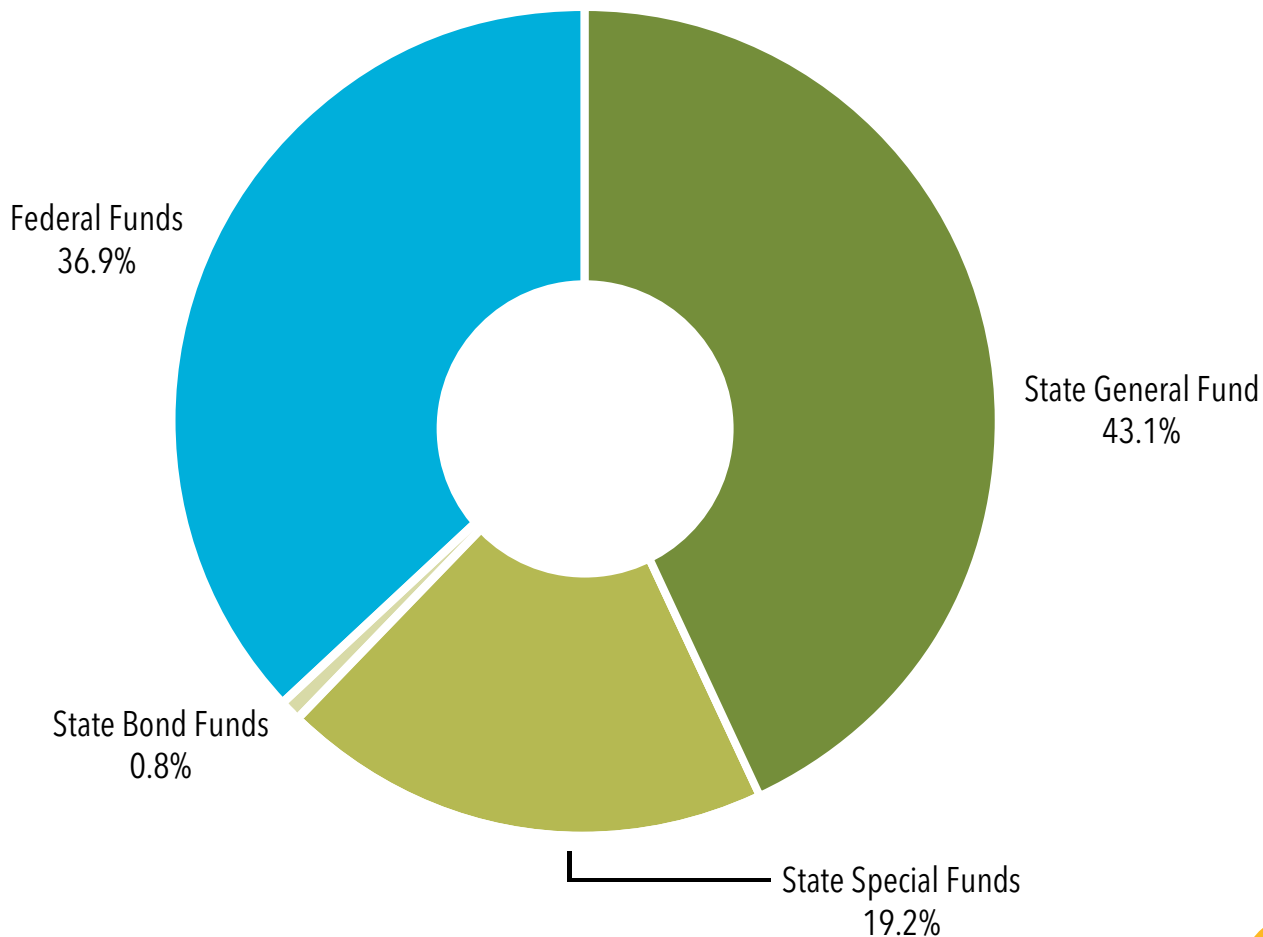
The Federal Backdrop to the State Budget

Federal funds make up a large share of the total state budget and mainly support health and human services.



Federal Funds Account for More Than One-Third of California's State Budget

Total Proposed 2017-18 Expenditures = \$284.5 Billion

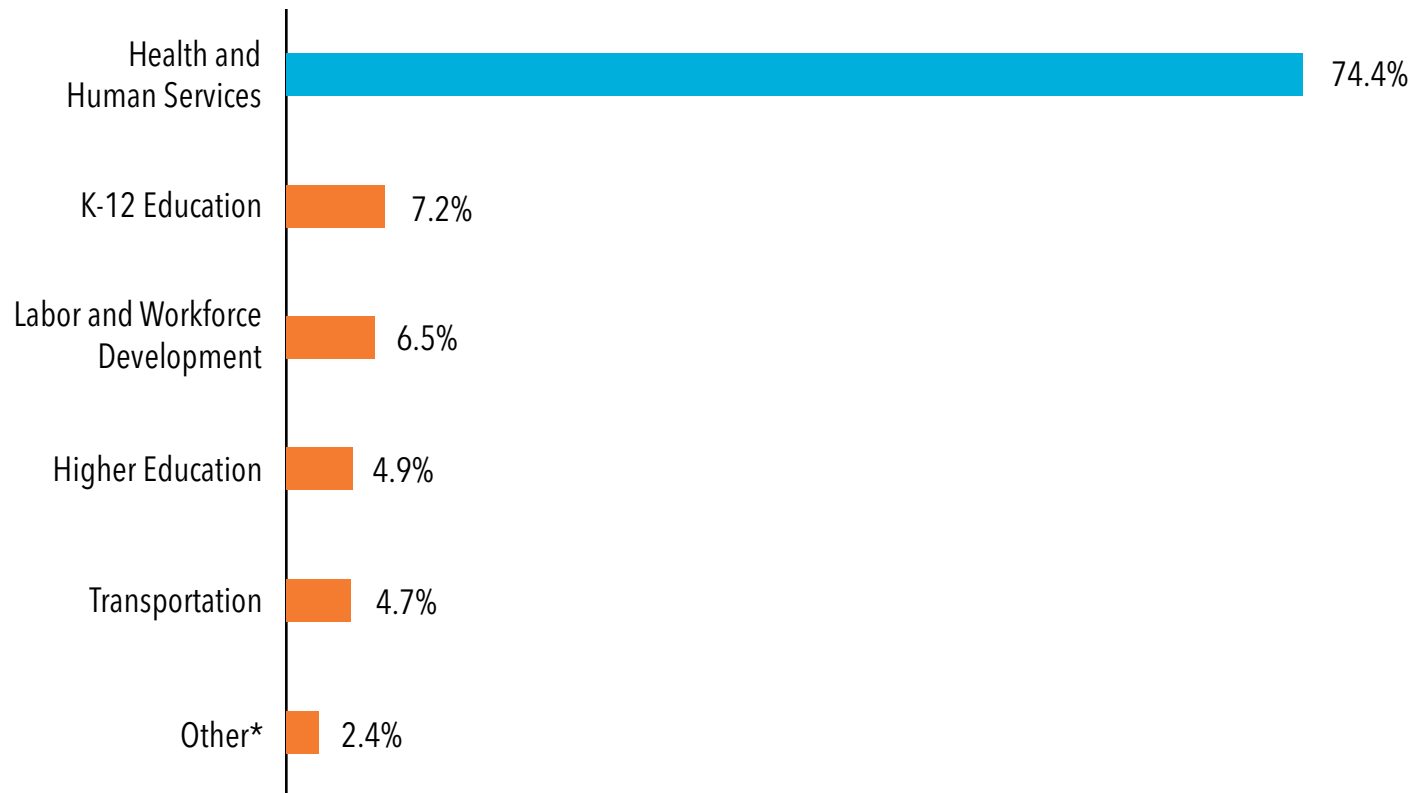


Source: Department of Finance



More Than 7 in 10 Federal Dollars Spent Through the State Budget Support Health and Human Services

Federal Funds Projected to Be Spent Through the State Budget in 2017-18 = \$105.0 Billion



* Includes Environmental Protection; Legislative, Judicial, and Executive; Corrections and Rehabilitation; and other state budget categories that account for relatively small shares of federal funds.

Note: Percentages do not sum to 100 due to rounding.

Source: Department of Finance



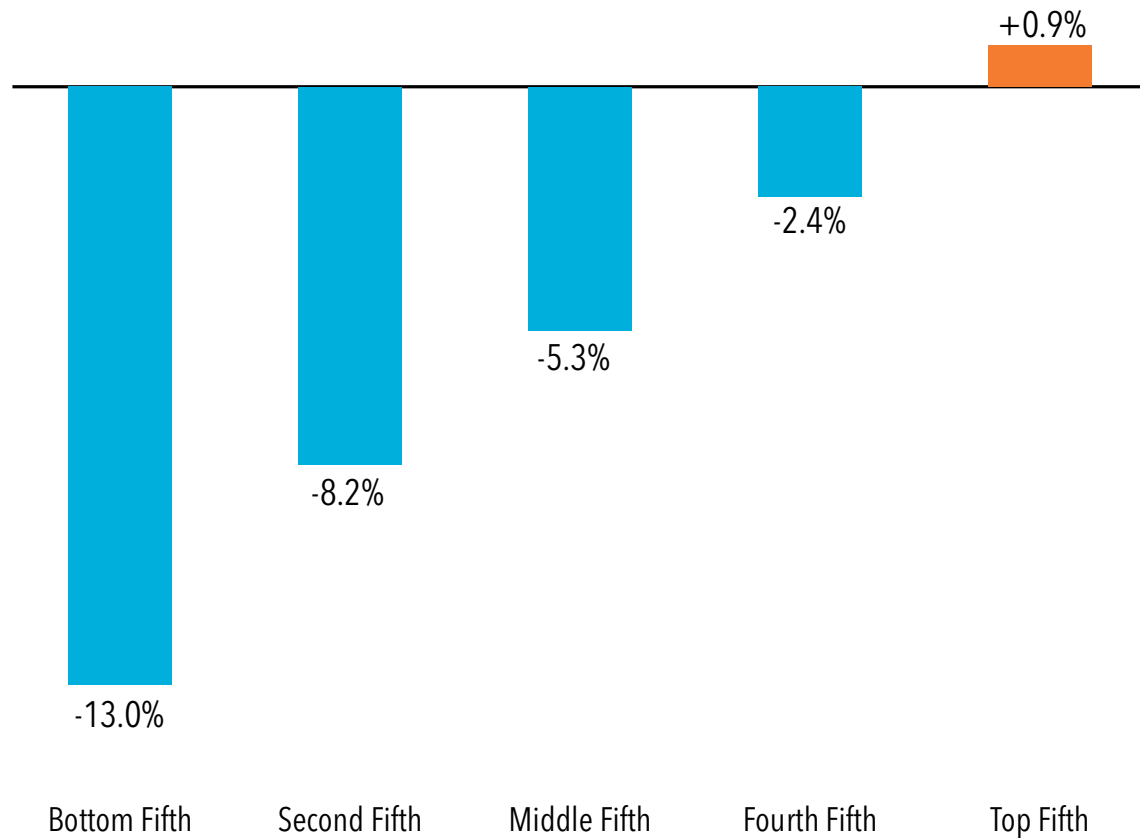
The Social and Economic Context of the State Budget

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



Only the Highest-Income California Households Have Seen Their Incomes Rebound From the Great Recession

Percent Change in Average Inflation-Adjusted Household Income, 2007 to 2015

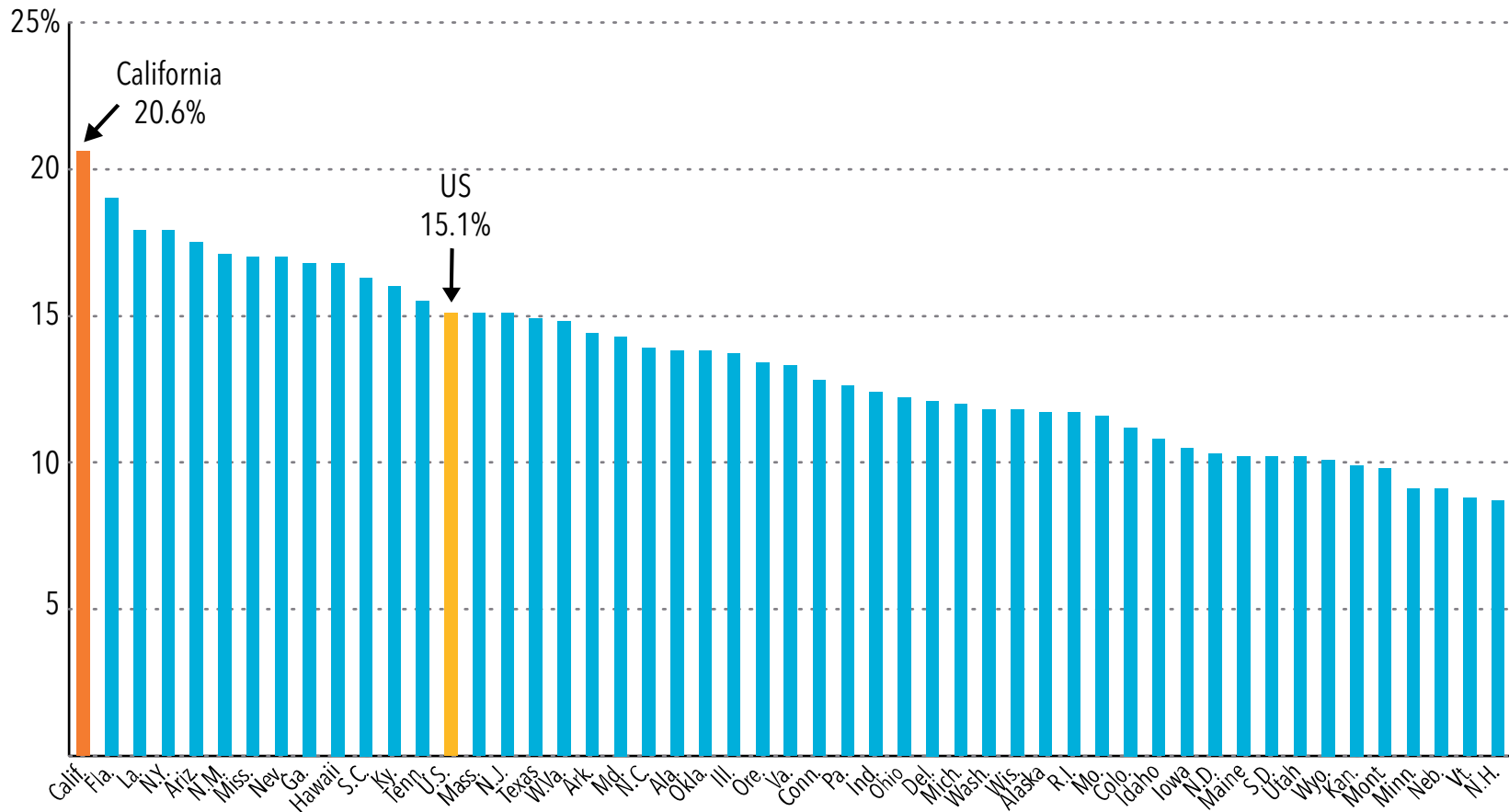


Source: Budget Center analysis of US Census Bureau, American Community Survey data



California Has the Highest Poverty Rate of the 50 States Under the Supplemental Poverty Measure (SPM)

State Poverty Rate Under the SPM, 2013-2015

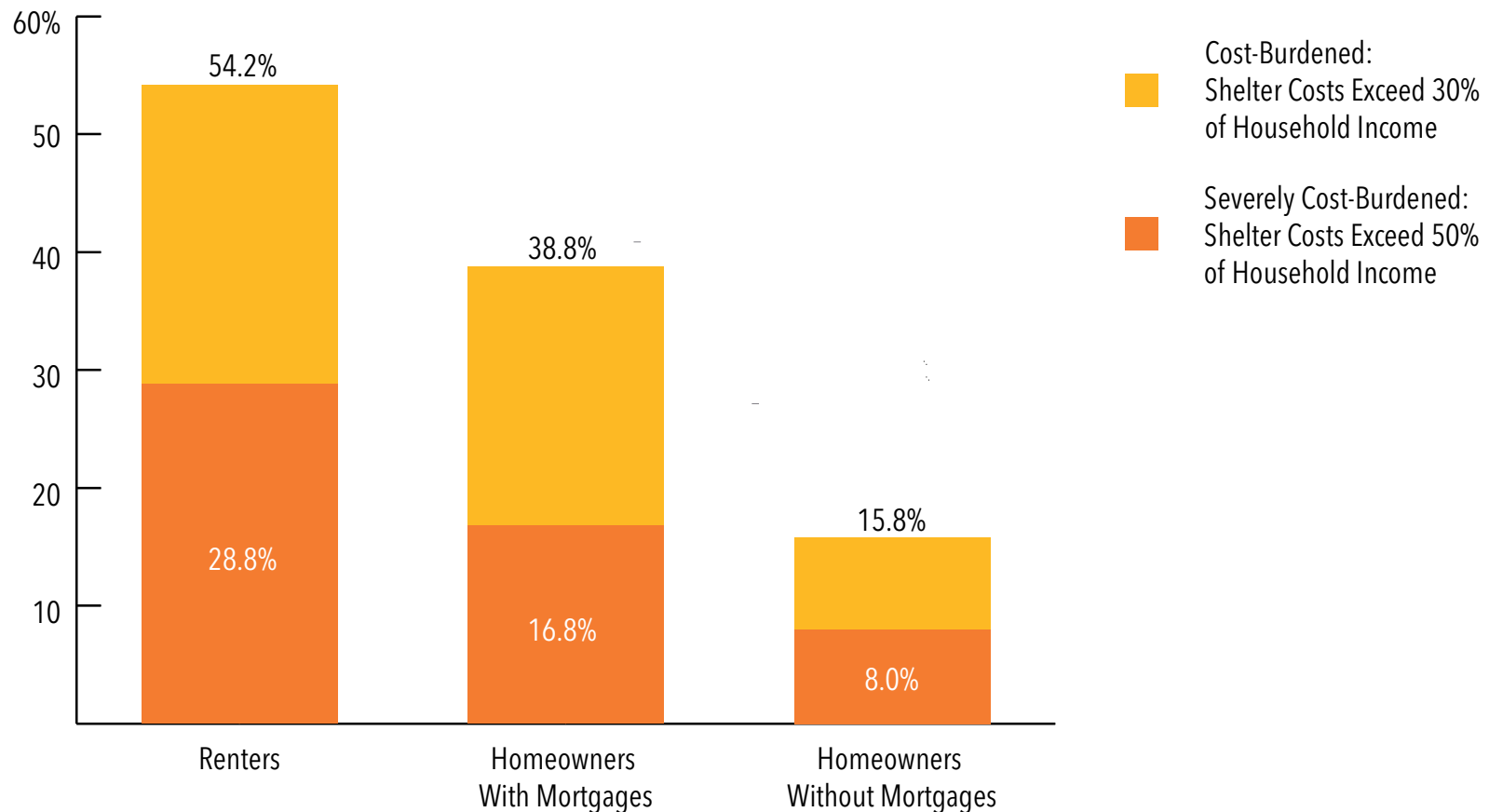


Source: US Census Bureau



More Than Half of California's Renters and Over a Third of Homeowners With Mortgages Have High Housing Costs

Percentage of Households With Housing Cost-Burden or Severe Housing Cost-Burden, 2015



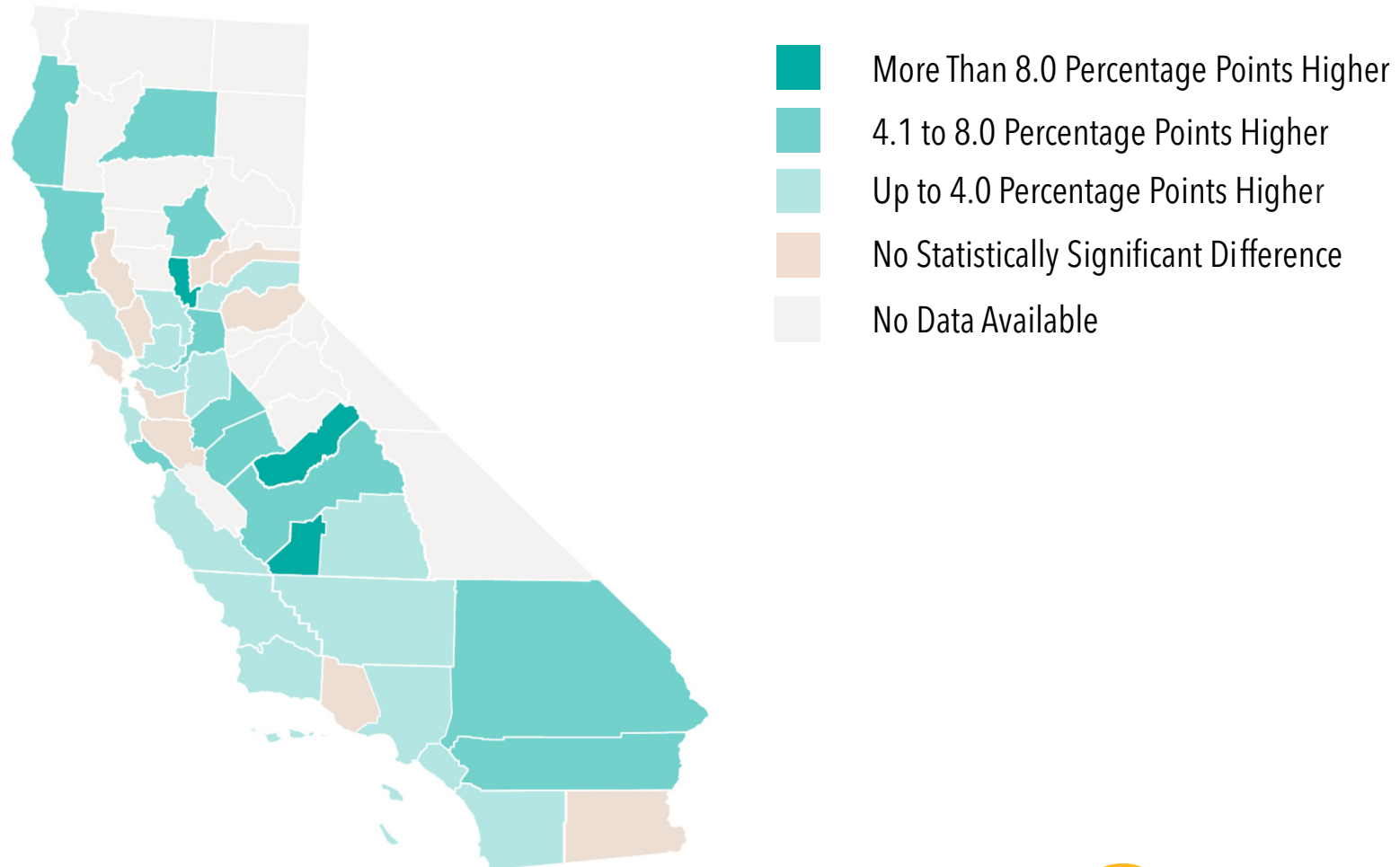
Note: Definitions of housing cost-burden are from the US Department of Housing and Urban Development.

Source: Budget Center analysis of US Census Bureau, American Community Survey data



Poverty Rates Remain High in Many Parts of the State, Even in Places Where Job Gains Have Been Strong

Percentage-Point Difference in Official Federal Poverty Rate Between 2007 and 2015



Key Elements of Governor's Proposed Budget



Partly due to lower revenue forecast, Governor projects \$1.6 billion shortfall absent policy actions to address it.



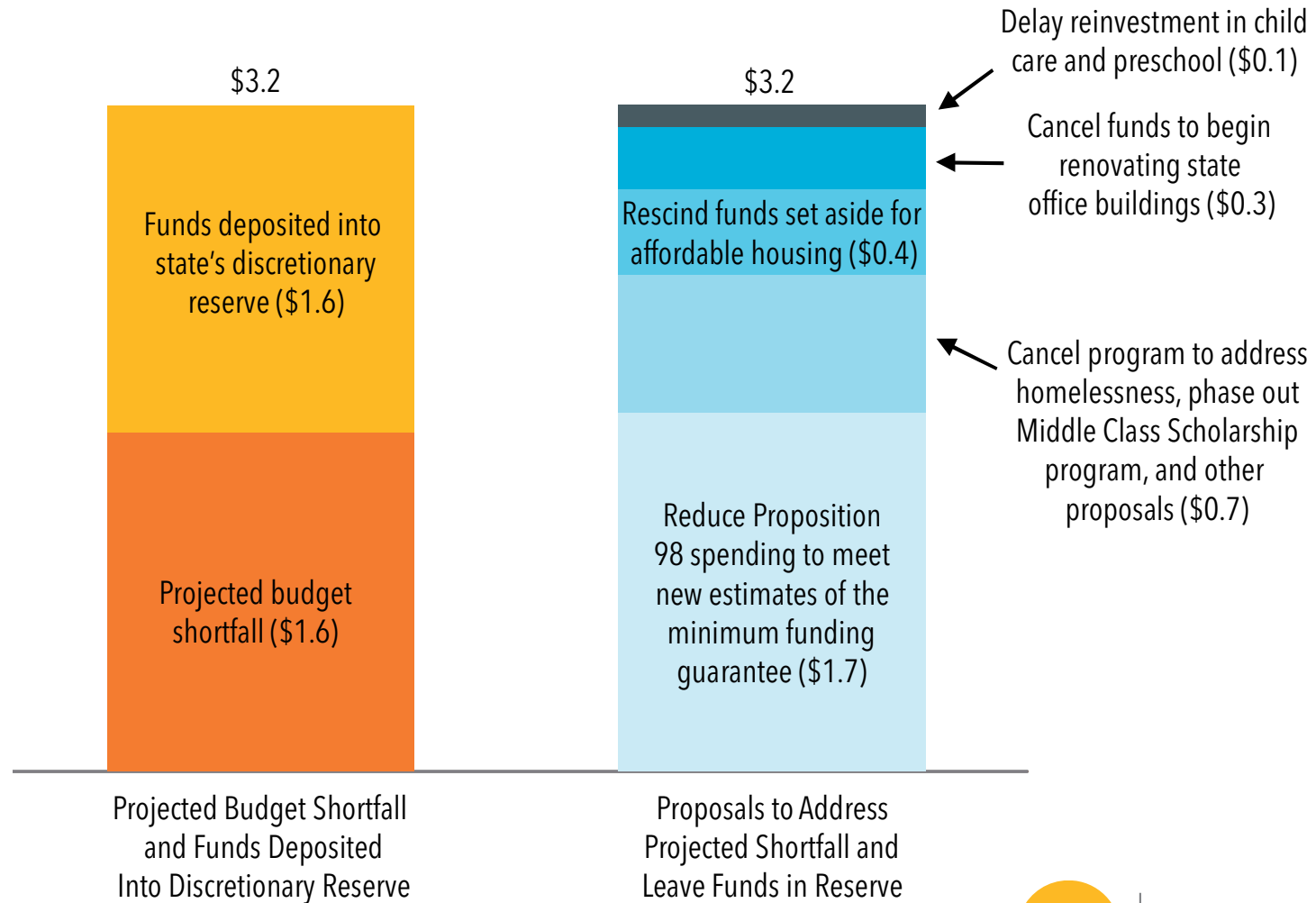
Closing the Gap: The Governor's Plan for Balancing the 2017-18 Budget

- Rescinding one-year spending commitments that had been included in the 2016-17 budget:
 - \$400 million set aside for affordable housing
 - \$300 million intended for renovation of state buildings
 - \$45 million for a new housing and disability program.
- Delaying a multiyear plan adopted in 2016 to reinvest in the state's child care and development system.
- Reflecting slower growth of K-14 funding and beginning to phase out the Middle Class Scholarship Program by not providing any new grants.



Governor's Proposal Would Close Projected \$1.6 Billion Budget Gap in 2017-18 With \$3.2 Billion in "Solutions"

State General Fund, Dollars in Billions



Proposed budget continues emphasis on building reserves, partly as required by Proposition 2 (2014).

Total state reserves would be a projected \$9.5 billion at the end of 2017-18, including \$7.9 billion in the “rainy day fund.”



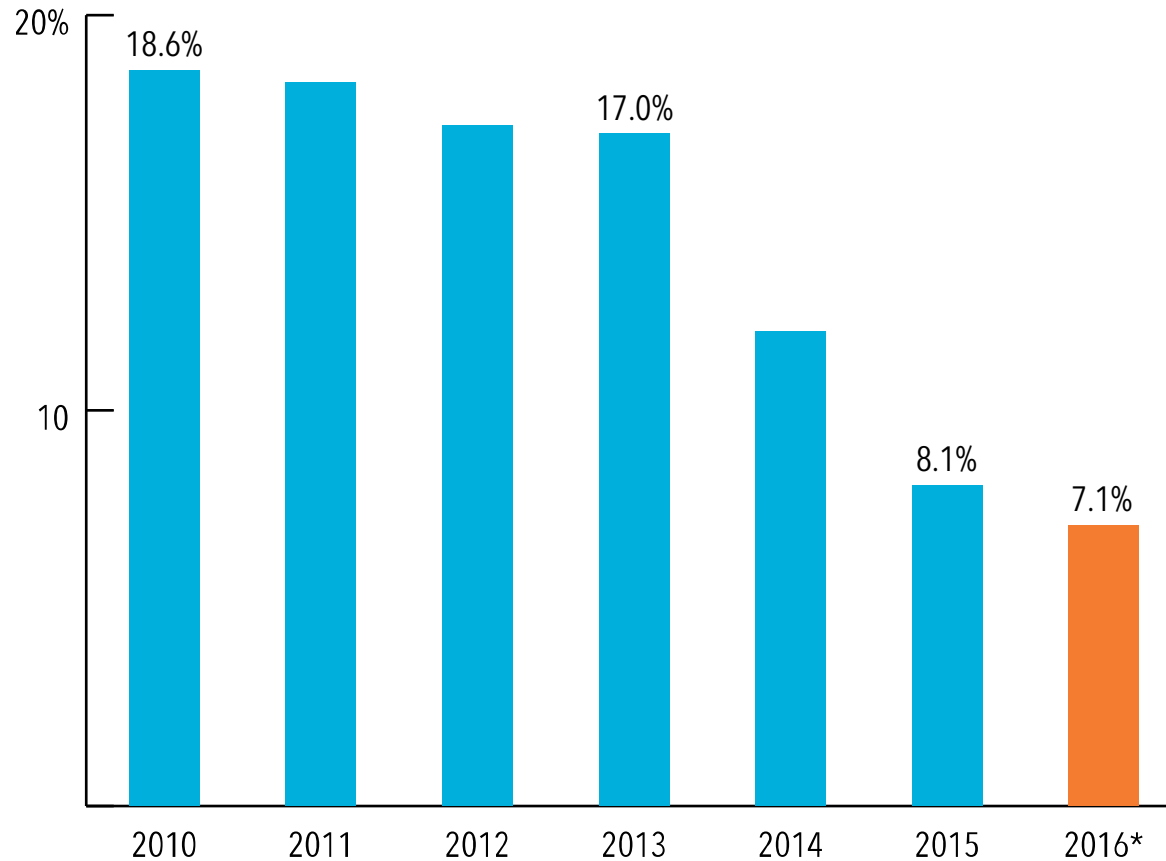
Proposed budget emphasizes uncertainty as to fate of the federal Affordable Care Act.

California would lose well over \$20 billion in federal funding each year if Republicans roll back Medicaid expansion and end subsidies for health insurance marketplaces (Covered California).



The Share of Californians Without Health Care Coverage Continued to Decline Into 2016

California Fully Implemented Federal Health Care Reform in January 2014



* January to September.

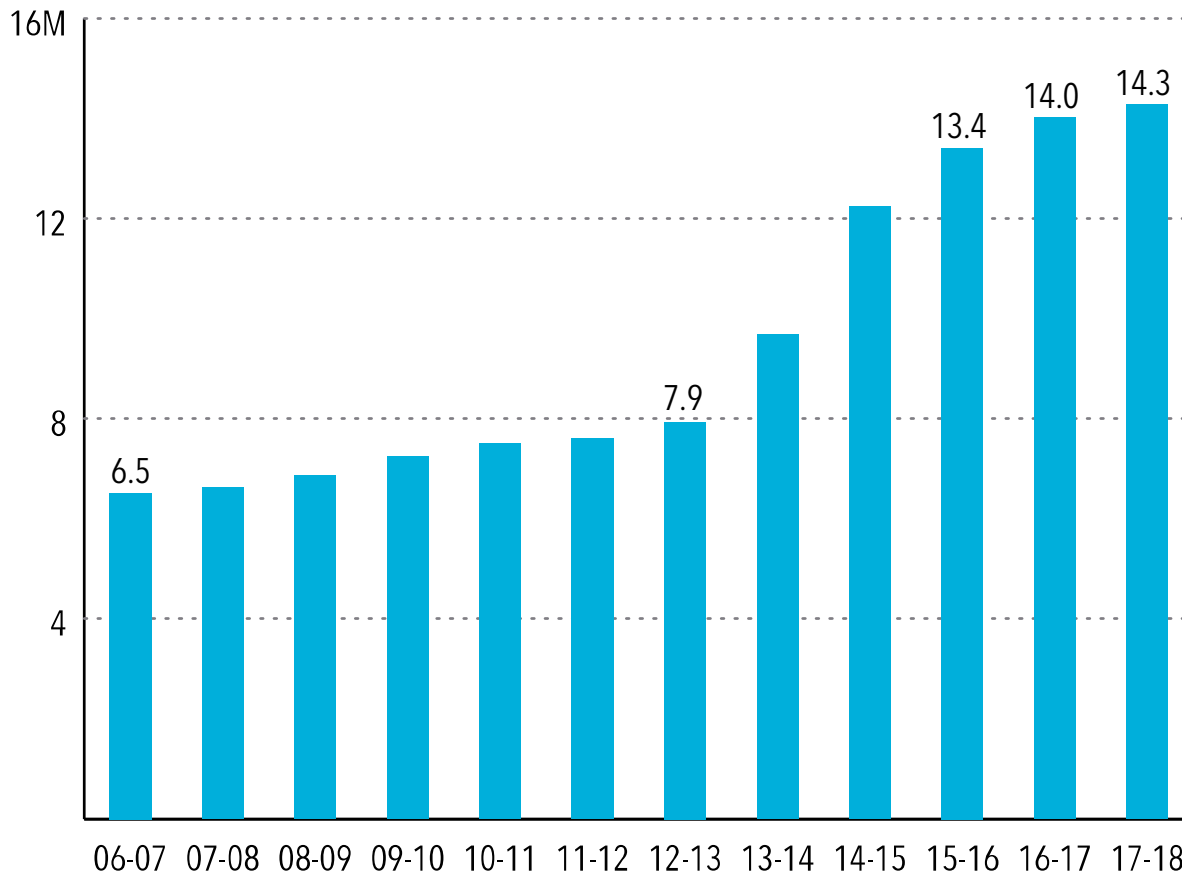
Note: Estimates are based on survey respondents' health care coverage status at the time of the interview.

Source: National Center for Health Statistics, National Health Interview Survey



Medi-Cal Enrollment Growth Is Slowing, Following Substantial Increases in Recent Years

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



Note: Data for 2012-13 and later years are estimates. Figures reflect average monthly enrollment.
Source: Department of Health Care Services



Governor projects tobacco tax increase from Prop. 56 (2016) will provide \$1.7 billion this coming fiscal year.

The Administration allocates most of this amount – 1.2 billion – to Medi-Cal, as required by the measure.

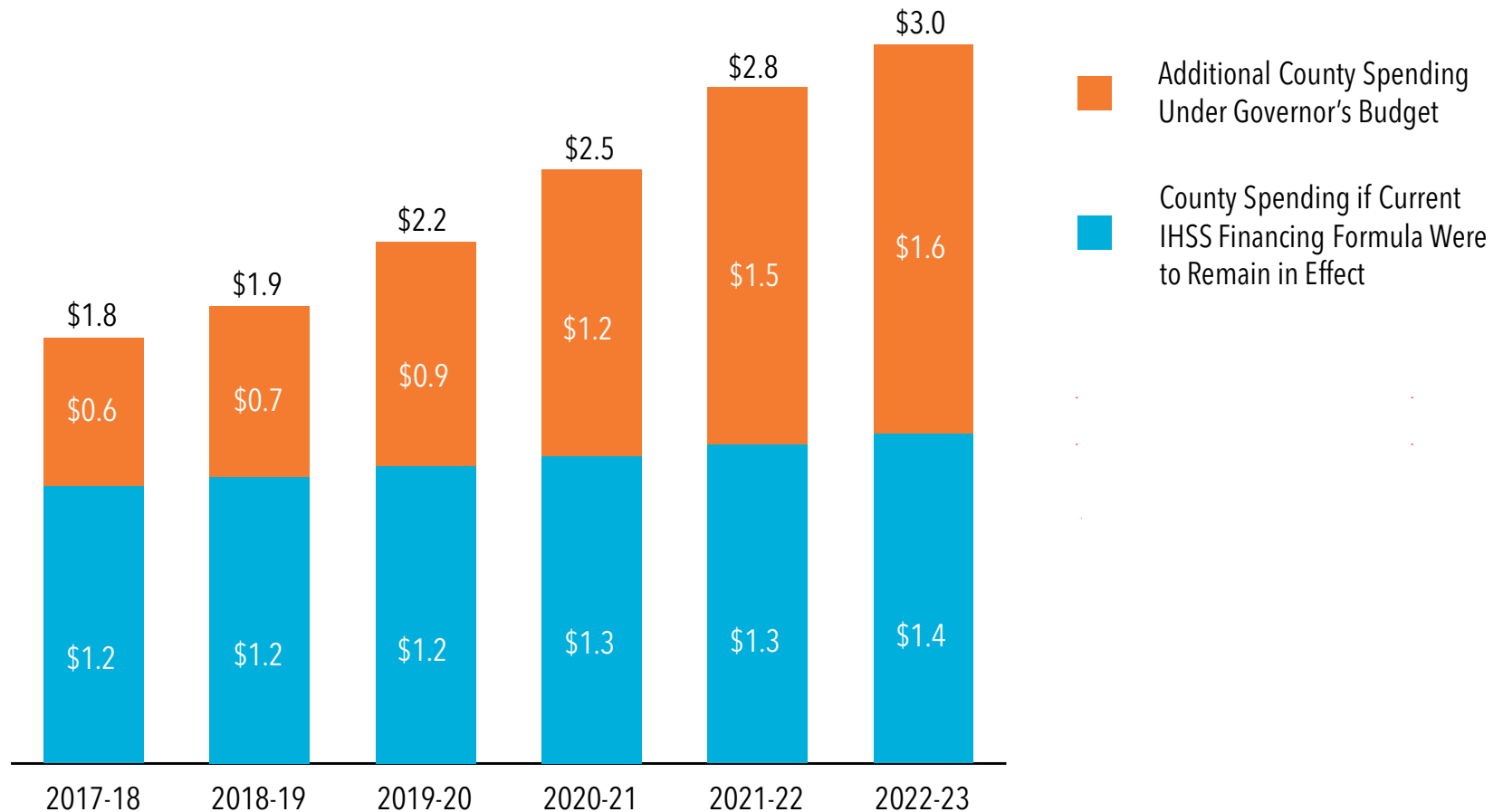


Governor proposes to shift additional In-Home Supportive Services (IHSS) costs to counties.



Counties' Share of Costs for In-Home Supportive Services Would Rise Substantially Under the Governor's Budget

Projected Annual County IHSS Expenditures, Dollars in Billions



Note: Counties and the state share the nonfederal costs of the IHSS Program. Subtotals may not sum to totals due to rounding.

Source: County Welfare Directors Association of California

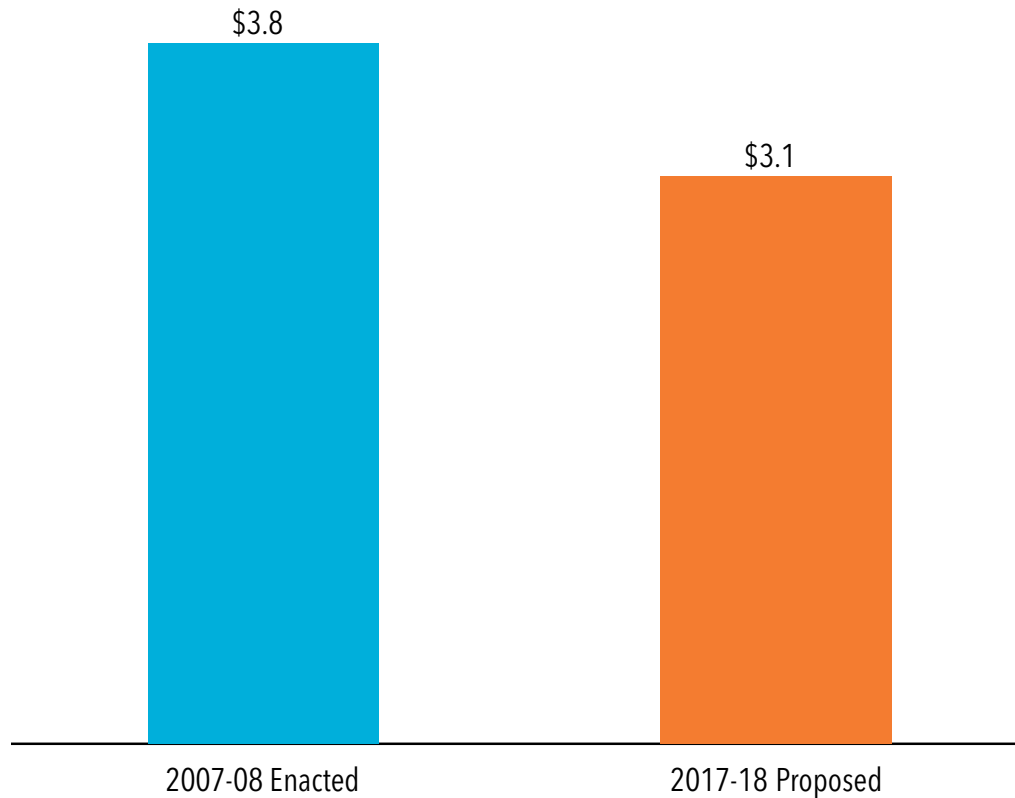


**Proposed budget “pauses,”
until next year, plan approved
in 2016 to reinvest in early
care and education.**



Annual Funding for Child Care and Preschool Remains Nearly 20 Percent Below the Pre-Recession Level

Total Funding for Subsidized Child Care and Preschool in California (Billions), Inflation-Adjusted



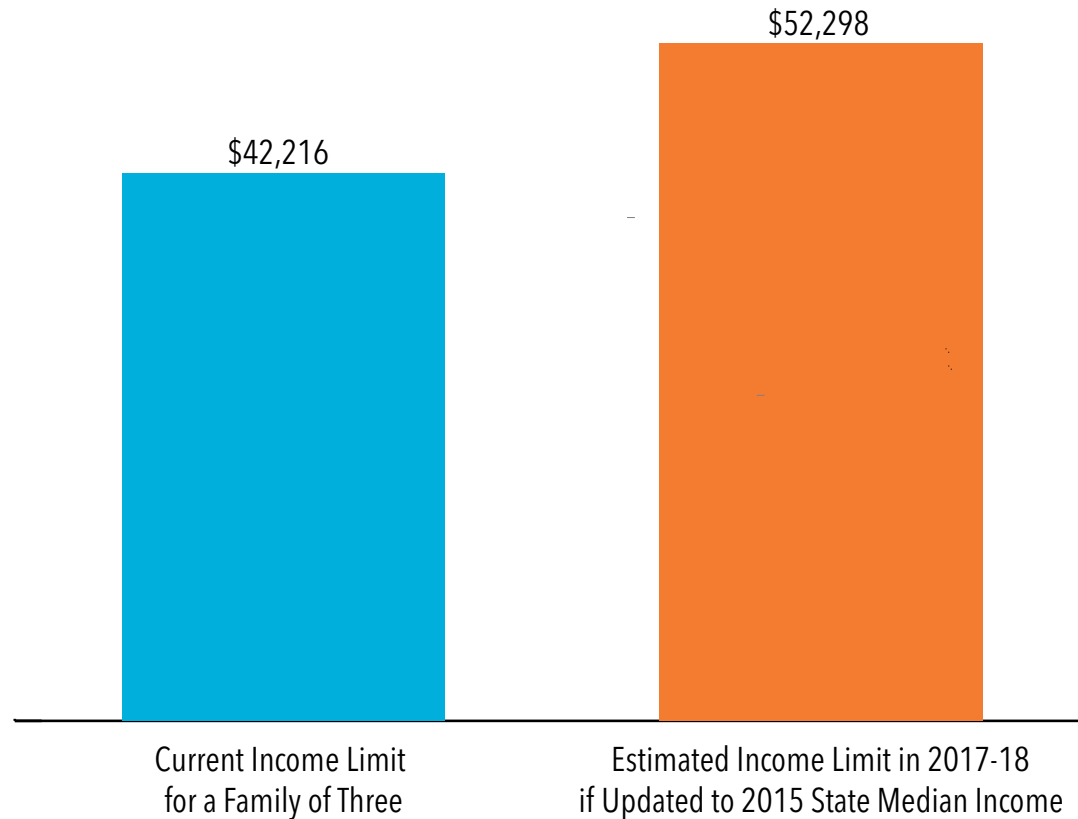
Note: Figures are in 2017-18 dollars and include federal and state funds for slots as well as for quality and support programs. Child care includes CalWORKs and non-CalWORKs programs. Preschool does not include Transitional Kindergarten.

Source: California Department of Education and Department of Finance



The Income Eligibility Limit Would Increase by 24 Percent if Updated for the Most Recent State Median Income

Income Limit for a Family of Three for Subsidized Child Care and the State Preschool Program



Note: The estimated income limit for 2017-18 is based on the state median income for a four-person family in 2015, adjusted to reflect a three-person family using the methodology applied by the California Department of Education (CDE) as part of the latest update to the income limit in 2007-08. Source: Budget Center analysis of data from CDE and US Census Bureau

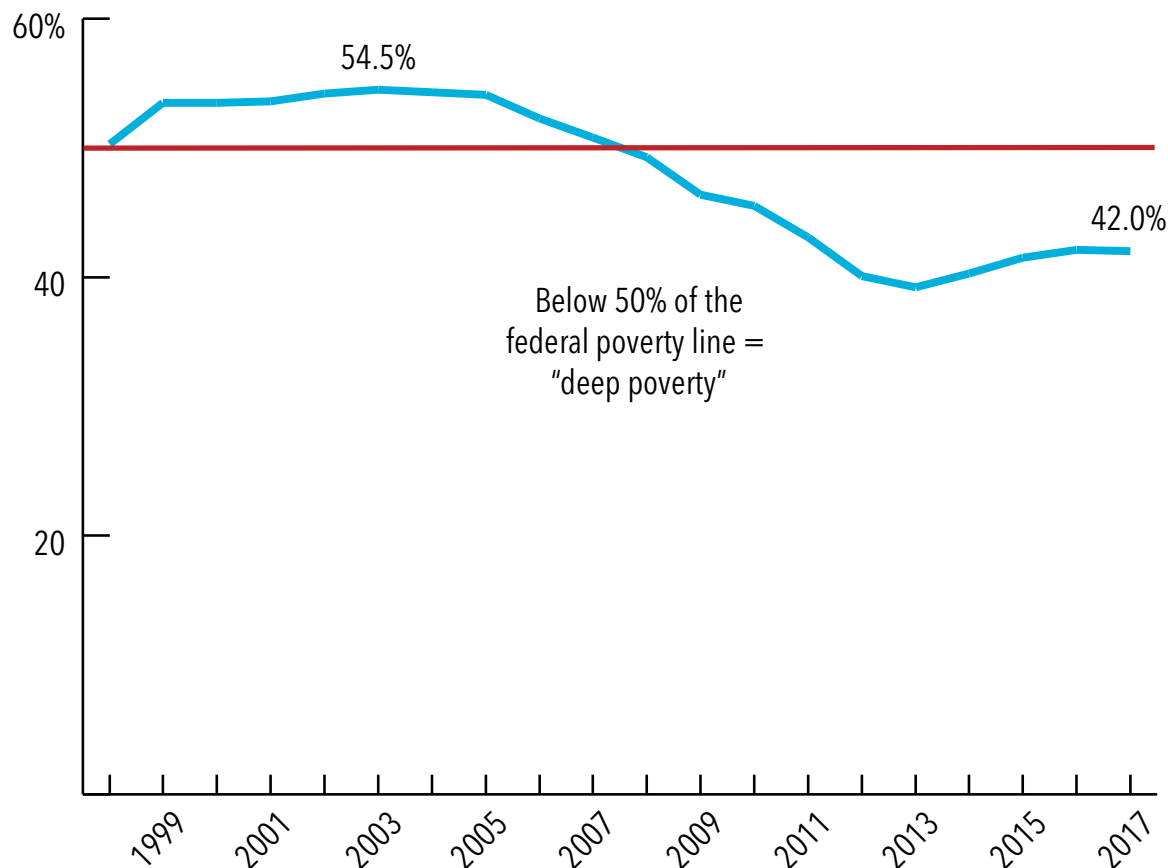


Proposed budget includes no new investment in key public supports for Californians with low incomes.



Without an Increase, CalWORKs Grants Will Remain Below the Deep-Poverty Line for the Tenth Straight Year

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



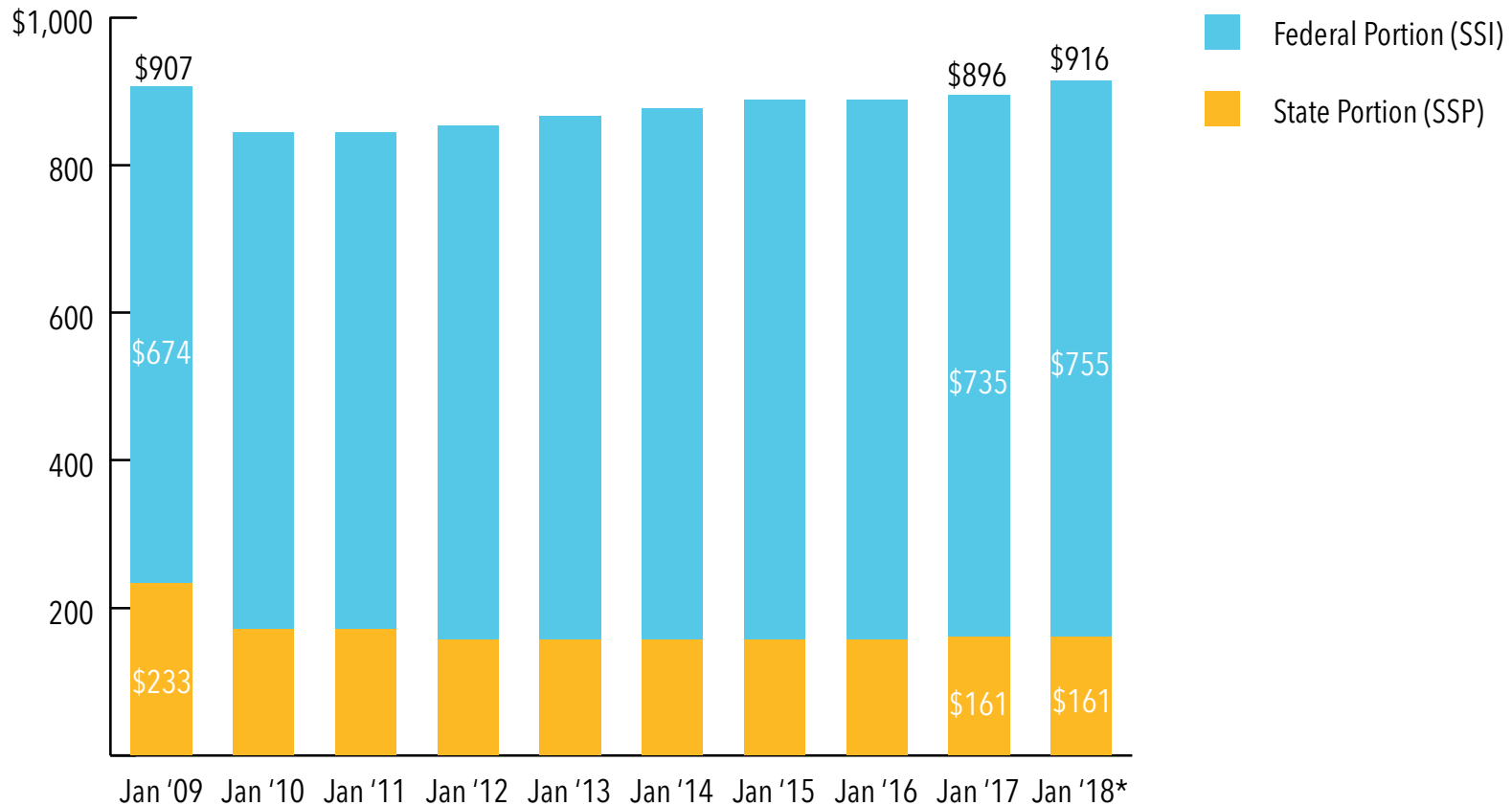
Note: Grants are for high-cost counties. The Governor's proposed budget does not increase grant levels in the 2017-18 fiscal year.

Source: Budget Center analysis of Department of Social Services, US Department of Health and Human Services, and US Social Security Administration data



Under the Governor's Proposal, SSI/SSP Grants in 2018 Would Be Just \$9 Per Month More Than the 2009 Level

Maximum Monthly Grant for Individuals Who Are Elderly or Have Disabilities



* Includes a projected 2.6 percent federal cost-of-living adjustment (COLA) to the SSI portion. The Governor's proposed 2017-18 budget does not include a state COLA for SSI/SSP grants.

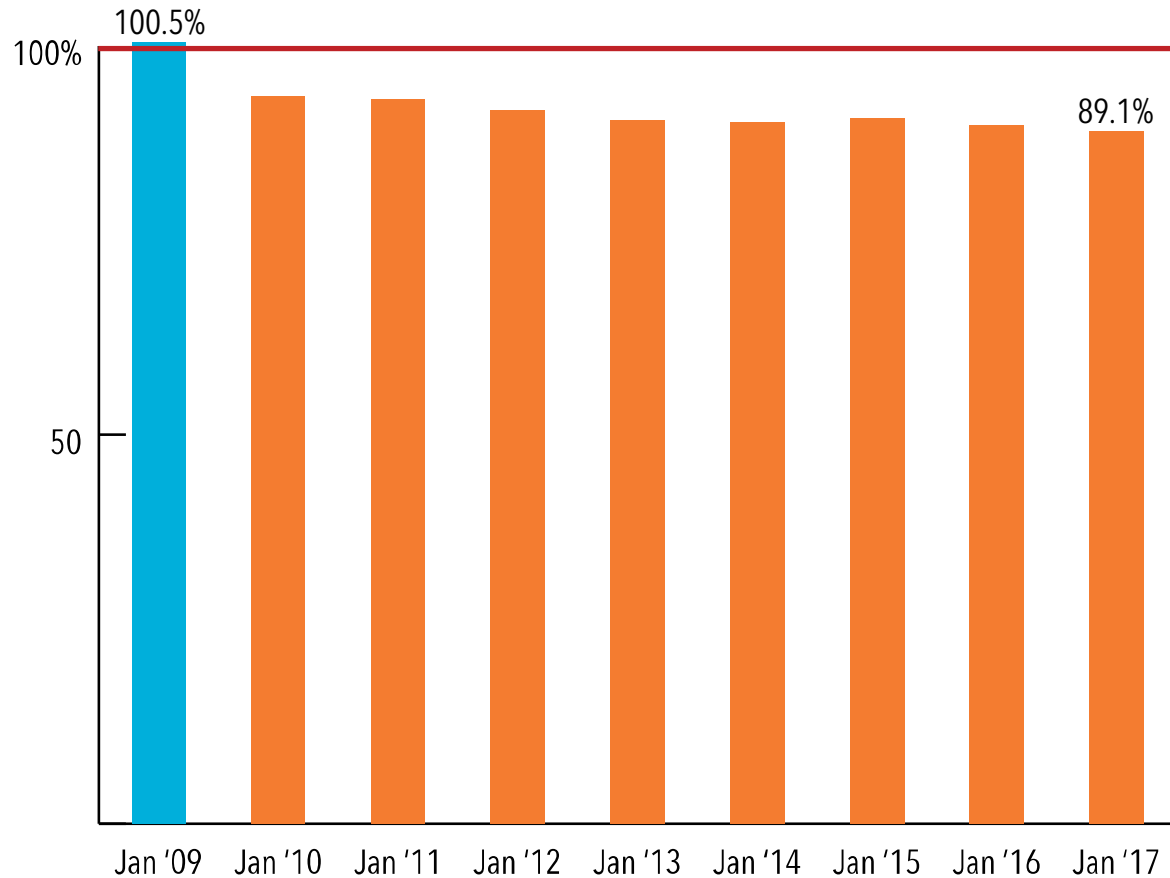
Note: Grant level is for individuals who live independently and have cooking facilities.

Source: Department of Social Services



SSI/SSP Grants for Seniors and People With Disabilities Remain Below Poverty for the Eighth Consecutive Year

Maximum Monthly Grant for Individuals as a Percentage of the Federal Poverty Line



Note: Grant level is for individuals who live independently and have cooking facilities.
Source: Department of Social Services and US Department of Health and Human Services

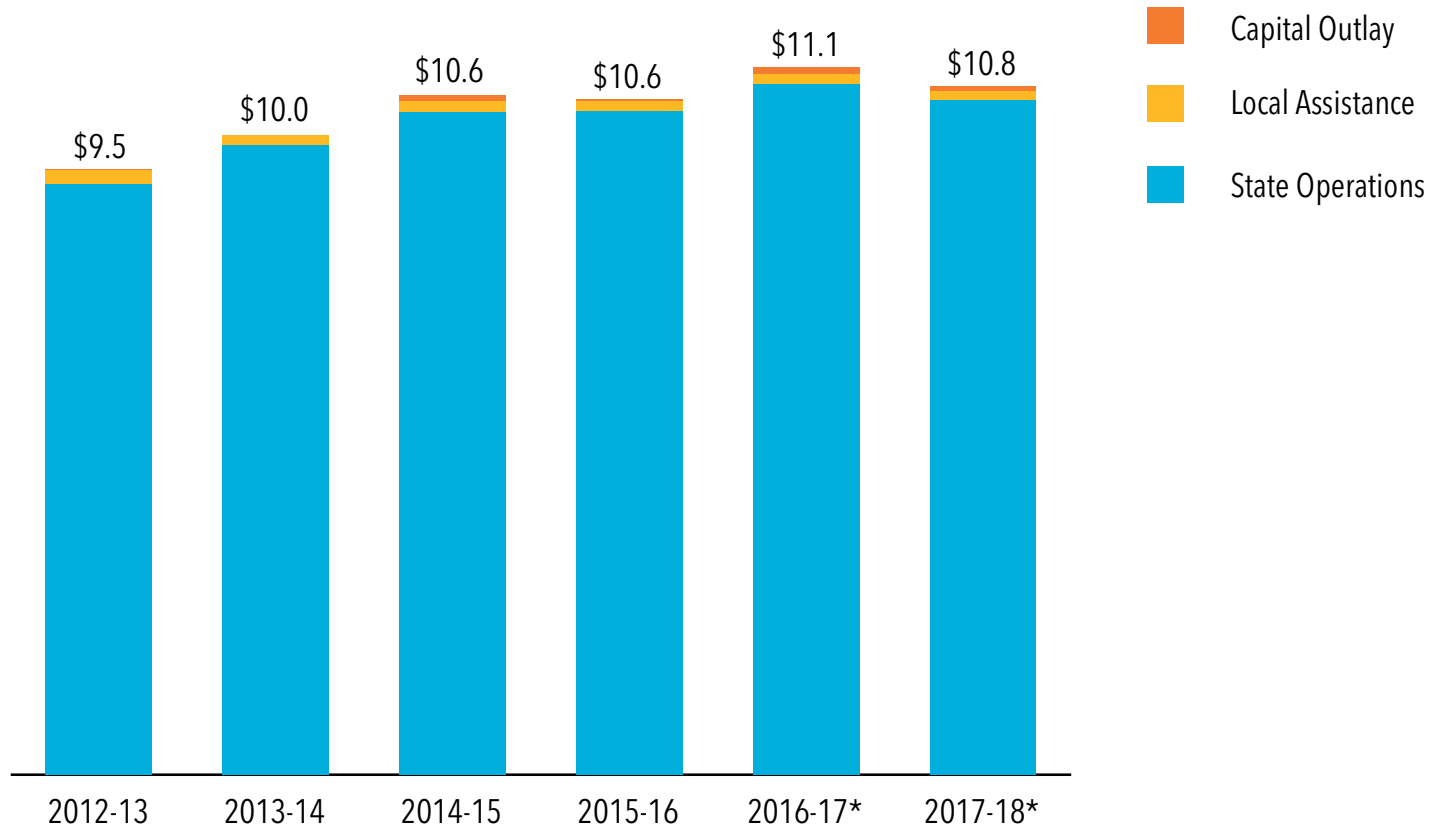


State corrections spending remains high despite the major criminal justice reforms adopted in recent years.



General Fund Support for the Department of Corrections and Rehabilitation Is Up by \$1.3 Billion Since 2012-13

Inflation-Adjusted Dollars in Billions



* 2016-17 estimated and 2017-18 proposed.

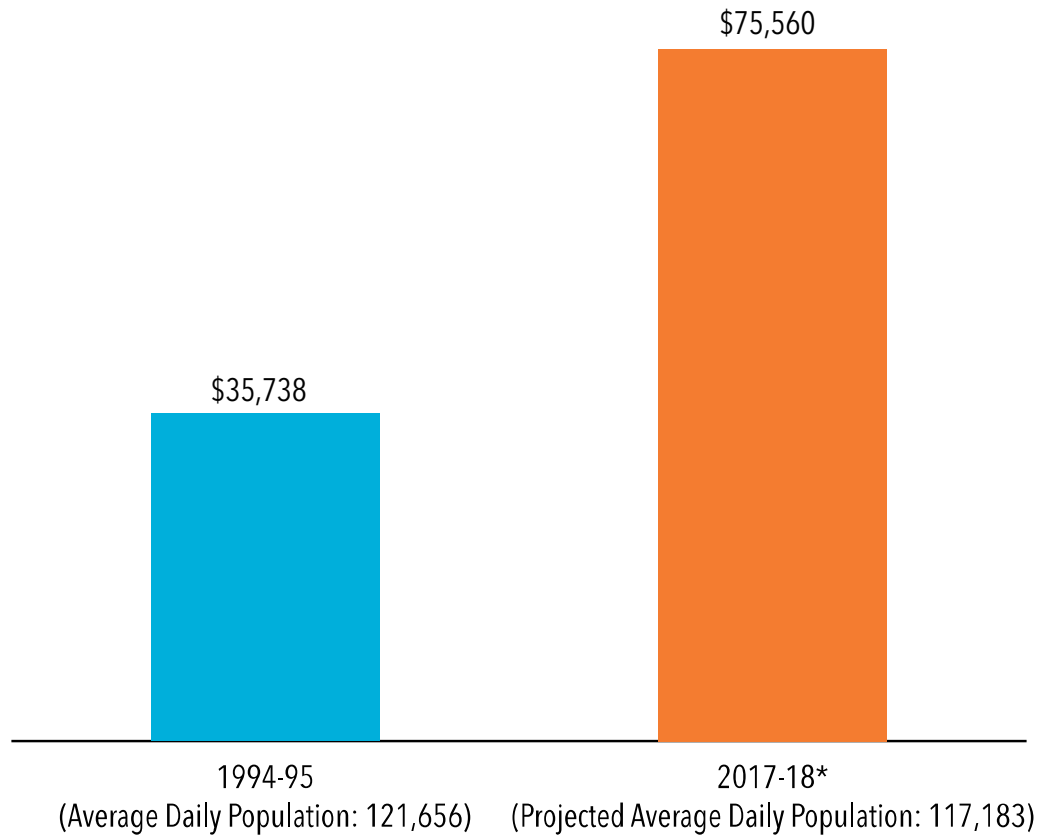
Note: 2017-18 excludes \$250.4 million for psychiatric services that the Governor proposes to transfer from the Department of State Hospitals to the Department of Corrections and Rehabilitation effective July 2017. Figures reflect 2017-18 dollars.

Source: Department of Finance



Spending Per Incarcerated Adult Would Be More Than Twice the 1994-95 Level Under the Governor's Proposal

Per Capita Cost for Adults Housed in State Prisons and Fire Camps, Inflation-Adjusted



* Proposed.

Note: 1994-95 per capita cost reflects 2017-18 dollars.

Source: Department of Finance

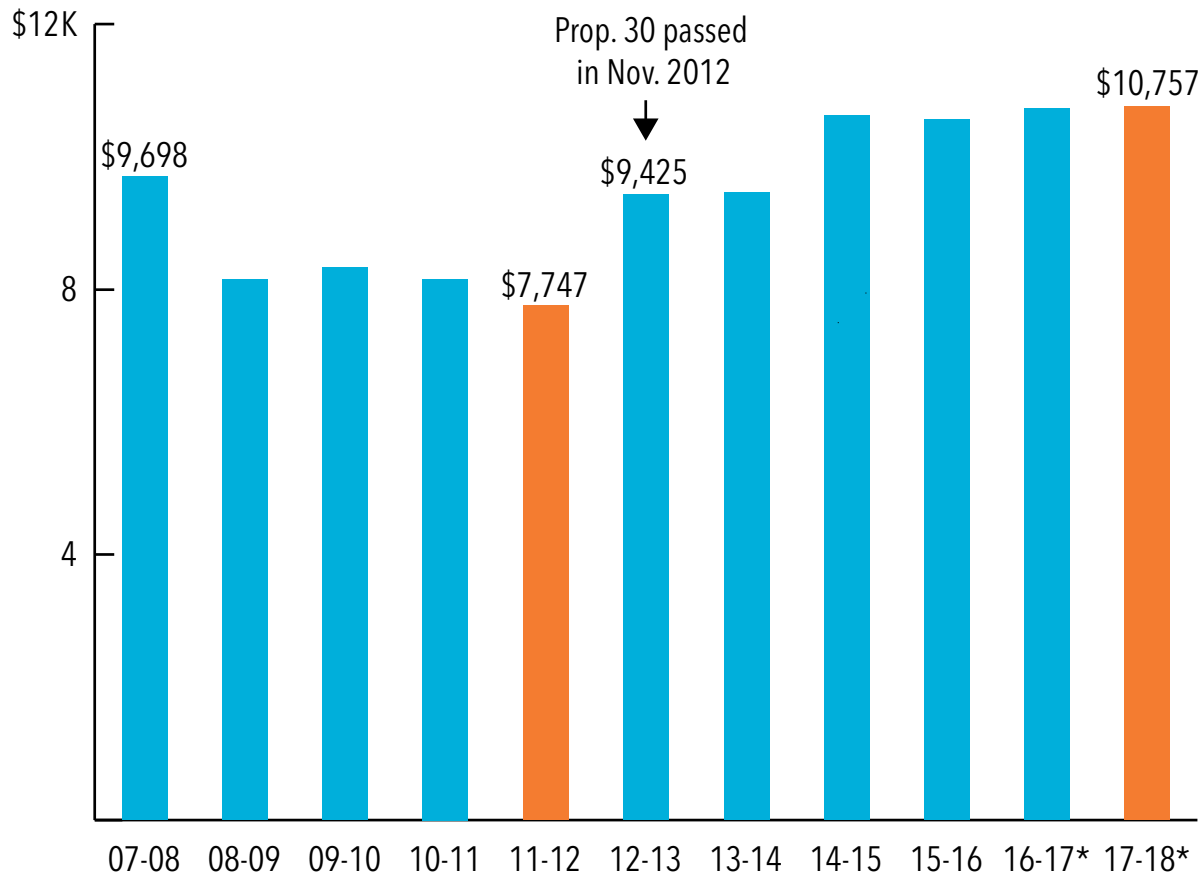


Proposed budget continues recent trend of reinvesting in K-14 and higher education.



The Governor's Proposed Budget Reflects K-12 Spending Per Student That Is \$3,000 Above the 2011-12 Level

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



* 2016-17 estimated and 2017-18 proposed.

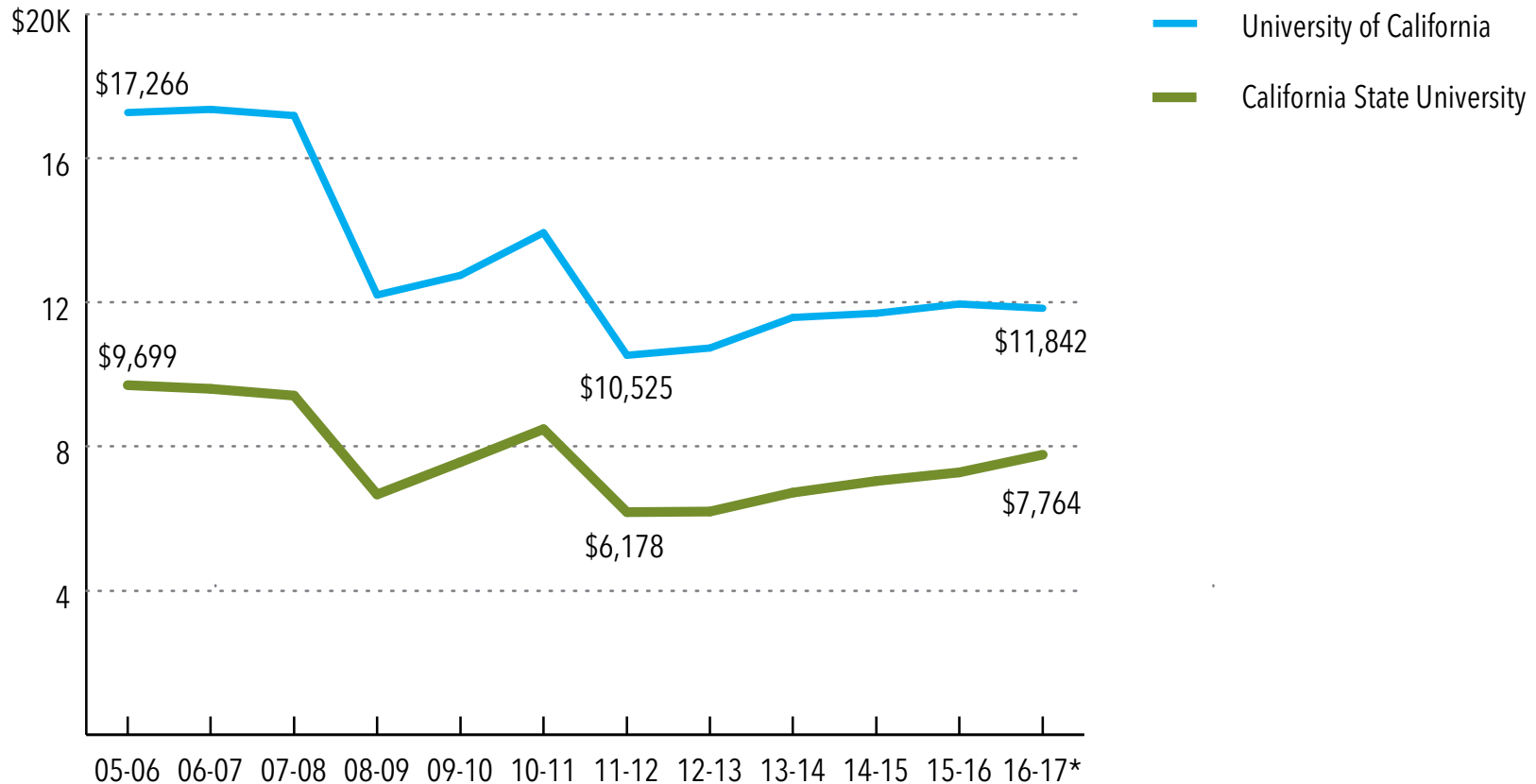
Note: Figures reflect 2017-18 dollars and exclude spending for adult education, preschool, and child care. Prop. 98 spending reflects both state General Fund and local property tax dollars.

Source: Legislative Analyst's Office



State Spending Per Student at CSU and UC Remains Well Below Pre-Recession Levels, Despite Recent Increases

Direct General Fund Expenditures Per Full-Time Student, Inflation-Adjusted



* Estimated.

Note: Figures are in 2016-17 dollars and reflect "full-time equivalent" enrollment, which accounts for credits taken by each student relative to a full-time course load. Data exclude indirect state funding for CSU and UC attributable to Cal Grant tuition and fee payments.

Source: Department of Finance, California State University, and University of California



Other Core Elements of Governor's Proposed 2017-18 State Budget

- Continues to support, but proposes no changes to, California Earned Income Tax Credit (CalEITC)
- Asks Legislature to approve 10-year transportation funding package and to affirm “cap and trade” program
- Reflects changes to state-run retirement systems
 - Additional state contributions for CalPERS and CalSTRS, which have lowered their discount rates (expected return on investment)
 - \$15 million loan from General Fund for start-up implementation of Secure Choice program



What Happens Next? Key Issues to Watch



Some Key Issues and Questions to Watch Going Forward

- **Federal actions:** To what extent do the Trump Administration and Republican leaders follow through on Obamacare repeal and other threatened cuts?
- **Legislature's response:** Do Assembly and Senate push for increased CSU/UC funding and/or greater investment in supports (affordable housing, CalEITC, CalWORKs, SSI/SSP) for Californians still struggling in the wake of the Great Recession?
- **Revenue forecast:** Does Administration's revenue outlook improve by the release of its revised budget in May?





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