



California Budget
& Policy Center

California Budget Perspective 2018-19

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NORTHERN CALIFORNIA GRANTMAKERS
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calbudgetcenter.org

The Governor's Proposed 2018-19 Budget:

Top Lines and Key Context



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

Several key considerations provide the backdrop:

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



The Governor's Proposed Budget: Top Lines

- 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



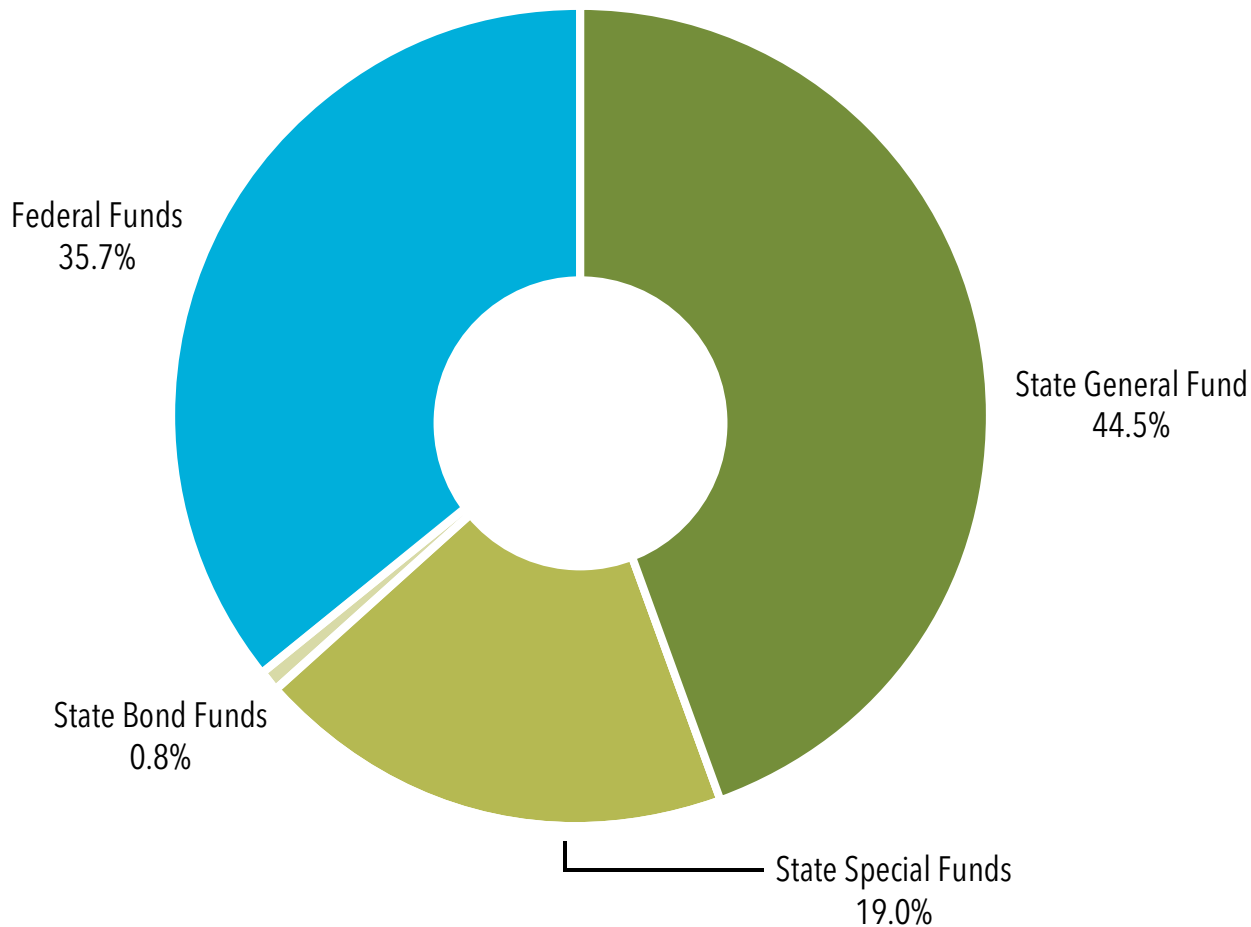
The Federal Backdrop to the State Budget

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

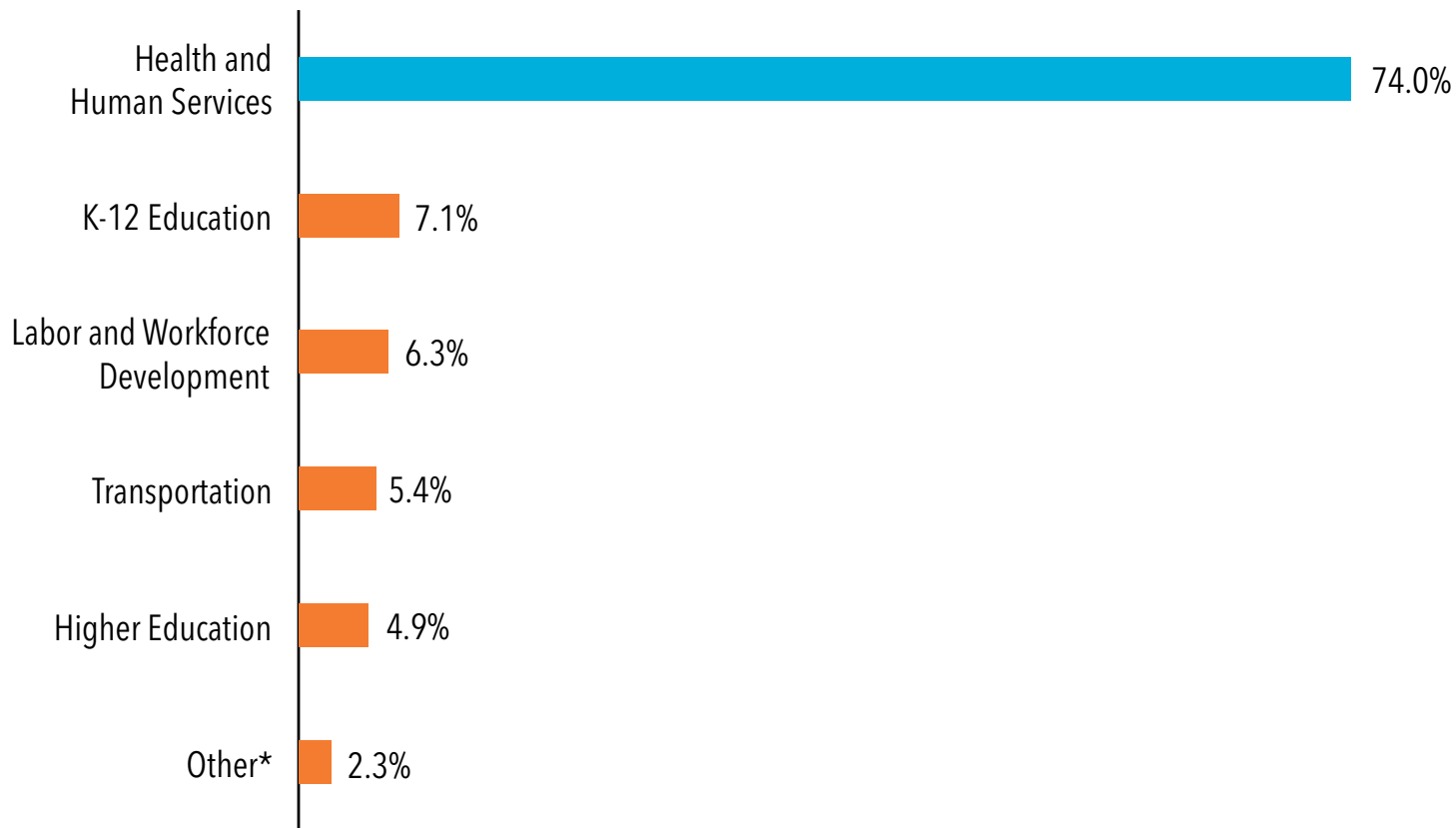


Source: Department of Finance



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



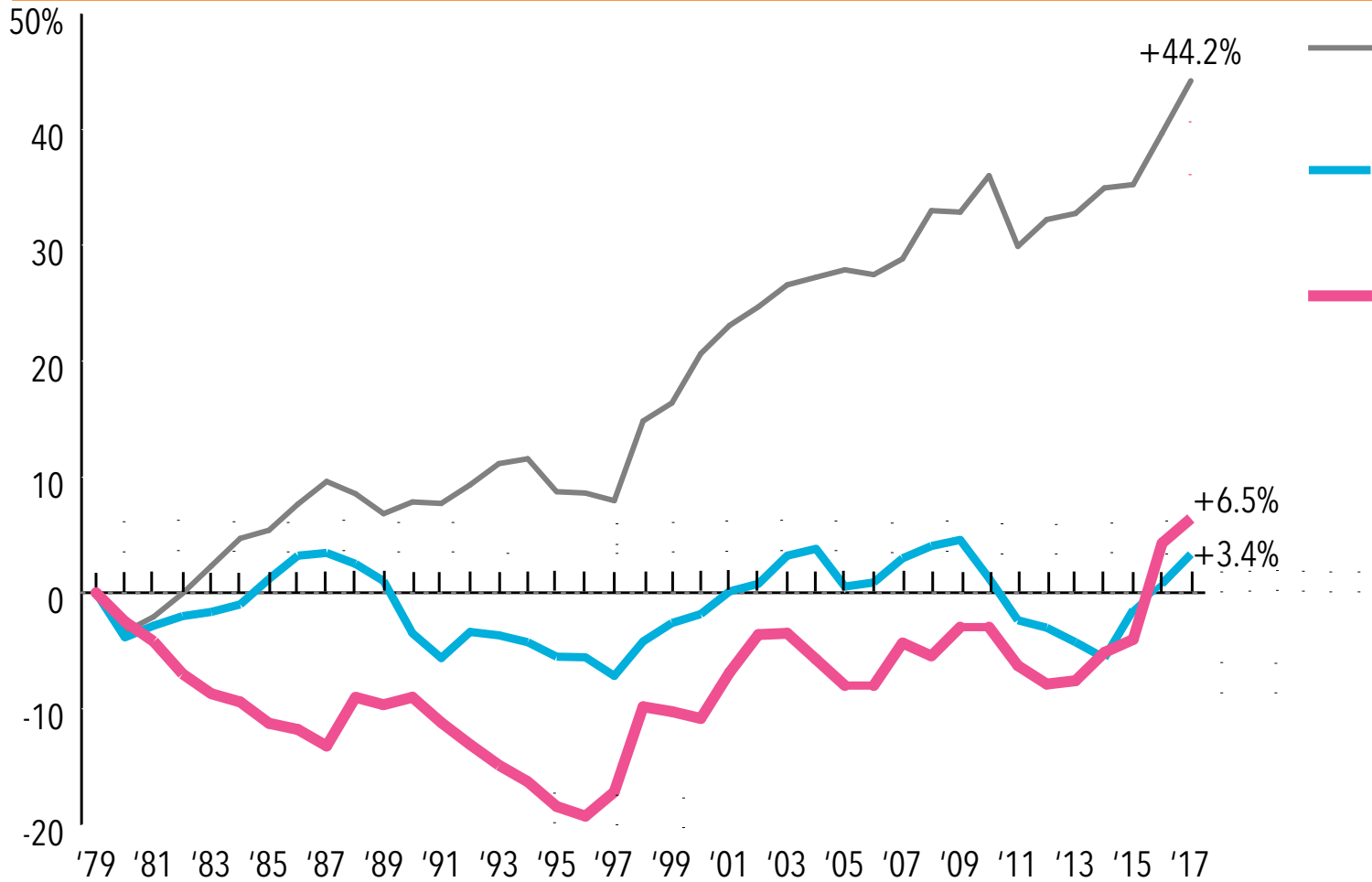
The Social and Economic Context of the State Budget

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

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



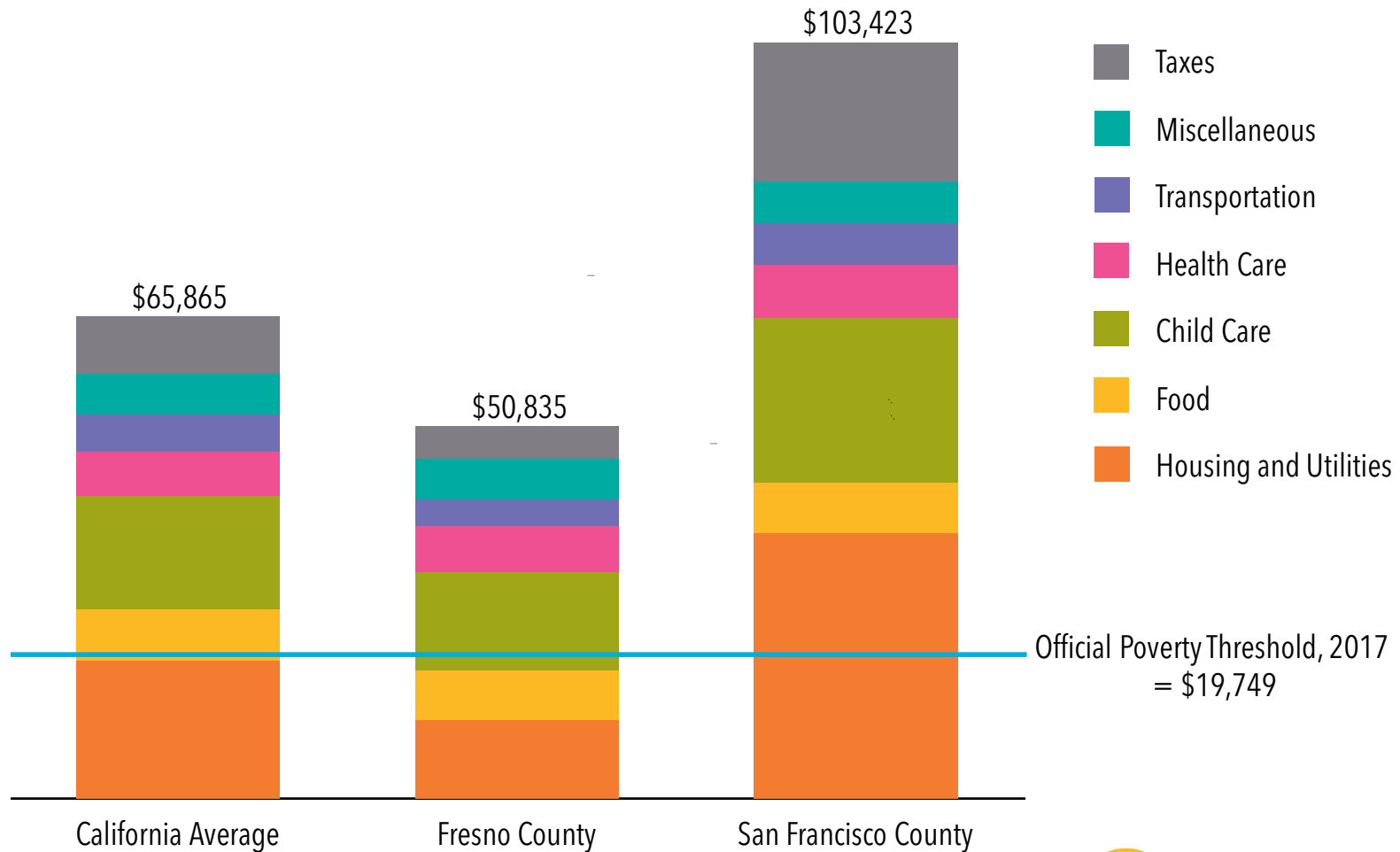
Note: Figures reflect 2017 dollars.

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



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

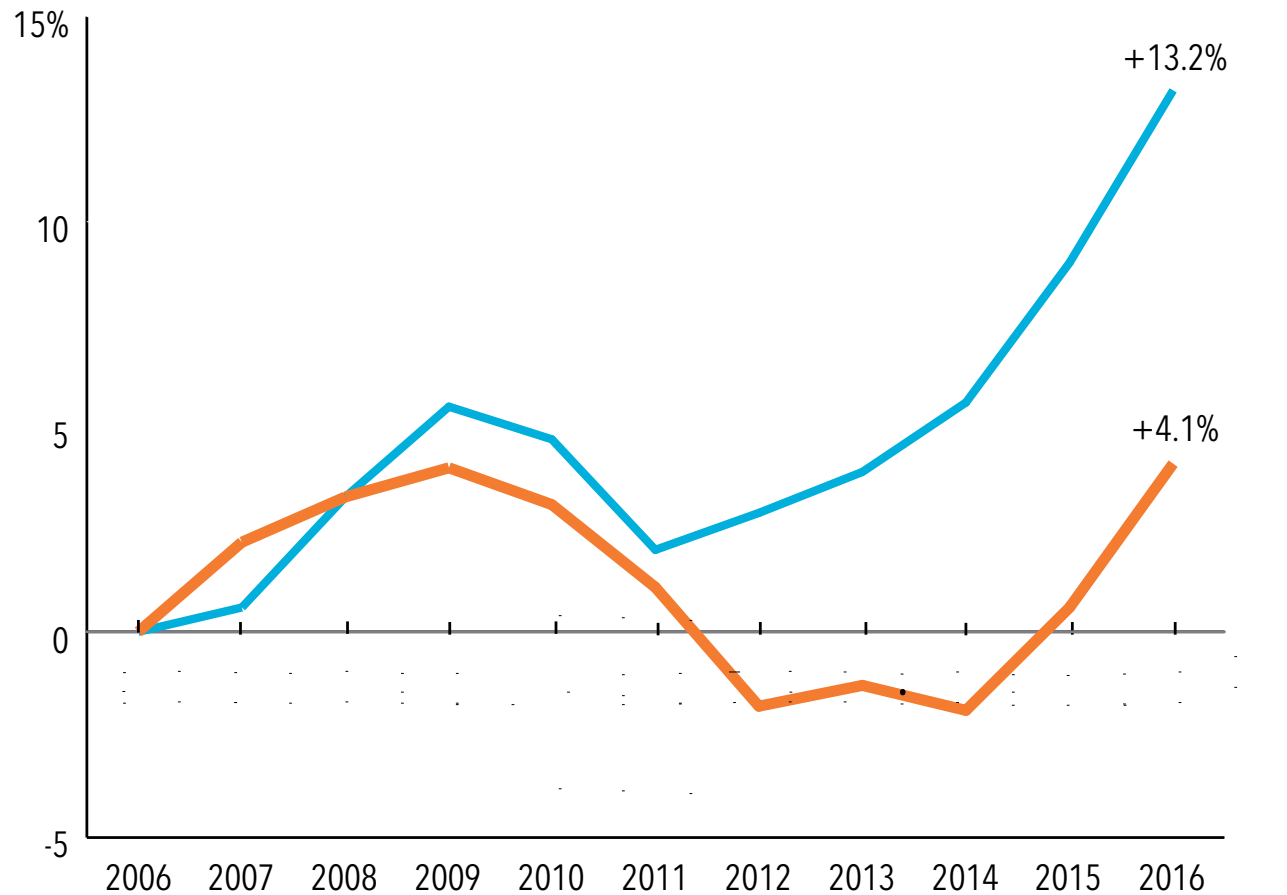


Note: Assumes one preschool-age and one school-age child and a single parent working full-time.
 Source: Budget Center *Making Ends Meet* 2017 analysis and US Census Bureau



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



Key Elements of Governor's Proposed Budget



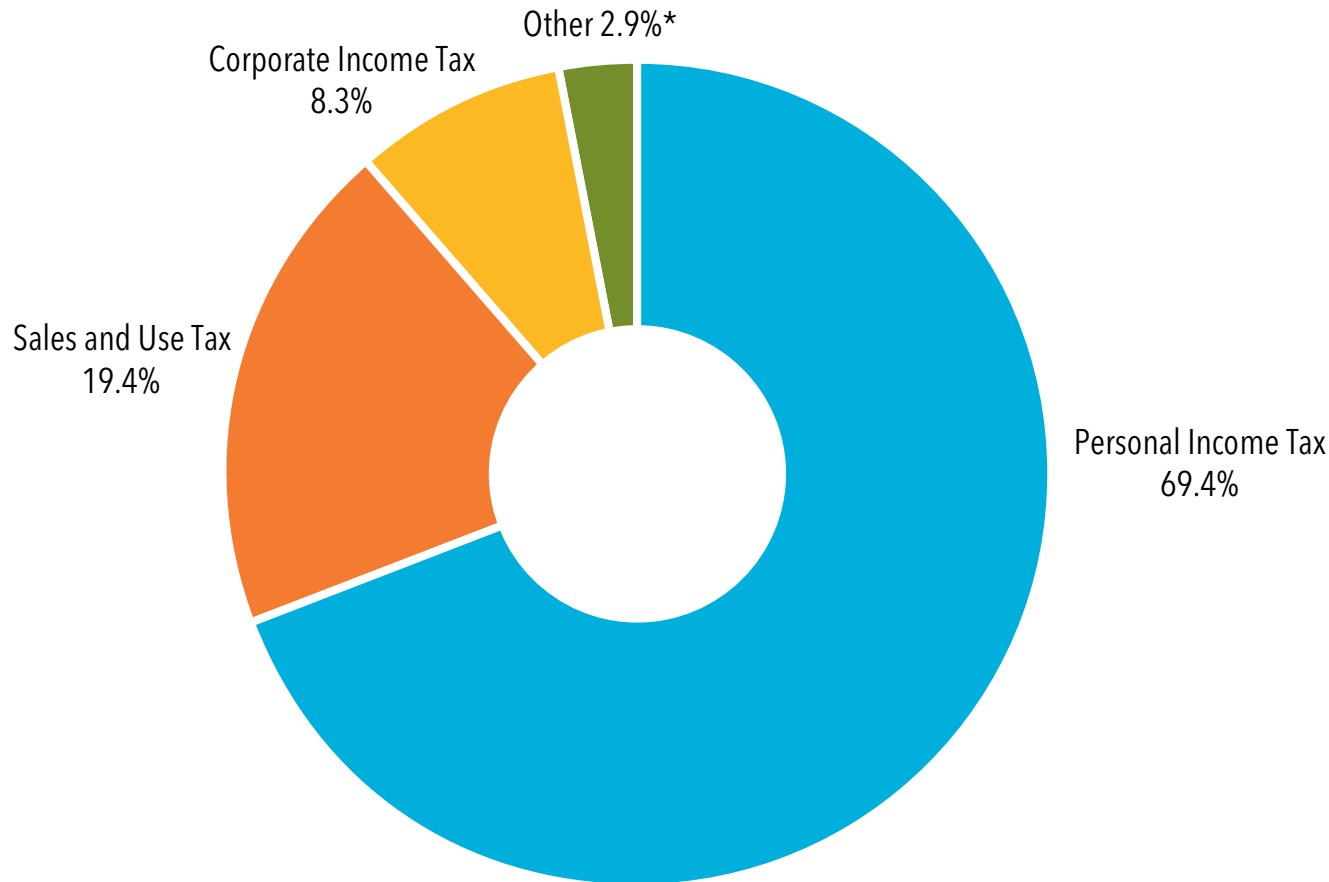
Stronger revenue forecast is largely driven by higher projections for personal income tax and sales and use tax revenues.

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).

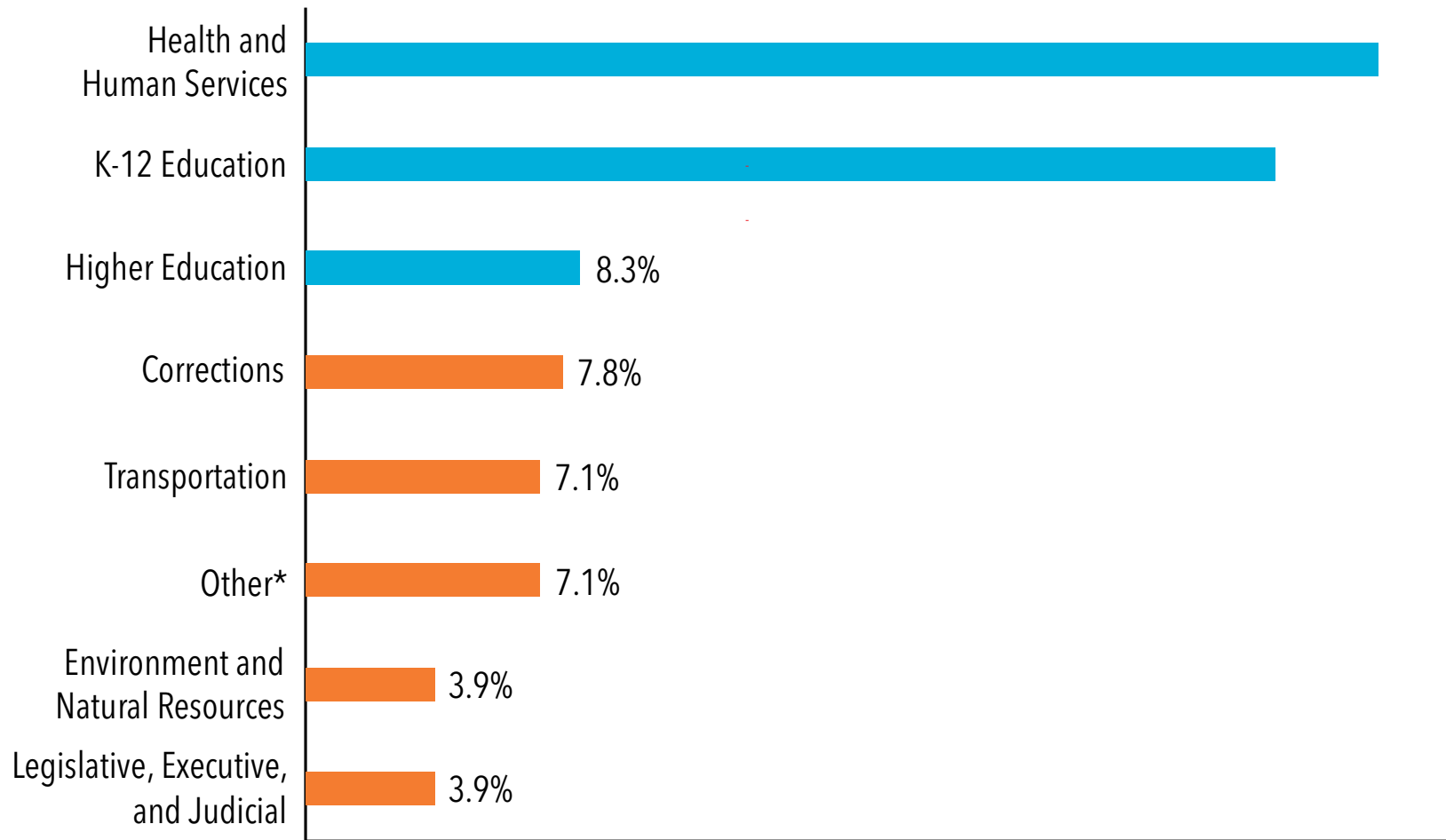
* Includes Highway Users Taxes, Insurance Tax, Alcoholic Beverage Taxes and Fees, Cigarette Tax, Motor Vehicle Fees, and other various additional sources of revenue.

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



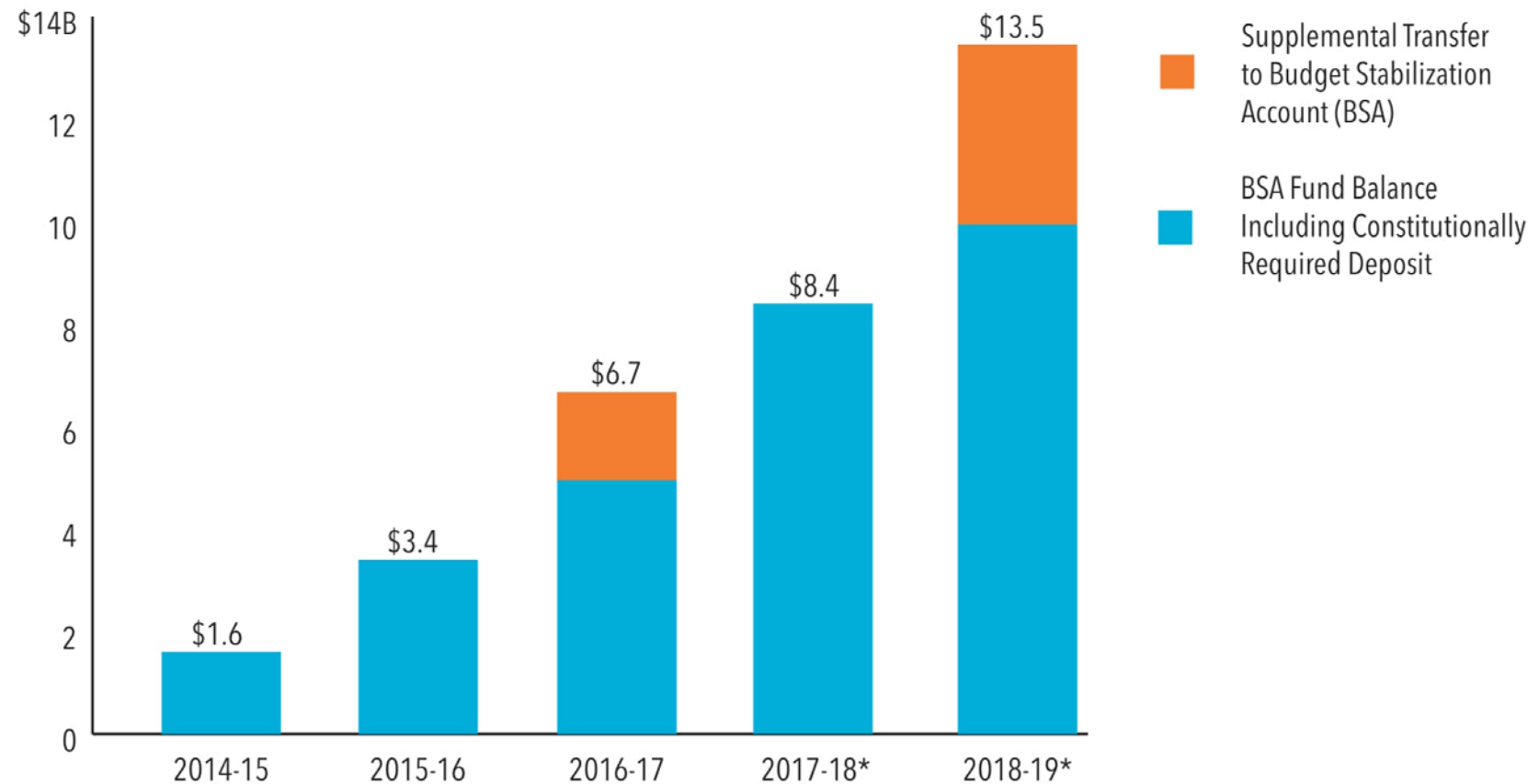
Governor opts to bring rainy day fund to its maximum level.

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, community colleges, and higher education.



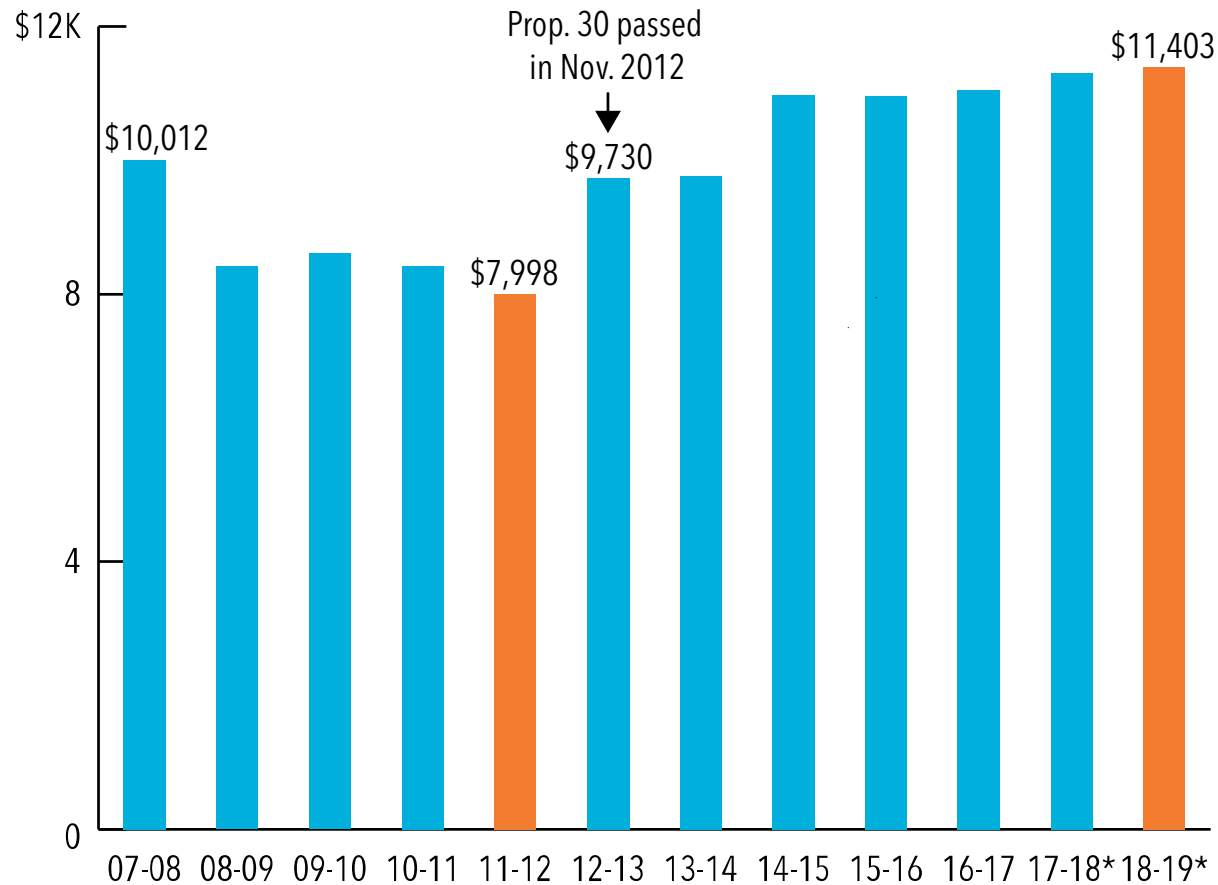
Budget proposal provides funding to support full implementation of Local Control Funding Formula (LCFF).

With \$2.9 billion increase in annual funding in 2018-19, state reaches 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.

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



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.



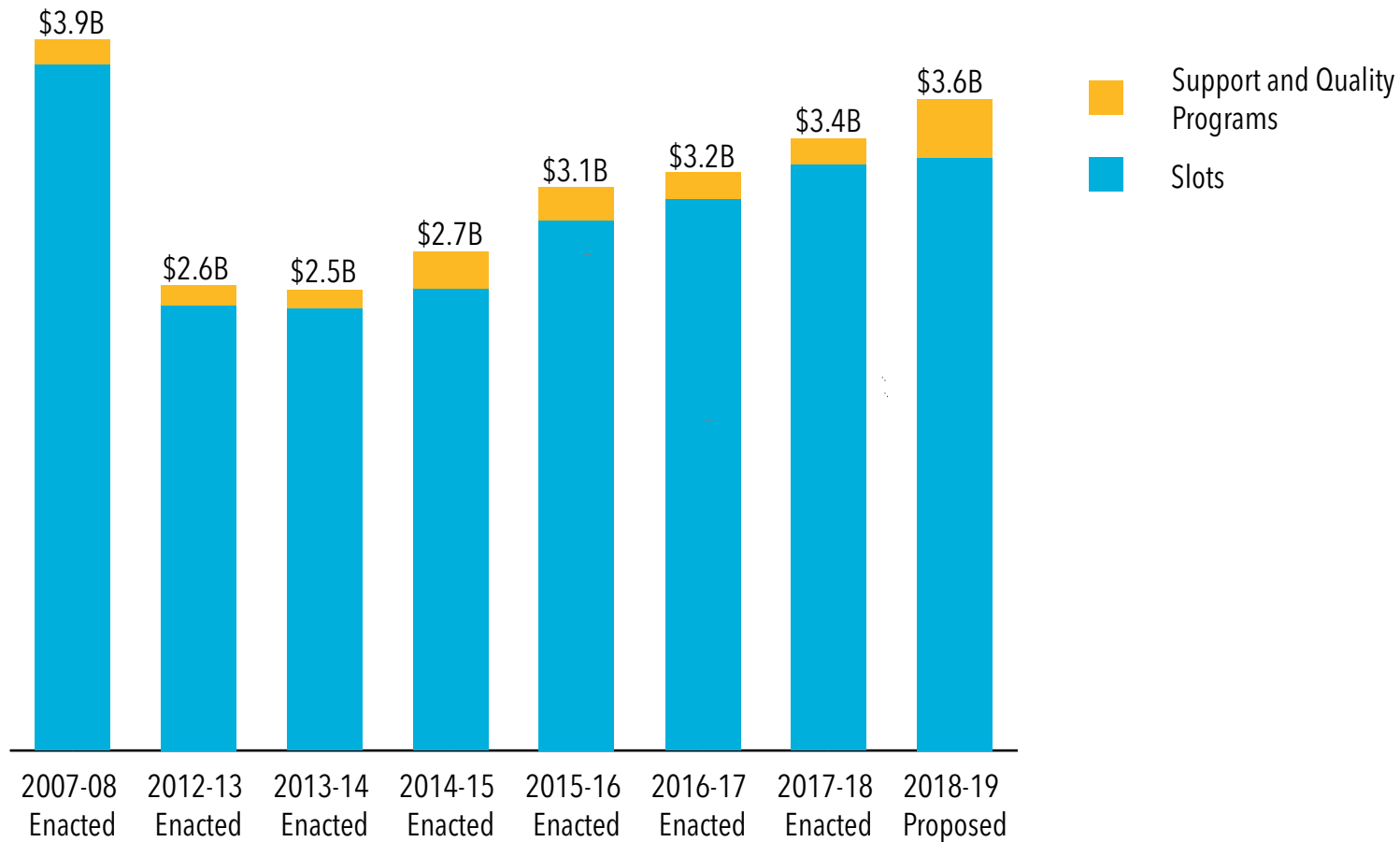
Proposed budget includes one-time funding for competitive grants for child care and preschool providers.

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



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



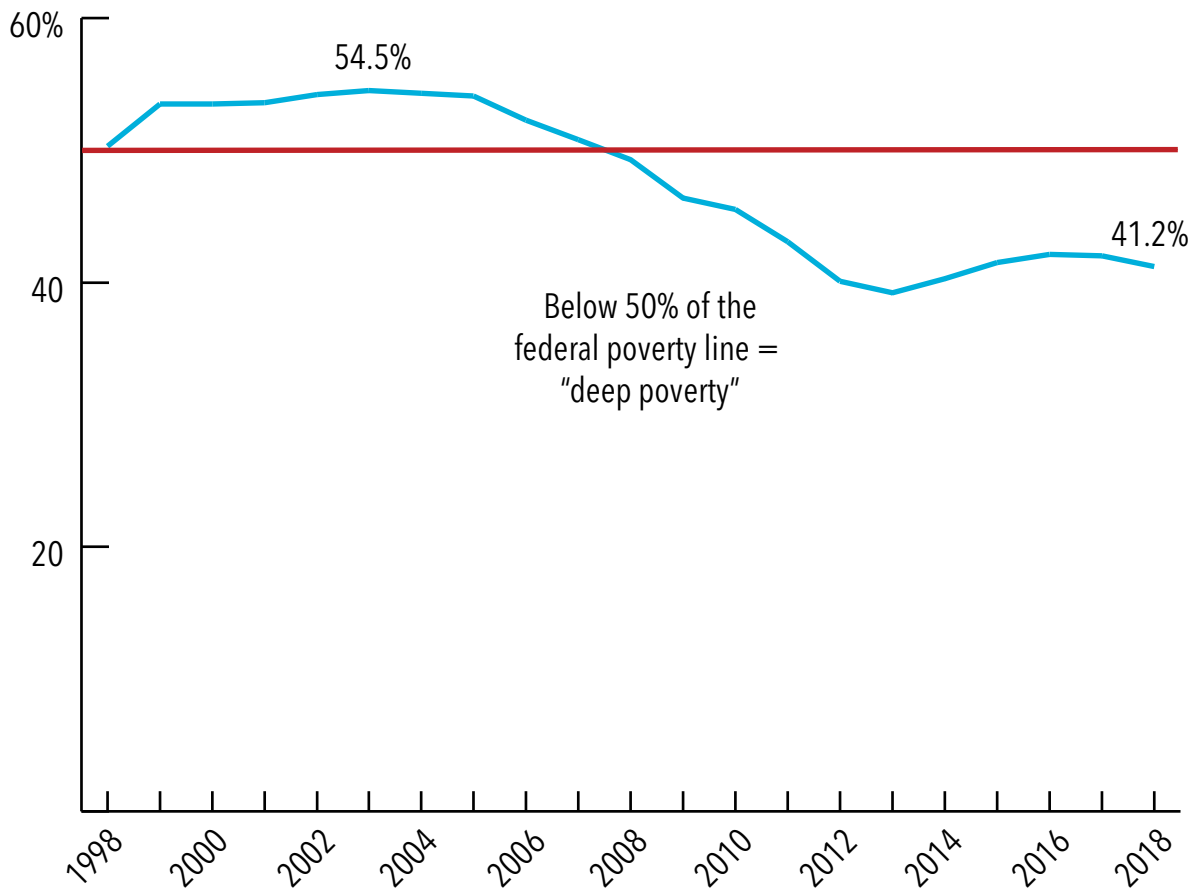
Budget includes one-time increase to CalWORKs “single allocation” and initiates home visiting pilot program.

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.



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



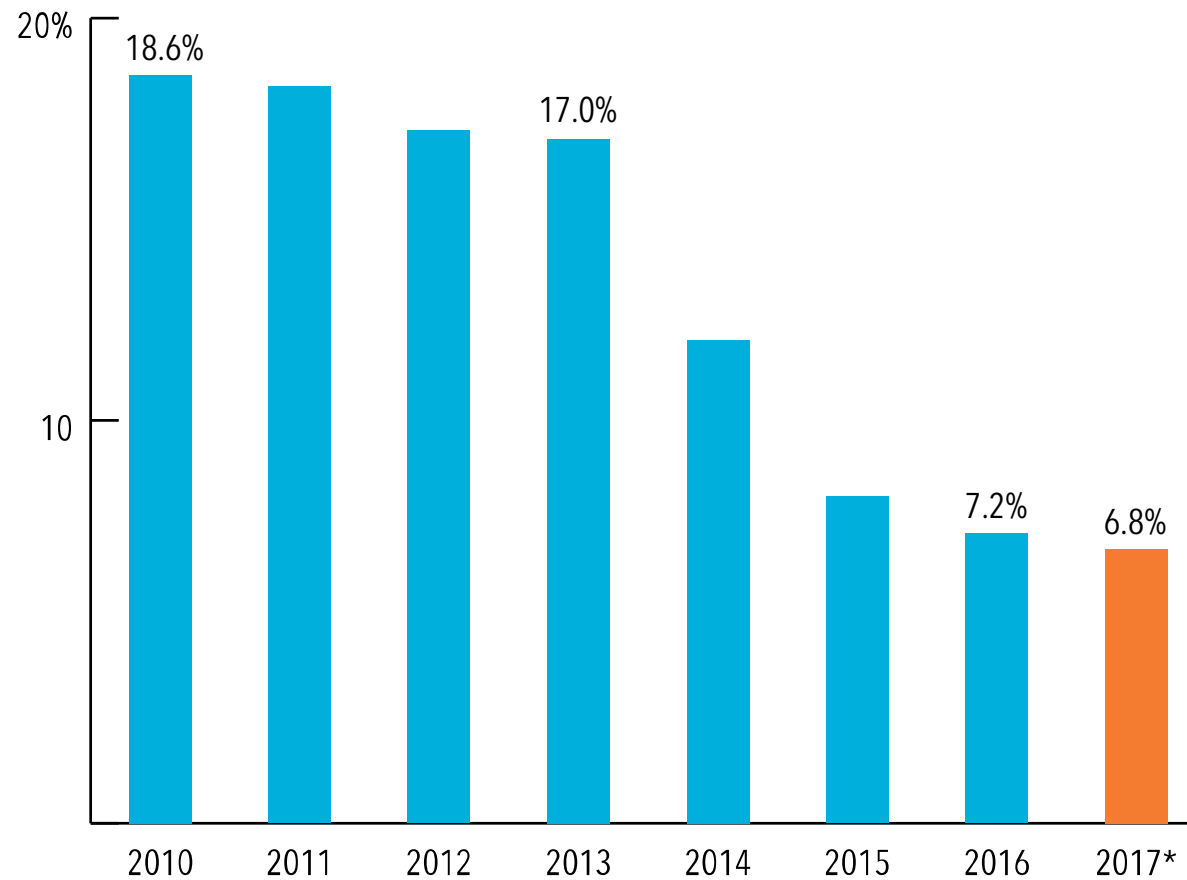
Governor acknowledges uncertainty over future of Affordable Care Act, but assumes current policies remain.

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



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



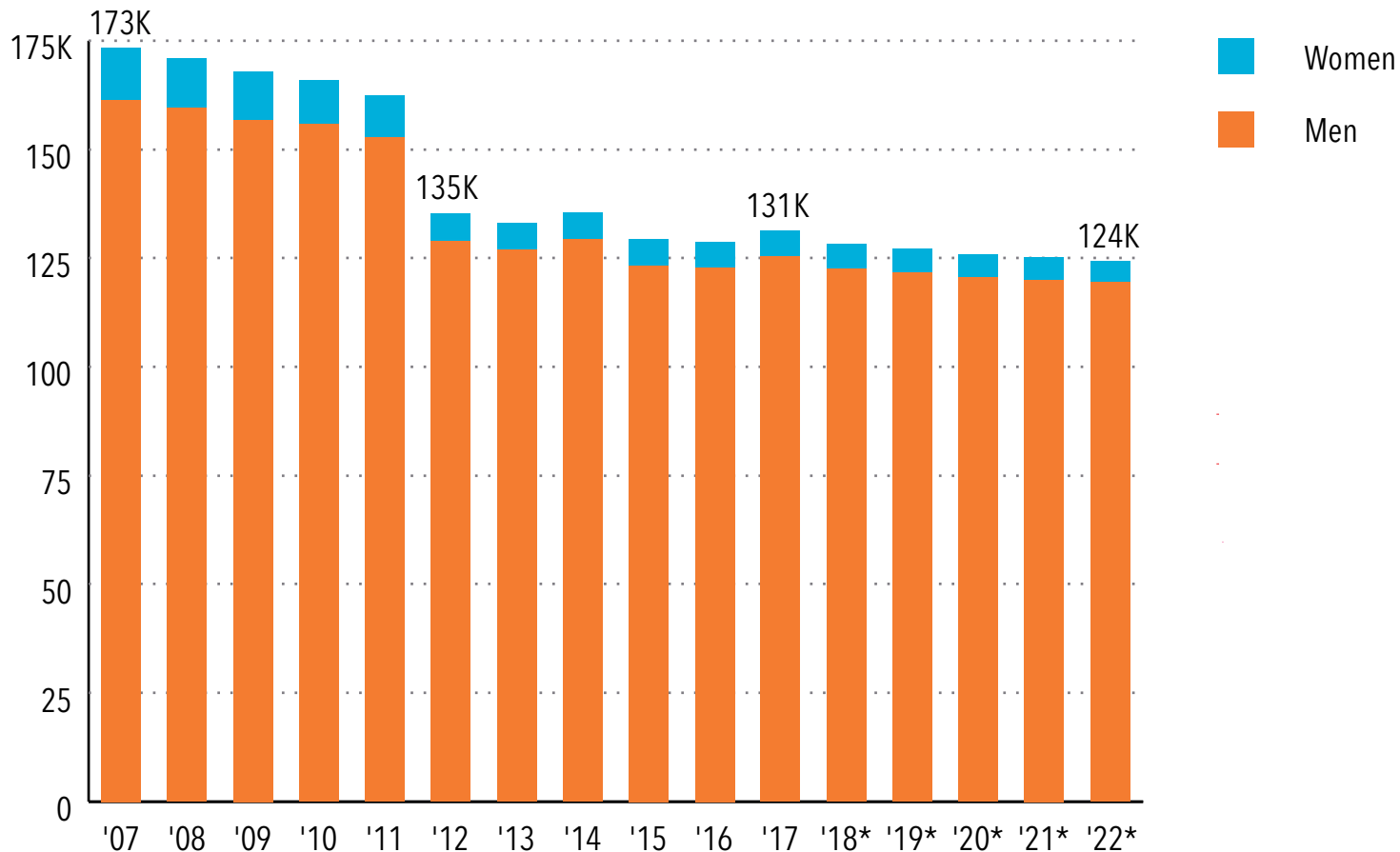
Governor's budget assumes a modest drop in incarceration through 2022 due to reforms.

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.

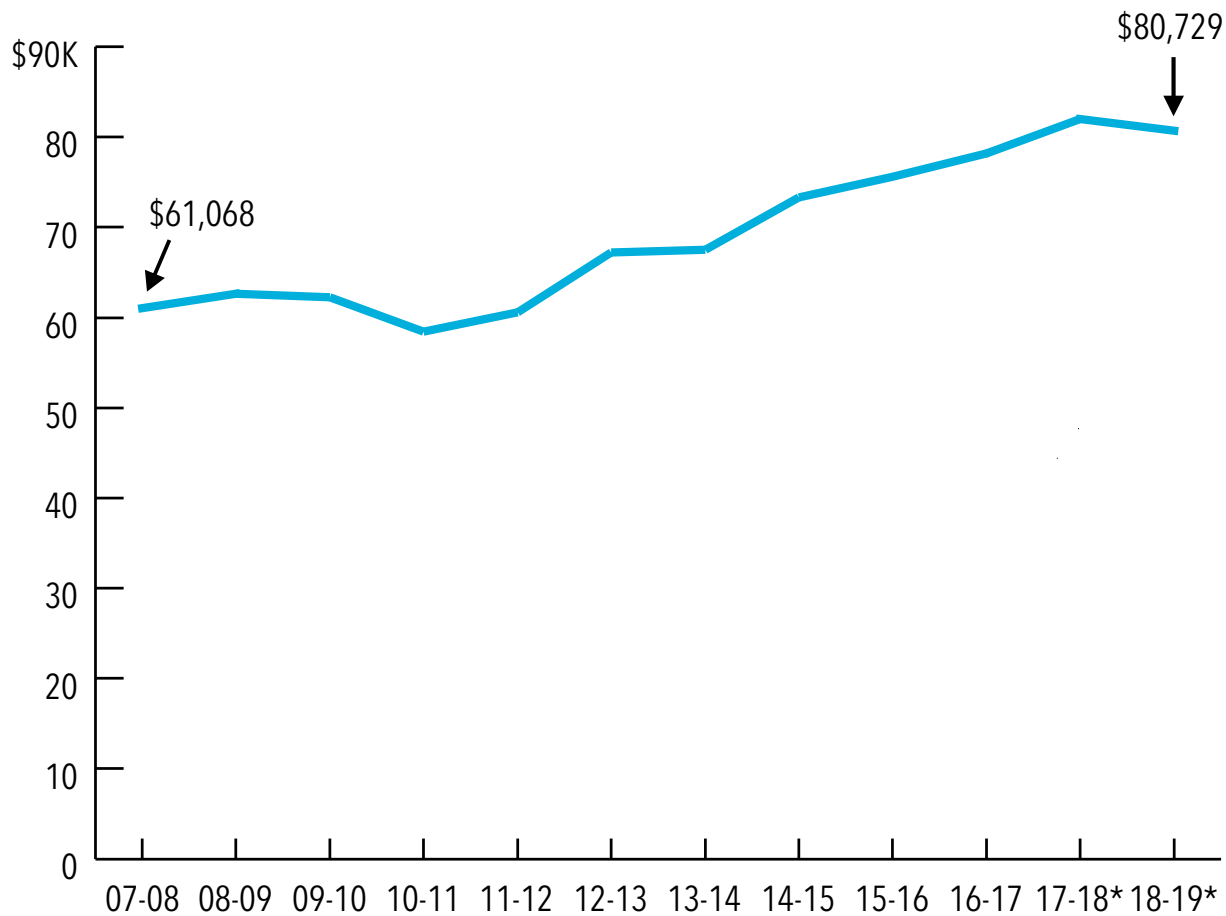
Note: Data reflect individuals housed in a range of facilities, including (but not limited to) prisons operated by the State of California and out-of-state correctional facilities.

Source: California Department of Corrections and Rehabilitation



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



In a number of key areas, the Governor's proposed budget reflects implementation or continuation of previously enacted policies.



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

- Continues to support, but proposes no changes to, 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 \$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

- 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?
- Legislature's response: Do Assembly and Senate push for greater investment in supports that help Californians to make ends meet?



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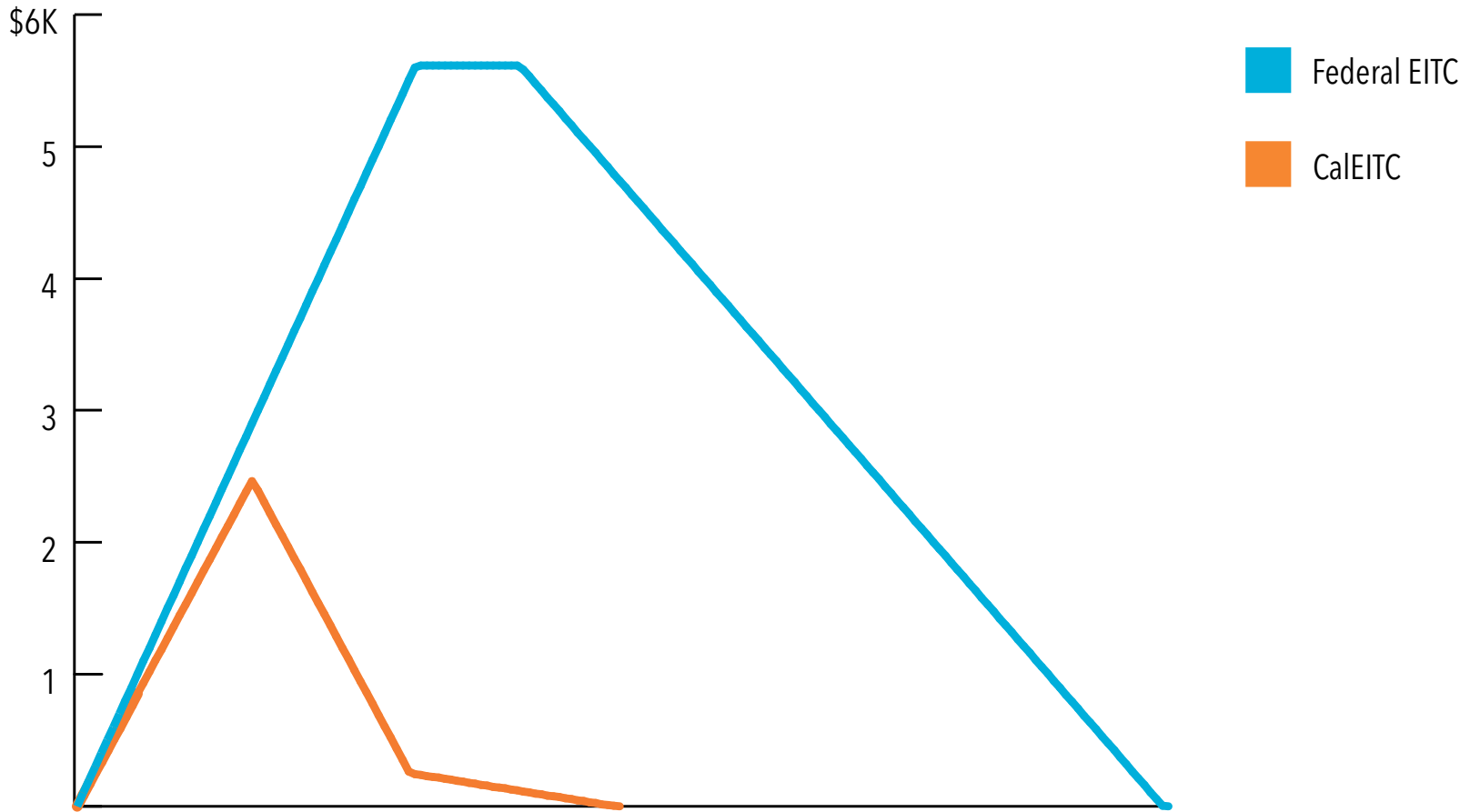
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The CalEITC Provides an Additional Income Boost to Working Families and Individuals With Low Incomes

Federal & California Earned Income Tax Credits, Unmarried Parents With Two Children, 2017



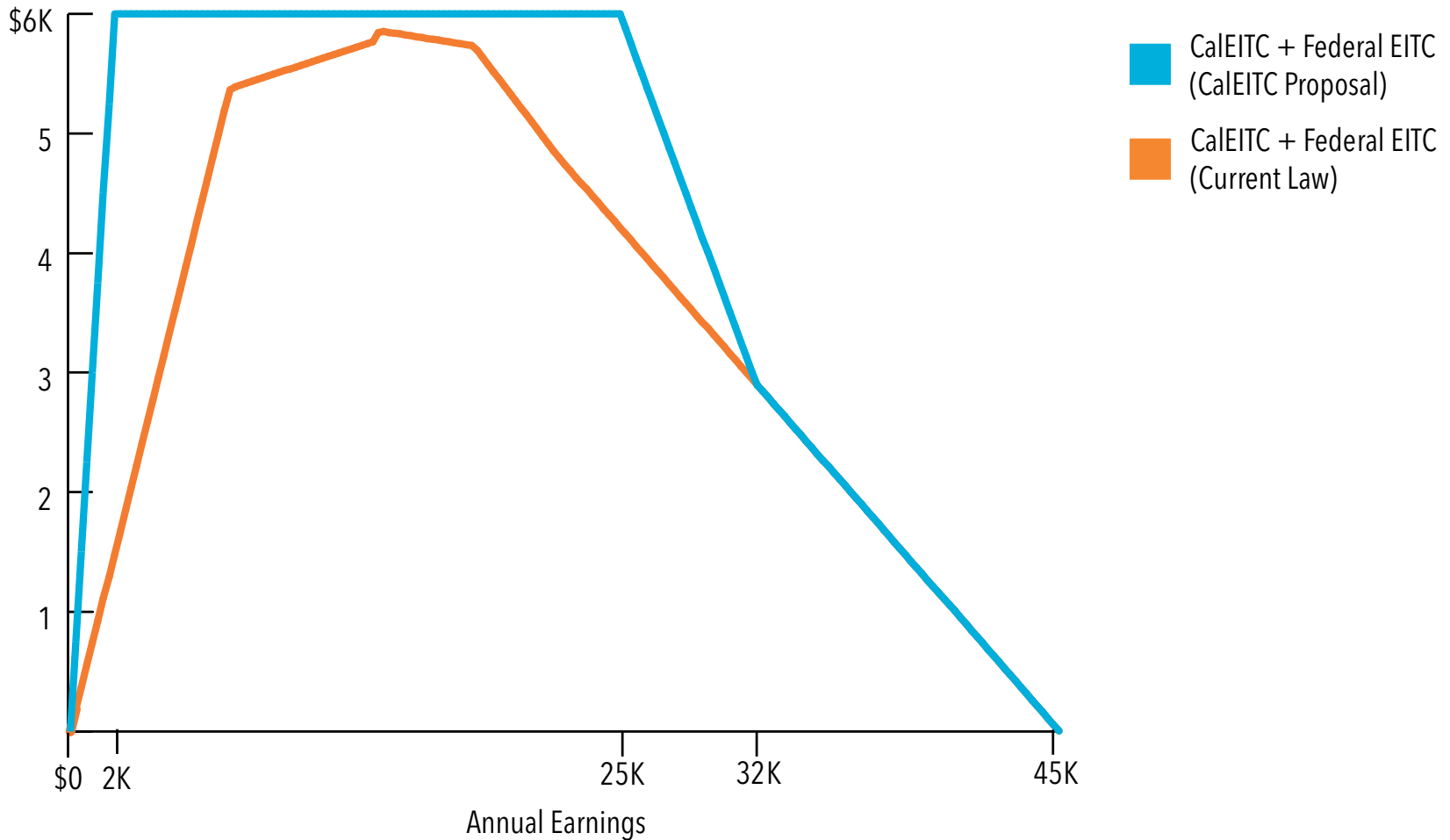
Source: California Budget & Policy Center analysis of Section 17052 of the California Revenue and Taxation Code and Section 32 of Title 26 Internal Revenue Code



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Proposed CalEITC Would Further Enhance the Federal EITC for Workers With Low Incomes

Federal & California Earned Income Tax Credits, Unmarried Parents With Two Children, 2017



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



Proposed CalEITC Would Further Enhance the Federal EITC for Workers With Low Incomes

Proposal would restructure the CalEITC to “top up” the federal EITC so that:

- Working parents with earnings between \$2,000 and \$25,000 would receive a combined state and federal credit equal to:
 - \$6,750 for parents with 3 or more children (up from about \$6,500 currently);
 - \$6,000 for parents with 2 children (up from about \$5,800 currently); and
 - \$3,632 for parents with 1 child (up from about \$3,600 currently).
- Workers with children and less than \$2,000 in earnings or more than \$25,000 in earnings would receive combined state and federal credits smaller than these amounts.
- The income limit to qualify for the CalEITC would increase for workers with children from about \$22,300 currently to about \$31,200, which is equivalent to a full-time worker’s annual salary at a \$15 per hour minimum wage.

