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& Policy Center

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California Budget Perspective 2020-21

MARCH 2020

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 Californians with low and middle incomes. Support for the Budget Center comes from foundation grants, subscriptions, and individual contributions. Please visit our website at calbudgetcenter.org.

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The Governor's Proposed 2020-21 Budget: Top Lines



The Governor's Proposed Budget: Top Lines

- Forecasts revenues that are nearly \$6 billion higher over the 3-year budget window from 2018-19 to 2020-21.
- Proposes significant new funding and reforms to support access to housing and services to address homelessness.
- Builds upon expansions made in the 2019-20 budget and reorganizes a range of state agencies and programs.
- Plans for an economic downturn by building up reserves.
- Leaves room for additional investments to improve the lives of Californians still struggling to make ends meet.

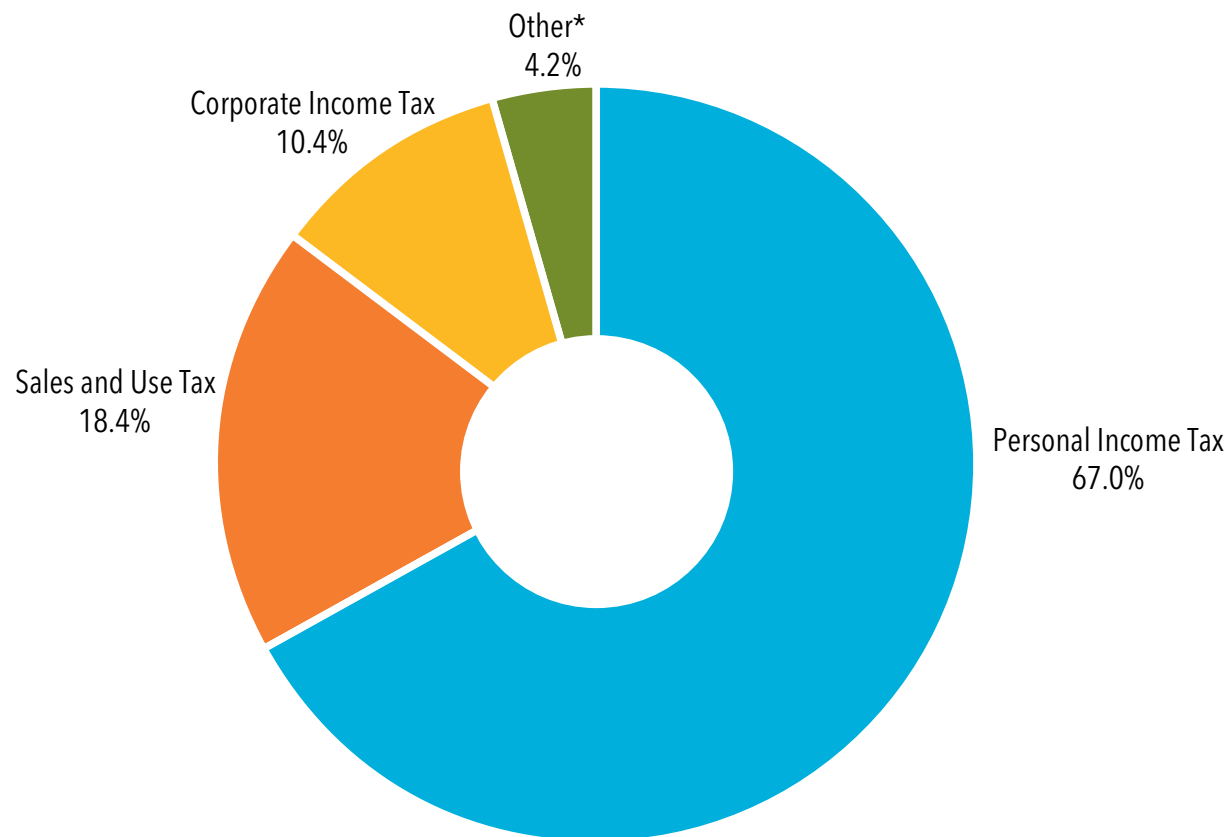


The Big Picture: Revenues, Spending, and Reserves



The Personal Income Tax Is Projected to Account for Over Two-Thirds of California's General Fund Revenues

Projected 2020-21 General Fund Revenues = \$153.6 Billion



* Includes Insurance Tax, Alcoholic Beverage Taxes and Fees, Cigarette Tax, Motor Vehicle Fees, and other sources of revenue.

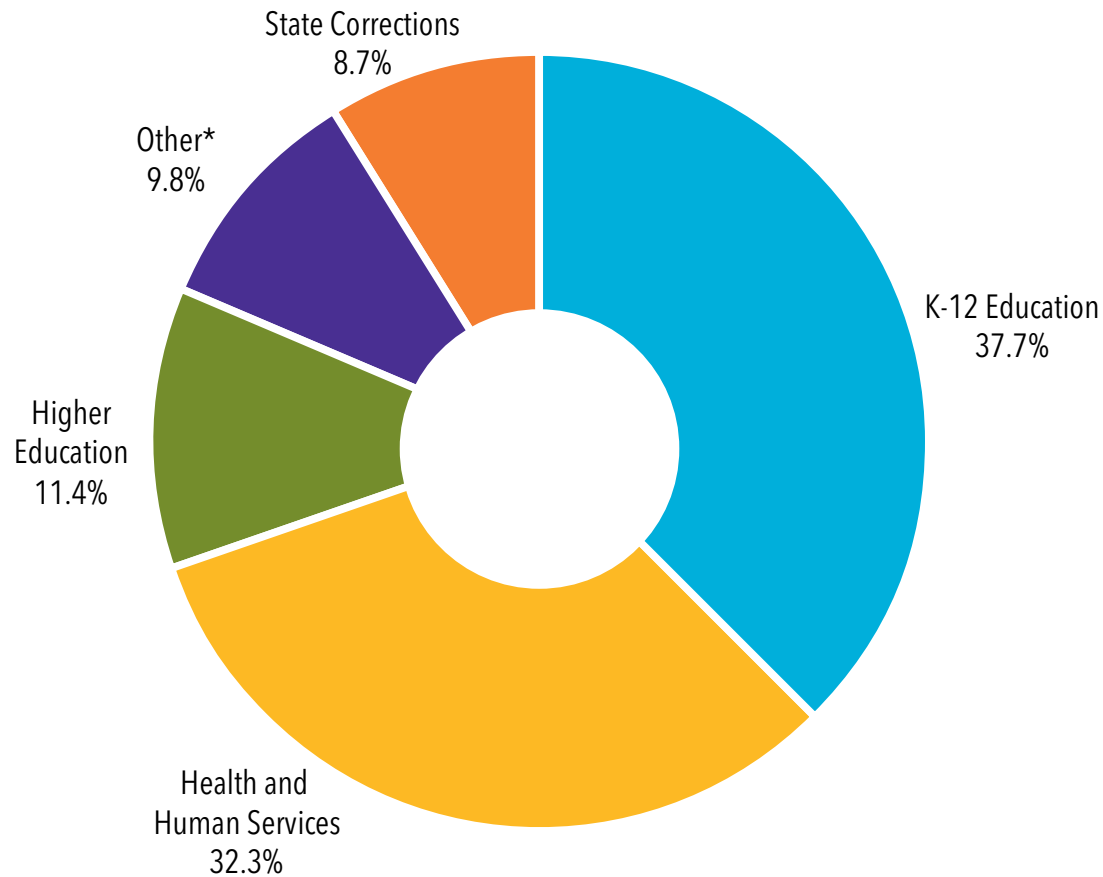
Note: Reflects total projected General Fund revenues before a \$2 billion transfer to the state's rainy day fund as required by Proposition 2 (2014).

Source: Department of Finance



K-12 Education Accounts for the Largest Share of California's General Fund Expenditures

Proposed 2020-21 General Fund Expenditures = \$153.1 Billion



* Includes General Government; Legislative, Judicial, and Executive; Natural Resources; and other state budget categories that account for relatively small shares of General Fund expenditures.

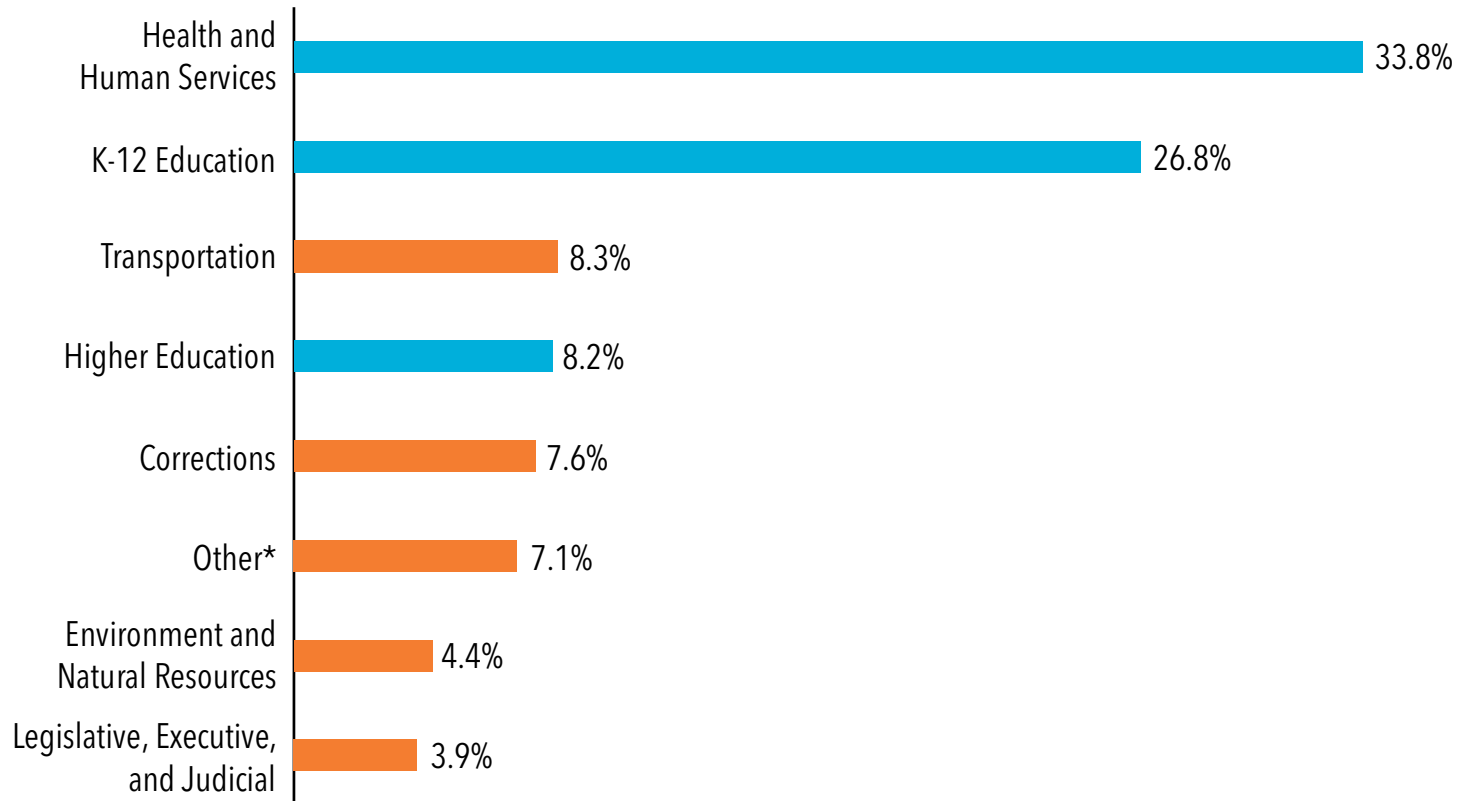
Note: Figures do not sum to 100 due to rounding.

Source: Department of Finance



More Than Two-Thirds of State Dollars Support Health and Human Services or Education

Proposed 2020-21 General Fund and Special Fund Expenditures = \$216.8 Billion



* Includes Business, Consumer Services, and Housing; Labor and Workforce Development; Government Operations; and General Government.

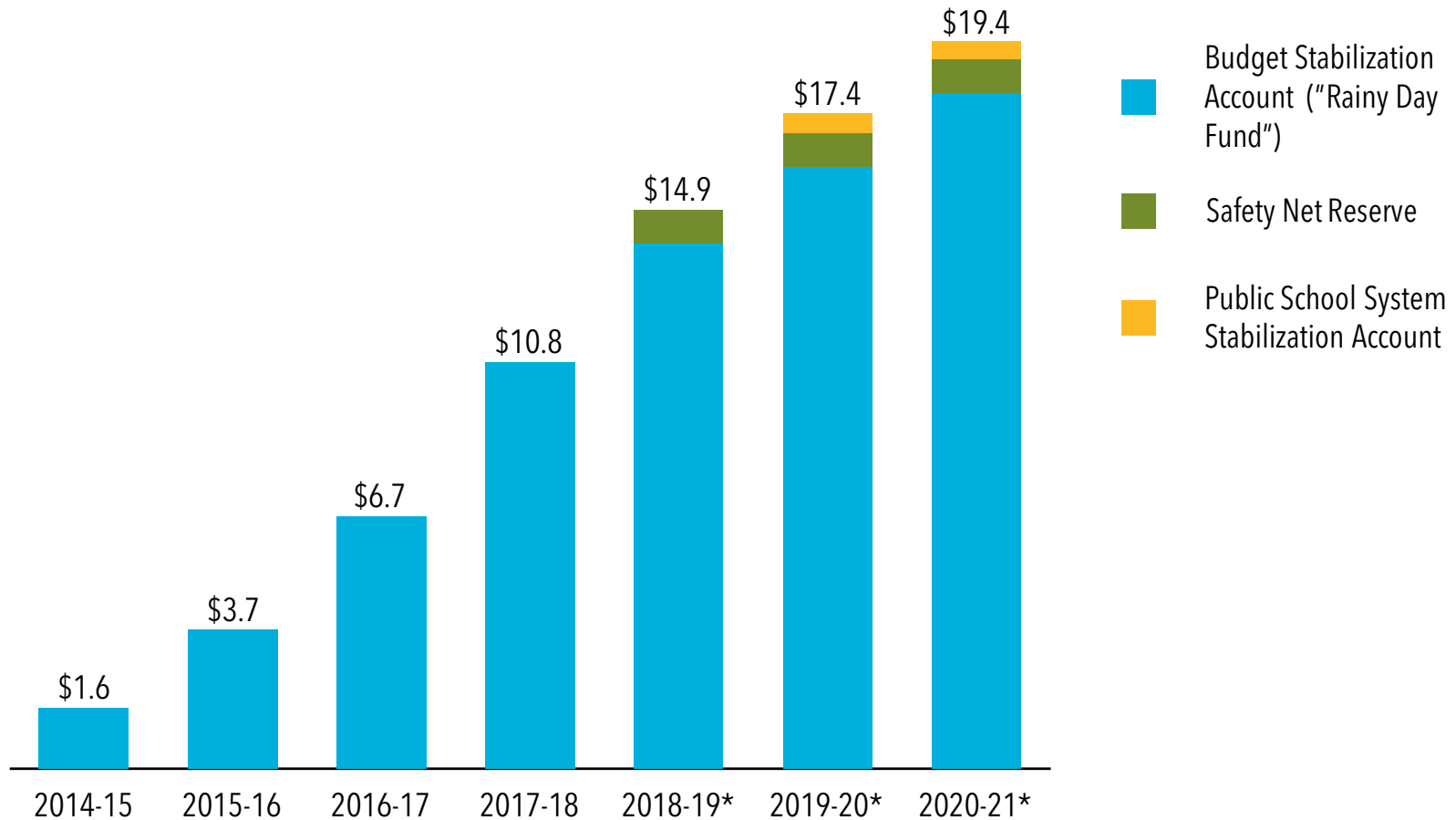
Note: Figures do not sum to 100 due to rounding.

Source: Department of Finance



By the End of 2020-21, California's Reserves Are Projected to Be 12 Times Higher Than in 2014-15

Budget Reserve Fund Balances, 2014-15 Through 2020-21 (Billions)



* Projected as of the Governor's proposed 2020-21 budget
Source: Department of Finance



Key Elements of the Governor's Proposed Budget



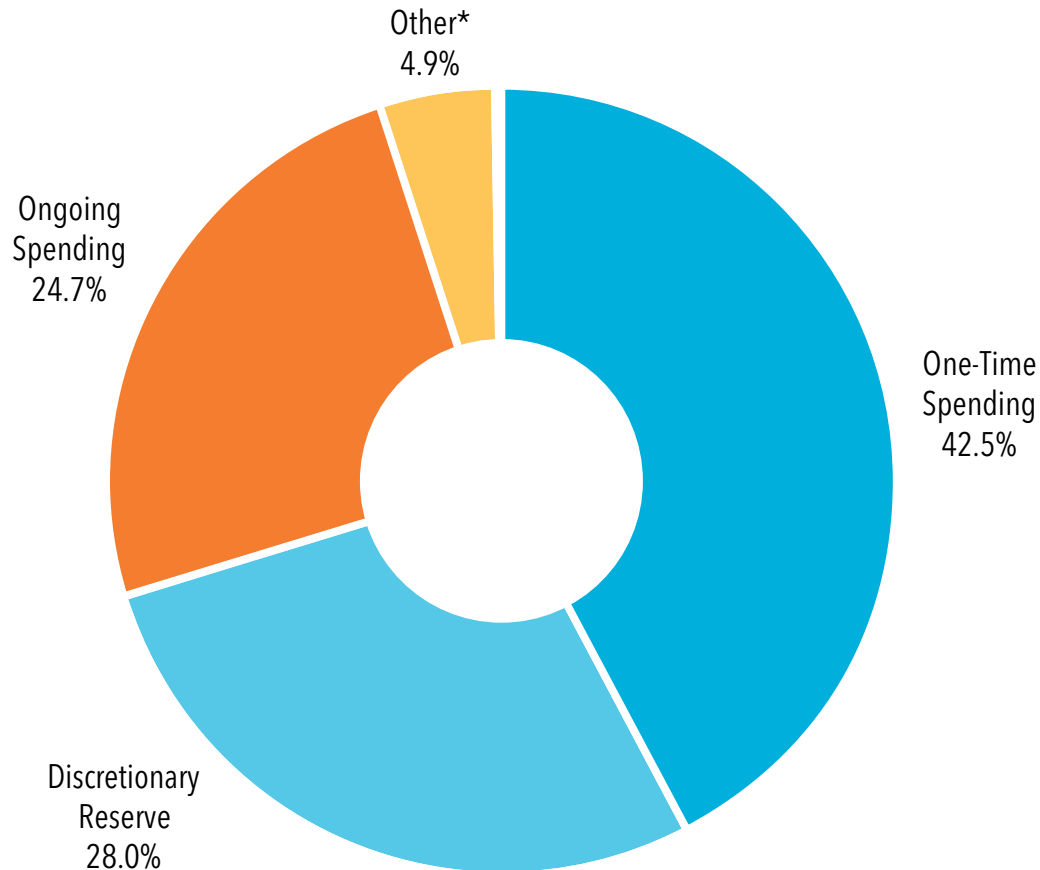
Governor's budget assumes the state has about \$6 billion in "discretionary resources" to allocate in the budget process.

These are resources that are available after accounting for various factors, such as constitutional spending mandates, caseload increases, and the cost of new legislation.



Governor Proposes to Allocate More Than Two-Thirds of Discretionary Resources to One-Time Spending or a Reserve

Total Discretionary Resources Projected as of the Proposed 2020-21 Budget = \$5.9 Billion



* Reflects a tax-cut proposal and a debt-related proposal.
Note: Percentages do not sum to 100 due to rounding.
Source: Legislative Analyst's Office



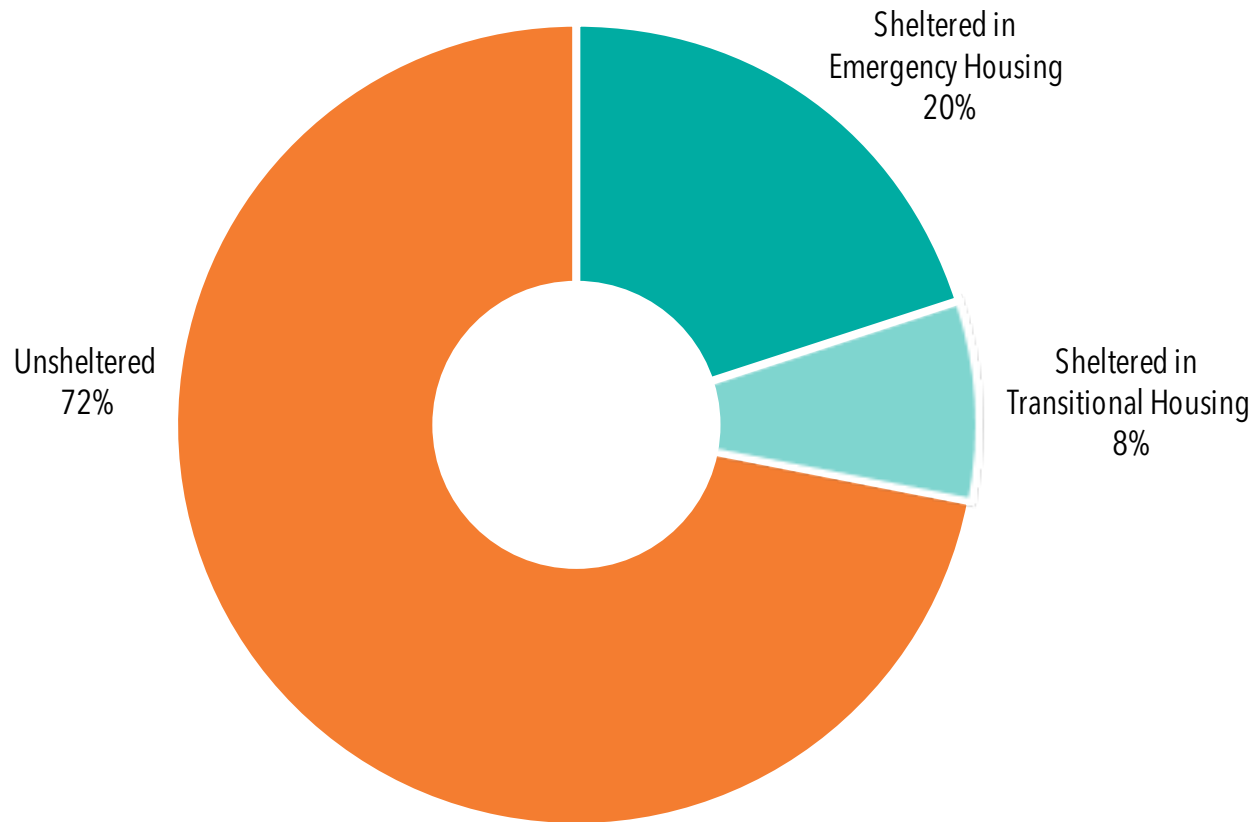
Addressing homelessness is a major focus of the Governor's budget proposal.

Strategies include significant one-time funding as well as enhancements to health and behavioral health systems.



Nearly Three in Four Californians Experiencing Homelessness Are Unsheltered

Total Homeless Population Based on the 2019 Statewide Point-in-Time Count = 151,278



Note: The Point-in-Time Count provides an estimate of individuals experiencing homelessness on a single night in late January.
Source: US Department of Housing and Urban Development



Governor Proposes Significant One-Time Funding to Address Homelessness

- The proposal allocates \$750 million one-time General Fund to create a new fund to address homelessness called the California Access to Housing and Services Fund.
 - Funds would be administered through the Department of Social Services, distributed through performance-based contracts between the state and “regional administrators.”
 - Uses of funds would include rental subsidies, affordable housing development, stabilizing board and care facilities, and case management, among others.



Proposed Health System Changes Seek to Address Homelessness

- Proposed changes and investments would address the needs of homeless individuals through the health and behavioral health systems, including:
 - Changes included in the broader “California Advancing and Innovating Medi-Cal” (CalAIM) reform package to better connect individuals to housing and other needed services;
 - Changes to the Mental Health Services Act to increase the focus on individuals experiencing homelessness; and
 - Creation of a Community Care Collaborative Pilot Program to serve individuals with mental health needs who are designated incompetent to stand trial.



Governor maintains increased funding for housing production included in the 2019-20 budget, but proposes no significant new housing investments.



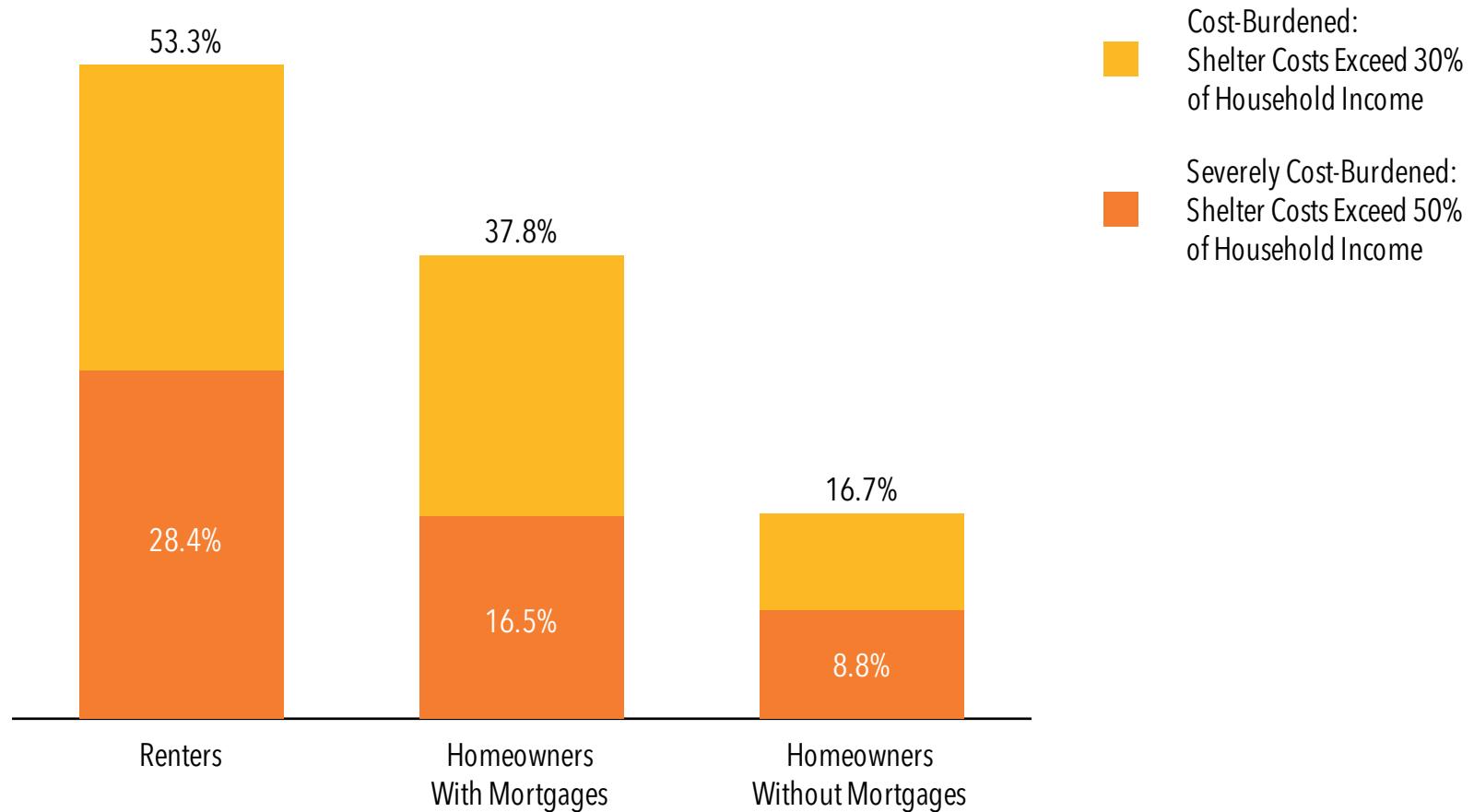
Governor Points to Housing Investments Included in the 2019-20 Budget

- Proposal maintains an additional \$500 million for the state Low Income Housing Tax Credit, which supports affordable housing production, as proposed in the 2019-20 budget.
- Proposal also includes a modest \$10 million annually over the next three years “to support the state’s efforts to increase housing production.”
- To explain the lack of new major housing spending, the Governor points to major investments to support housing planning and production included in the 2019-20 budget, many of which are being implemented this calendar year.



More Than Half of California 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, 2018



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



Governor's health policy proposals reflect a multi-pronged strategy.

This strategy includes improving care coordination, enhancing behavioral health services, expanding access to health care coverage, and reducing costs.



Governor Proposes Funding to Support Ambitious Medi-Cal Reform Efforts

- “California Advancing and Innovating Medi-Cal” (CalAIM) is an ongoing reform effort that aims to better coordinate health care services, behavioral health services, and social services, while reducing cost per capita over time.
 - This approach focuses on treating patient needs through a whole-person-centered approach and addressing the social determinants of health.
- The proposal allocates:
 - \$695 million (\$348 General Fund) to begin the initiative; and
 - \$45.3 million (\$45.1 General Fund) to incentivize process improvements for county behavioral health systems.



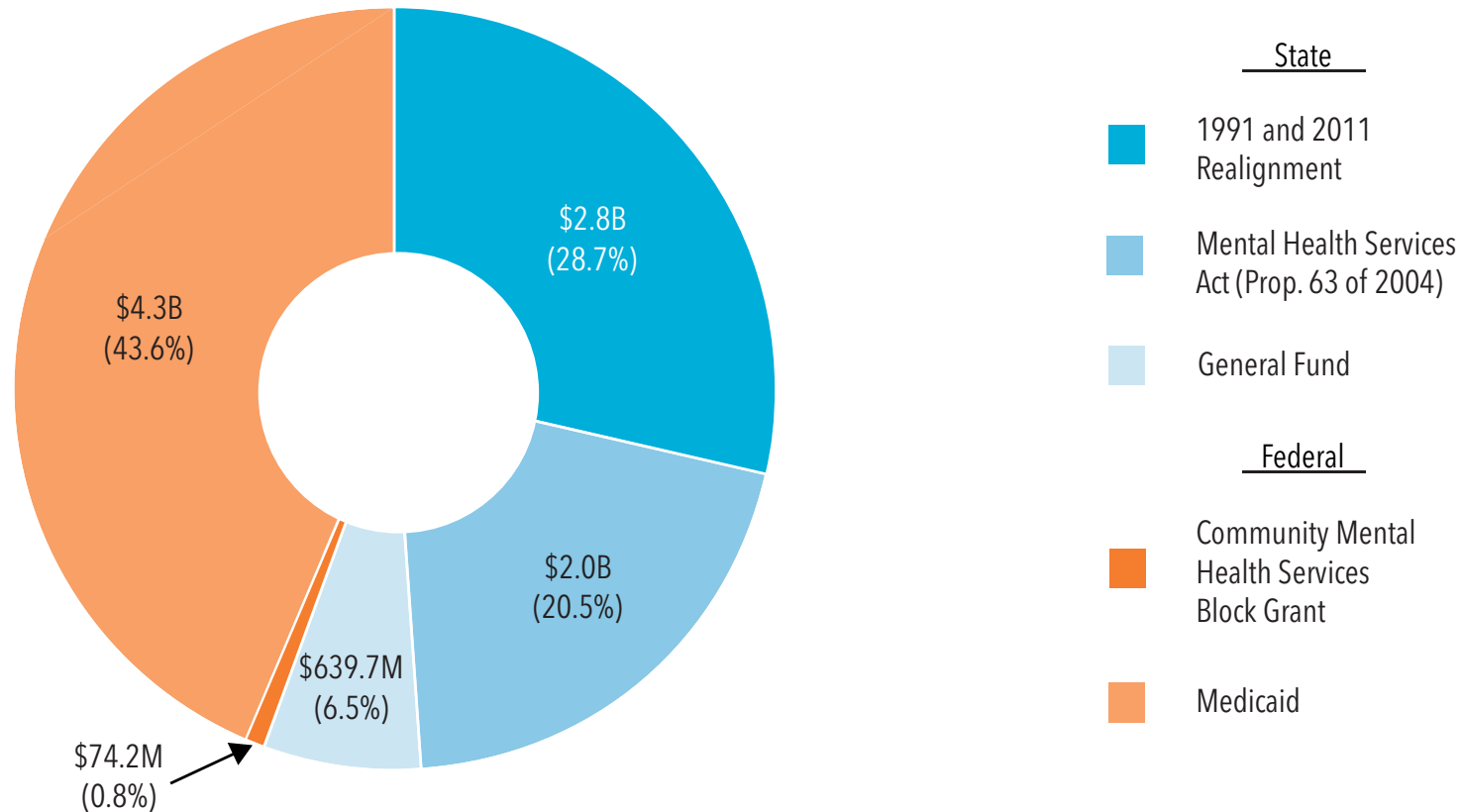
Administration Aims to Improve Behavioral Health Outcomes

- The Administration proposes to:
 - Strengthen behavioral health parity laws, which require that health plans apply similar rules to both behavioral health and physical health benefits; and
 - Revise the Mental Health Services Act, which created a 1% surtax on personal income above \$1 million to provide increased funding for mental health services.
- The proposed 2020-21 budget also includes:
 - \$24.6 million to implement a Community Care Collaborative Pilot Program, which aims to place individuals who are designated incompetent to stand trial into stable community placements instead of state hospitals or other institutions.



The Majority of Funding for Public Mental Health Services in California Comes From the State

2017-18 State and Federal Funding = \$9.8 Billion



Note: Does not include county funding or funding for certain outpatient services. Certain realignment revenues may be used to support substance use disorder services. Percentages do not sum to 100 due to rounding.

Source: Legislative Analyst's Office and Mental Health Services Oversight and Accountability Commission



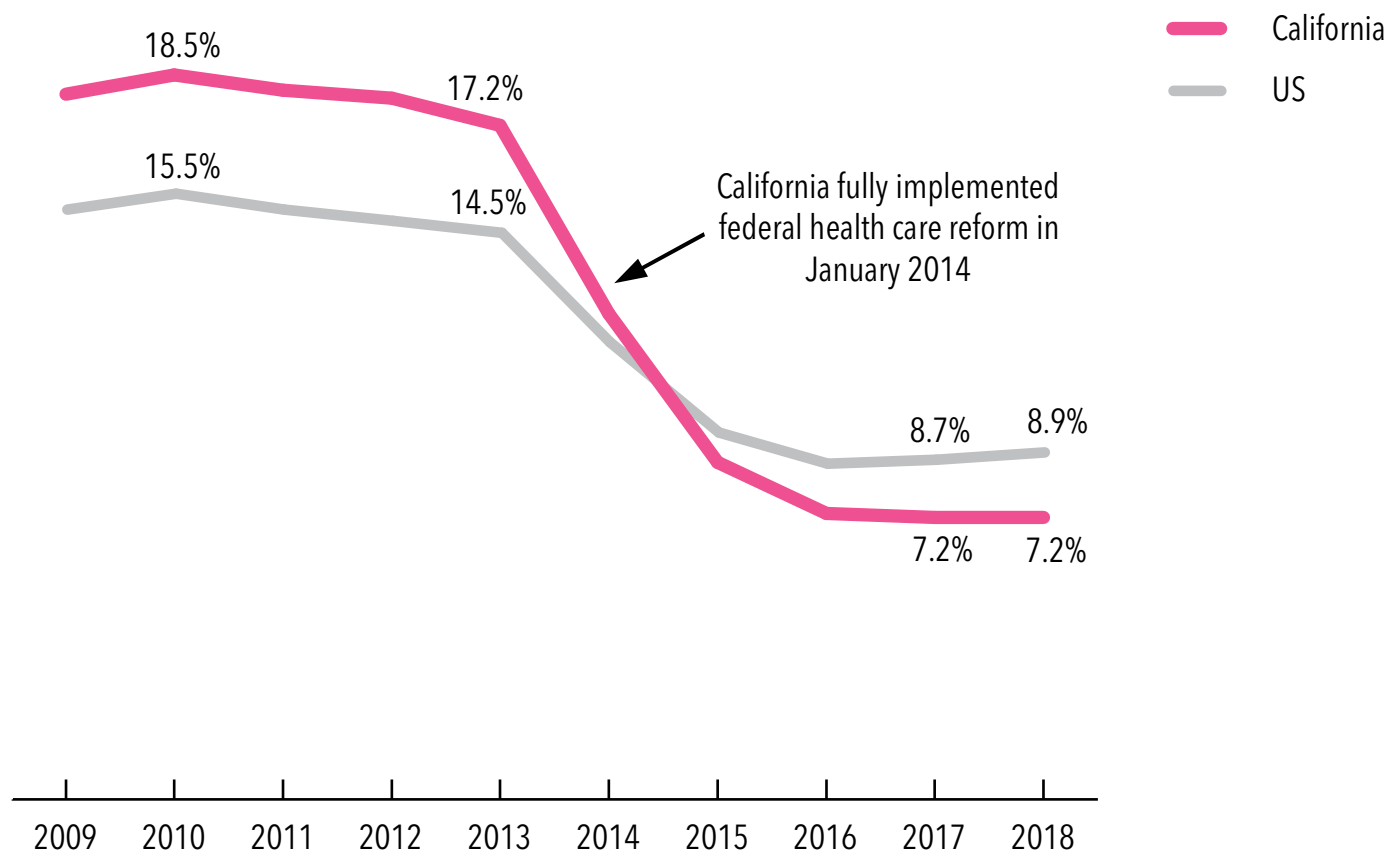
Governor Covers Undocumented Seniors in Medi-Cal, Tackles Rising Health Costs

- The Governor proposes to expand, in 2021, eligibility for comprehensive (“full scope”) Medi-Cal coverage to seniors with low incomes regardless of immigration status.
- The Governor proposes to tackle rising health costs by:
 - Creating a new office that would set “cost targets” for the health care industry, among other things; and
 - Implementing several changes aimed at reducing the cost of prescription drugs.
- The proposed budget does not expand state assistance for people who buy coverage in the individual market and continue to struggle with high costs. Such assistance would help to reduce California’s uninsured rate.



California's Uninsured Rate Stalled Out in 2018

Percentage of People Without Health Coverage, 2009 to 2018



Note: Estimates are based on survey respondents' health care coverage status at the time of the interview. The change in the US rate from 2017 to 2018 is statistically different from zero at the 90% confidence level.

Source: US Census Bureau, American Community Survey



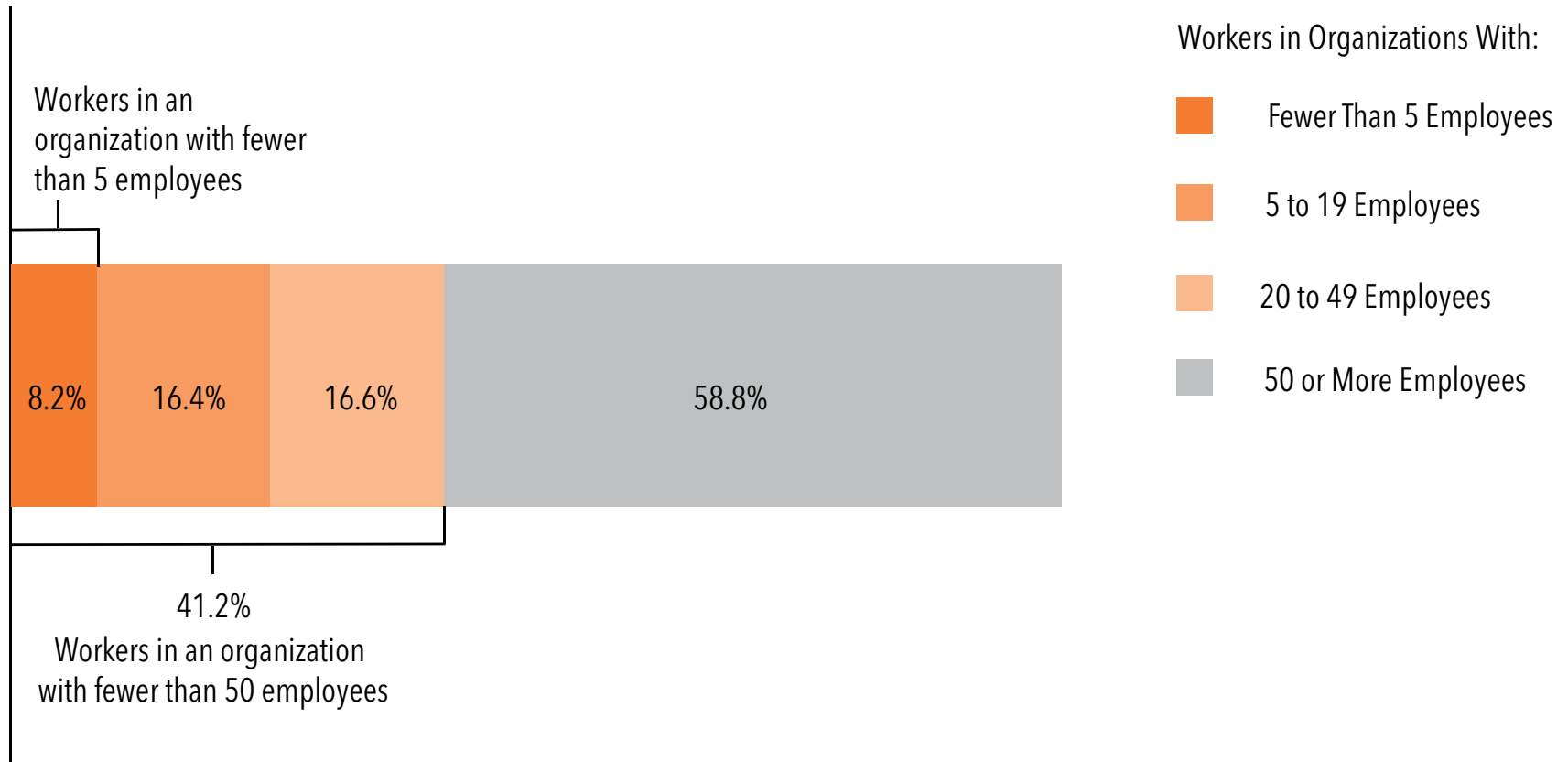
Governor proposes to expand job protections for workers who need time away from their jobs to care for family.

Currently, workers have access to unpaid, job-protected leave under a variety of state and federal laws. Job protections vary based on the reason for leave and the size of the employer.



4 in 10 California Workers Are in a Workplace With Fewer Than 50 Employees With Limited Access to Job-Protected Leave

Share of California Workers by Size of Employer, 2018



Number of Workers = 17.4 Million

Note: Data are for the third quarter of 2018.
Source: Budget Center analysis of Employment Development Department data



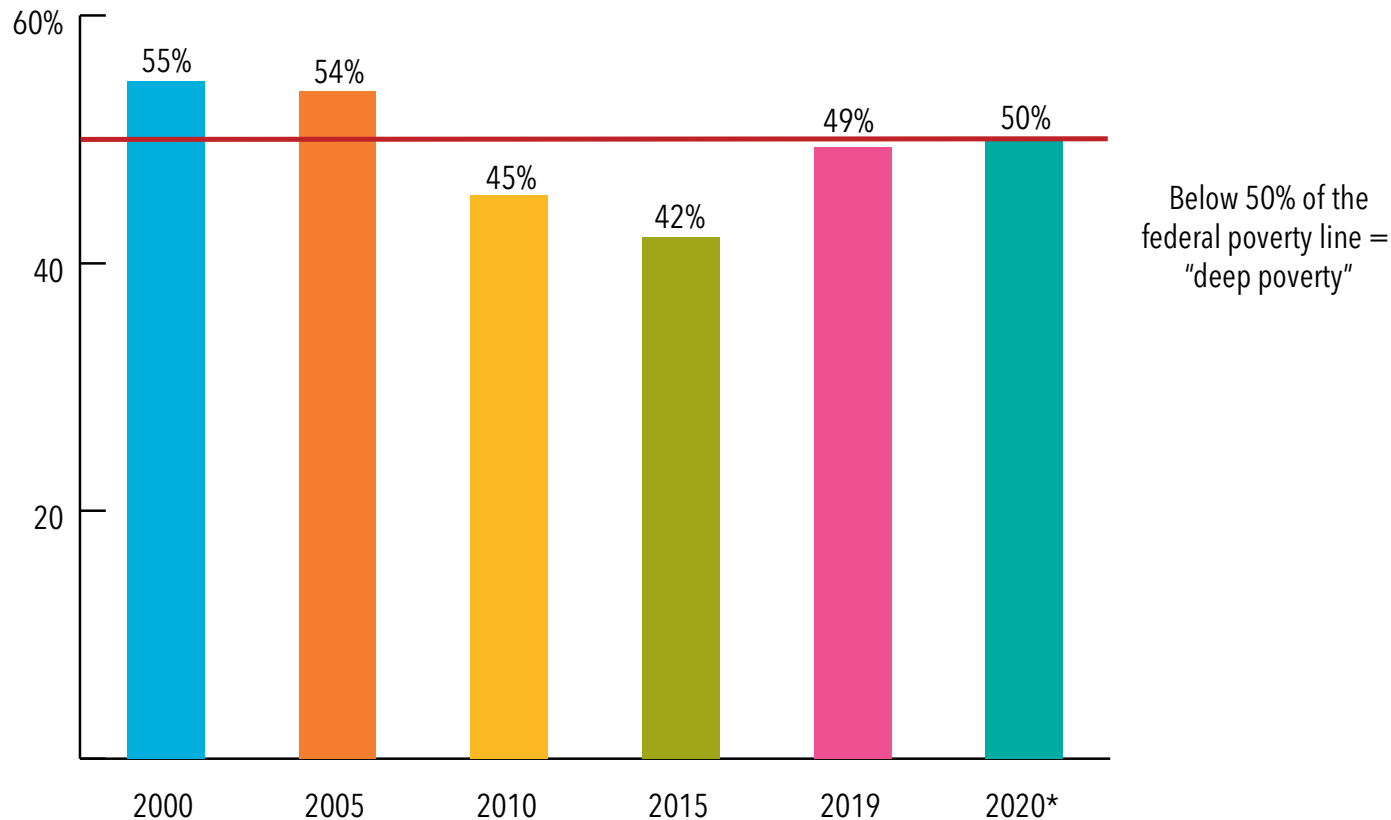
Proposed budget raises CalWORKs grants up to the deep-poverty threshold.

The maximum CalWORKs grant for a family of three has been below the deep-poverty level (50% of the federal poverty line) for more than a decade.



Governor Proposes Returning CalWORKs Grants to the Deep-Poverty Line for the First Time in Over a Decade

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



* Reflects the Governor's proposal to increase the maximum CalWORKs grant by 3.09%, effective October 1, 2020.

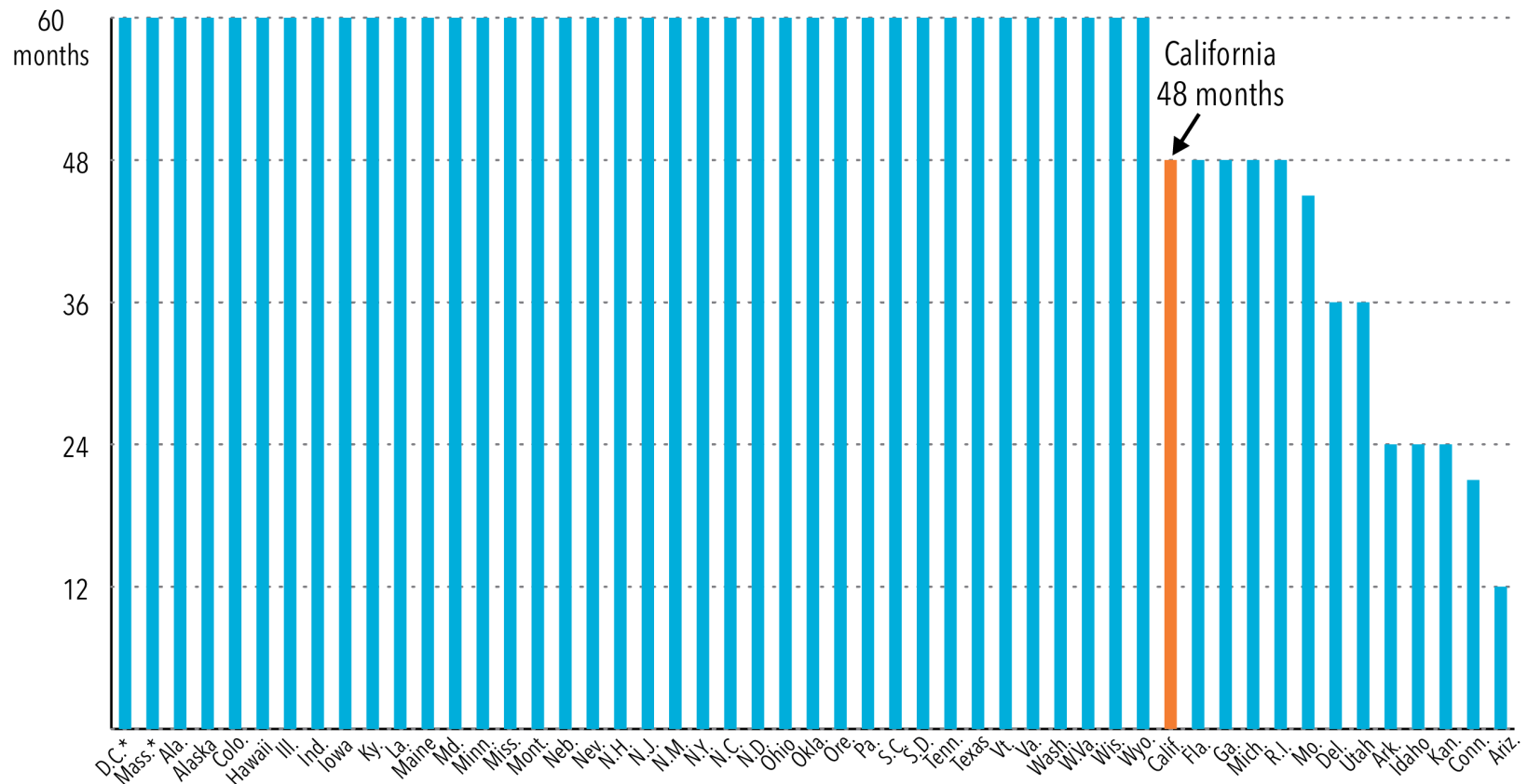
Note: Grants are for high-cost counties in October of each year.

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



Nearly 3 in 4 States Have Welfare-to-Work Parent Lifetime Time Limits That Are More Generous Than California's

Temporary Assistance for Needy Families Lifetime Time Limits for Parents by State, 2018



*The maximum lifetime limit for benefits funded by federal TANF is 60 months. District of Columbia and Massachusetts do not have a lifetime time limit for parents, using other funds to support benefits beyond 60 months.

Note: Based on rules in place as of July 2018 for each state's primary TANF program.

Source: Urban Institute Welfare Rules Database



Proposed budget includes health, legal, and entrepreneurial support for immigrant communities.



Proposed Budget Includes Support for Immigrant Communities

- The proposed budget:
 - Extends eligibility for comprehensive Medi-Cal coverage to undocumented seniors;
 - Maintains \$65 million (ongoing) for organizations that support unaccompanied undocumented minors and provide immigration services;
 - Proposes \$10 million in one-time funding to establish the Social Entrepreneurs for Economic Development Initiative to provide micro-grants and trainings to immigrants; and
 - Provides funding to monitor compliance with AB 1747 (signed into law in 2019), which limits the use of the California Law Enforcement Telecommunications System (CLETS) for immigration enforcement purposes.



Funding for early learning programs for preschool-age children would increase under the proposed budget.



Governor Proposes Additional Funding for Facilities and State Preschool

- The Administration proposes to increase funding for early learning facilities for preschool-age children with:
 - \$75 million Prop. 98 General Fund for the Inclusive Early Education Expansion Grant Program; and
 - \$150 million from the underutilized Full-Day Kindergarten Facilities Grant Program.
- The budget proposal would also add 10,000 full-day spaces in the California State Preschool Program (\$31.9 million General Fund), effective April 1, 2021, as part of the Governor's goal of providing universal preschool in California.



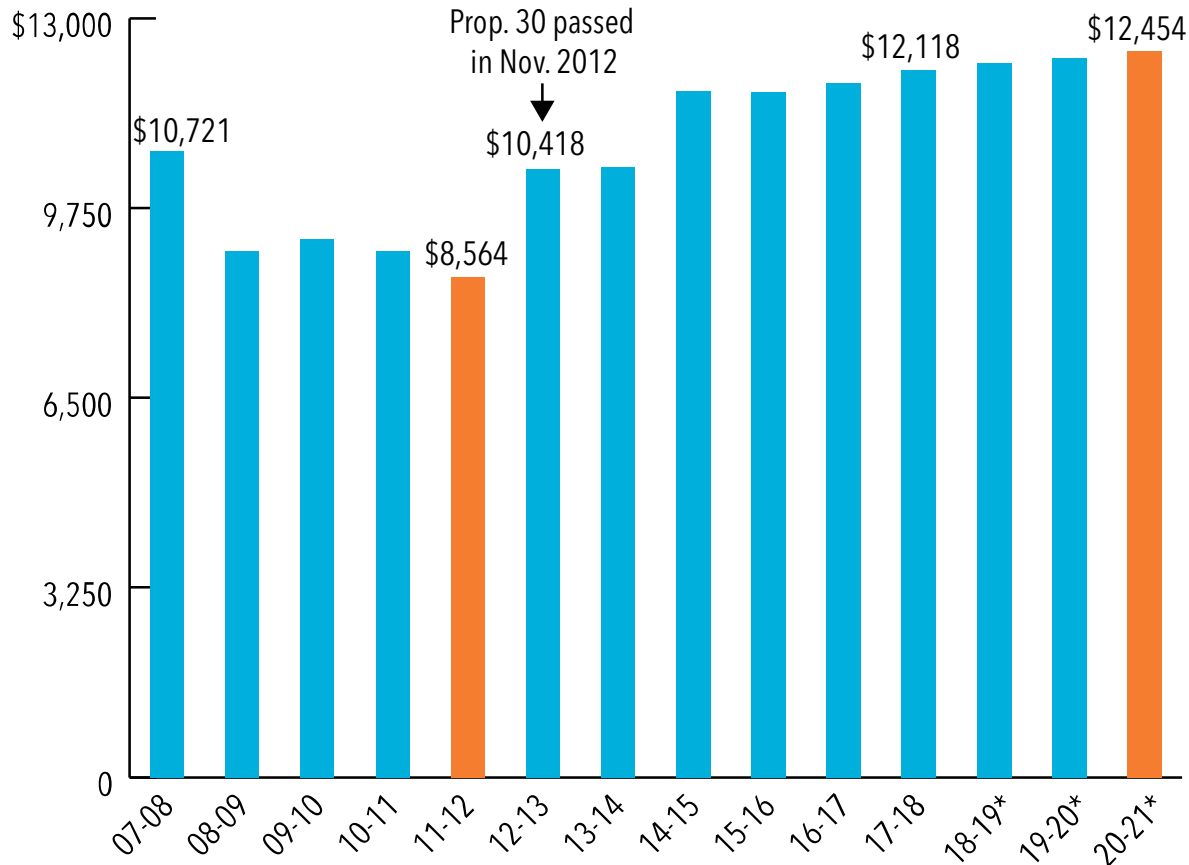
Proposed budget reflects increase in overall funding for K-12 education and community colleges.

Budget proposal allocates significant new one-time spending (\$900 million) for K-12 teacher recruitment, preparation, and training.



Spending Per Student Increased After Proposition 30, but Has Levelled Off in Recent Years

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



* 2018-19 and 2019-20 estimated and 2020-21 proposed.

Note: Figures reflect 2020-21 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



Budget Proposal Invests in Community Colleges and Workforce Development

- Proposes \$83 million to support various apprenticeship and work-based learning programs at community colleges.
- Provides \$21 million to support non-tuition cost-of-attendance expenses.
- Allocates \$17 million for a new regional economic and educational collaborative in Fresno.
- Increases support for undocumented and immigrant students by \$16 million.



Governor's spending plan would continue to increase funding for CSU and UC.

**Administration also proposes to form a
student debt workgroup and to create an
informational website.**



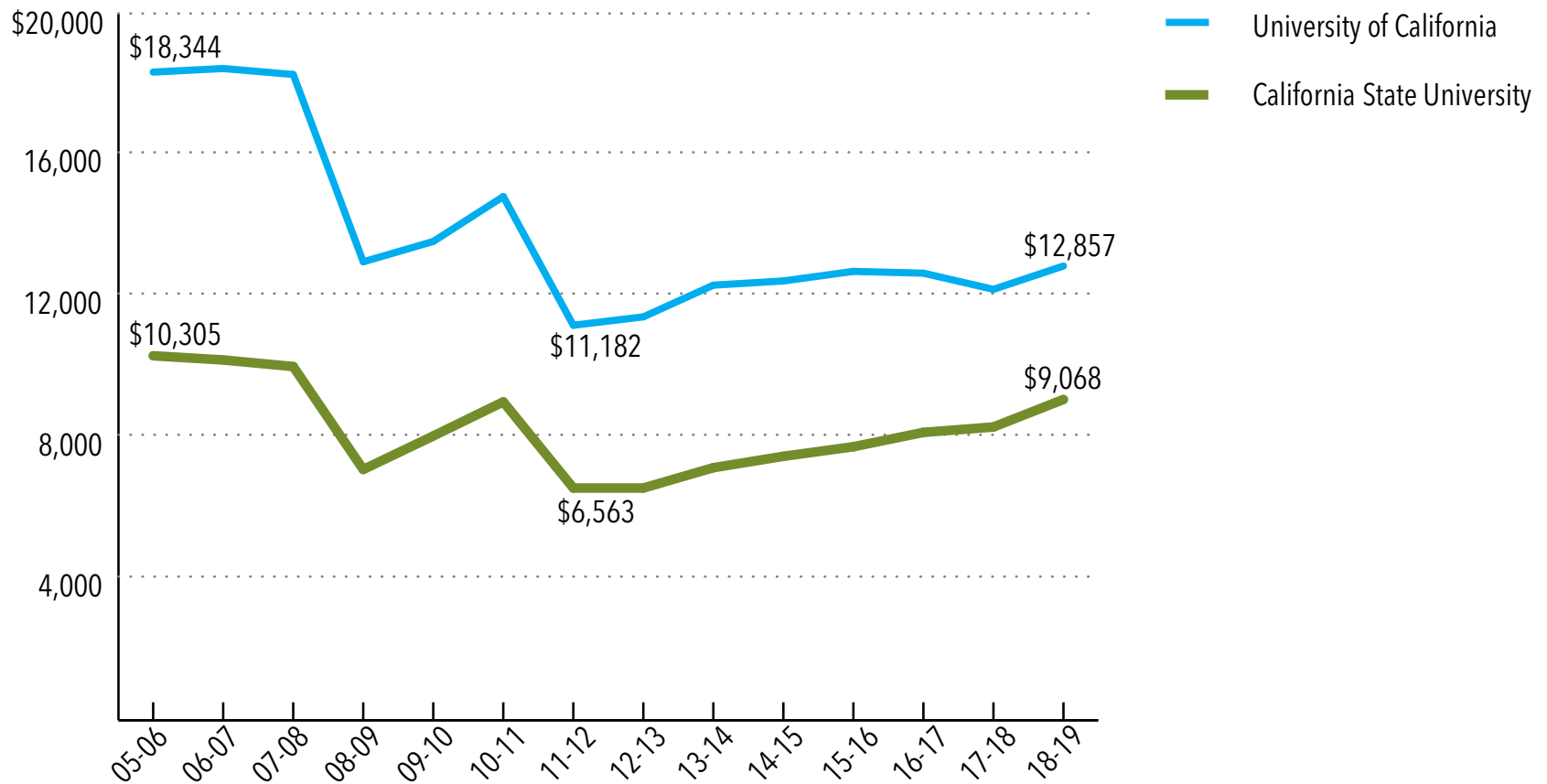
Spending Plan Increases Funding for CSU and UC

- Increases ongoing funding for the California State University system by \$199 million.
- Increases ongoing funding for the University of California system by \$218 million.
- Extends summer financial aid for both systems.
- Establishes a student loan working group to address student loan debt, creates an informational website, and provides grants to public colleges to notify students of available loan repayment programs.



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



Note: Figures are in 2018-19 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: California State University, Department of Finance, and University of California



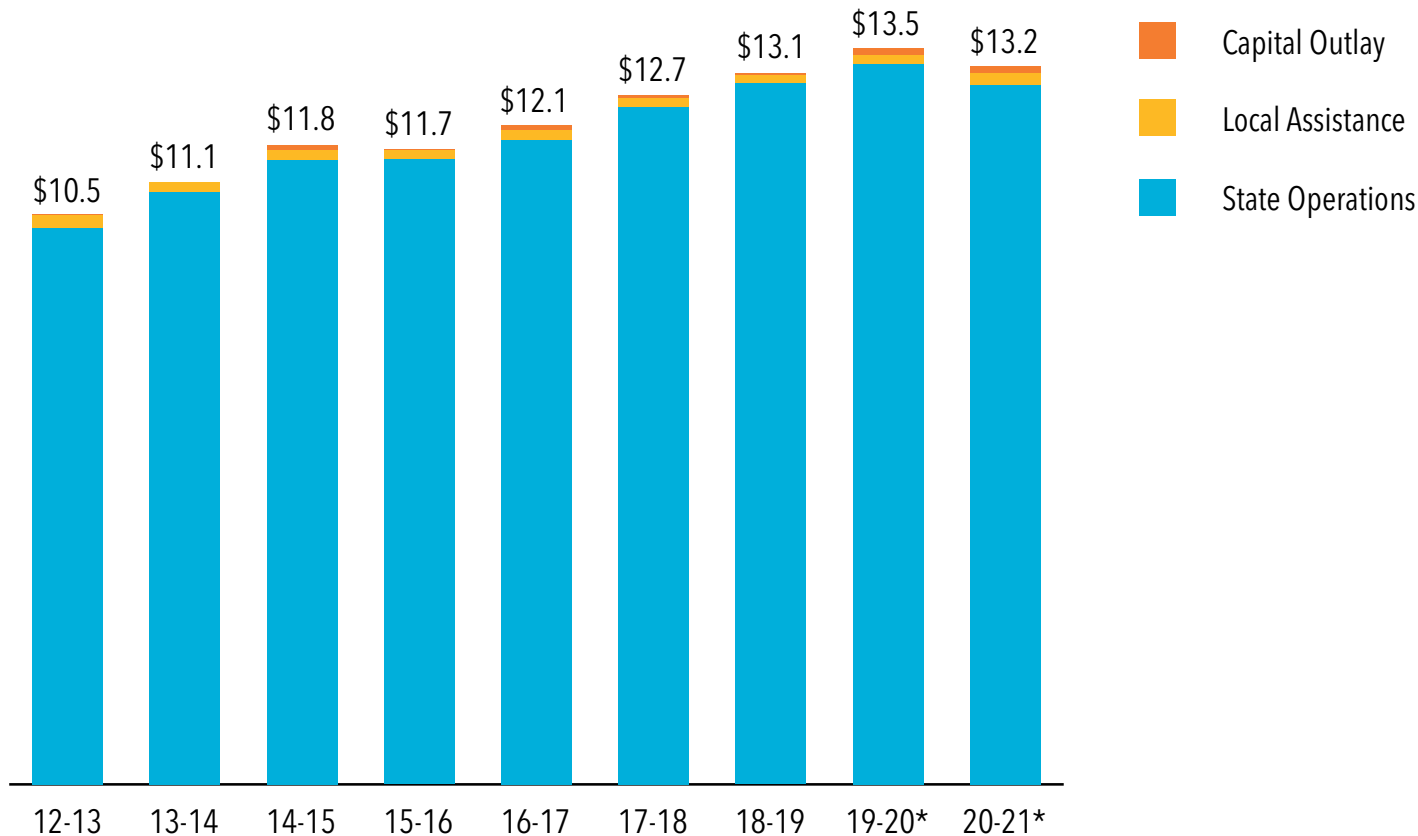
Annual funding for state corrections would remain above \$13 billion under the proposed budget.

Yet, because of a declining prison population, the Governor assumes the state will be able to close several in-state “contract facilities” as well as a state-operated prison within the next five years.



State Support for the Department of Corrections and Rehabilitation (CDCR) Is Up Substantially From 2012-13

Inflation-Adjusted General Fund Dollars in Billions



* 2019-20 estimated and 2020-21 proposed

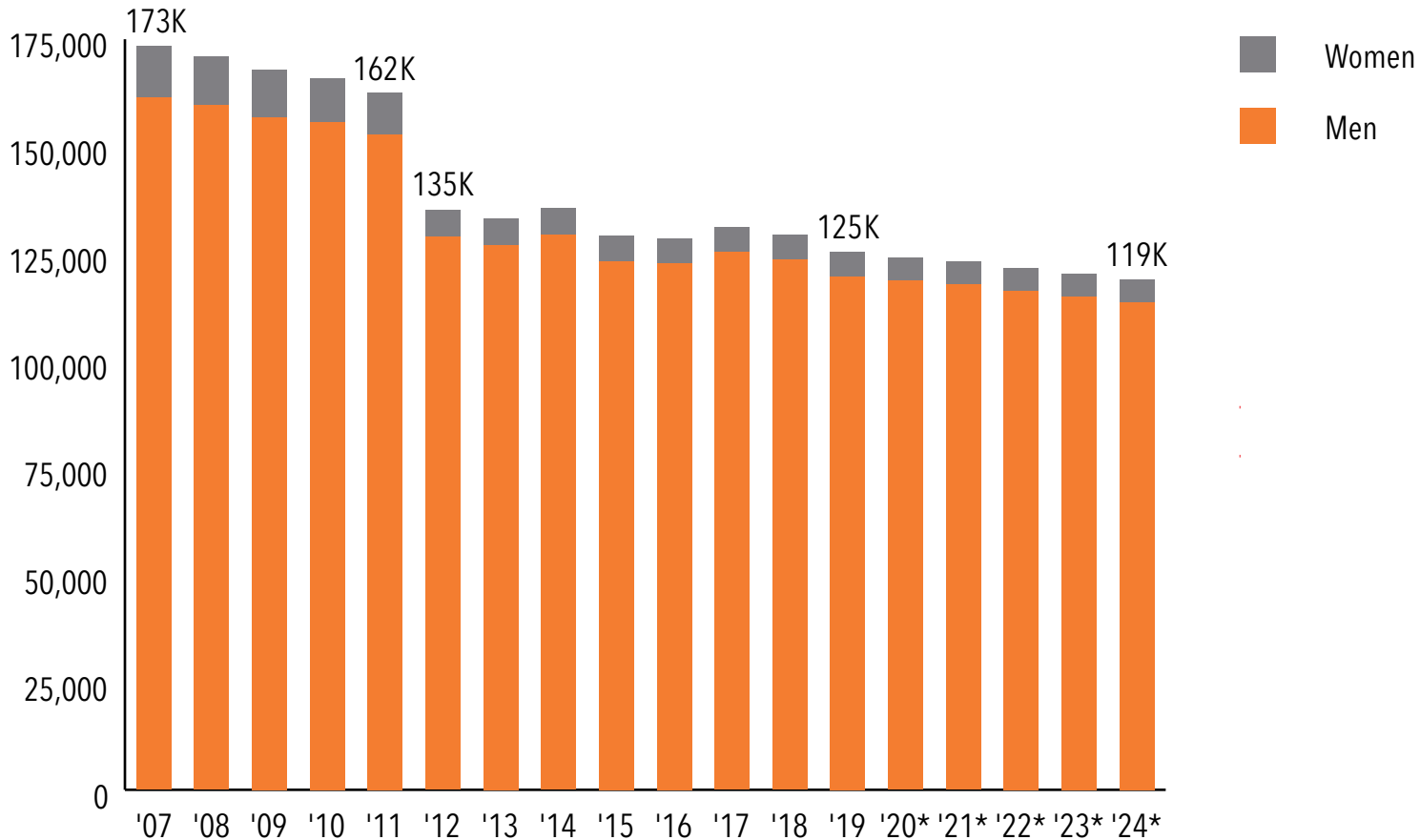
Note: Effective July 1, 2020, juvenile justice-related expenditures will be shifted from the CDCR to a new department in the Health and Human Services Agency. This change reduces CDCR's General Fund spending in 2020-21 by \$258.9 million. Figures are inflation-adjusted to 2020-21 dollars.

Source: Department of Finance



The Number of Adults Incarcerated at the State Level Is Projected to Decline by 5% From 2019 to 2024

As of June 30 of Each Year



* Projected

Note: Data reflect individuals housed in a range of facilities, including (but not limited to) prisons operated by the state of California and in-state contract facilities.

Source: California Department of Corrections and Rehabilitation



Governor proposes reforms to local criminal justice practices.



Local Probation, Fines and Fees Would Be Reformed Under Governor's Proposal

- The Governor proposes several changes to probation, which allows people convicted of a misdemeanor or felony to remain in their communities – under court-imposed conditions – in lieu of incarceration. These changes include:
 - Providing \$60 million annually for three years to boost services for people with misdemeanor convictions; and
 - Limiting probation terms to two years.
- In addition, the Governor proposes to expand statewide a pilot program that allows people with low incomes to apply online to reduce criminal justice fines and fees.
 - This expansion would roll out over several years and would cover both traffic and non-traffic infractions.



Critical State Investments Left Out of the Governor's Proposed Budget



Governor proposes no new investments in the CalEITC or Young Child Tax Credit.



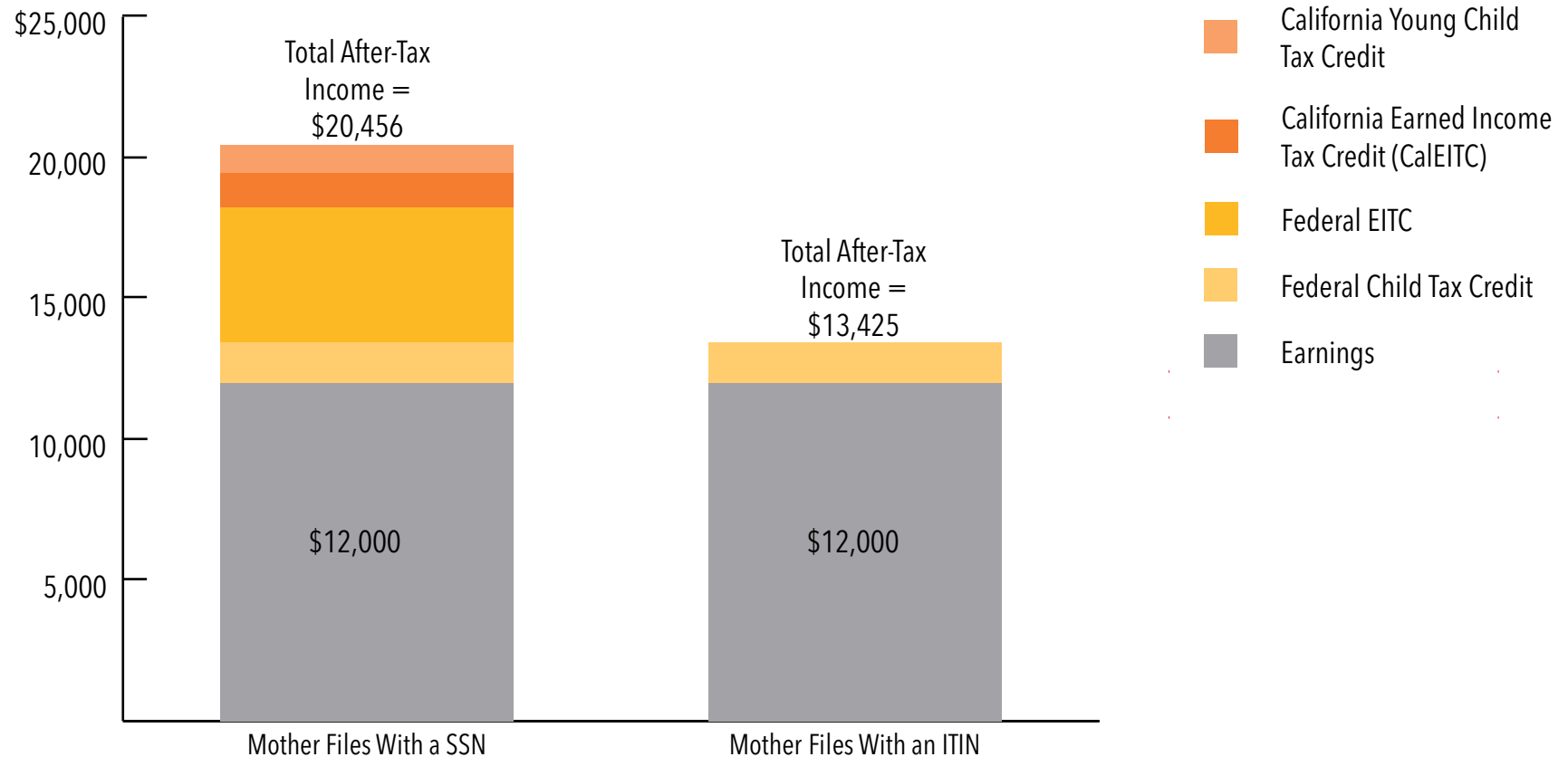
No New Investments, Credits Not Extended to Excluded Californians

- Proposes no new investments in the California Earned Income Tax Credit (CalEITC) or Young Child Tax Credit.
- Fails to extend these credits to hundreds of thousands of immigrant families who earn low wages, pay taxes, and experience significant economic disparities. As a result:
 - Similarly situated families are treated differently by the tax code, with significant consequences for families' ability to meet their children's basic needs; and
 - California's Young Child Tax Credit is more restrictive toward immigrant families than the federal Child Tax Credit, even after the Trump Administration ended the credit for 1 million US children of immigrants.



Tax Credit Exclusions Cause Huge Disparities in After-Tax Income for Children Whose Parents Have the Same Earnings

Two Children Whose Mother Worked Part-Time at the State Minimum Wage in 2019



Note: SSN = Social Security Number valid for work. ITIN = Individual Taxpayer Identification Number. Analysis assumes both children have SSNs. "After-tax income" means income after filing taxes. These families do not owe any state or federal income tax so they receive the full value of the tax credits they qualify for as tax refunds.

Source: Budget Center analysis of Section 17052 of the California Revenue and Taxation Code and Section 32 of Title 26 of the Internal Revenue Code



Proposed budget does not address the vast unmet need for subsidized child care and development programs.

Without access to subsidized care, many families face difficult choices about where to leave their children while they are working.



Budget Proposal Creates New Department of Early Childhood Development

- Subsidized child care and development programs are administered by the California Department of Education (CDE) and the Department of Social Services.
 - The proposed budget would shift all subsidized child care programs into a new Department of Early Childhood Development within the California Health and Human Services Agency, effective July 1, 2021.
 - Other programs related to quality improvement, data systems, public policy, and long-term planning would also be housed within the new department.
 - The California State Preschool Program would continue to be administered by the CDE.

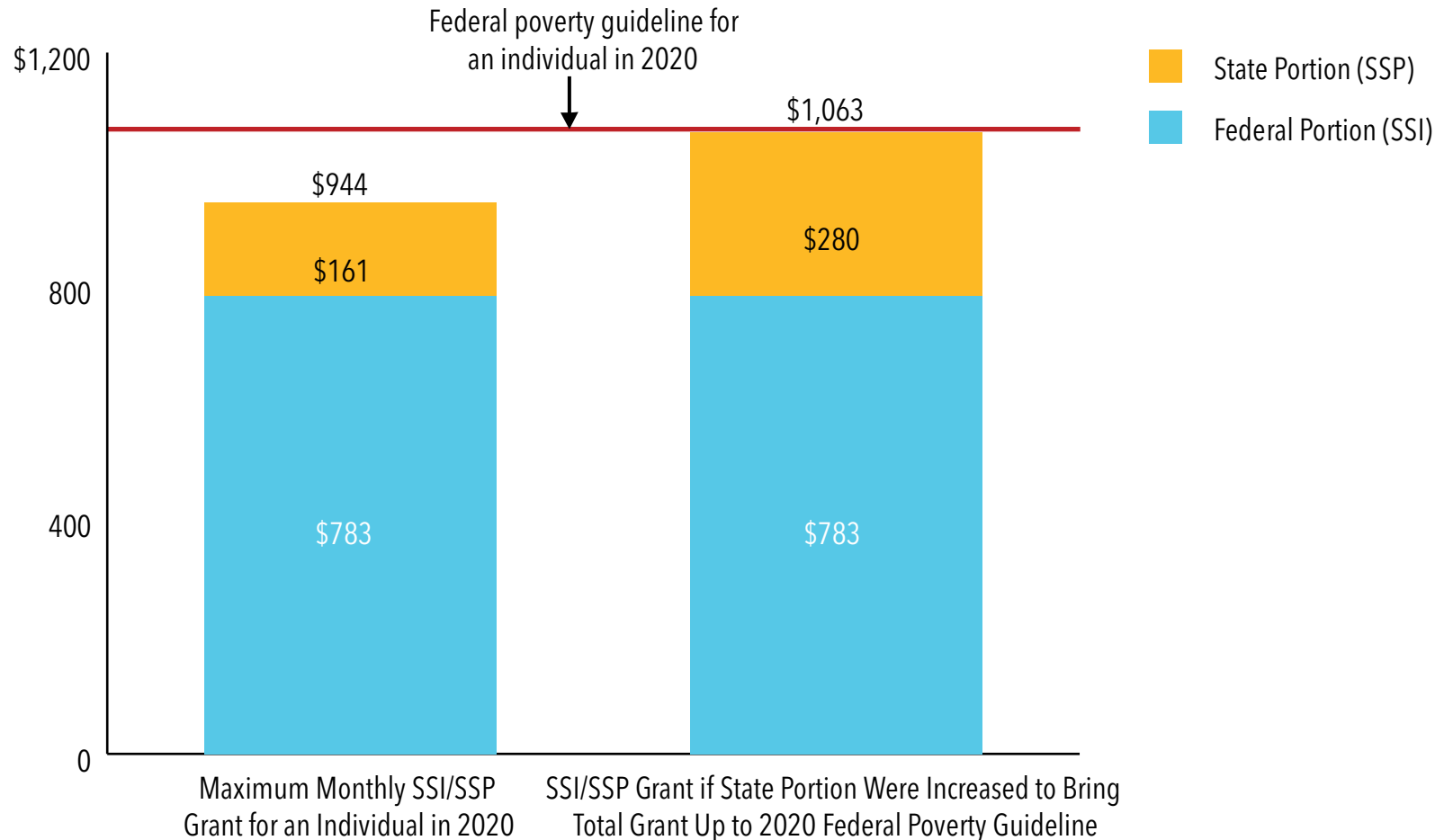


Proposed budget lacks a state increase for SSI/SSP grants.

State policymakers made deep cuts to SSI/SSP during and following the Great Recession – cuts that largely remain in place today. As a result, the maximum SSI/SSP grant for low-income seniors and people with disabilities remains well below the federal poverty line.



Policymakers Would Need to Increase SSI/SSP Grants by Over \$100 Per Month to Bring Support to the Poverty Line



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



Spending Outside of the Budget: Tax Expenditures



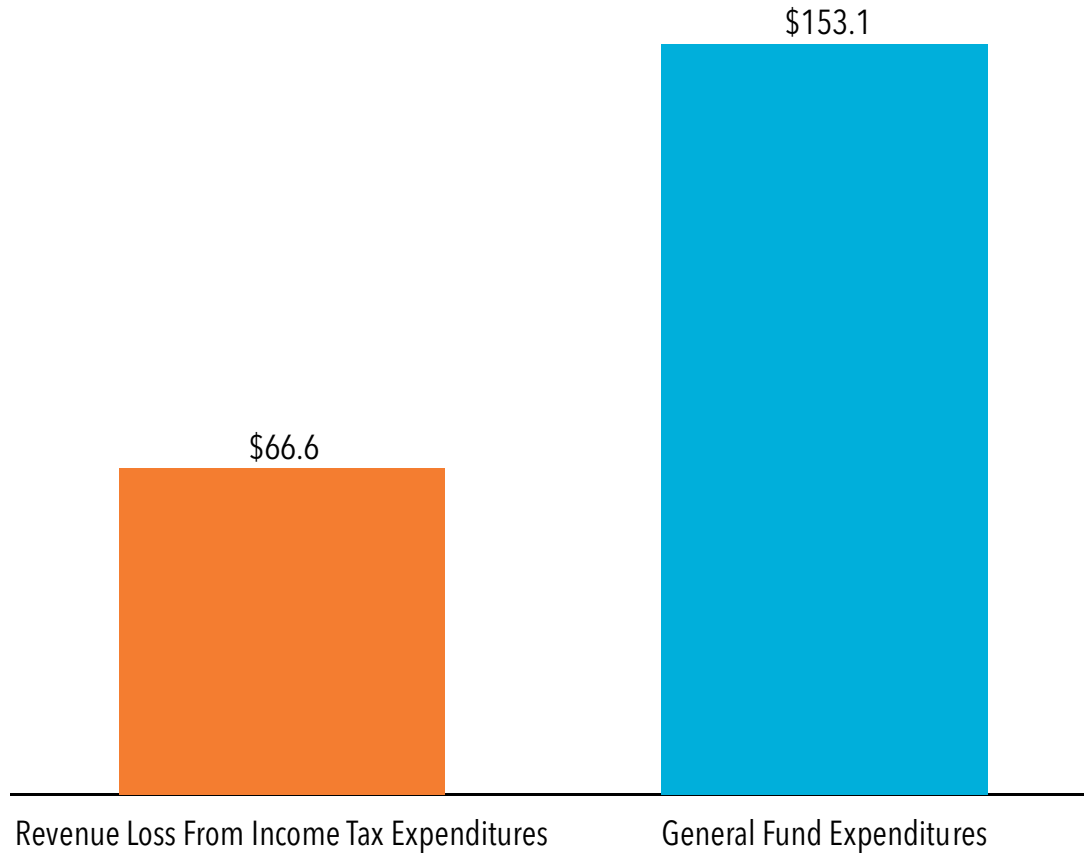
California Will Spend an Estimated \$66.6 Billion in 2020-21 Via Income Tax Breaks

- Tax breaks – or “tax expenditures” – include deductions, exclusions, deferrals, credits, and other tax code exceptions that reduce state revenue.
- Many of the state’s largest tax expenditures primarily benefit higher-income households and corporations, with only a fraction of spending on income tax breaks going to credits that help Californians with low incomes pay for necessities.
- Unlike program spending through the annual budget, tax expenditures are not subject to a regular review process.



State Revenue Losses Due to Income Tax Breaks Projected to Equal 44% of California's Proposed General Fund Budget

Projected Income Tax Expenditures and General Fund Expenditures, 2020-21 (Billions)



Note: The revenue loss total above includes personal and corporate income tax expenditures costing \$5 million or more, but does not include sales and use tax exemptions, which are estimated to cost \$9.9 billion in General Fund revenue in 2020-21.
Source: Department of Finance



What Happens Next?



Here's How the Process Will Unfold in the Coming Months

- Legislative leaders and budget committees will deliberate on the Governor's proposals as well as their own.
- Personal income tax collections in April will help provide a clearer picture of available state revenues for 2020-21.
- The Governor will release his May Revision to his proposed budget by May 14.
- The Legislature must approve the budget bill and send it to the Governor by midnight on June 15.
- The Governor is expected to sign the budget package by July 1, possibly using his line-item veto authority.





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