



California Budget  
& Policy Center

# California Budget Perspective 2018-19

MARCH 2018

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# California Budget & Policy Center

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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](https://calbudgetcenter.org).

## Acknowledgments

The staff of the Budget Center prepared this chartbook.



# **The Governor's Proposed 2018-19 Budget:**

## **Top Lines and Key Context**



# Putting the Governor's Proposed 2018-19 State Budget in Context

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Several key considerations provide the backdrop:

- State revenues for the coming fiscal year are projected to be higher than previously forecast.
- Economic hardship – overall poverty as well as child poverty – remains very high in most parts of the state, even several years after the end of the Great Recession.
- Various key public services and supports continue to operate at diminished levels due to state cuts made during and after the recession.



# Putting the Governor's Proposed 2018-19 State Budget in Context (continued)

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Other considerations include:

- The potential risk of a near-term economic downturn;
- The impact of the federal tax legislation enacted in December; and
- The continued prospect of major cuts/changes at the federal level, as proposed by President Trump and congressional leaders.



# The Governor's Proposed Budget: Top Lines

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- Forecasts revenues \$4.2 billion *higher* over a three-year “budget window” than previously projected
- Places heavy emphasis on building up state reserves, including a major discretionary deposit to rainy day fund
- Funds full implementation of K-12 funding formula while proposing new allocation system for community colleges
- Includes various types of one-time funding across budget
- Contains no new investments in many key services that help families make ends meet and advance economically



# The Federal Backdrop to the State Budget

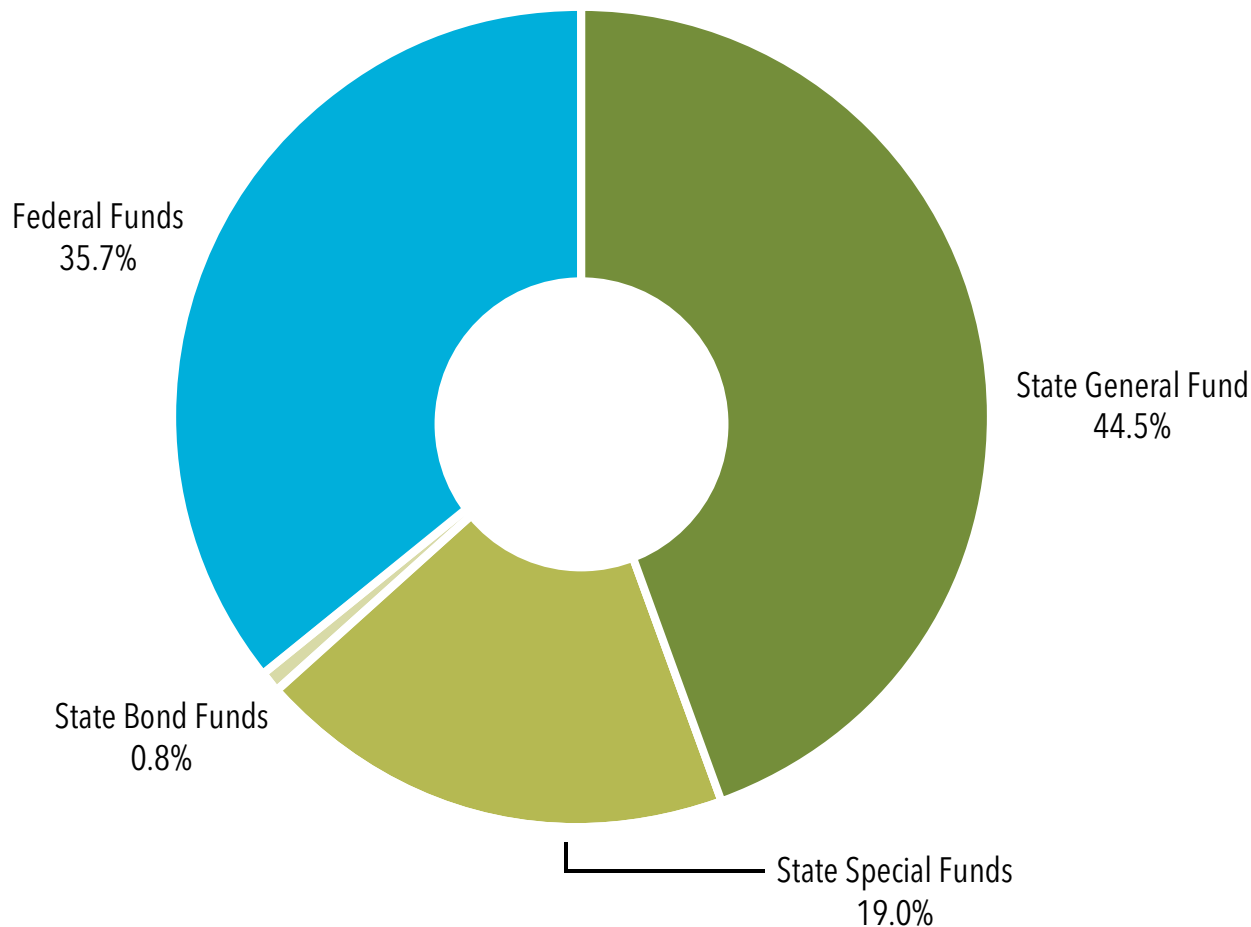
**Federal funds make up a large share of the total state budget and mainly support health and human services.**



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

Total Proposed 2018-19 Expenditures = \$296.2 Billion

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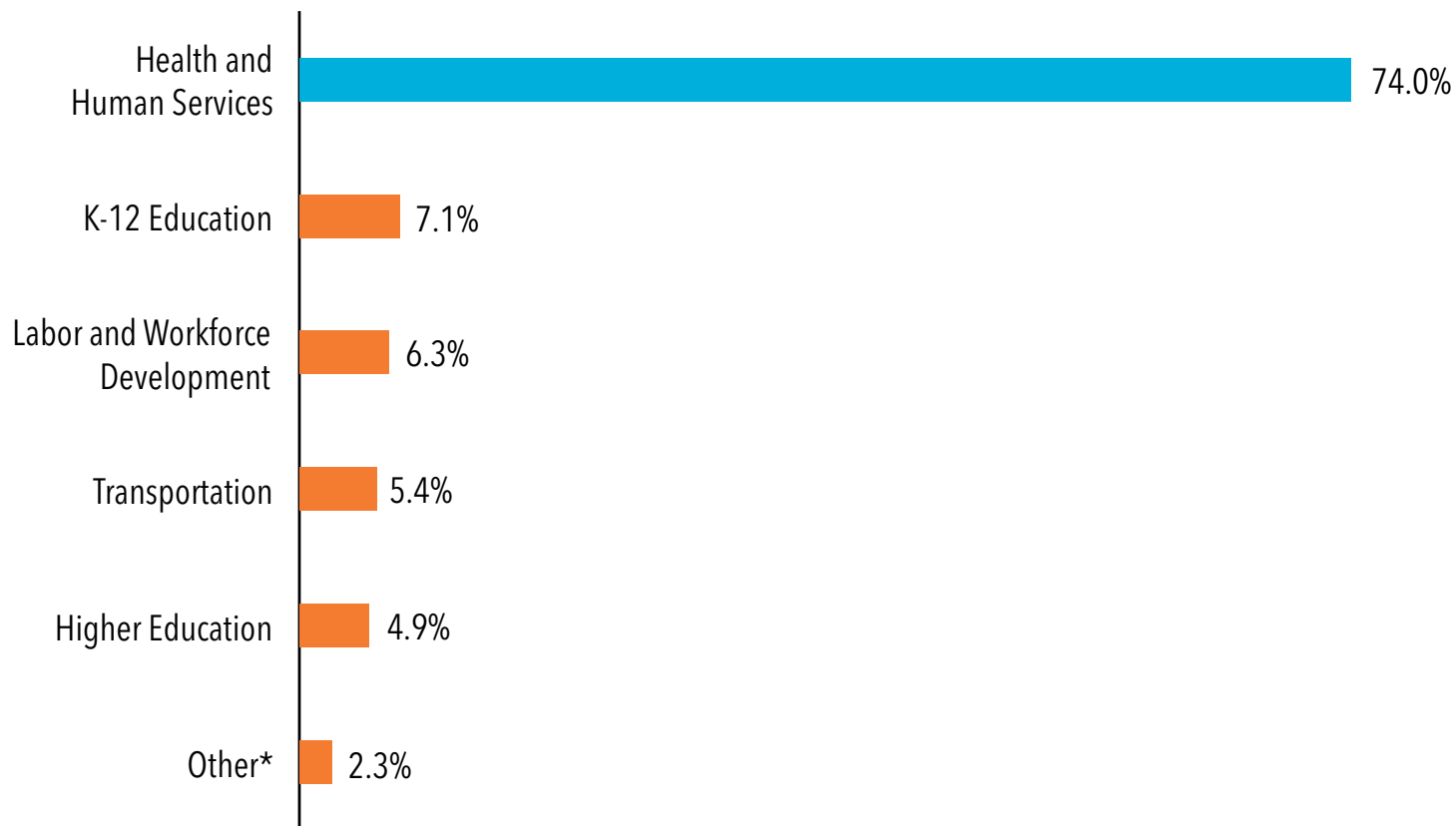
Source: Department of Finance





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

Federal Funds Estimated to Be Spent Through the State Budget in 2018-19 = \$105.9 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.

Source: Department of Finance



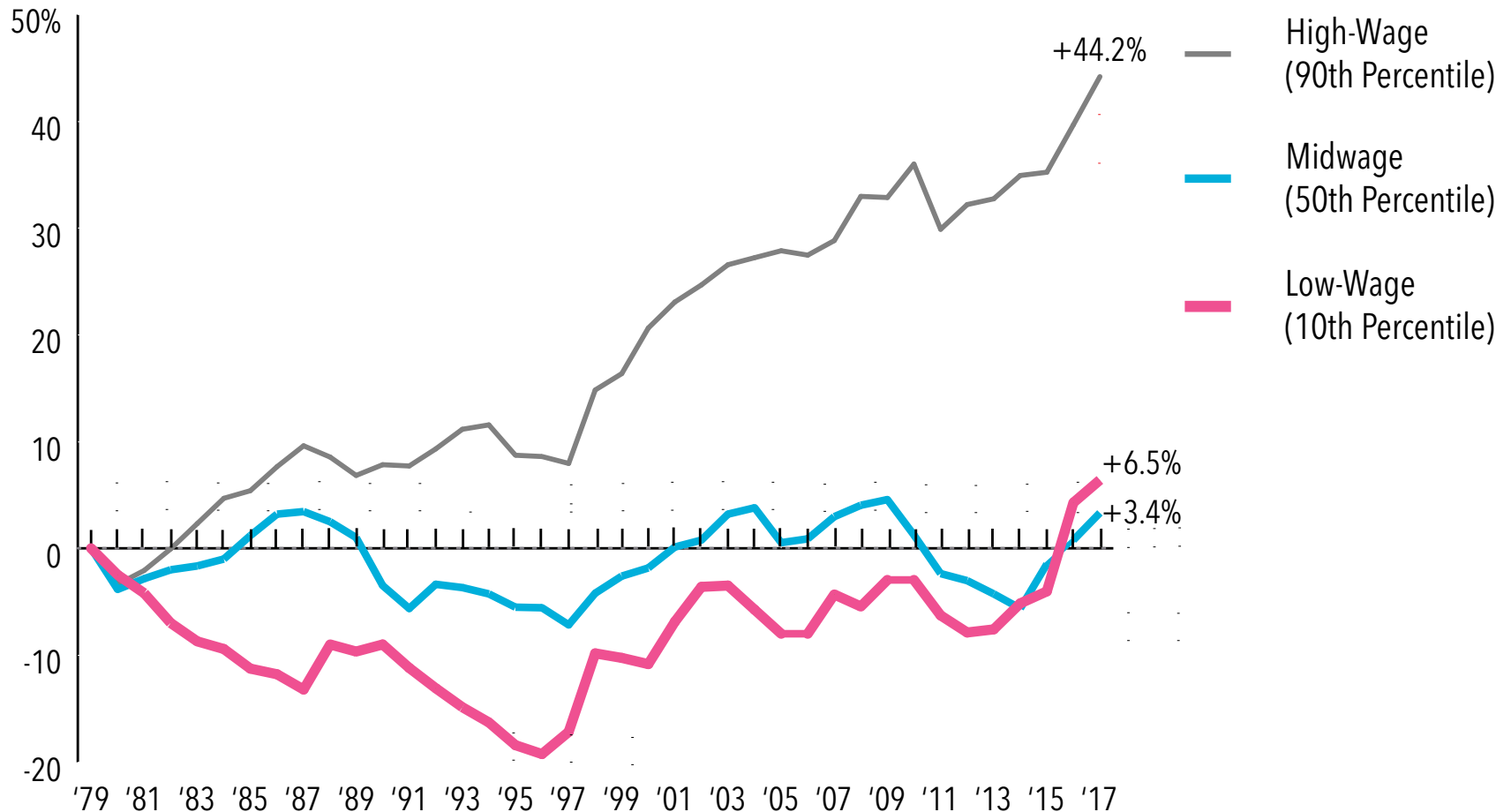
# The Social and Economic Context of the State Budget

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



# California's Low- and Midwage Workers Have Seen Only Modest Gains Since 1979

Percent Change in Inflation-Adjusted Hourly Wages for Workers Ages 18-64



Note: Figures reflect 2017 dollars.

Source: Economic Policy Institute analysis of US Census Bureau, Current Population Survey data

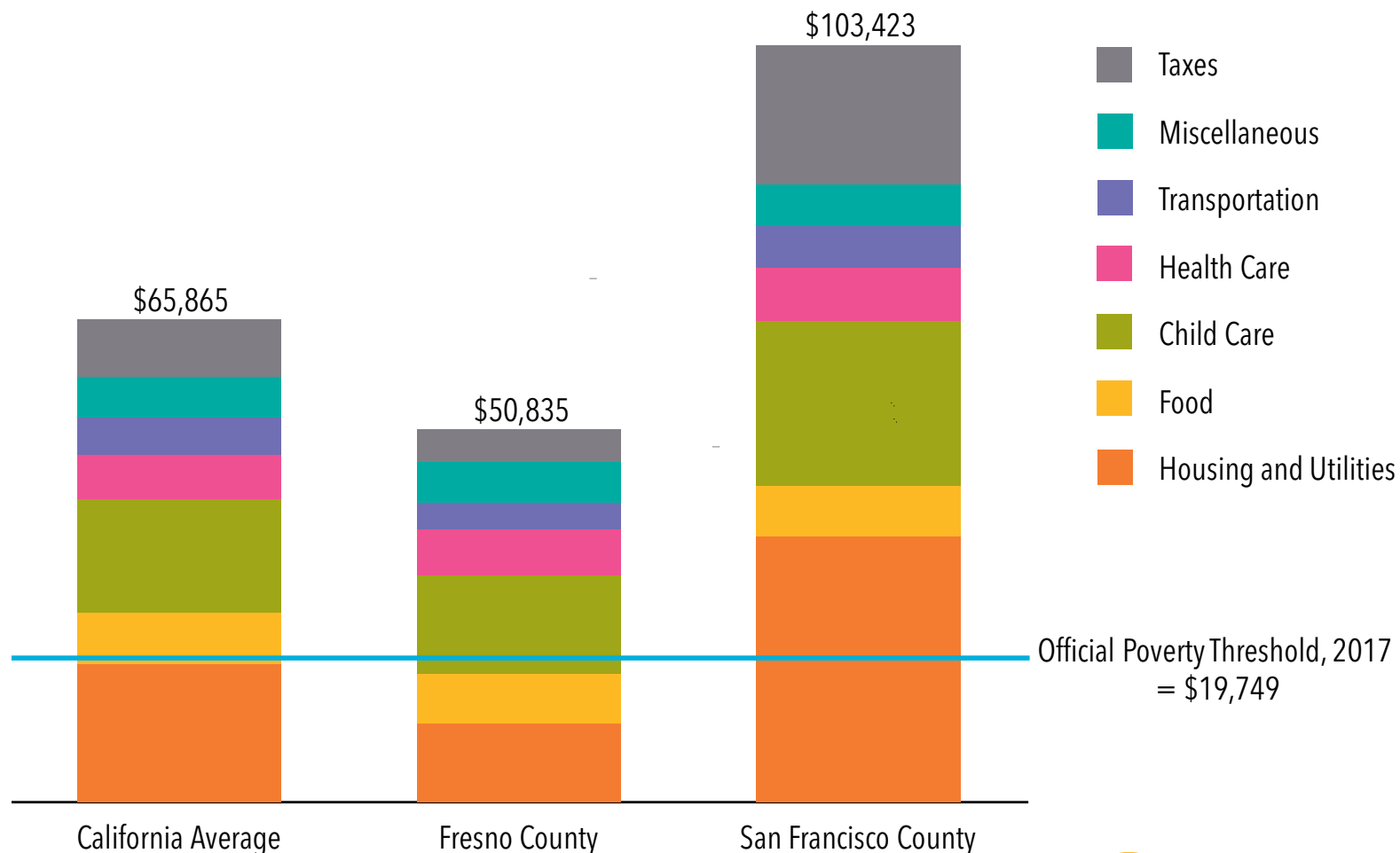


**High cost of living in many parts of our state presents a major challenge.**



# Official Poverty Thresholds Are Much Less Than the Basic Cost of Living for Families in California

## Annual Basic Family Budget for a Single-Parent Family With Two Children, 2017

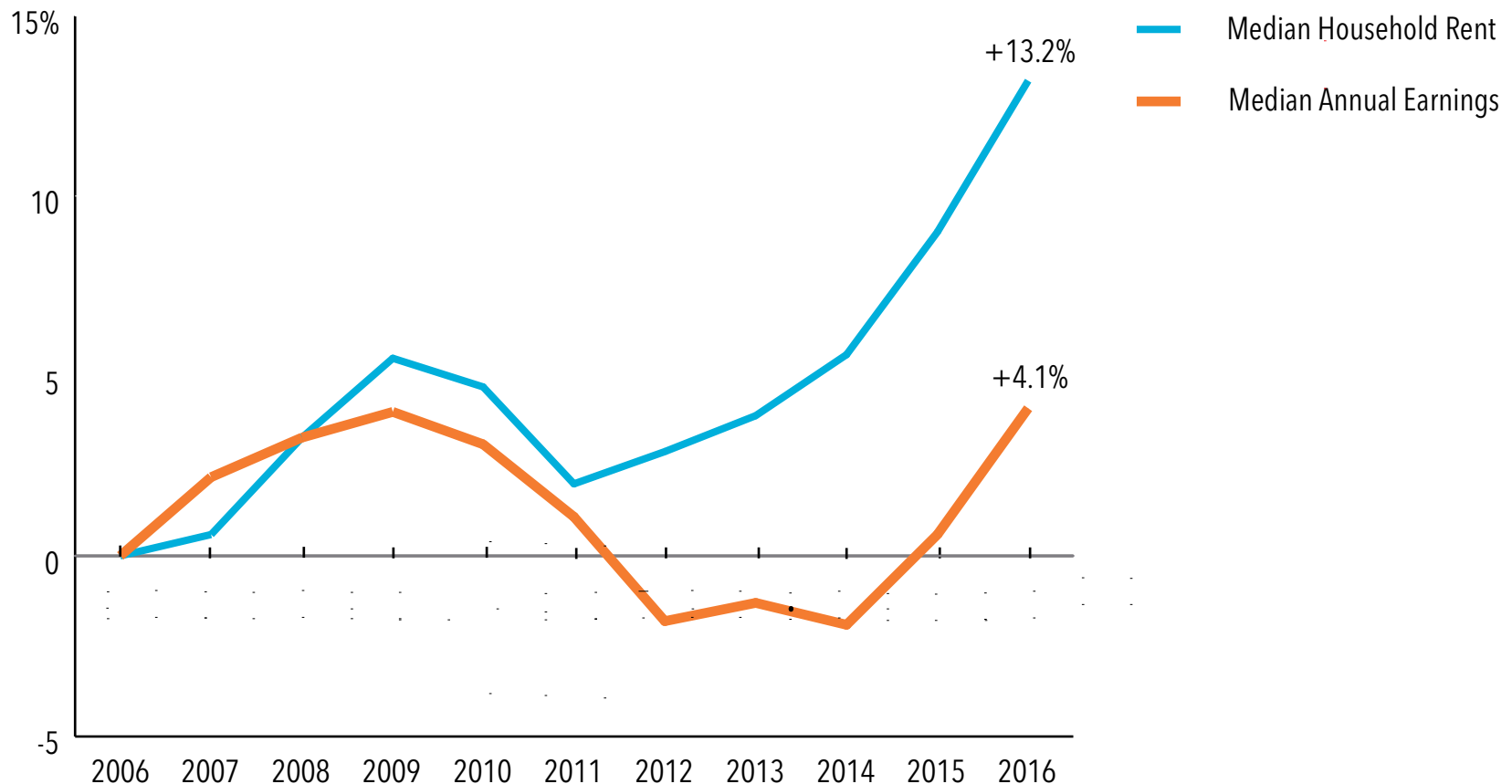


Note: Assumes one preschool-age and one school-age child and a single parent working full-time.  
Source: Budget Center *Making Ends Meet* 2017 analysis and US Census Bureau



# Workers' Earnings Have Not Kept Pace With Rents in California

Percent Change in Inflation-Adjusted Median Rent and Median Annual Earnings Since 2006



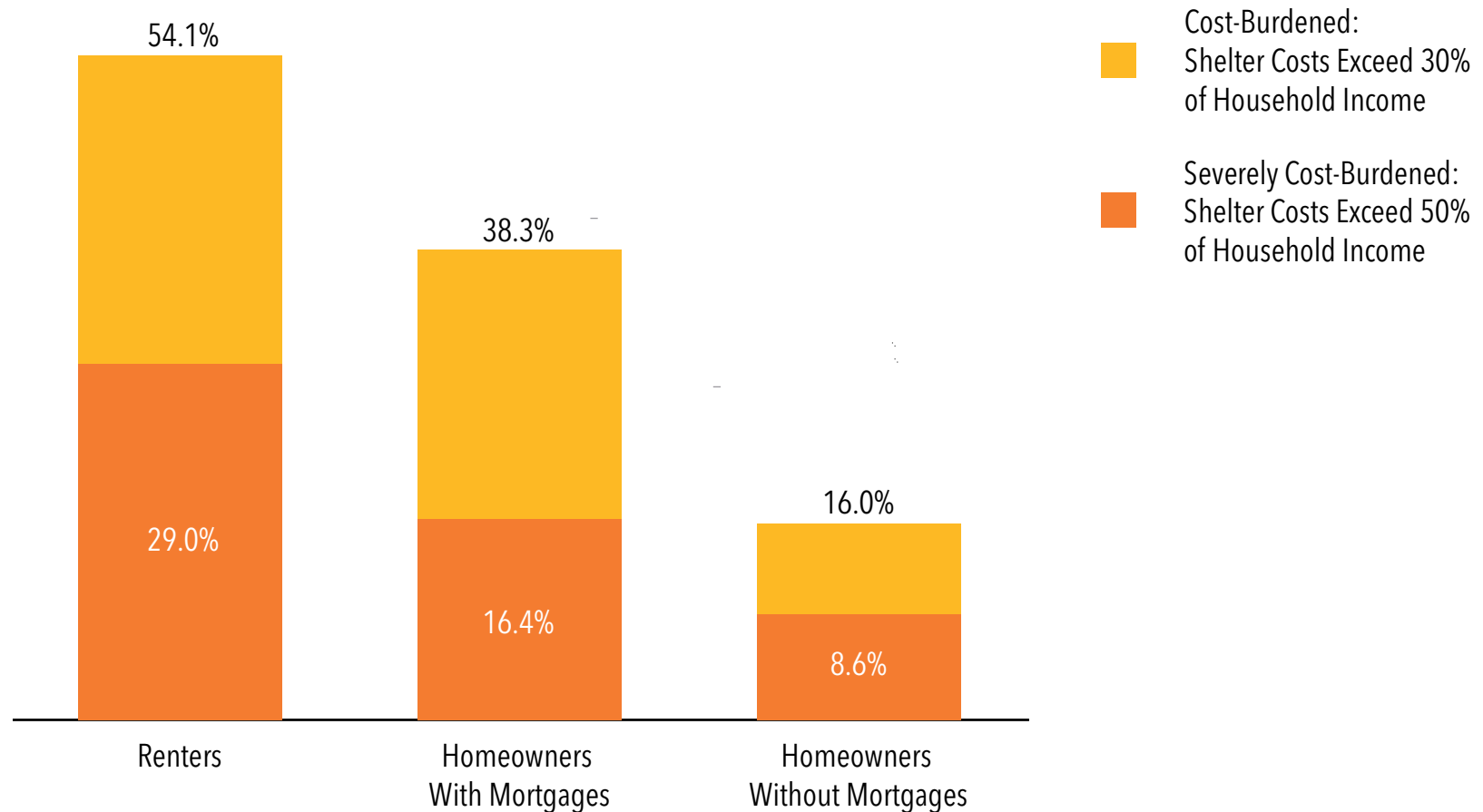
Note: Median annual earnings for individuals working at least 35 hours per week and 50 weeks per year. Excludes workers with \$0 or negative total earnings.

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



# 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, 2016



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



# Key Elements of the Governor's Proposed Budget





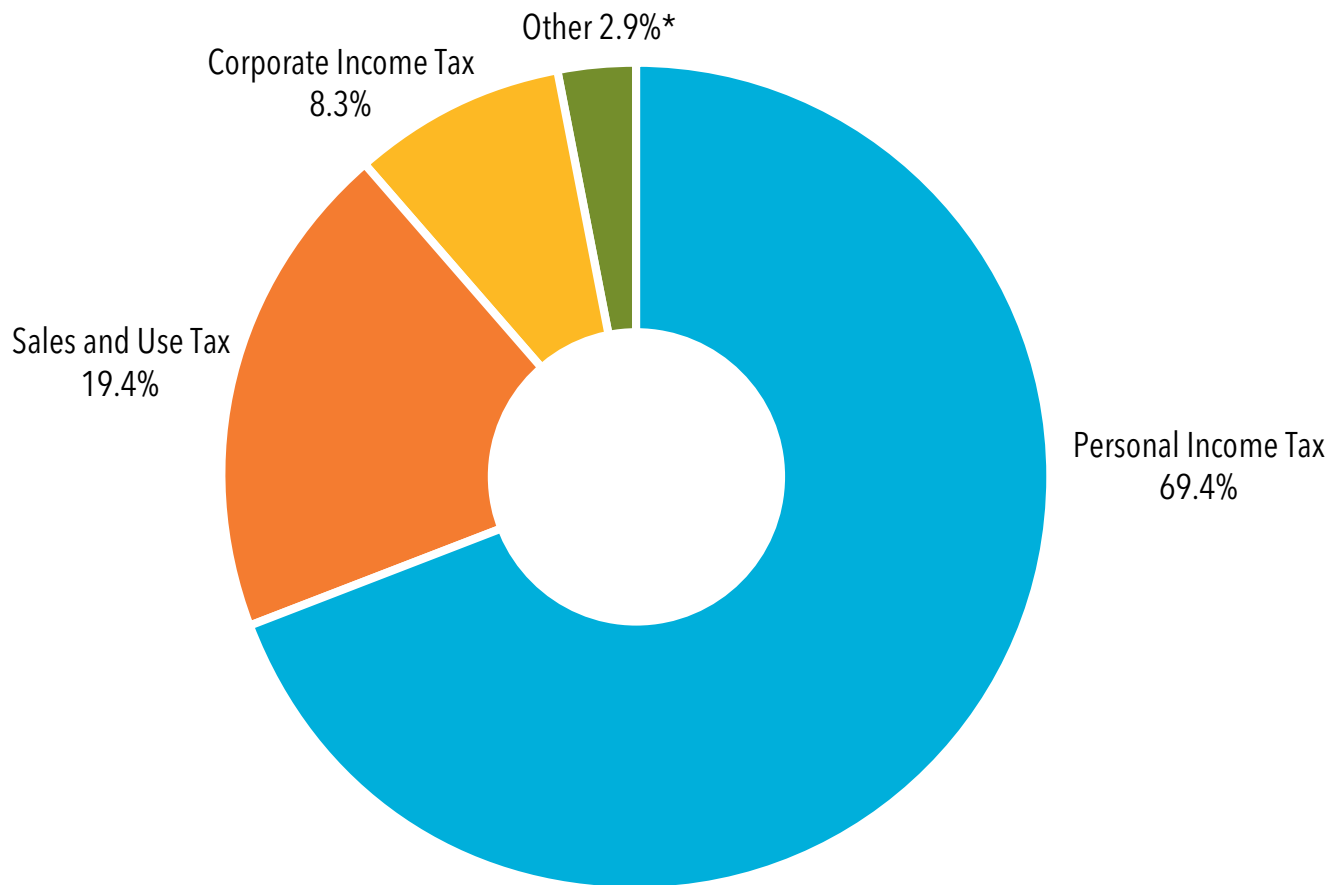
**Stronger revenue forecast is largely driven by higher projections for personal income tax and sales and use tax revenues.**

**But Administration cautions that its revenue projections do not yet account for the recently enacted federal tax legislation.**



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

Projected 2018-19 General Fund Revenues = \$134.8 Billion



Note: Reflects total projected General Fund revenues before a \$5.1 billion transfer to the state's rainy day fund, \$1.5 billion of which is required by Proposition 2 (2014).

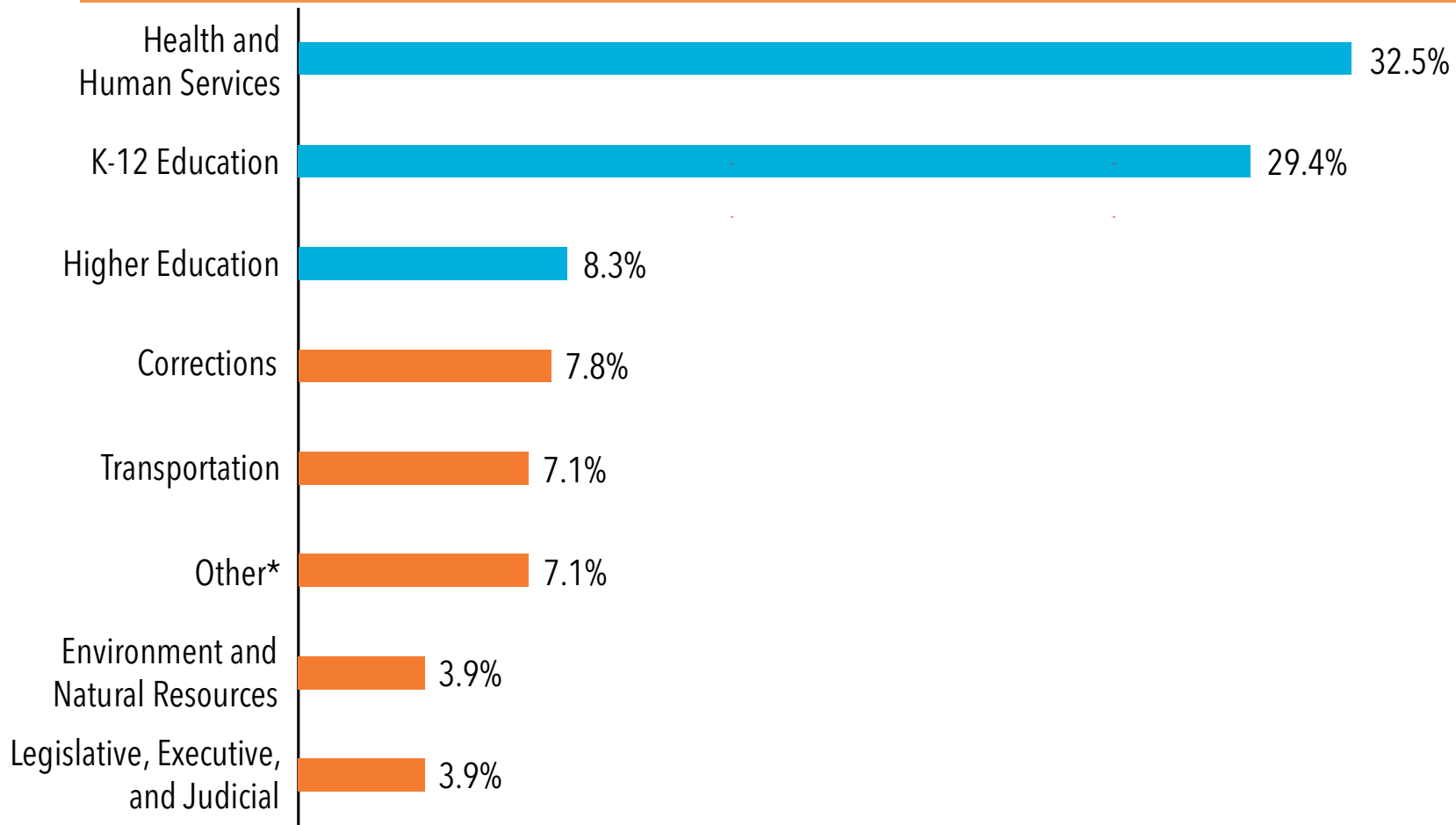
\* Includes Highway Users Taxes, Insurance Tax, Alcoholic Beverage Taxes and Fees, Cigarette Tax, Motor Vehicle Fees, and other various additional sources of revenue.

Source: Department of Finance



# More Than 7 in 10 State Dollars Support Health and Human Services or Education

Proposed 2018-19 General Fund and Special Fund Expenditures = \$187.8 Billion



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

Source: Department of Finance



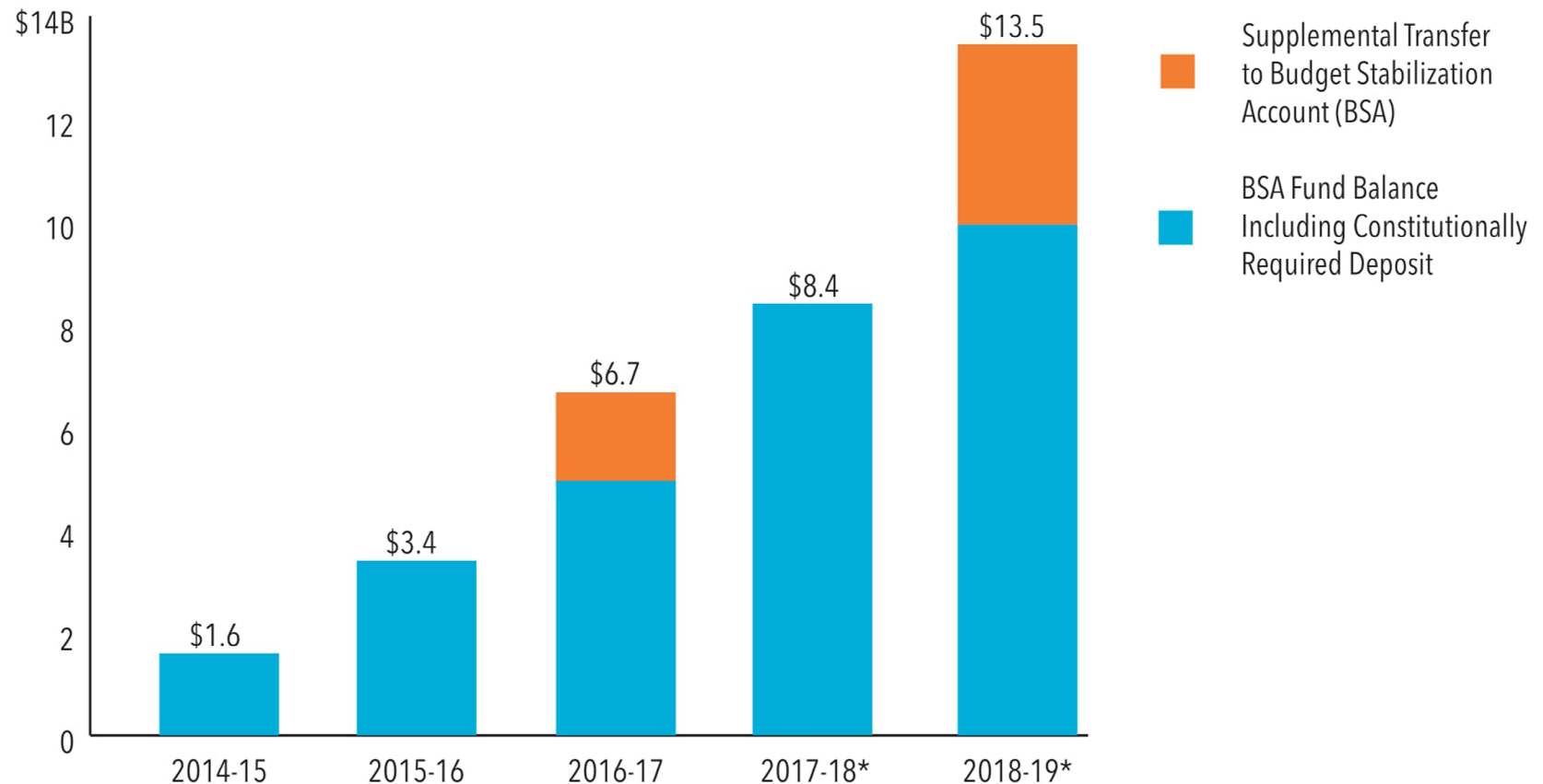
# **Governor opts to bring rainy day fund to its maximum level.**

**Proposed budget makes \$3.5 billion “supplemental” transfer to rainy day fund (beyond the \$1.5 billion that Prop. 2 requires), but this means these dollars are not readily available to respond to federal budget cuts or other future developments.**



# Budget Proposal Calls for Bringing the Rainy Day Fund to Its Maximum Level

Governor Proposes an Extra \$3.5 Billion Beyond What Proposition 2 Requires in 2018-19



\* 2017-18 estimated and 2018-19 projected.  
Source: Department of Finance



**Proposed budget continues recent trend of reinvesting in K-12 education and higher education.**



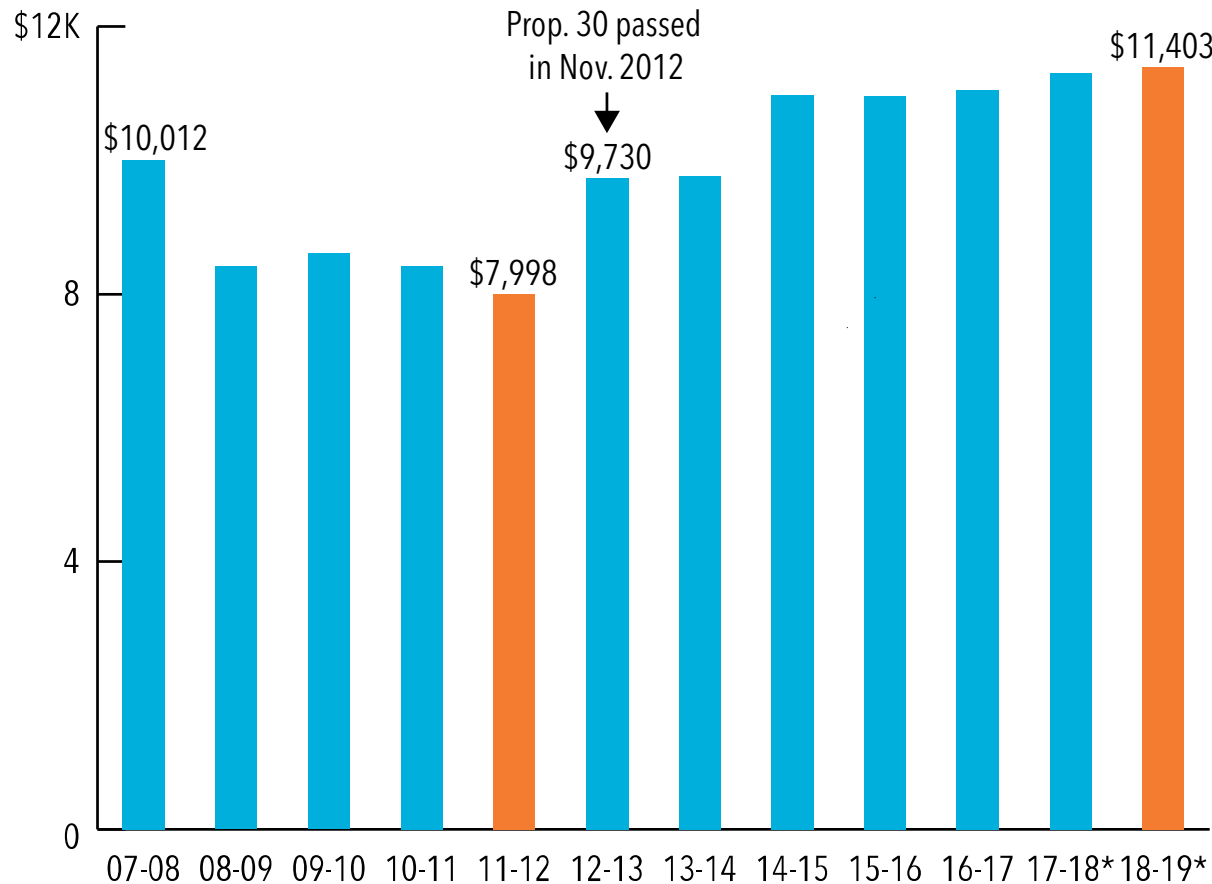
# **Budget proposal provides funding to support full implementation of Local Control Funding Formula (LCFF).**

**With \$2.9 billion increase in annual funding in 2018-19, the state would reach full implementation two years faster than the eight years originally estimated.**



# Due to Higher Revenues, 2018-19 Spending Per Student Would Be More Than \$3,400 Above 2011-12

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



\* 2017-18 estimated and 2018-19 proposed.

Note: Figures reflect 2018-19 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





# **Governor allocates \$175 million in 2018-19 for new funding formula for California Community Colleges (CCCs).**

**Proposed 2018-19 budget also provides \$120 million, including \$100 million in one-time funding, to establish a fully online community college.**



# Governor Proposes New Funding Formula for California Community Colleges

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The proposal would allocate general-purpose apportionments to CCC districts beginning in 2018-19 through three grants:

- A **base grant** (approximately 50% of funding) based on a per-Full-Time Equivalent Student (FTES) funding rate;
- A **supplemental grant** (approximately 25% of funding) based on the number of low-income students the CCC district enrolls; and
- A **student success incentive grant** (approximately 25% of funding) based on the CCC district's prior-year numbers of:
  - degrees and certificates granted;
  - students who complete a degree or certificate in three years or less; and
  - Associate Degrees for Transfer granted.
- In 2018-19, funding for all CCC districts would be held harmless to the level that each district received in 2017-18.



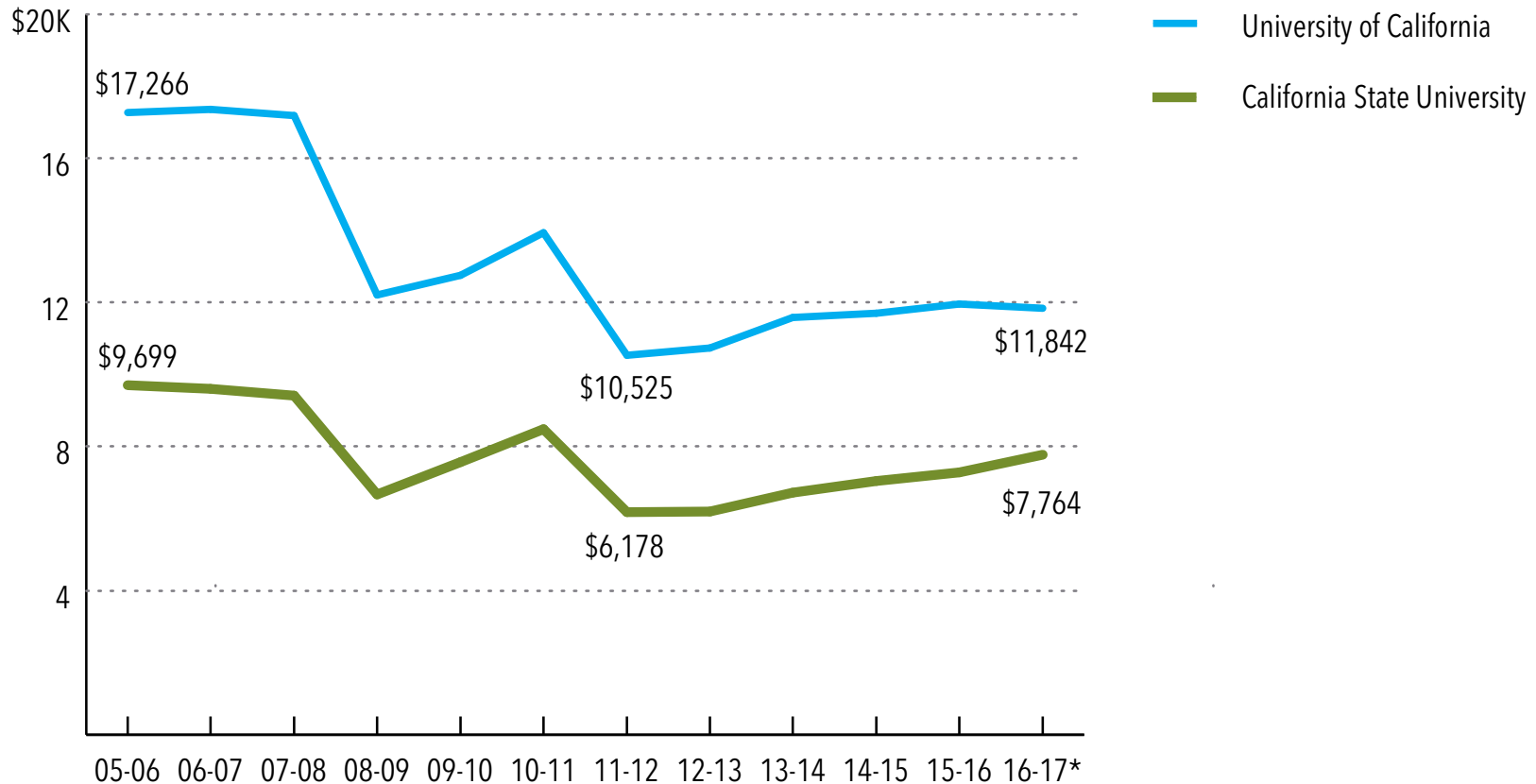
# **Proposed budget includes modest funding increases for CSU and UC.**

**Governor increases funding for both institutions by \$92.1 million in the coming year, though with the expectation that they will implement certain improvements.**



# 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



# **Proposed budget includes one-time funding for competitive grants for child care and preschool providers.**

**Budget also provides slight increase in payment rate for ECE providers contracting directly with the state, while continuing multiyear plan (approved in 2016-17) to begin reinvesting in child care and preschool.**



# Proposal Includes One-Time Funding for New Early Care and Education Grants

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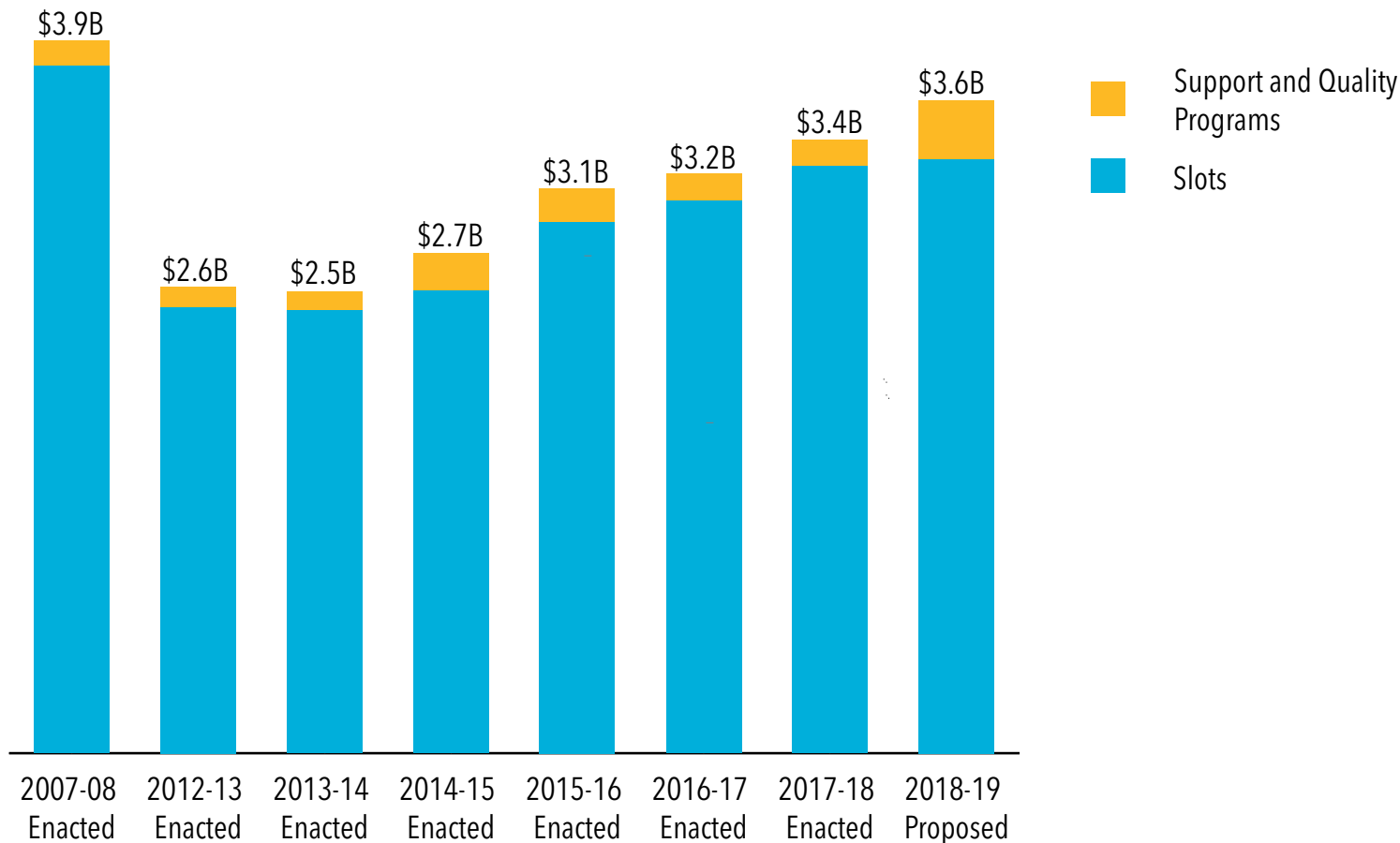
Through a competitive grant process, the Inclusive Early Education Expansion Program would distribute \$167.2 million in one-time funds over five years to low-income and high-need areas. Specifically:

- Nearly three-quarters of the funds (\$125 million) would be for Local Education Agencies. The remainder (\$42.2 million federal TANF funds) would be for other child care and preschool providers.
- Funds would provide one-time support for professional development and/or facility renovations or equipment, and grantees would have to provide a 33% local match.
- Grantees would also have to demonstrate that they would serve additional children, but the funds could not be used for ongoing expenses, such as slots for more children.



# Annual Funding for Child Care and Preschool Remains Well Below the Pre-Recession Level

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



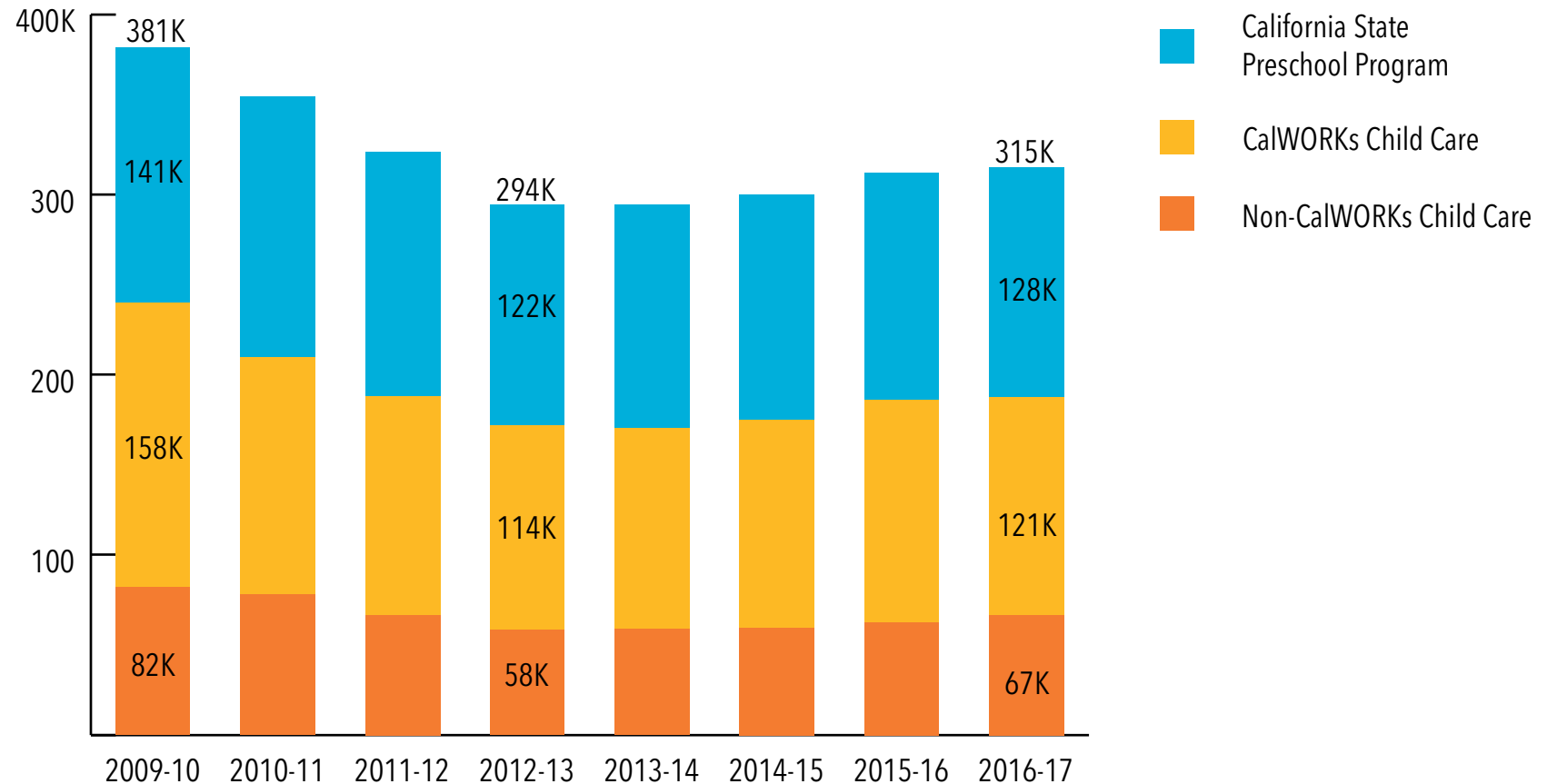
Note: Figures are in 2018-19 dollars and include federal and state funds for slots as well as for quality and support programs. Child care includes CalWORKs and non-CalWORKs programs. Preschool excludes Transitional Kindergarten.

Source: California Department of Education and Department of Finance



# Enrollment in Subsidized Child Care and Preschool Has Not Recovered From Recession-Era Cuts

## Average Monthly Number of Children Enrolled



Note: Figures are rounded to the nearest thousand. California Community Colleges CalWORKs Stage 2 data for 2016-17 reflect estimates, not actuals.

Source: California Community Colleges Chancellor's Office, California Department of Education, and Department of Social Services





# **Governor proposes to create a home visiting pilot within CalWORKs, the state's welfare-to-work program.**

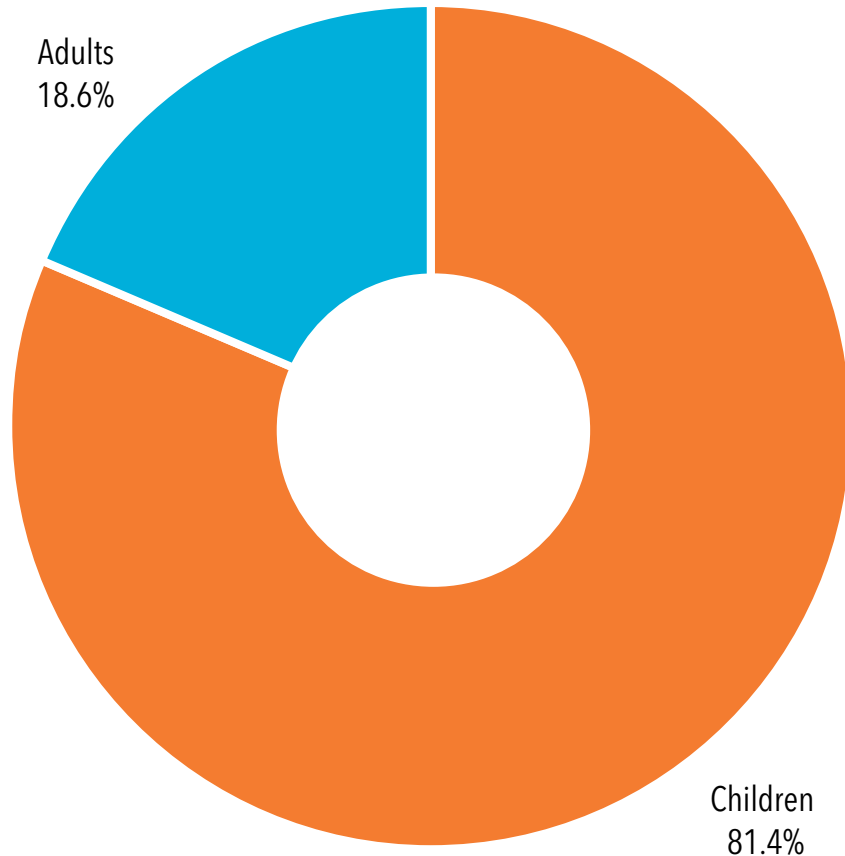
**Governor allocates \$158.5 million in federal (TANF) funds to offer home visiting pilot program through 2021. However, proposed budget does not increase CalWORKs grants or time limits.**



# More Than 8 in 10 Californians Who Receive CalWORKs Cash Assistance Are Children

Number of Individuals Receiving CalWORKs Cash Assistance in June 2017 = 1,055,759

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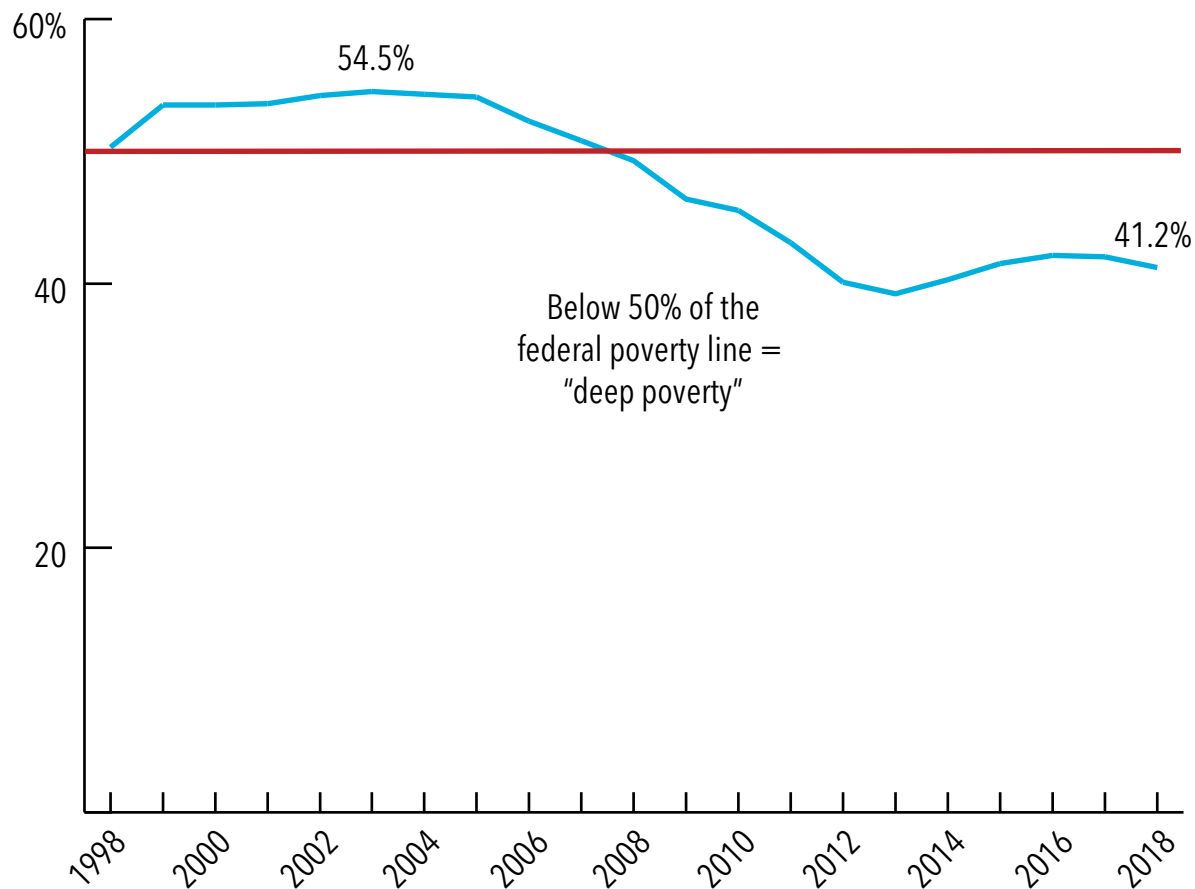


Source: Department of Social Services



# Without an Increase in 2018-19, CalWORKs Grants Will Be Below the Deep-Poverty Line for the Eleventh 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 proposed 2018-19 budget does not increase grant levels.  
Source: Budget Center analysis of Department of Social Services, US Department of Health and Human Services, and US Social Security Administration data



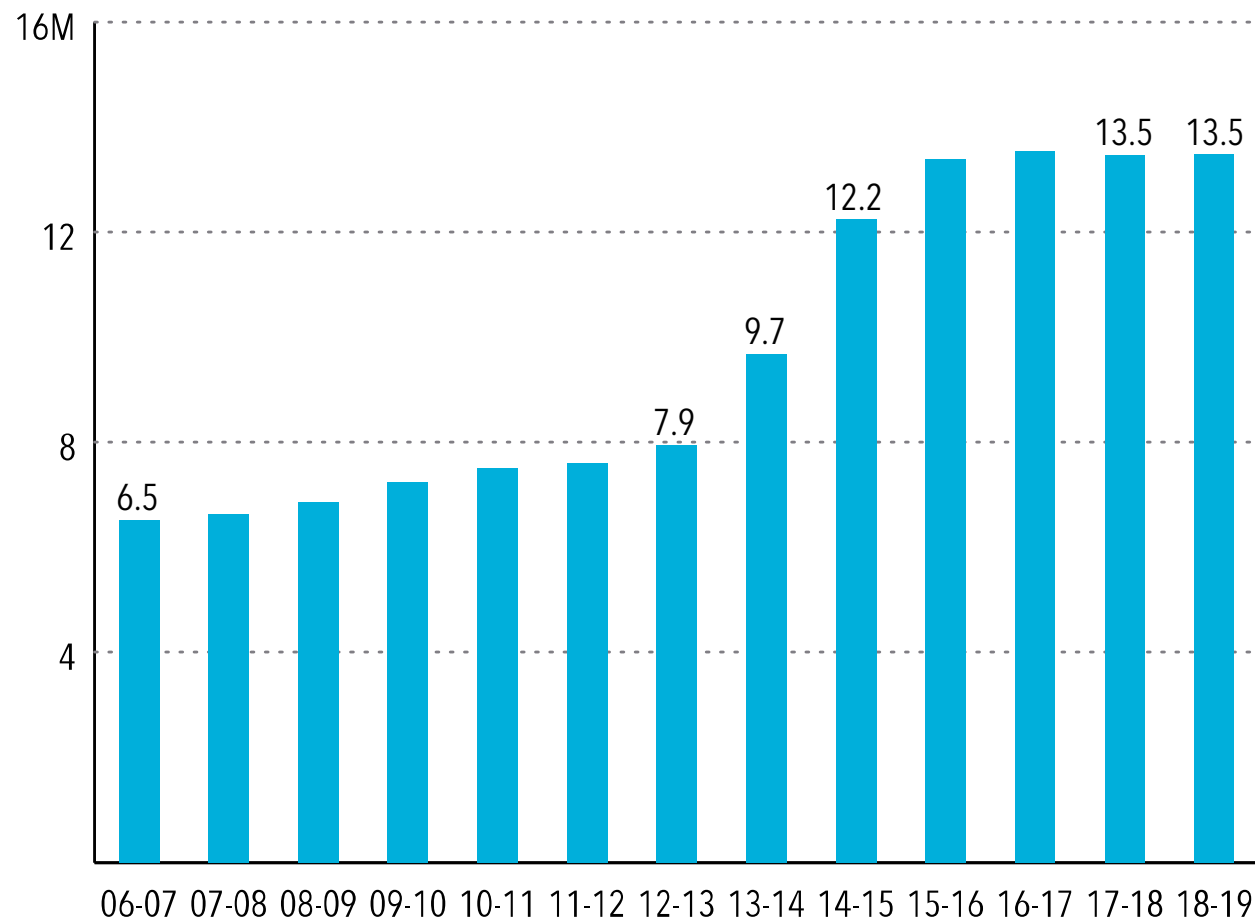
**Governor acknowledges uncertainty over future of Affordable Care Act (ACA), but assumes current policies remain.**

**Proposed 2018-19 budget includes total Medi-Cal spending of \$101.5 billion, with roughly two-thirds (\$67.1 billion) being federal dollars.**



# Medi-Cal Enrollment Exceeds 13 Million, More Than Twice the 2006-07 Level

Enrollment Gains Have Been Due to Full Implementation of Health Care Reform

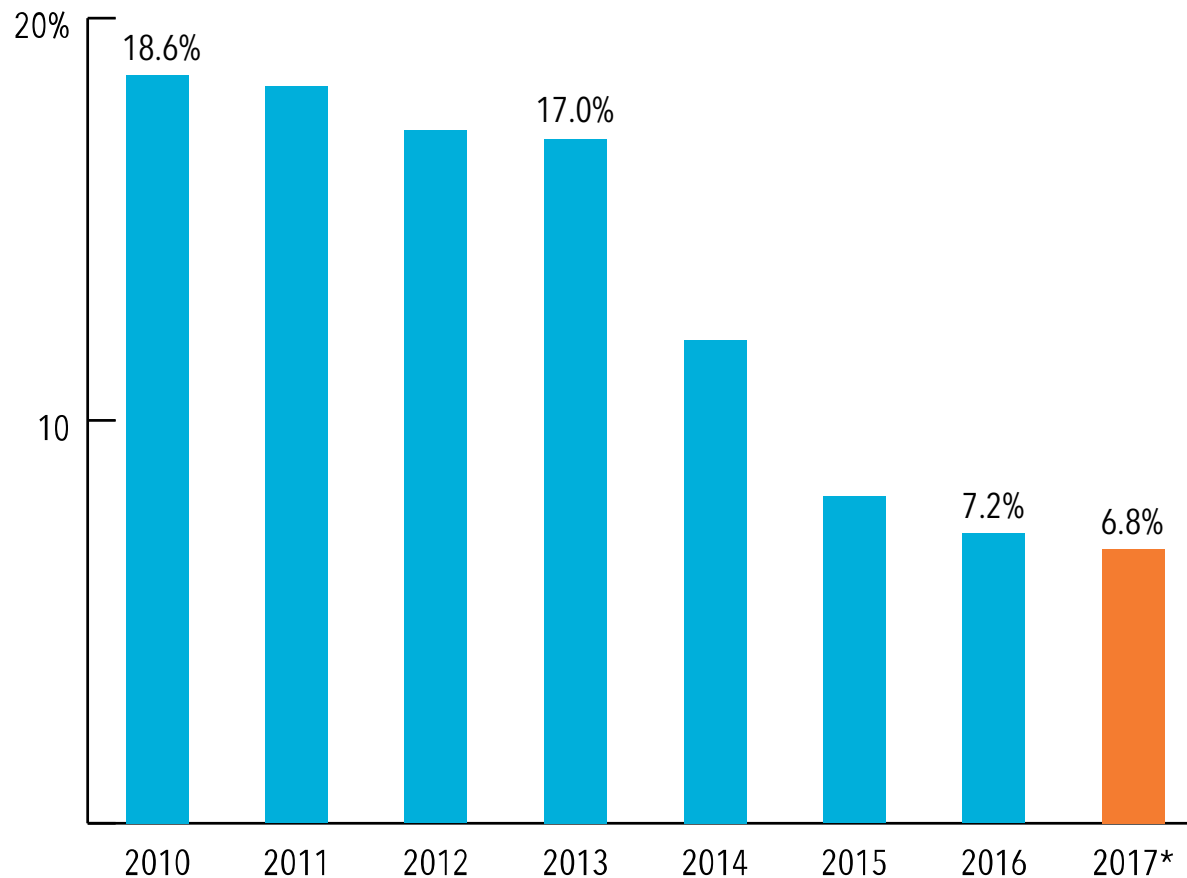


Note: Data for 2012-13 through 2017-18 are state estimates and 2018-19 is projected. Figures reflect average monthly enrollment.  
Source: Department of Health Care Services



# The Share of Californians Without Health Care Coverage Continued to Decline Into 2017

California Fully Implemented Federal Health Care Reform in January 2014



\* January to June.

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



**Governor assumed that Congress would renew the Children's Health Insurance Program (CHIP) at a lower funding level.**

**Meanwhile, the congressional budget deal reached in early 2018 extends CHIP funding for 10 years.**



# CHIP: Funding Background and Future Outlook

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- CHIP is supported with a combination of federal and state funding.
  - Historically, the federal government paid 65% and California paid 35%.
  - In 2015, the ACA increased the federal share to 88% through federal fiscal year (FFY) 2019.
- In his proposed 2018-19 budget, the Governor assumed a return to the 65%/35% sharing ratio.
- In early 2018, Congress struck a 10-year CHIP deal that:
  - Keeps the federal share set at 88% through FFY 2019 and;
  - Lowers it to 76.5% in FFY 2020 and then to 65% from FFY 2021 through FFY 2027.





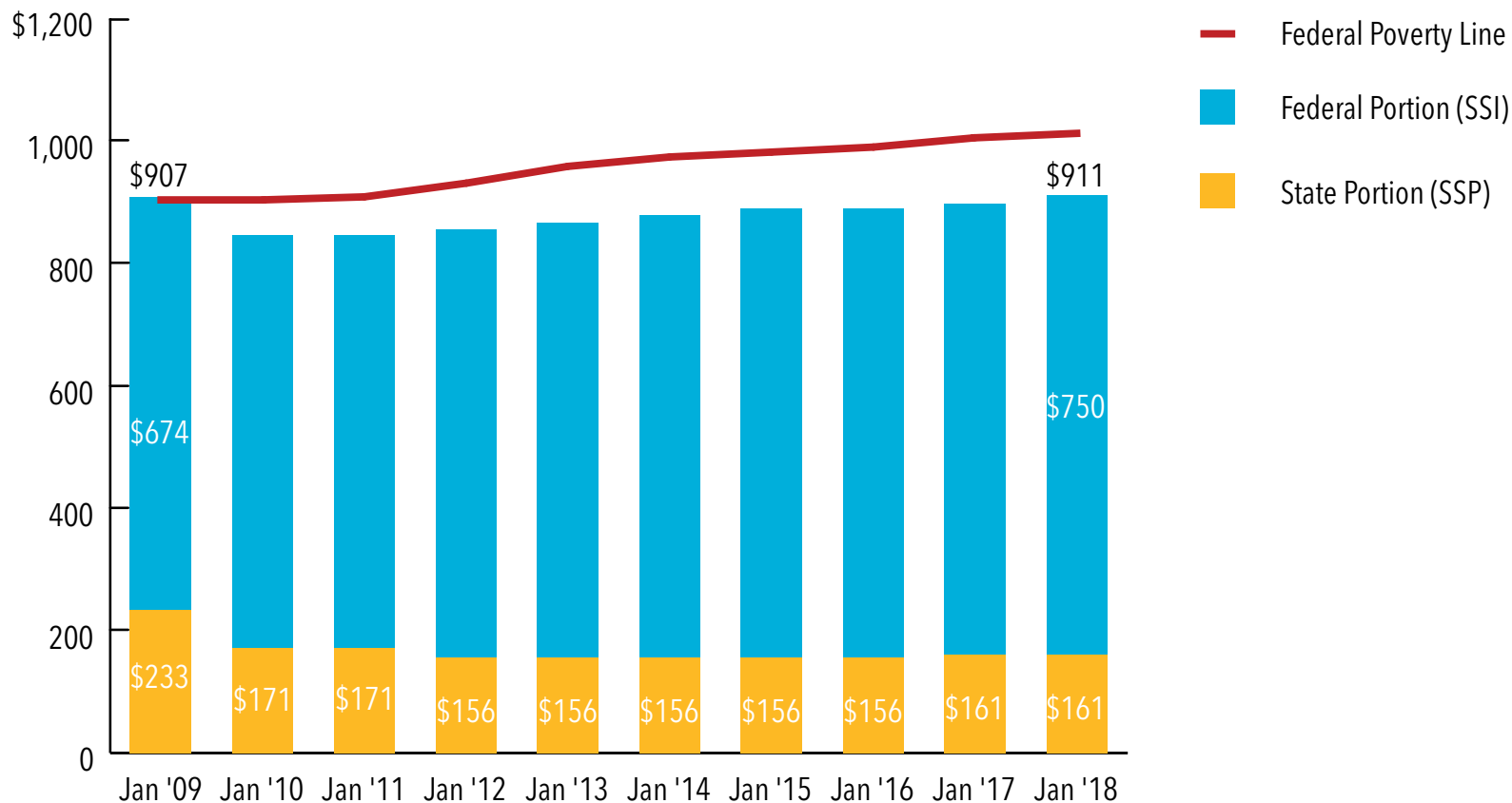
**Proposed budget does not include an increase to the state (SSP) portion of SSI/SSP grants for low-income seniors and people with disabilities.**

**The current maximum SSI/SSP grant for individuals is equal to just 90% of the federal poverty line.**



# Due to State Cuts, SSI/SSP Grants Are Only \$4 Per Month Higher Than in 2009 and Remain Below the Poverty Line

## Maximum Monthly Grant for Individuals Age 65 or Older or Who Have a Disability



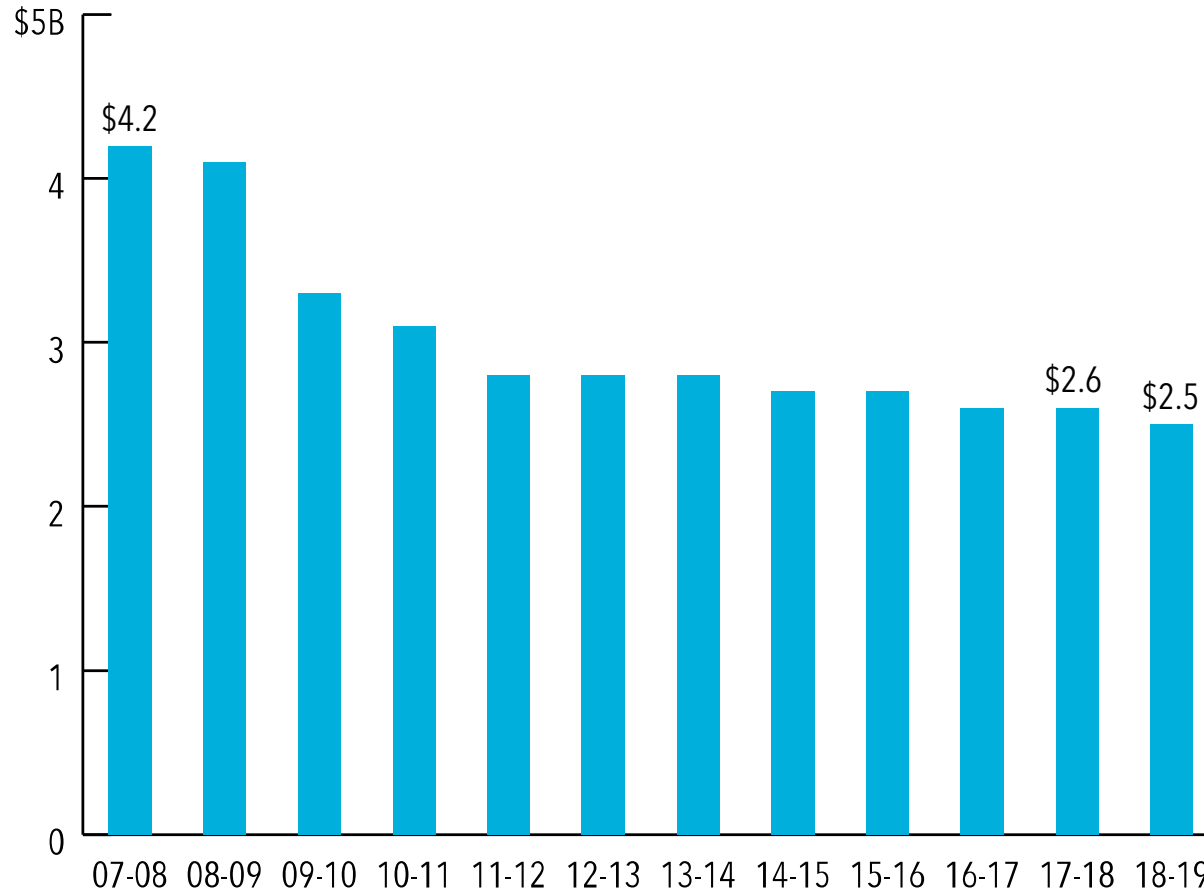
Note: The federal cost-of-living adjustment (COLA) for the SSI portion of the grant is projected to be 2.6% (\$20 per month) effective January 1, 2019. The Governor's proposed 2018-19 budget does not include a state COLA for the SSP portion of the grant in 2019.

Source: Department of Social Services and US Department of Health and Human Services



# Due to Budget Cuts, State Spending for SSI/SSP Grants Is About 40% Below the 2007-08 Level

General Fund Expenditures in Billions, Inflation-Adjusted



Note: Figures are in 2018-19 dollars. All figures are estimates except for 2018-19, which reflects the Governor's proposed expenditure level.

Source: Department of Social Services



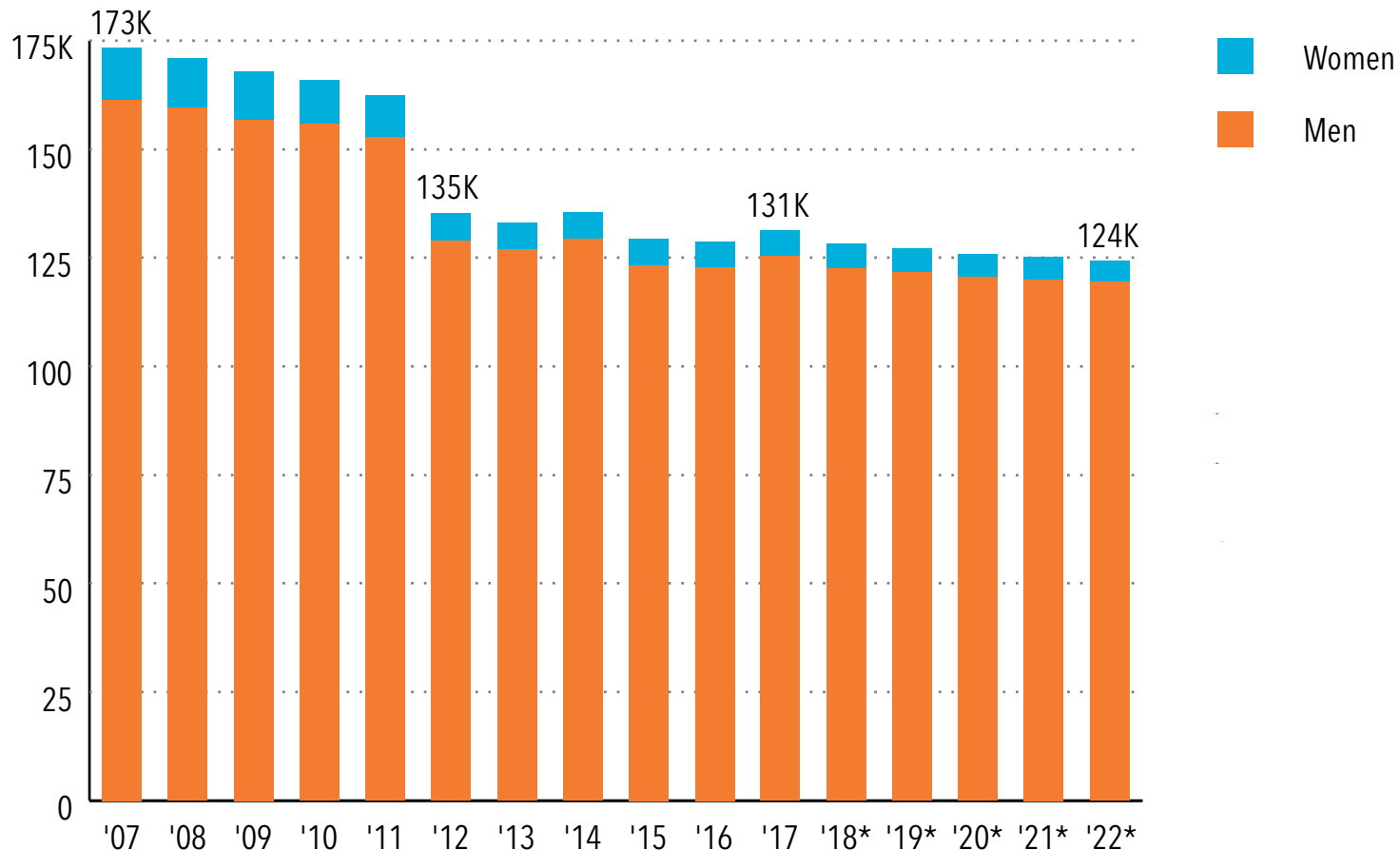
# **Governor's budget assumes a modest drop in incarceration through 2022 due to recent reforms.**

**Even with Prop. 57 (2016) and other reforms reducing the number of state prisoners, spending on state corrections – total and per incarcerated adult – remains high.**



# The Number of Adults Incarcerated at the State Level Is Projected to Decline by Just 5% From 2017 to 2022

As of June 30 of Each Year



\* Projected.

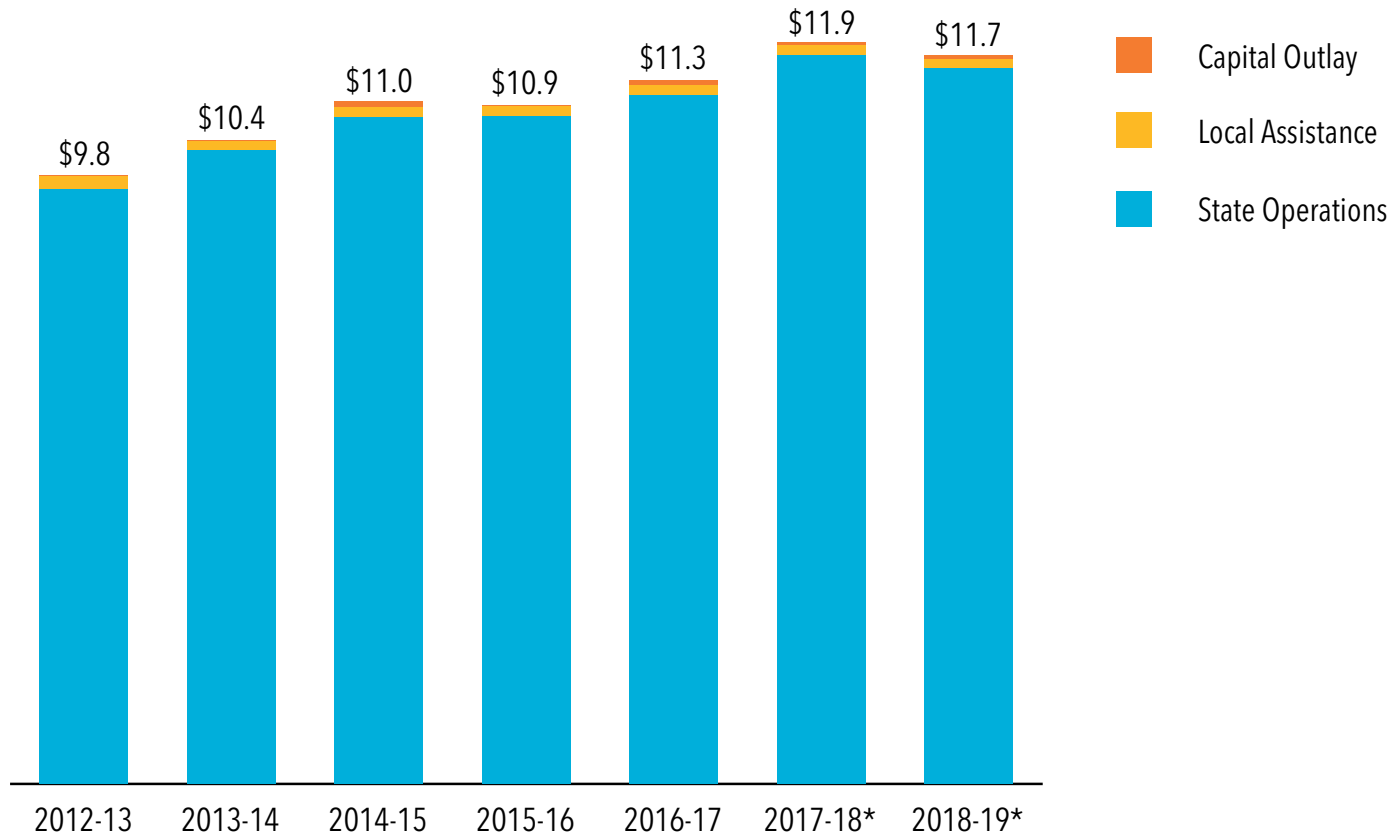
Note: Data reflect individuals housed in a range of facilities, including (but not limited to) prisons operated by the State of California and out-of-state correctional facilities.

Source: California Department of Corrections and Rehabilitation



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

## Inflation-Adjusted General Fund Dollars in Billions



\* 2017-18 estimated and 2018-19 proposed.

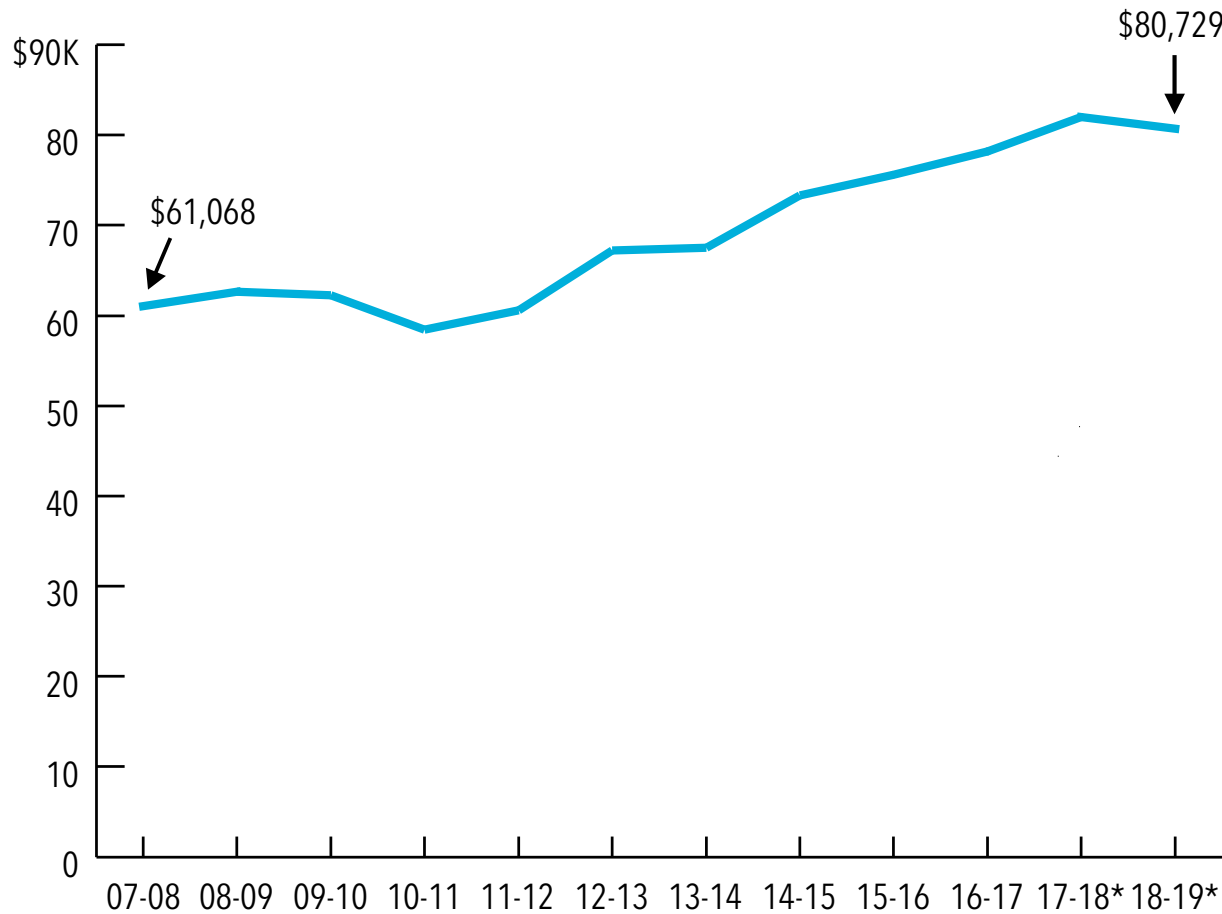
Note: Effective July 1, 2017, the CDCR assumed responsibility for operating 24-hour inpatient psychiatric care in three prisons. This change increased CDCR spending by roughly \$270 million beginning with the 2017-18 fiscal year. Figures reflect 2018-19 dollars.

Source: Department of Finance



# Spending Per Incarcerated Adult Is Up by Nearly One-Third Since 2007-08

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



\* 2017-18 estimated and 2018-19 proposed.

Note: Figures reflect 2018-19 dollars.

Source: Department of Finance



# **Governor's budget maintains resources to address the impact of federal actions on immigration.**

**Among other resources, the proposed budget includes \$45 million for legal services related to immigration status and maintains increased funding for the Attorney General's office to address federal actions.**





# Other Core Elements of Governor's Proposed 2018-19 State Budget

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- Continues to support, but proposes no changes to, the California Earned Income Tax Credit (CalEITC).
- Reflects the first year (\$4.6 billion) of a 10-year, \$55 billion transportation funding package enacted in 2017.
- Includes proposals to implement the 2017 legislative housing package:
  - Allocates \$245 million from a real estate transaction fee established by Senate Bill 2 for affordable housing and homelessness programs.
  - Anticipates voter approval in November 2018 of a \$4 billion housing bond and allocates \$277 million in bond funds for Multifamily Housing Program.



# What Happens Next? Key Issues to Watch



# Some Key Issues and Questions to Watch Going Forward

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- Impact of newly enacted federal tax law: What is the Governor's and Legislature's assessment of the effects of new tax policies? And how do they respond?
- Future federal actions: To what extent do Republican leaders follow through on threats to slash Medicaid, Medicare, food assistance, and other key supports? Do federal policymakers reach an agreement on immigration issues, including DACA?
- Legislature's response: Do Assembly and Senate push for greater investment in supports that help Californians to make ends meet?



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