

CALIFORNIA BUDGET PROJECT

# An Incomplete Vision: Putting the Governor's Proposed 2014-15 Budget in Context

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THE CALIFORNIA BUDGET PROJECT  
February 2014

# Overview

- California's revenue outlook is improving due to economic growth and new revenues approved by the state's voters in 2012.
- But the economic recovery remains elusive for many Californians.
  - Long-term unemployment and poverty rates remain at high levels.
  - The Great Recession and the recovery, to date, have exacerbated long-term trends in increasing economic inequality.

# Overview (Continued)

- The Governor's proposed 2014-15 budget prioritizes paying down debt, rebuilding and strengthening the state's "rainy day fund," and boosting funding for schools as a result of increased revenues.
- The Governor's proposal represents an incomplete vision for investing in California's future.
  - The proposal leaves too many core public systems and services operating at diminished levels.
  - It presents false choices between "fiscal prudence" and reinvestment.
- With California's improving revenue outlook, policymakers should adopt a more balanced approach that provides a platform for broadly shared growth and prosperity.

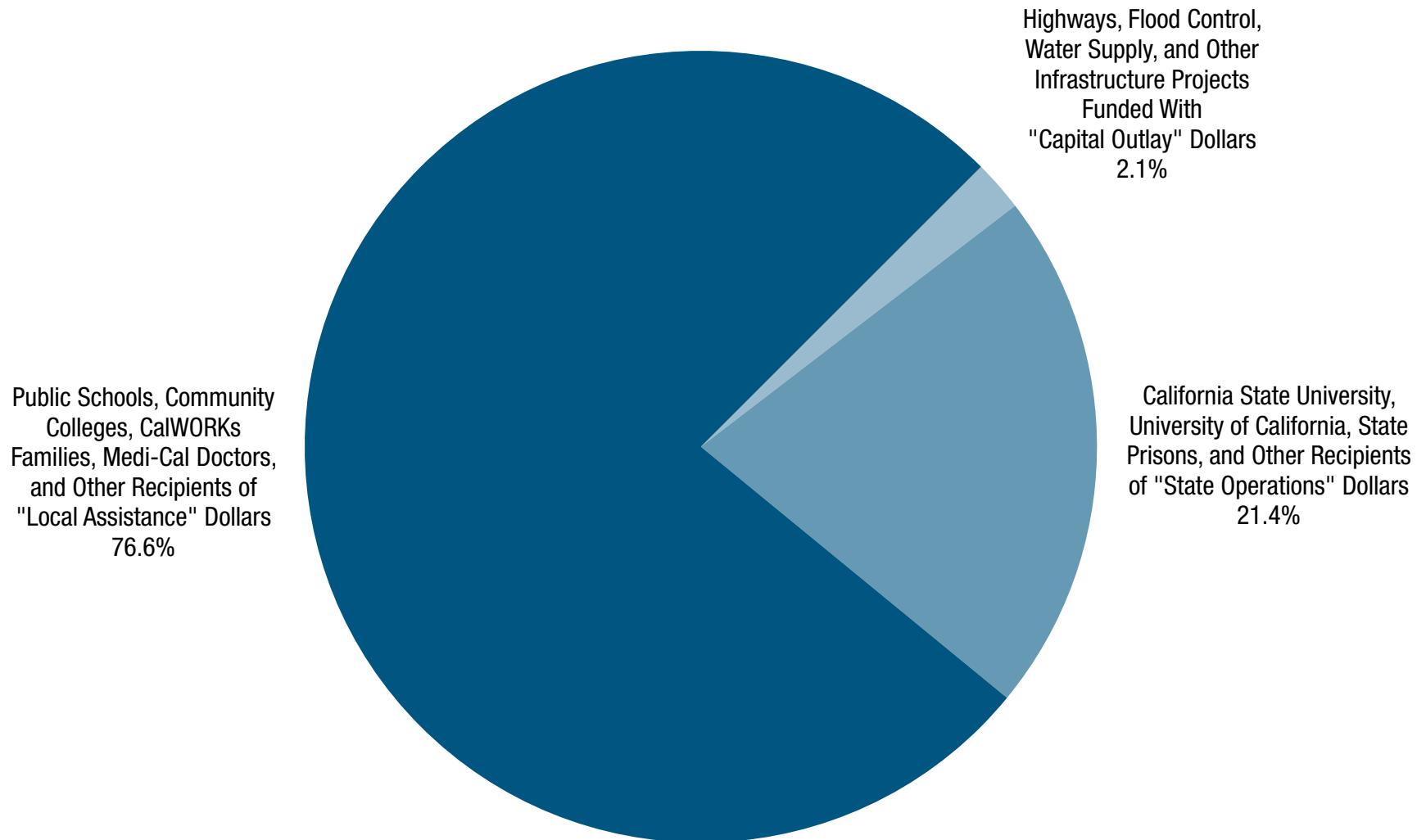
# Outline

- Our State Budget: The Big Picture
- The Social and Economic Context
- The Governor's Proposed 2014-15 Budget
  - Key Areas of Progress
  - An Incomplete Vision for Investing in California's Future
- Policy Considerations and Choices: Building a Platform for Broadly Shared Prosperity

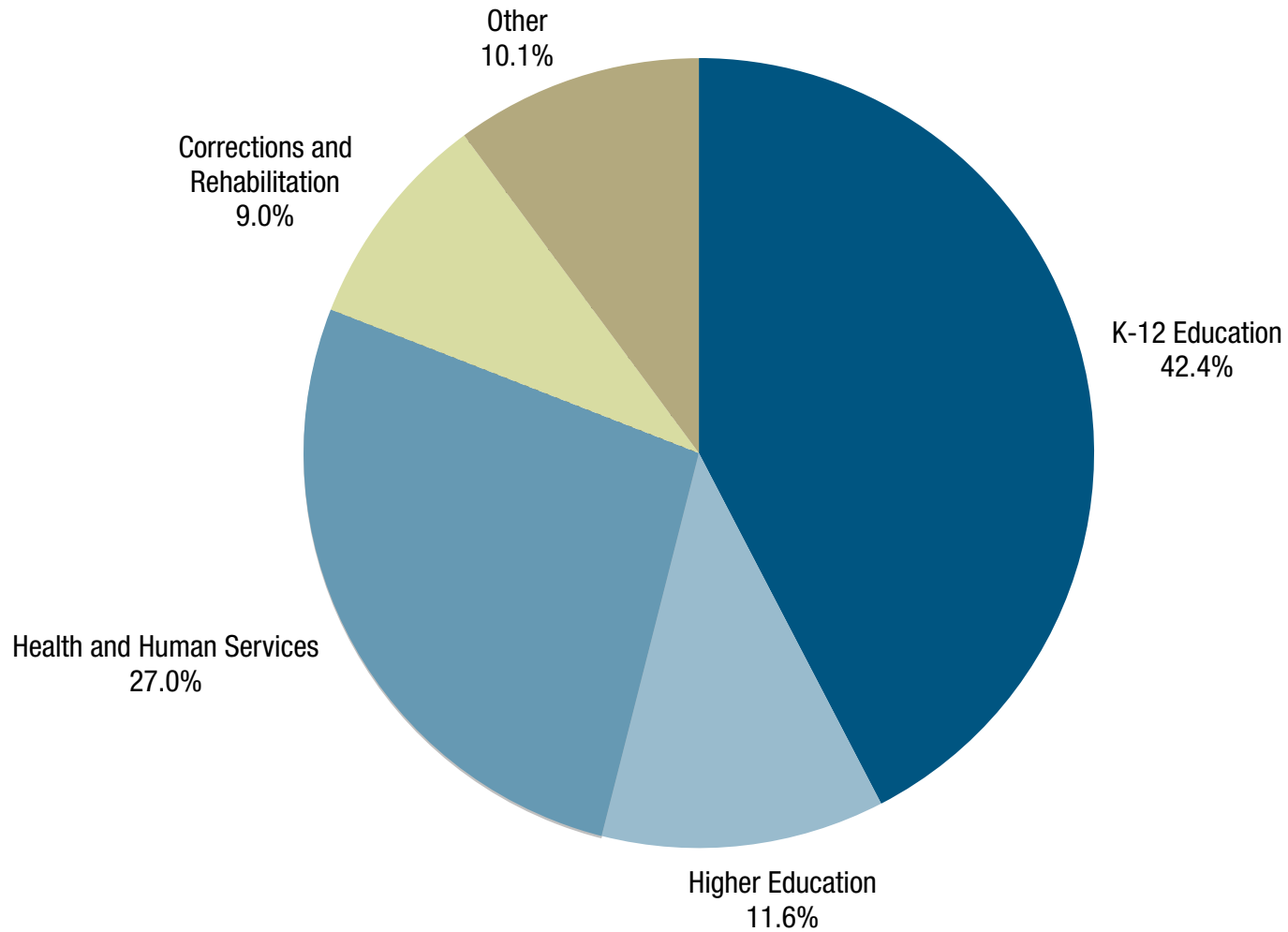


# Our State Budget: The Big Picture

## The State Budget Directs Dollars to Local Communities Through Three Funding Categories Proposed 2014-15 Spending, Including Both State and Federal Dollars

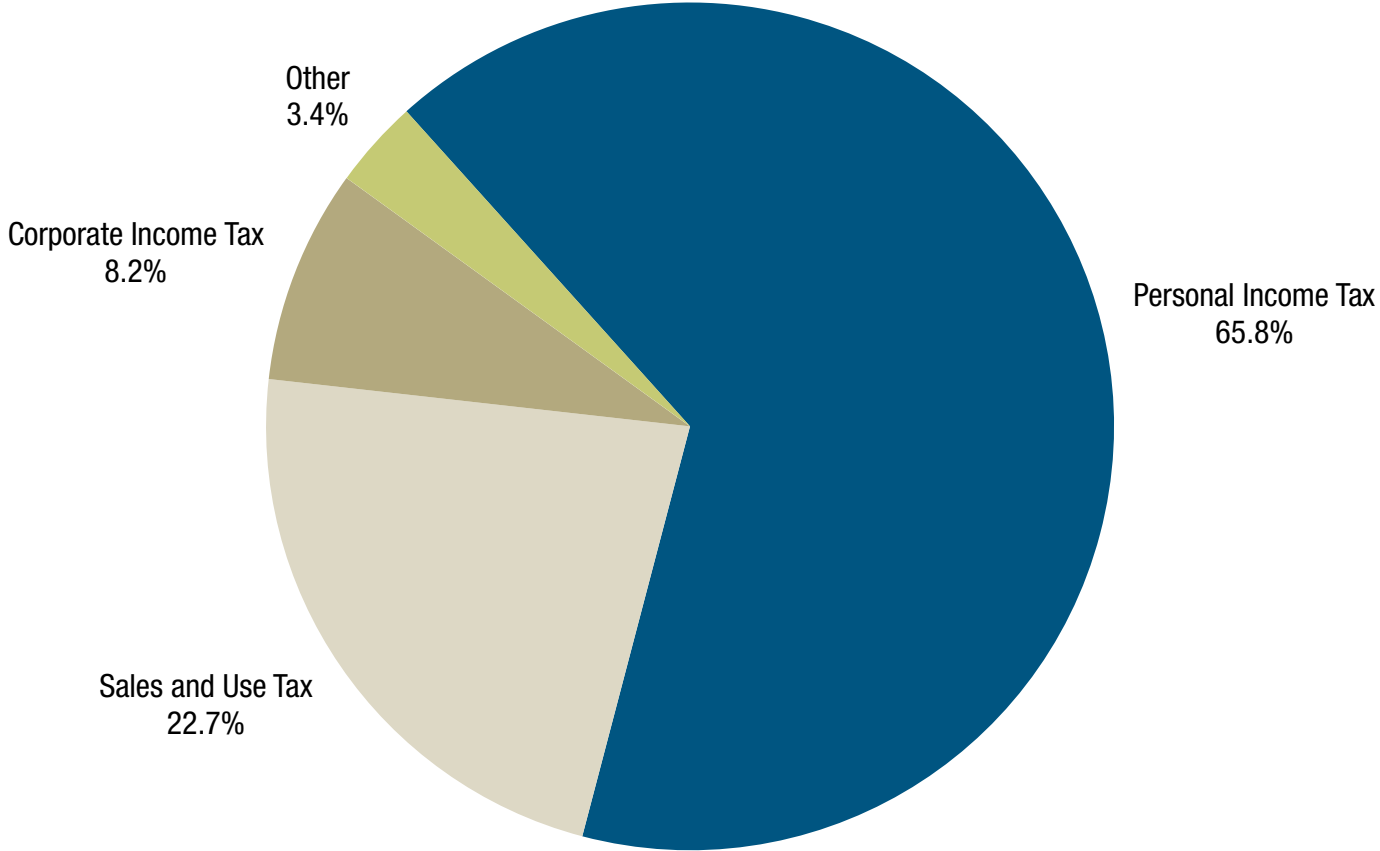


## More Than Four in Five State General Fund Dollars Support Education or Health and Human Services



Proposed 2014-15 General Fund Expenditures = \$106.8 Billion

# The Personal Income Tax Is Projected to Account for Nearly Two-Thirds of General Fund Revenues in 2014-15

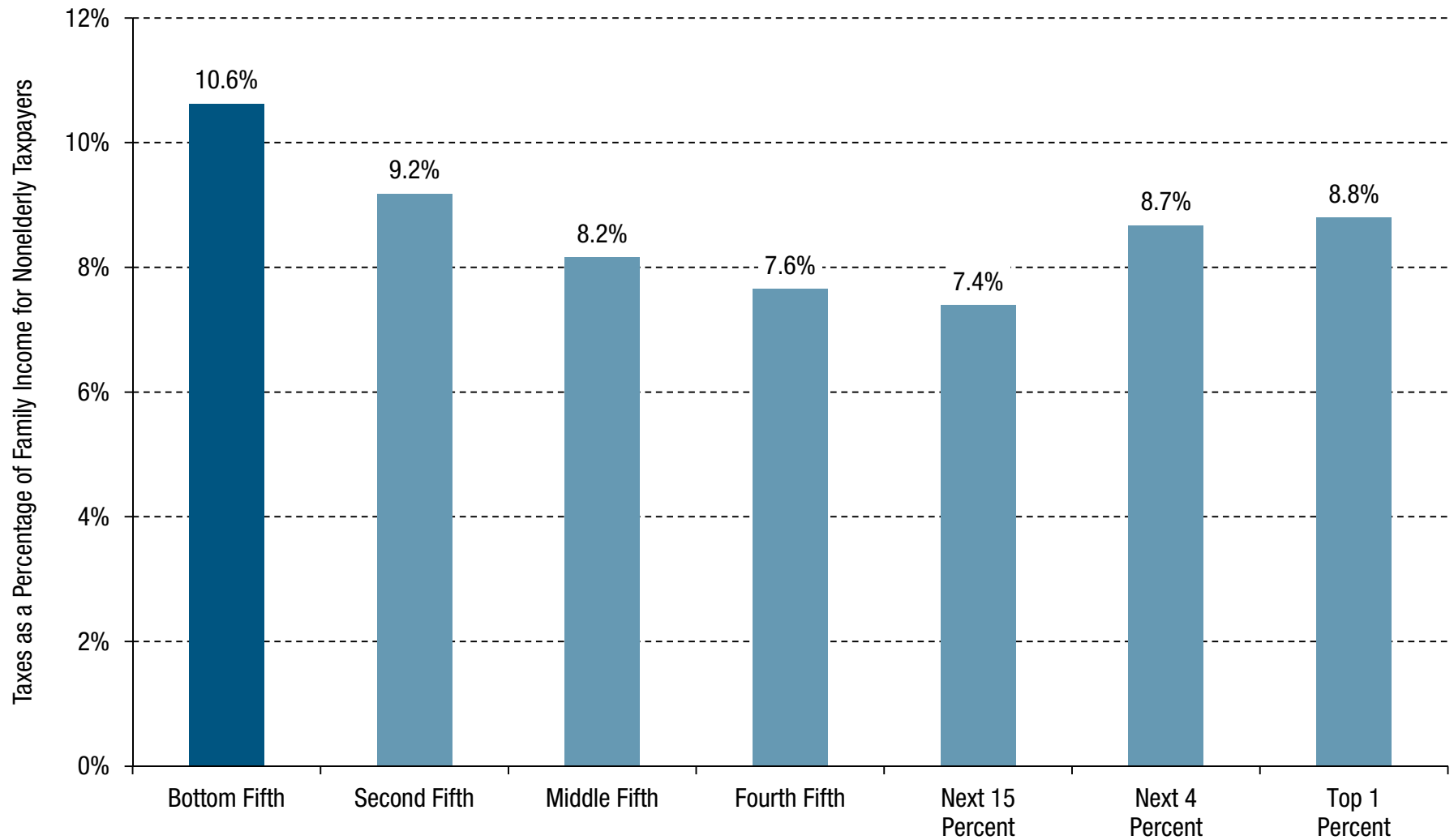


Projected 2014-15 General Fund Revenues = \$106.1 Billion

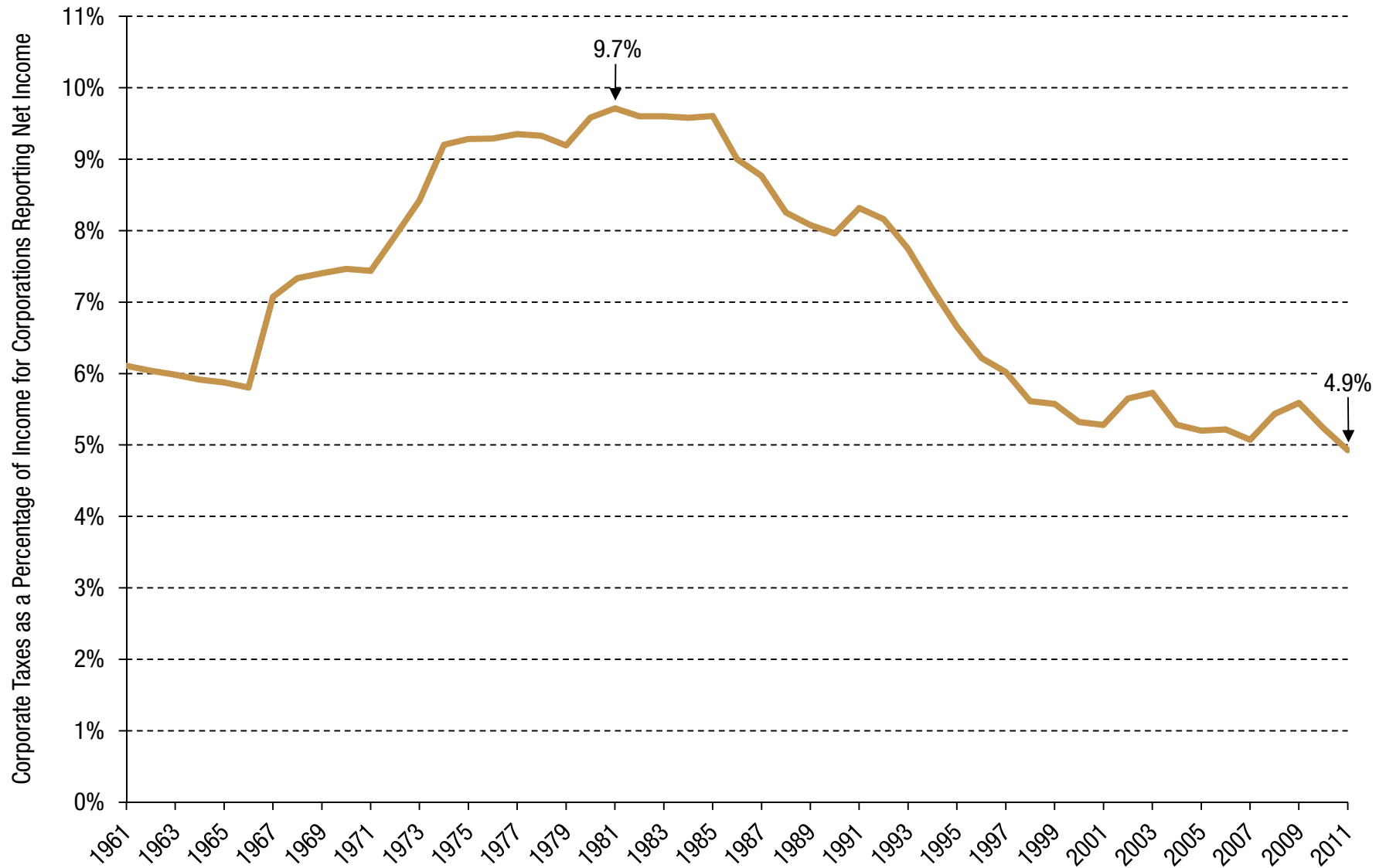
Note: Reflects total projected General Fund revenues, including \$1.6 billion that the Governor proposes to transfer to the state's rainy day fund in 2014-15. Percentages do not sum to 100 due to rounding.  
Source: Department of Finance



## Even With Proposition 30's Tax Rate Increases, California's Lowest-Income Families Pay the Largest Share of Their Incomes in State and Local Taxes



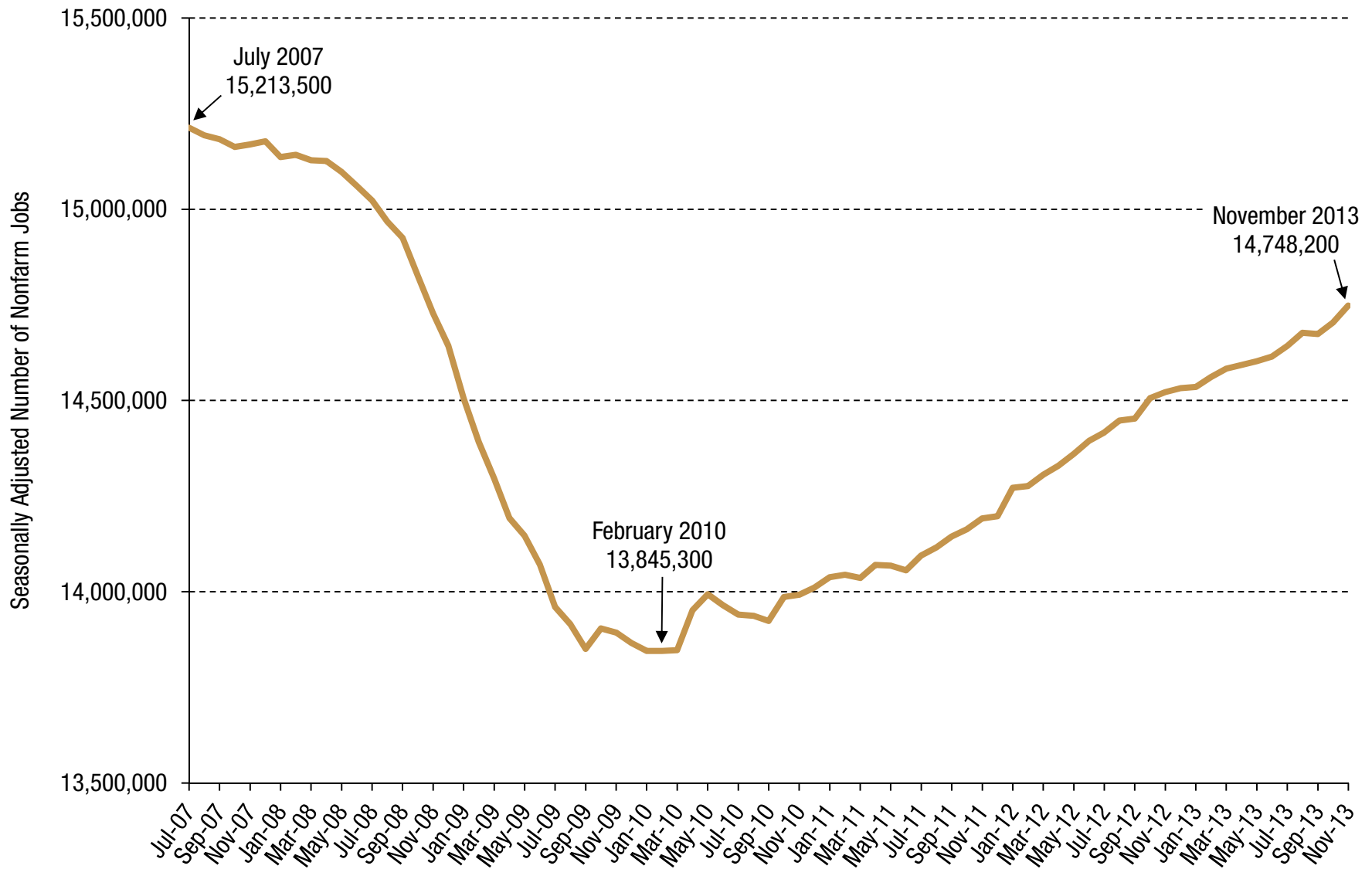
## The Share of Corporate Income Paid in Taxes Fell by Half Between 1981 and 2011



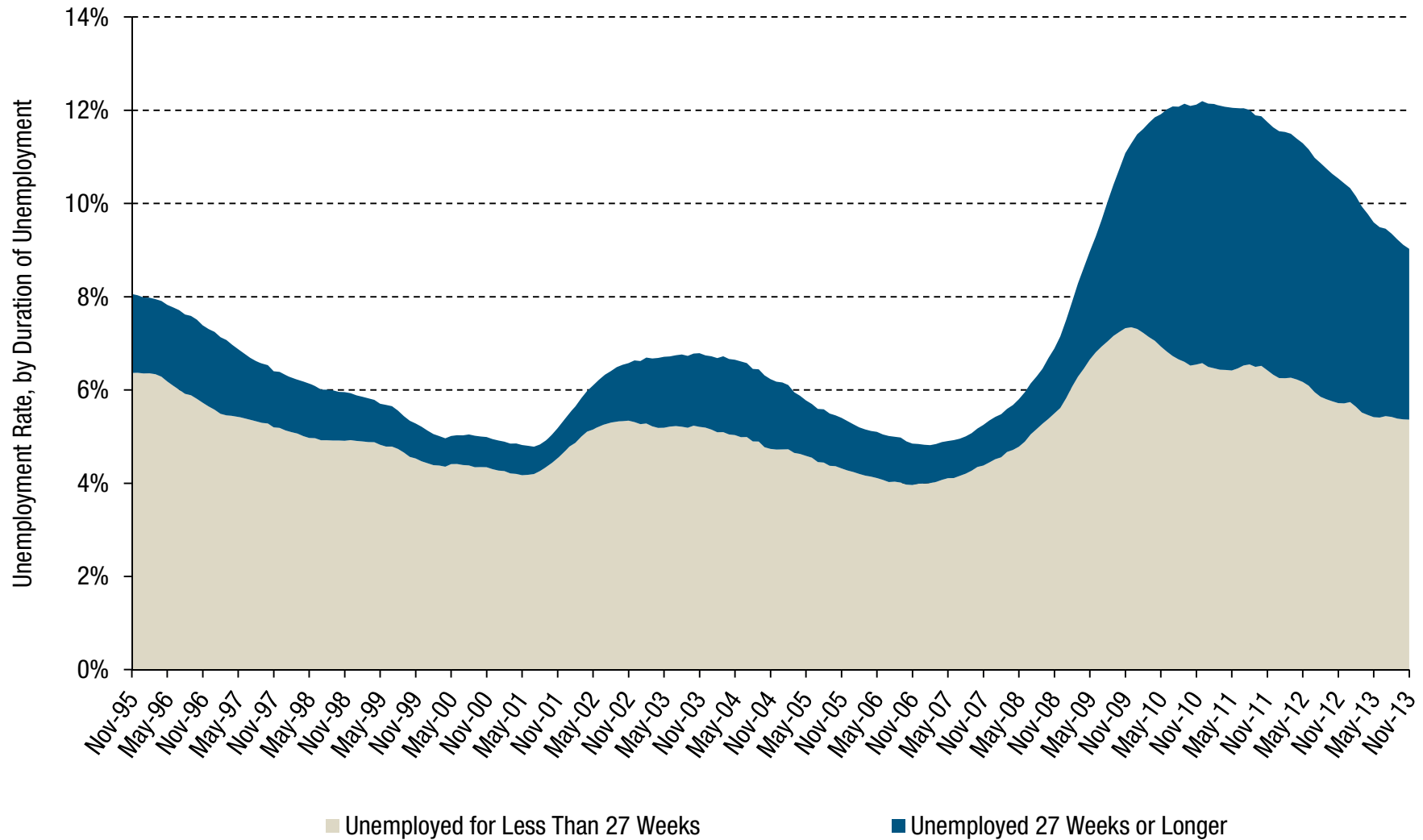


The Social and Economic Context:  
Four years since the end of the Great Recession,  
many Californians are still hurting.

## California Is Slowly Recovering the Jobs Lost During the Great Recession



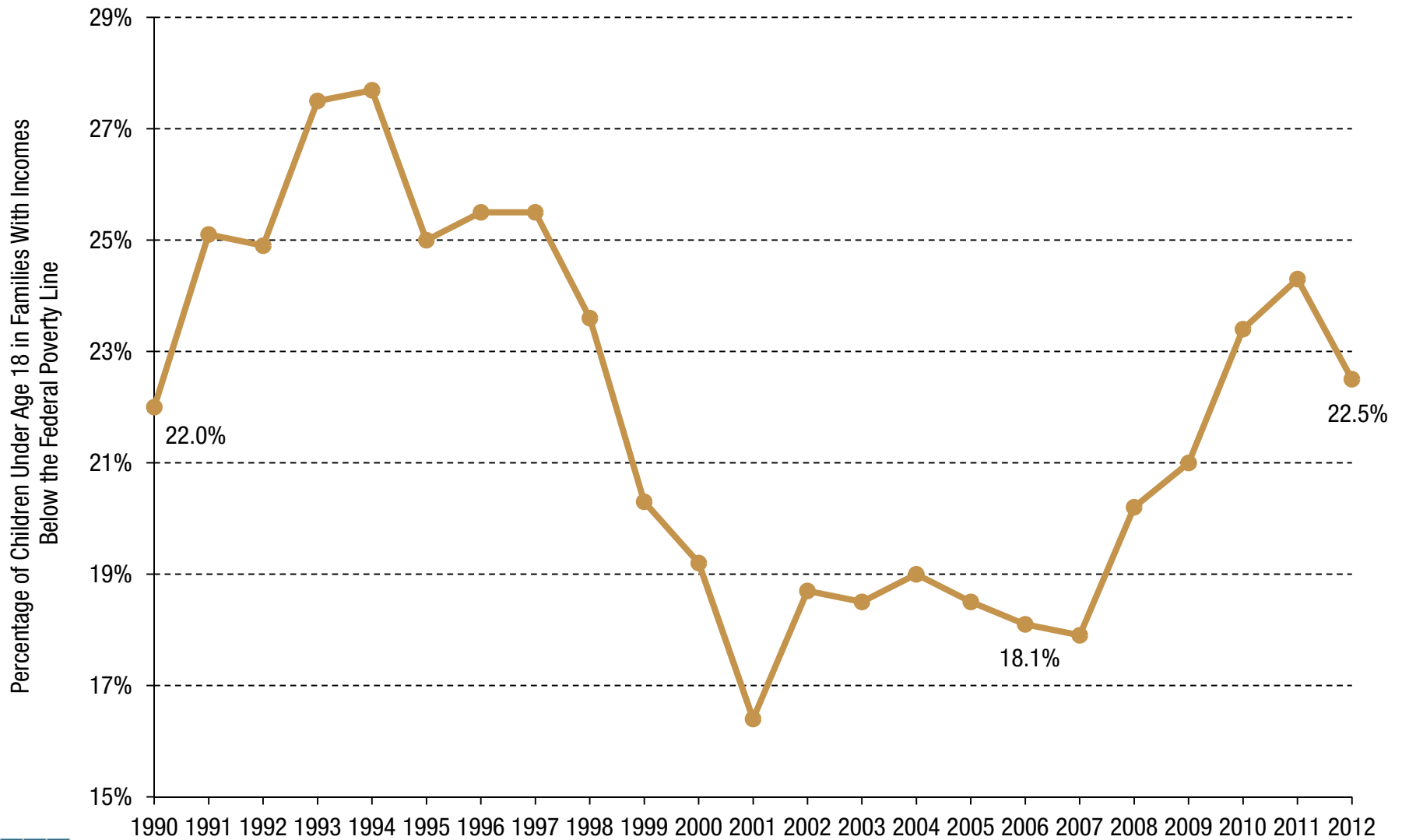
## Much of California's Unemployment Rate Consists of People Unemployed for More Than Six Months



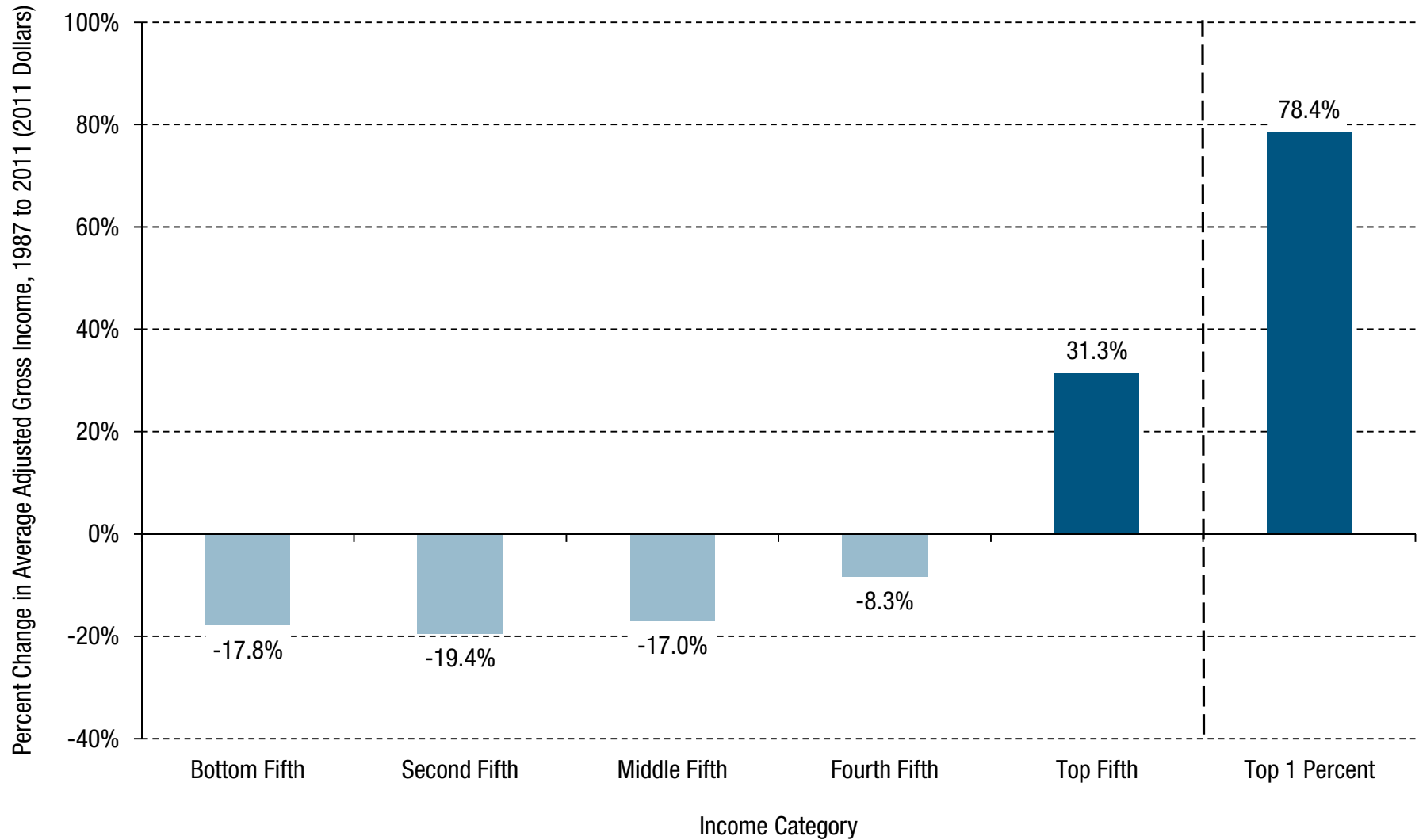
Note: Data reflect 12-month averages ending in the month displayed.  
Source: Employment Development Department

## More Than One in Five California Children Were Living in Poverty in 2012

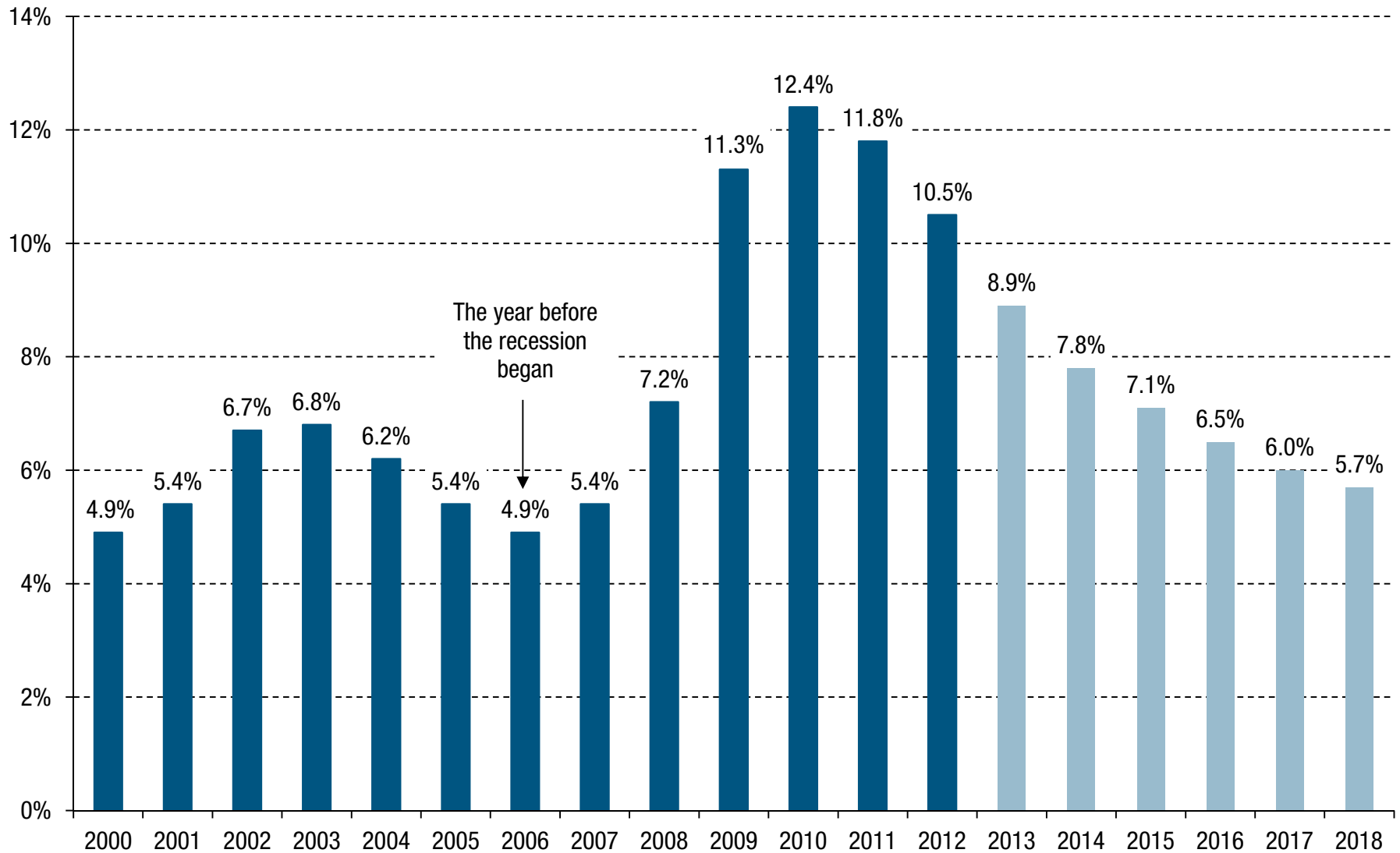
Child Poverty Rate Remains Nearly One-Fourth Higher Than in 2006, the Year Before the Great Recession Began



## The Average Income of the Wealthy Increased Significantly Between 1987 and 2011, While Declining Among All Other Californians

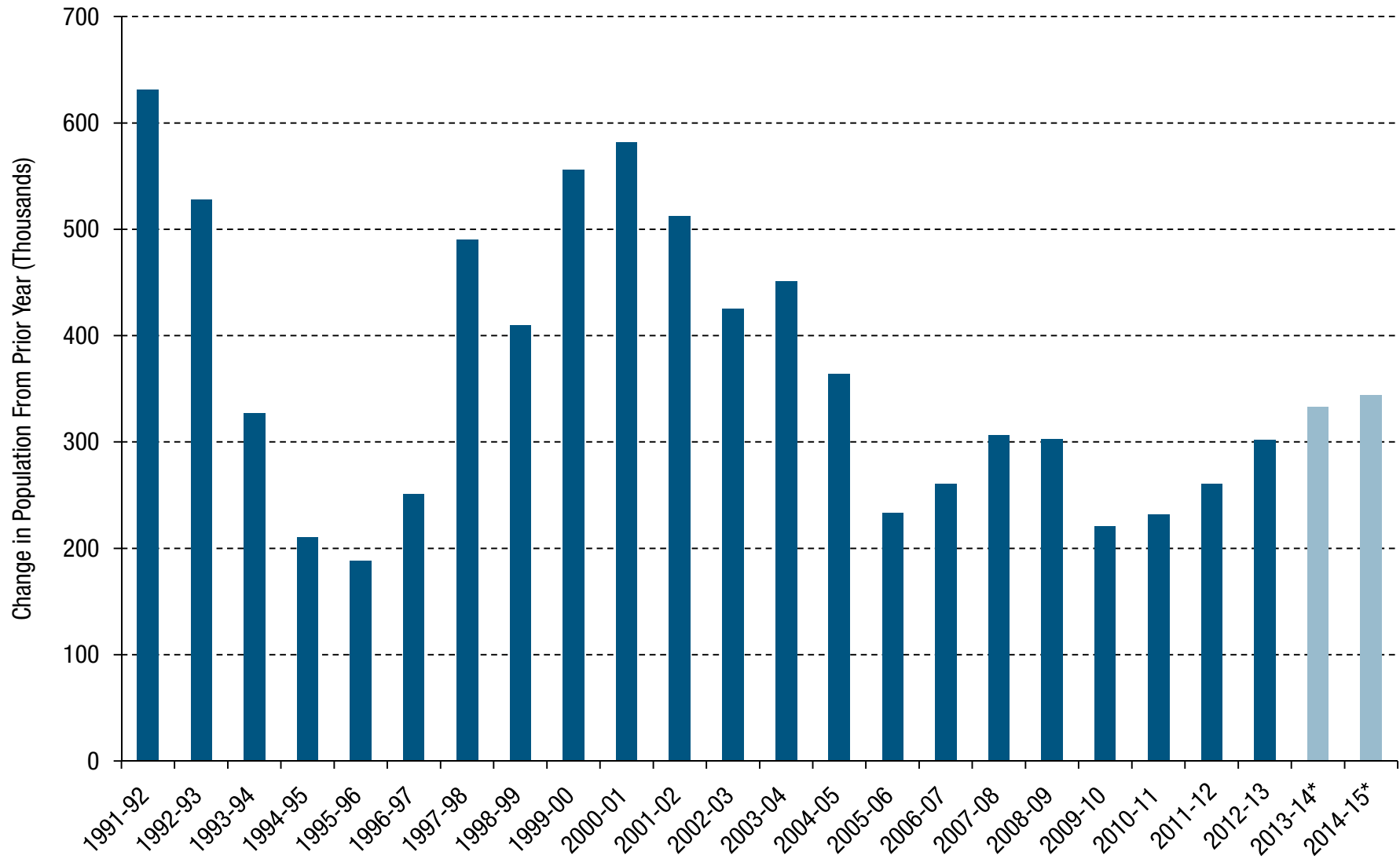


## California's Annual Jobless Rate Is Projected to Remain Above Its Pre-Recession Level Until At Least 2018





## California's Population Continues to Increase



The Governor's Proposed 2014-15 Budget:  
As progress is made in key budget areas, priority is placed on paying down budgetary debt and seeking to strengthen the state's rainy day fund. However, the Governor's proposal represents only a modest step toward reinvesting in critical public systems and services.

# Top Lines

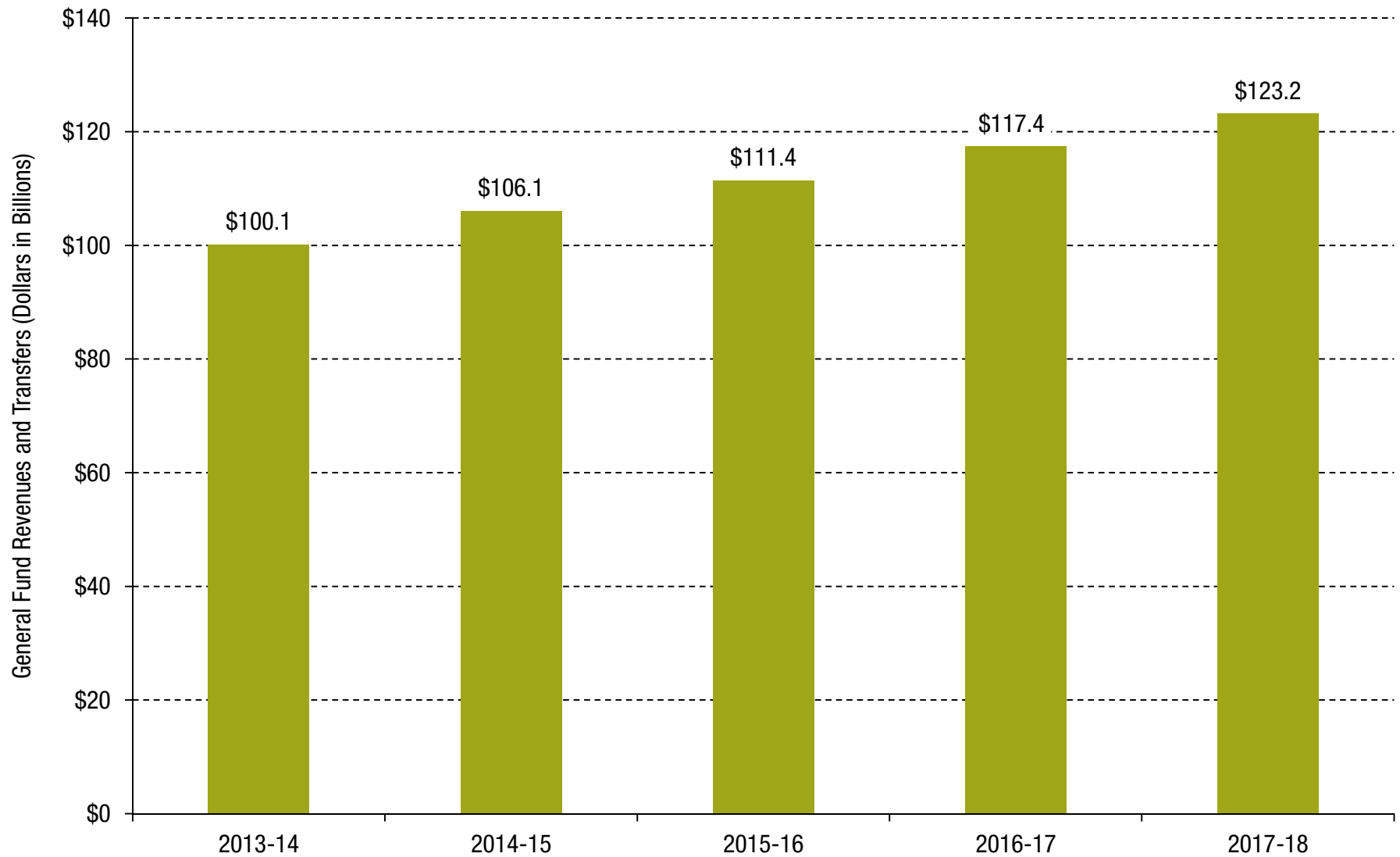
The Governor's proposed 2014-15 budget:

- Increases General Fund spending by 8.5 percent, from \$98.5 billion in 2013-14 to \$106.8 billion in 2014-15.
- Prioritizes paying down debt and saving for a rainy day.
- Continues the expansion of Medi-Cal, the state's health care program for low-income Californians.
- Reflects increased funding levels for K-12 schools and higher education.
- Maintains diminished levels of funding for core services and programs, such as child care and preschool.

# Proposed Budget Reflects an Improved Revenue Outlook

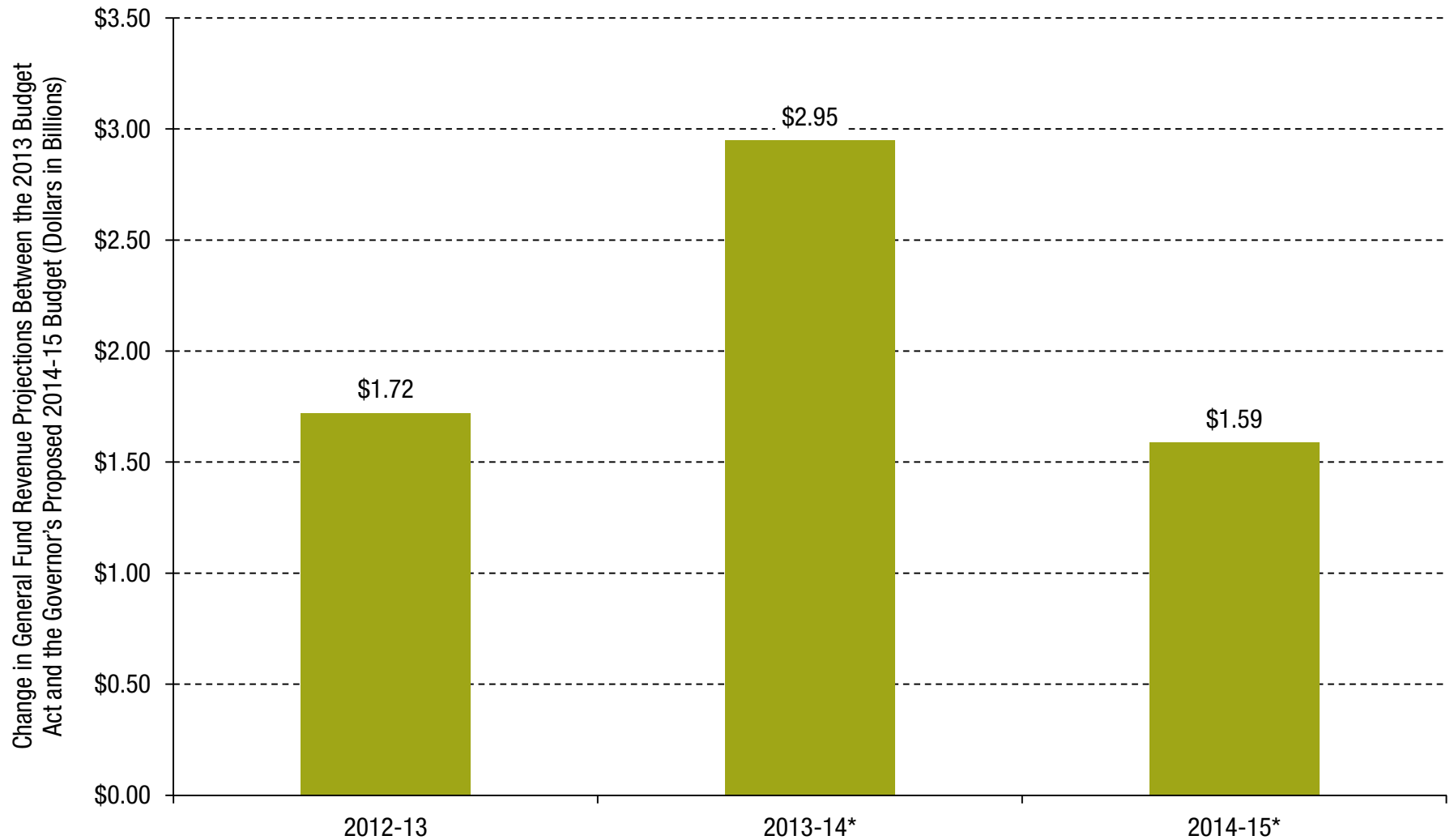
- An improving economy and voter approval of two revenue measures in 2012 – Propositions 30 and 39 – have helped boost California’s revenues.
- The Governor’s budget proposal projects steady increases in General Fund revenues through 2017-18.
- The improved outlook includes \$6.3 billion in unanticipated revenues over the three-year “budget window” from 2012-13 to 2014-15.

## Annual General Fund Revenues Are Projected to Increase Steadily Through 2017-18



Note: 2013-14 is estimated; 2014-15 through 2017-18 are projected.  
Source: Department of Finance

## The Governor's Proposed 2014-15 Budget Reflects Three-Year General Fund Revenue Projections That Are \$6.3 Billion Higher Than Those in the 2013 Budget Act

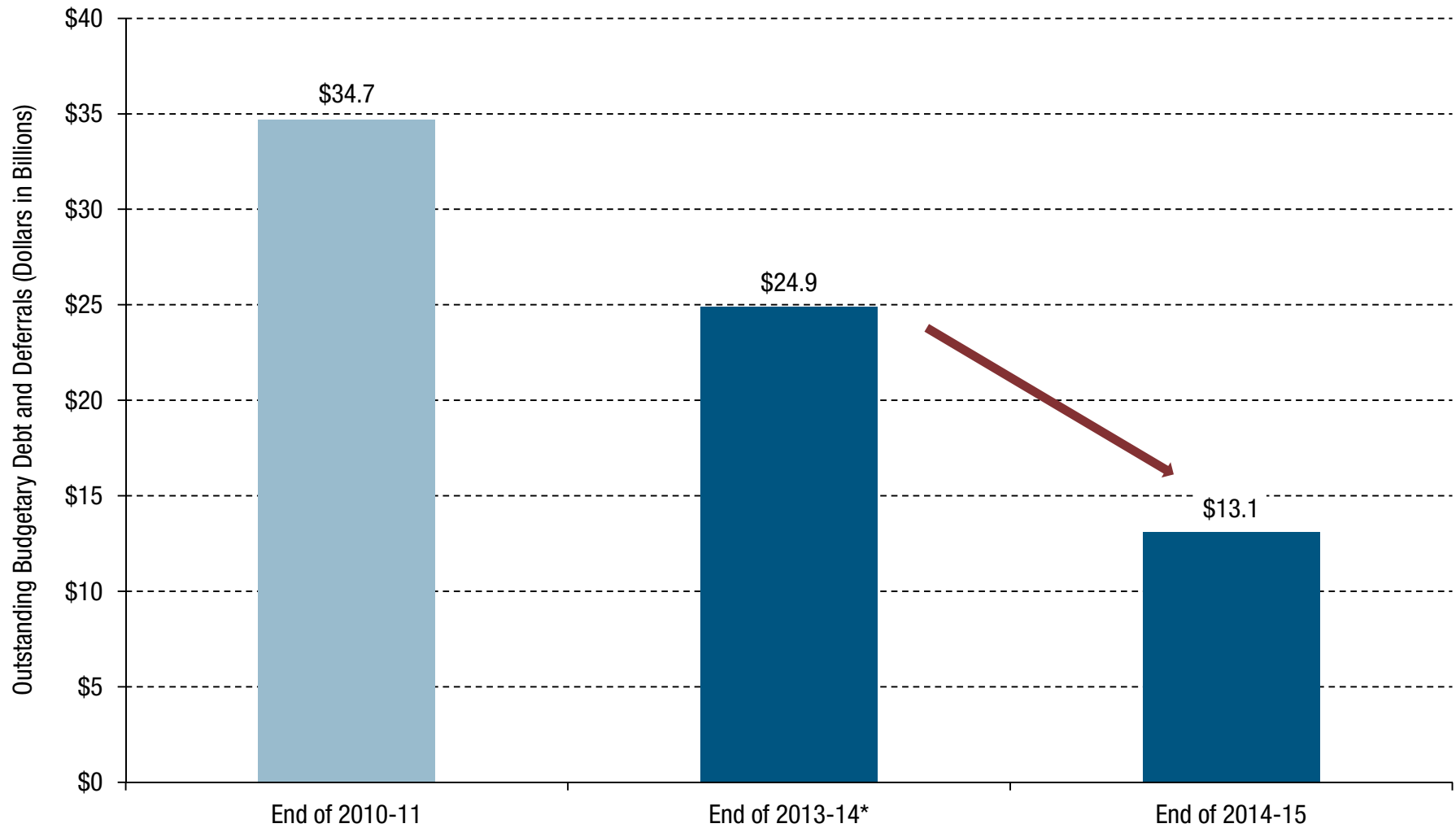


# Governor Prioritizes Paying Down Debt and Building a Rainy Day Fund

The Governor's budget:

- Reduces the “wall of debt” – which includes deferred payments to schools, deficit-financing bonds, and other debt – from \$24.9 billion at the end of 2013-14 to \$13.1 billion by the end of 2014-15.
- Calls for a constitutional amendment that the Governor says will strengthen the state's rainy day fund. This constitutional amendment would require legislative approval to appear on the November 2014 ballot.
- Deposits \$3.2 billion into the state's existing rainy day fund – called the Budget Stabilization Account – in 2014-15, with half of the funds used to pay down the state's deficit-financing bonds more quickly.

## The Governor Proposes to Reduce the "Wall of Debt" by Nearly Half by the End of 2014-15 Proposal Would Pay Off All Remaining Budgetary Debt by the End of 2017-18







# Key Areas of Progress

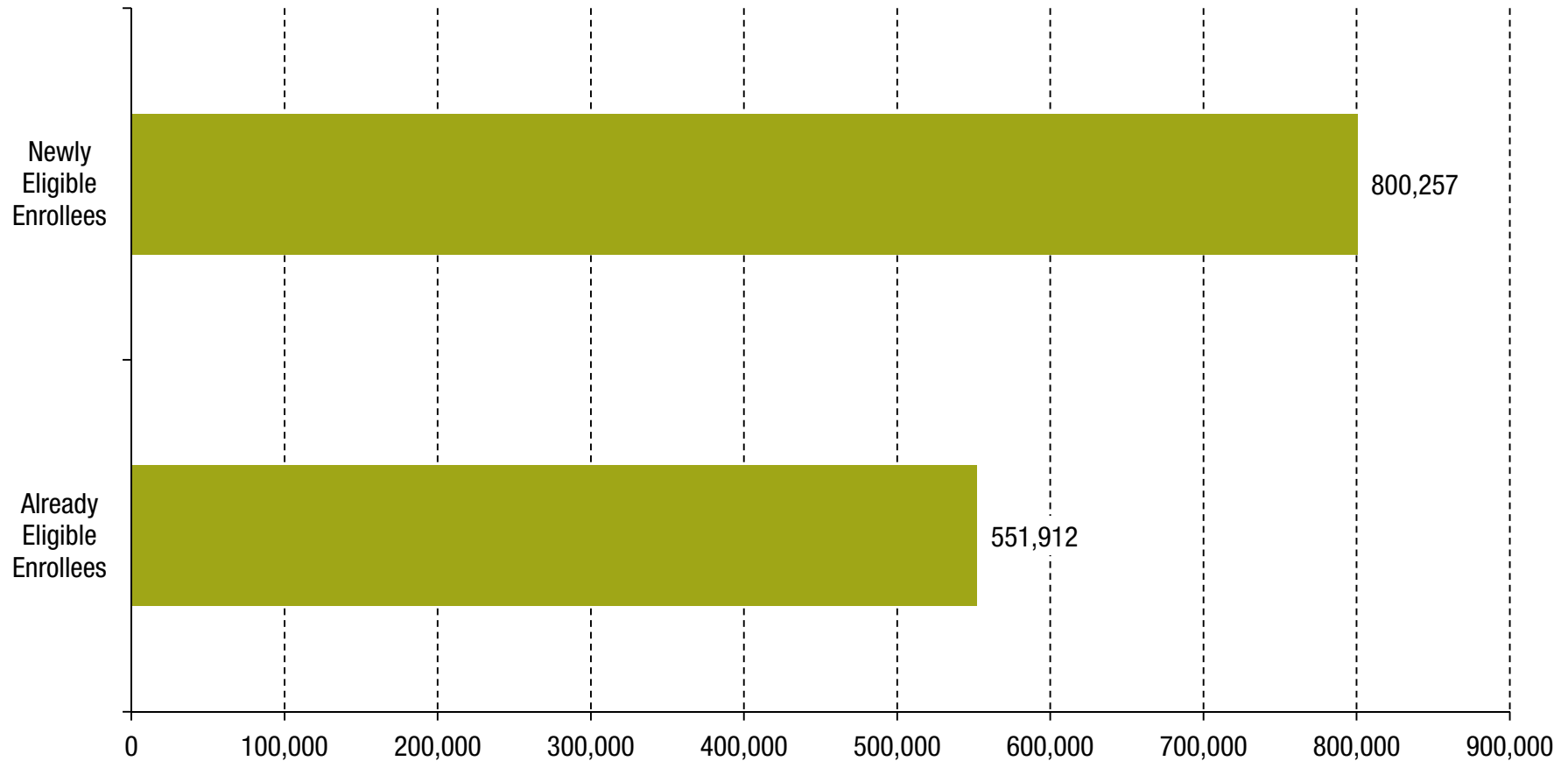
# Governor's Proposed Budget Reflects Full Implementation of Federal Health Care Reform

- The Governor's proposal reflects the expansion of Medi-Cal – as of January 1, 2014 – to adults who were previously ineligible for the program and whose incomes are at or below 138 percent of the poverty line (\$16,105 for an individual in 2014). The federal government will pay the full cost of this expansion through 2016, phasing down to 90 percent of the cost in 2020 and beyond.
- The proposed budget also reflects increased enrollment of Californians who were eligible for Medi-Cal *prior* to health care reform. This enrollment boost is expected due to new outreach efforts, simplified program rules, and other factors. The state and federal governments will share the costs for this group.

# Nearly 1.4 Million Californians Will Be Enrolled in Medi-Cal as of June 2015 Due to Health Care Reform

- Nearly 1.4 million Californians are projected to be newly enrolled in Medi-Cal as of June 2015 – the last month of the 2014-15 fiscal year – due to full implementation of federal health care reform.
- This total includes both:
  - Newly eligible Californians who are expected to enroll under the Medi-Cal expansion; and
  - Californians who were already eligible for Medi-Cal and are expected to enroll as a result of health care reform.

## Nearly 1.4 Million Californians Are Projected to Be Newly Enrolled in Medi-Cal as of June 2015 Due to Full Implementation of Federal Health Care Reform



Projected Additional Enrollment in Medi-Cal, as of June 2015, Due to Implementation of Federal Health Care Reform

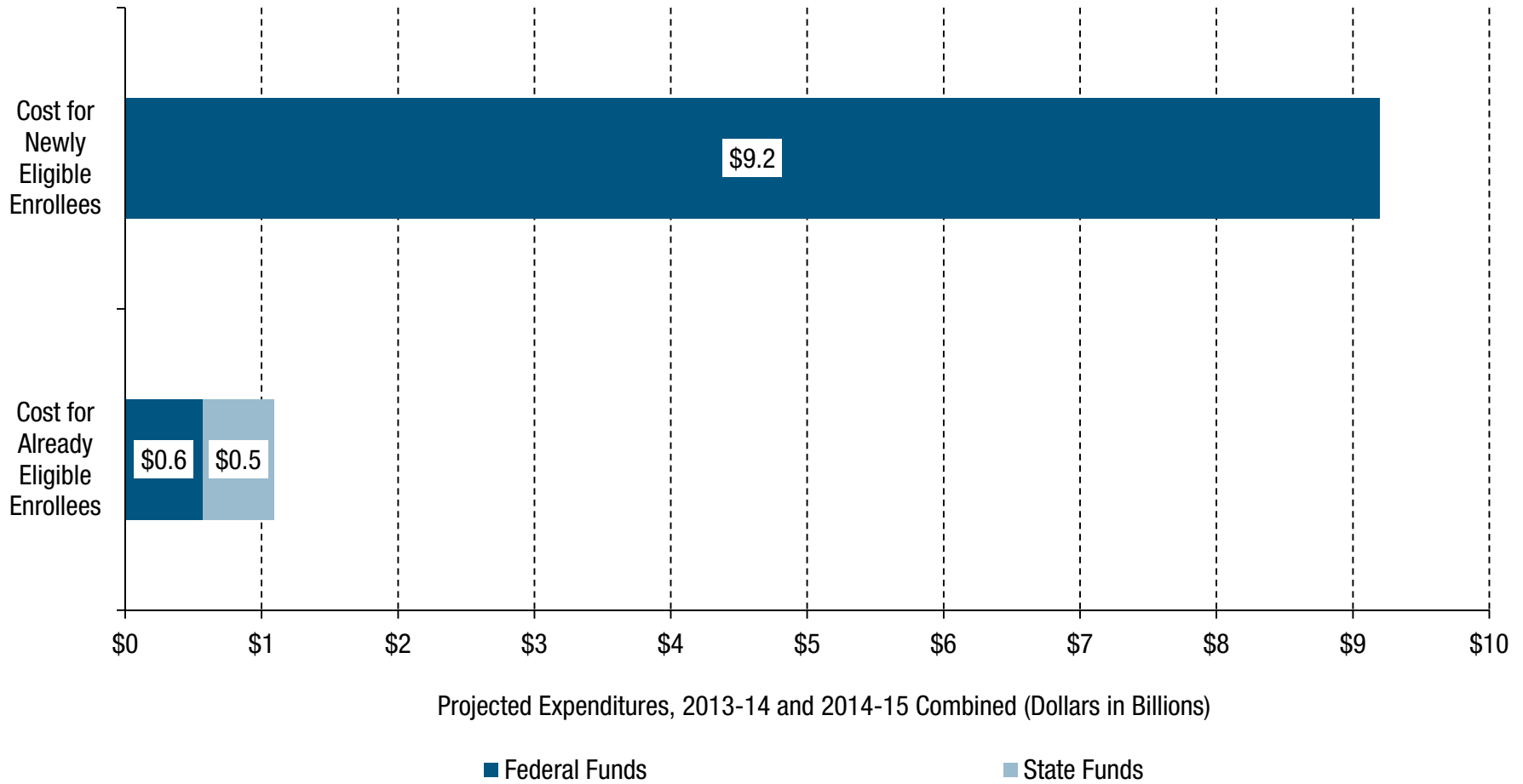
Note: "Newly eligible" refers to Californians expected to enroll in Medi-Cal under the program expansion that took effect on January 1, 2014. "Already eligible" refers to Californians who were eligible for Medi-Cal *prior* to implementation of health care reform and are expected to enroll due to simplified program rules and other factors.

Source: Department of Health Care Services

# State Projects \$10 Billion in New Federal Funds for Medi-Cal Through 2014-15 Due to Health Care Reform

- California is expected to receive nearly \$10 billion in new federal dollars through 2014-15 to provide health care to Californians who enroll in Medi-Cal due to health care reform.
- These federal dollars – which will flow to doctors, clinics, and other health care providers across the state – will support services for both newly eligible enrollees and Californians who were already eligible for Medi-Cal prior to health care reform.
- The state's cost will be \$0 for newly eligible enrollees and will be a projected \$0.5 billion for already eligible enrollees.

## The State Expects to Receive Nearly \$10 Billion in New Federal Funds Through 2014-15 to Provide Health Care to Californians Who Enroll in Medi-Cal Due to Implementation of Federal Health Care Reform



Note: "Newly eligible" refers to Californians expected to enroll in Medi-Cal under the program expansion that took effect on January 1, 2014. "Already eligible" refers to Californians who were eligible for Medi-Cal *prior* to implementation of health care reform and are expected to enroll due to simplified program rules and other factors.  
Source: Department of Health Care Services

# Increased Revenues Boost State Spending for Schools

- Voter approval of two revenue measures in 2012 – Propositions 30 and 39 – and a recovering economy have increased state revenues.
- Higher revenues have boosted the state’s Proposition 98 minimum funding guarantee for schools and community colleges.
- The Governor’s proposal assumes a Proposition 98 funding level of \$61.6 billion in 2014-15, nearly one-third (30.6 percent) more than in 2011-12, the low point of Proposition 98 funding after the recession.

# Governor Proposes to Eliminate Outstanding Debt the State Owes to Schools

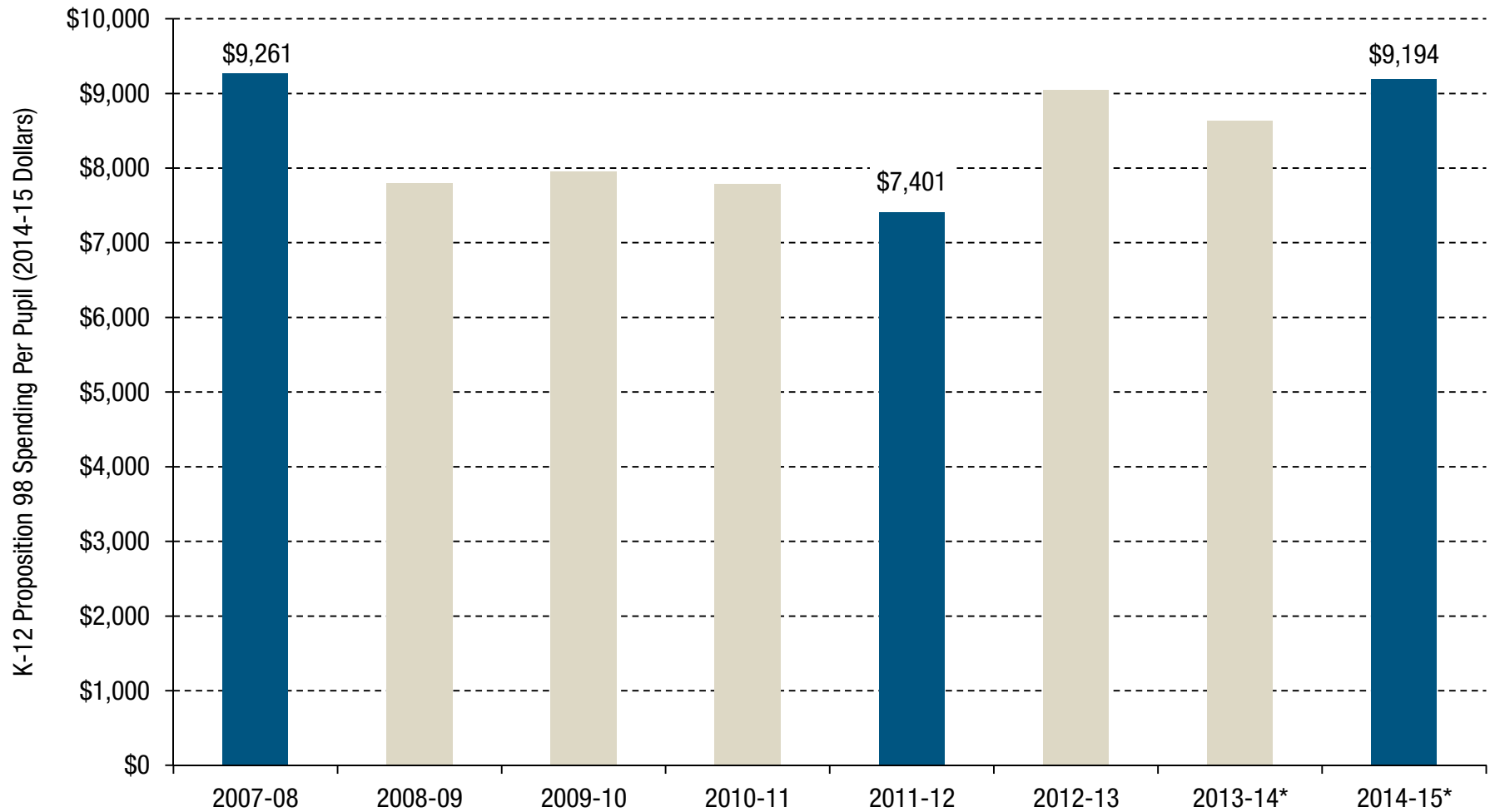
- The Governor's proposed budget provides \$6.2 billion to repay previously deferred payments to K-12 schools and community colleges, retiring all outstanding deferrals to K-14 education by the end of 2014-15.
- Deferred payments to schools and community colleges reached \$10.4 billion in 2011-12, more than one-fifth of total Proposition 98 spending.



# Spending Per K-12 Student Would Nearly Return to the Pre-Recession Level

- Proposition 98 spending dropped by more than \$1,800 per K-12 student between 2007-08 and 2011-12, from \$9,260 to \$7,400, after adjusting for inflation.
- The Governor's proposed 2014-15 budget includes Proposition 98 spending of nearly \$9,200 per K-12 student, an increase of nearly \$1,800 from 2011-12, after adjusting for inflation.

## Spending Per K-12 Student Would Increase in 2014-15 Due to Higher Revenues, Nearly Returning to the 2007-08 Level, After Adjusting for Inflation



\* 2013-14 estimated and 2014-15 proposed.  
 Note: Excludes child care and includes preschool spending. Proposition 98 spending reflects both state General Fund and local property tax dollars.  
 Source: Legislative Analyst's Office

# Governor Proposes to Increase Support Provided Through the State's New Education Funding Formula

- As part of the 2013-14 budget agreement, the creation of the Local Control Funding Formula (LCFF) restructured the state's K-12 education finance system, directing additional resources to support disadvantaged students and establishing a target funding level for each school district.
- The Governor's proposed budget provides an increase of \$4.5 billion in LCFF funding for K-12 schools, which would close an estimated 28 percent of the remaining gap between school districts' 2013-14 funding levels and their LCFF funding targets.

# Governor Proposes to Increase Funding for Community Colleges

- In addition to repaying all previously deferred payments to community colleges, the Governor's proposal:
  - Provides \$200 million for the Student Success and Support program, three times current-year funding.
  - Provides \$175 million in one-time funding for deferred maintenance and instructional equipment purchases.
  - Increases apportionment funding by \$155.2 million, which represents a 3 percent enrollment increase.
  - Provides \$48.5 million to fund a 0.86 percent COLA to apportionments.

# Governor Proposes Increased Spending for CSU and UC

- The Governor's proposed budget continues a plan, included in the 2013-14 budget agreement, that increases General Fund spending for the California State University (CSU) and the University of California (UC) with the expectation that they will not increase tuition and fees through 2016-17.
- Recent increases in state support have helped stabilize General Fund support per student as well as tuition and fees at both CSU and UC during the past several years.



# An Incomplete Vision for Investing in California's Future

# Governor's Proposal Represents an Incomplete Vision for Investing in California's Future

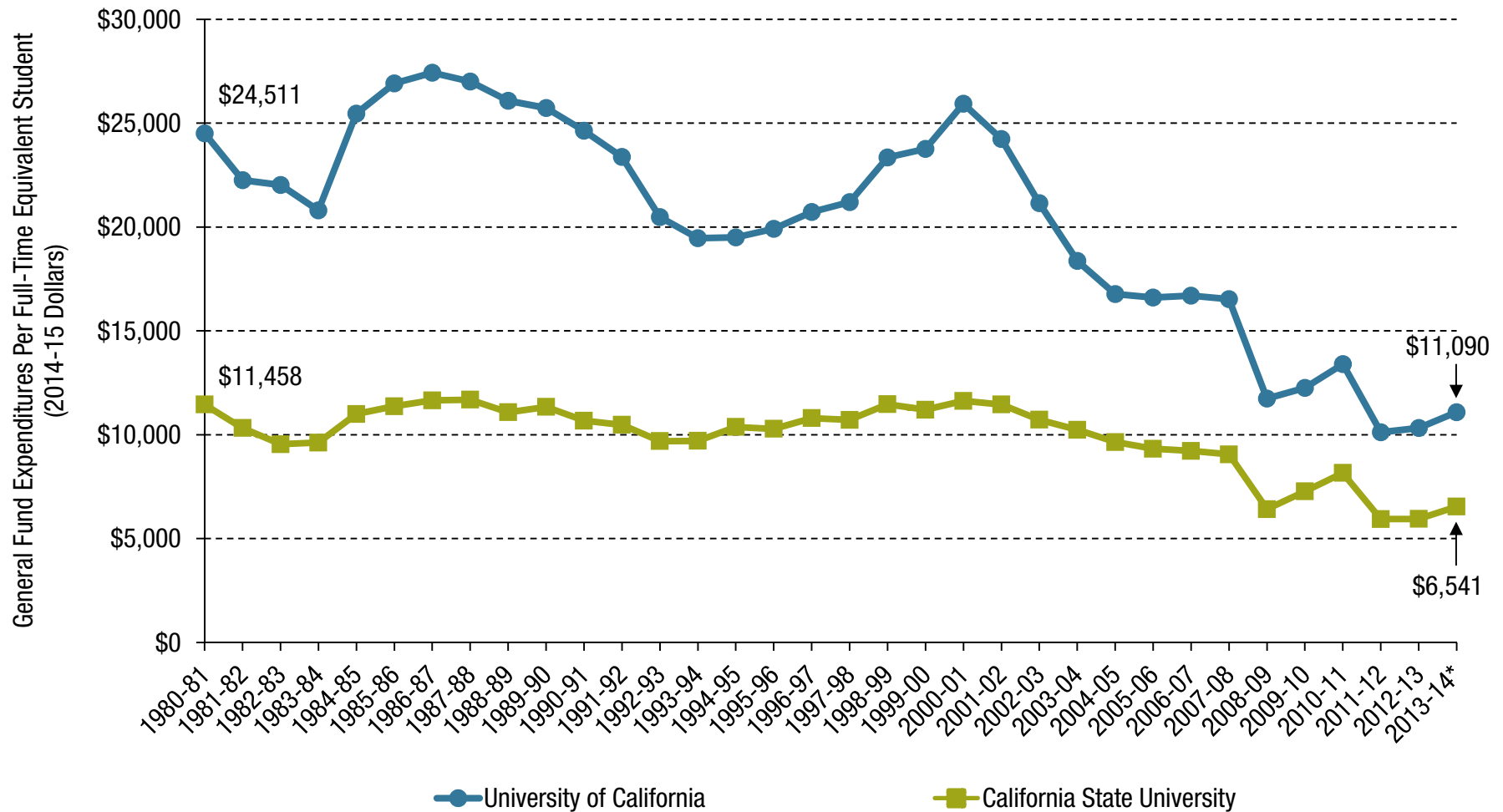
- While progress has been made in some key areas, the Governor's proposed 2014-15 budget leaves many essential public systems and services operating with diminished levels of funding. This is at a time when poverty and long-term unemployment remain high in many parts of the state.
- The Governor's spending plan maintains policy choices that could constrain or undermine the progress made or that are not well aligned with the state's long-term priorities.
- The Governor's proposal does not put California on a multiyear path toward robust investment in the foundations of a strong economy and shared prosperity.

# Even With Increased Funding, State Support for CSU and UC Would Remain Near the Lowest Point in Decades

- While General Fund spending would increase by \$142.2 million each for CSU and UC under the Governor's proposal, state support would remain significantly below 2007-08 levels.
- General Fund spending per student remains near the lowest point in decades at both CSU and UC, after adjusting for inflation.
- Tuition and fee levels have increased significantly in recent decades. In non-inflation-adjusted terms, they remain at historical highs for both CSU (\$5,472) and UC (\$12,192).



## For Both CSU and UC, General Fund Spending Per Full-Time Equivalent Student Remains Near the Lowest Point in Decades, After Adjusting for Inflation

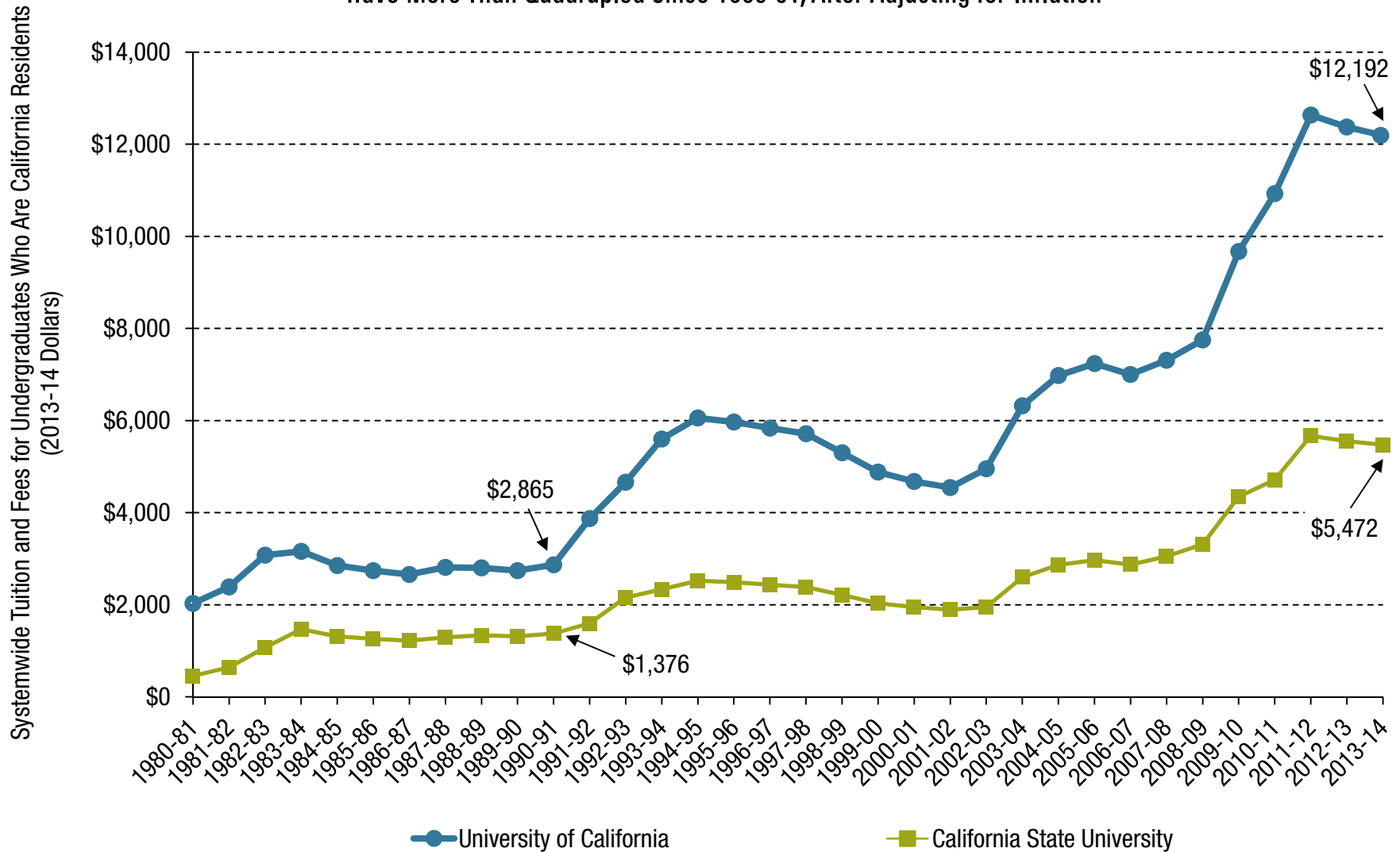


\* Estimated.

Note: CSU and UC use "full-time equivalent (FTE) enrollment" to account for the number of credits taken by each student relative to a full-time course load in order to help determine funding levels per student.

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

## CSU Tuition and Fees Have More Than Tripled and UC Tuition and Fees Have More Than Quadrupled Since 1990-91, After Adjusting for Inflation



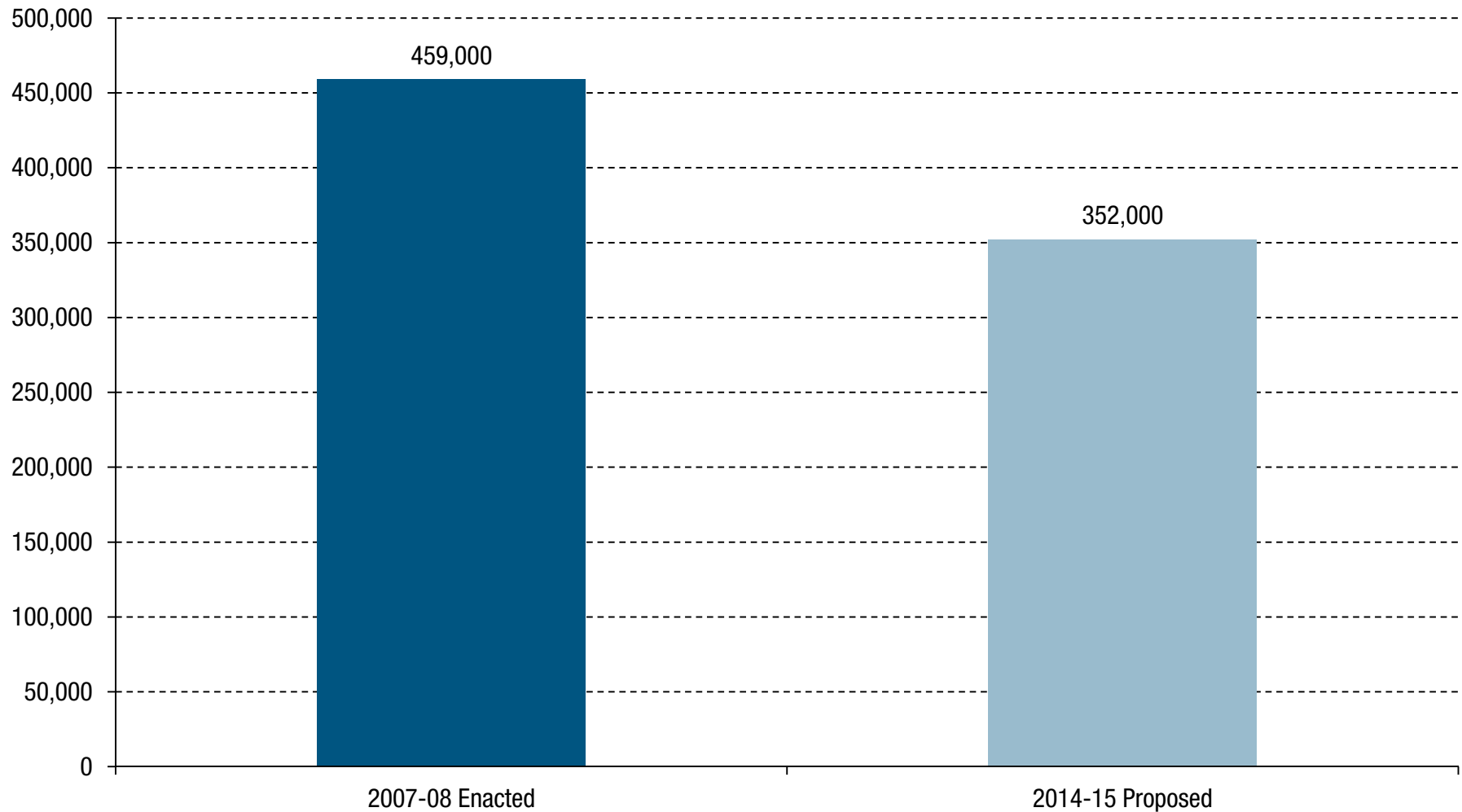
# Deep Cuts to Child Care and Preschool Programs Have Reduced Access to Care

- California's child care programs provide safe and affordable care, building a foundation for children's success and helping lower-income parents find and keep jobs. The state preschool program provides an additional child development option for California's families.
- Since 2007-08, state policymakers have cut total annual funding for subsidized child care and preschool "slots" by almost 40 percent, resulting in the elimination of approximately 110,000 child care and preschool slots – nearly one-quarter of the total.
- As a result, significantly fewer children are now served by California's child care and preschool programs.

# Proposed Budget Does Not Restore Child Care and Preschool Slots Lost in Recent Years

- Despite the state's improved revenue outlook, the Governor's proposed 2014-15 budget generally keeps child care and preschool funding well below pre-recession levels.
- The Governor proposes to spend \$2.1 billion (General Fund and federal dollars) in 2014-15 to support 352,000 child care and preschool slots.

## State Budget Cuts Have Reduced the Number of Child Care and Preschool Slots by Nearly One-Quarter Since 2007-08

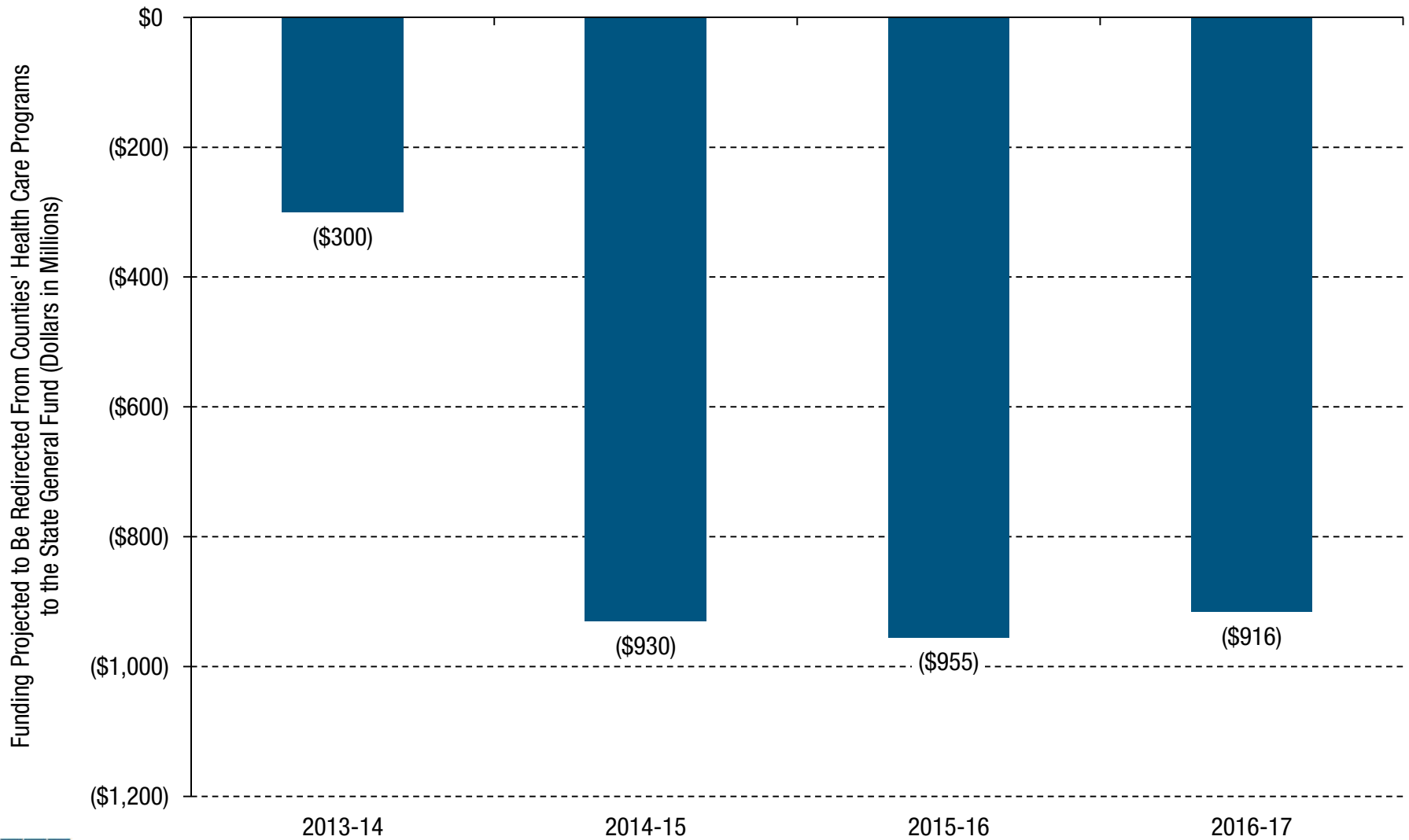


Note: Reflects slots funded with federal and/or state dollars. Child care includes CalWORKs and non-CalWORKs programs.  
Source: Department of Finance

# Governor's Proposed Budget Reflects a Fund Shift From Counties' Health Care Safety Net to the State

- The 2013-14 budget agreement redirected – to the state – much of the funding that counties use to provide health care to uninsured, low-income residents. Policymakers assumed that counties would no longer need these dollars as many “medically indigent” adults enroll in Medi-Cal under the expansion.
- Up to \$300 million will be shifted in 2013-14, with the amount of this transfer projected to rise substantially in later years. These funds will be used to offset part of the state's cost for CalWORKs.
- It is uncertain whether counties will be left with sufficient funds to serve up to 3 million Californians who are projected to lack coverage even after full implementation of health care reform.

## The Amount of Funding Shifted From Counties' Health Care Safety Net to the State Is Projected to Exceed \$900 Million Per Year Between 2014-15 and 2016-17

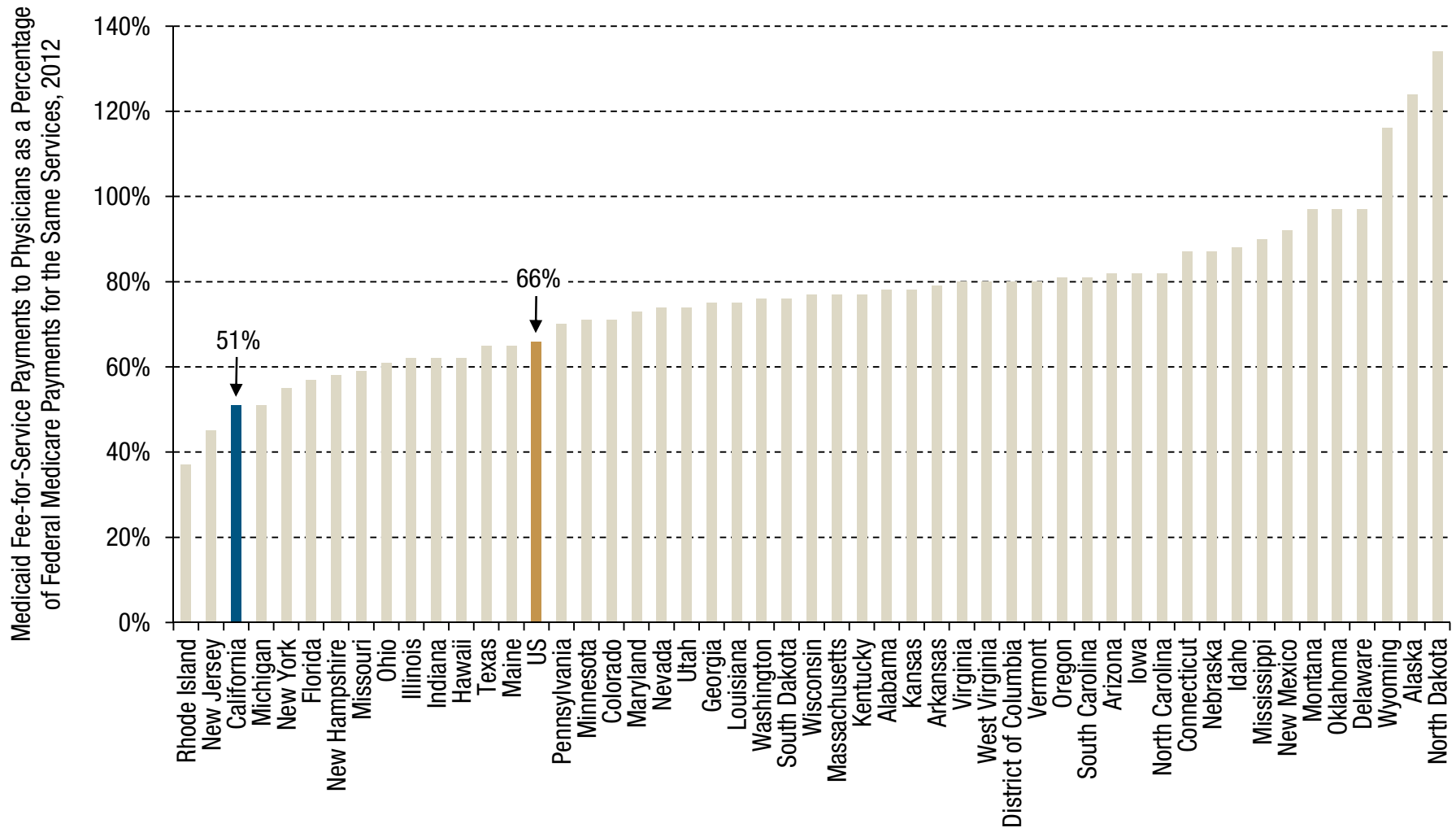


# Governor's Proposed Budget Largely Maintains a 10 Percent Cut to Payments for Medi-Cal Providers

- In 2011, state policymakers approved a 10 percent cut to Medi-Cal payments for doctors and other health care providers. Implementation – delayed by litigation – was phased in from late 2013 (dentists) through early 2014 (physicians and clinics).
- The Governor indicates the state will “forgive” the *retroactive* portion of the cut – going back to 2011 – for certain providers and services, including physicians, clinics, and high-cost drugs.
- It is unclear how a 10 percent cut will affect provider participation in Medi-Cal as the state expands the program. California's Medicaid payments to doctors were already among the lowest in the nation even before the rate cut took effect.



## California's Medicaid Payments to Doctors Were Among the Lowest in the Nation Even Before the State Implemented a 10 Percent Provider Rate Cut in Early 2014



Note: Data reflect fees for primary care, obstetric care, and other services. Tennessee is excluded because its Medicaid program does not have a fee-for-service component.

Source: Kaiser Family Foundation

# Governor's Proposal Reflects Prior Cuts to IHSS

- In-Home Supportive Services (IHSS) helps more than 400,000 low-income seniors and people with disabilities live safely in their own homes, preventing the need for more costly out-of-home care.
- The Governor's proposed budget includes \$2 billion in General Fund spending for IHSS.
- The proposed budget reflects an 8 percent cut in the total hours of care for each recipient – implemented in July 2013 – which is scheduled to scale back to 7 percent in 2014-15. The Governor does not propose to reduce or repeal this cut
- In addition, the Governor proposes to limit IHSS providers to 40 hours of work per week. This would require an IHSS recipient who needs more than 40 hours of care a week to hire an additional provider.

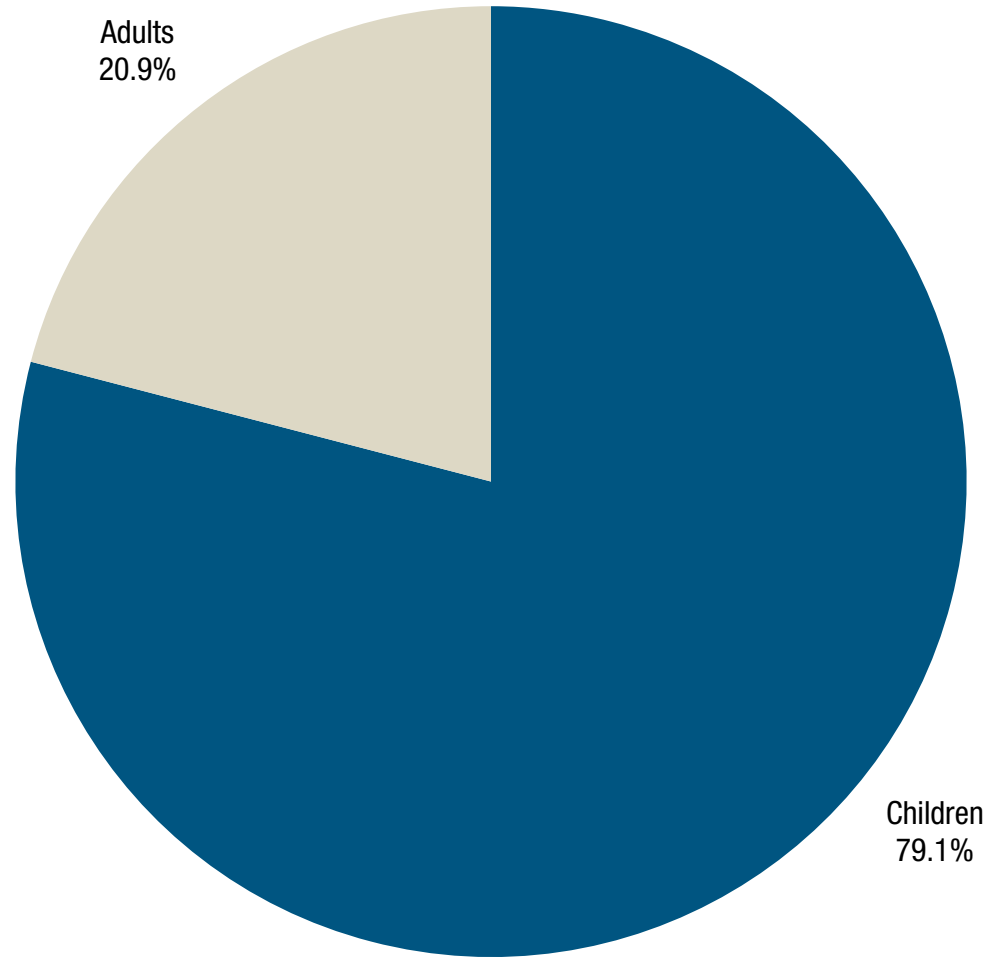
# Recent Cuts Limit CalWORKs Assistance for Families

- The California Work Opportunity and Responsibility to Kids (CalWORKs) Program provides modest cash assistance for more than 1 million low-income children while helping parents overcome barriers to employment and find jobs.
- Nearly four in five Californians who receive CalWORKs cash assistance are children.
- In recent years, state policymakers made deep cuts to CalWORKs, including substantially reducing cash aid for families and imposing a 24-month limit on the amount of time parents can access the full array of welfare-to-work activities.
- A bill in the 2013-14 budget agreement (AB 85) partially reverses these cuts to cash assistance by funding a 5 percent grant increase using special fund dollars. This change is effective March 1, 2014.

# Governor's Proposal Reflects Slight Increase in CalWORKs Grants, but Levels Remain Historically Low

- Despite the scheduled grant increase, cash grants will remain historically low.
  - The purchasing power of the maximum CalWORKs grant is less than half of what it was 25 years ago.
  - The maximum grant will be little more than 40 percent of the federal poverty line and – for the seventh year in a row – will fail to lift families out of “deep poverty.”
- Even with the state's improved revenue outlook, the Governor does not propose to increase grant levels further in 2014-15 or to restore the annual state cost-of-living adjustment (COLA) that was eliminated in 2009.

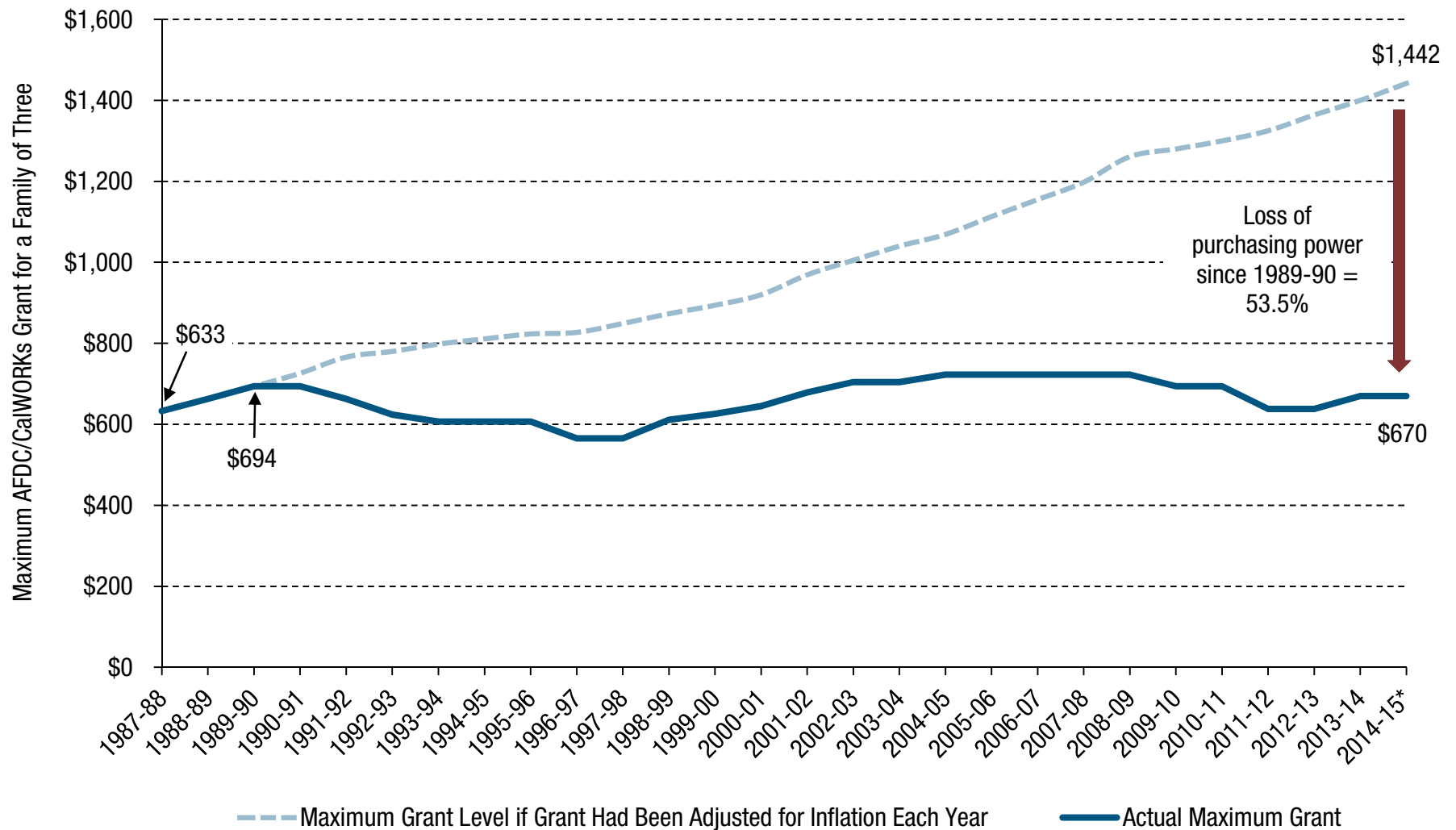
## Nearly Four in Five Californians Who Receive CalWORKs Cash Assistance Are Children



Number of Individuals Receiving CalWORKs Cash Assistance in November 2013 = 1,312,493

Source: Department of Social Services

## The Maximum CalWORKs Grant Has Lost More Than Half Its Purchasing Power Since 1989-90

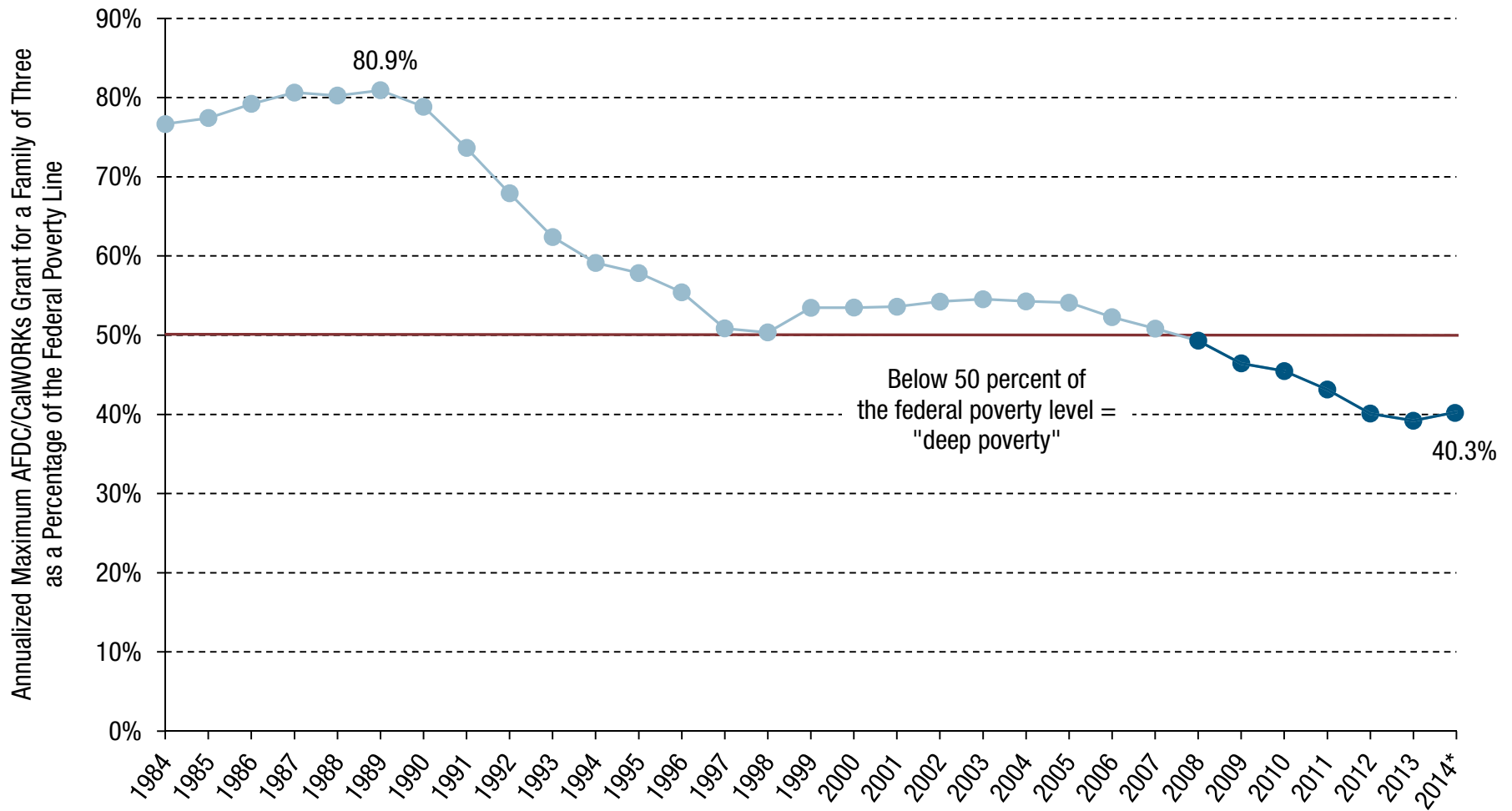


\* Actual maximum grant reflects continuation of a 5 percent increase scheduled for March 1, 2014. The Governor's proposed budget assumes that no additional grant increase will be provided in 2014-15.

Note: Maximum grants are for high-cost counties beginning in 1996-97.

Source: CBP analysis of Department of Social Services data

## Under the Governor's Proposal, CalWORKs Grants Would Remain Far Below the Deep-Poverty Threshold in 2014



\* Grant level reflects a 5 percent increase scheduled for March 1, 2014. The Governor's proposed 2014-15 budget assumes that no additional grant increase will be provided in 2014.

Note: Maximum grants are for high-cost counties beginning in 1996.

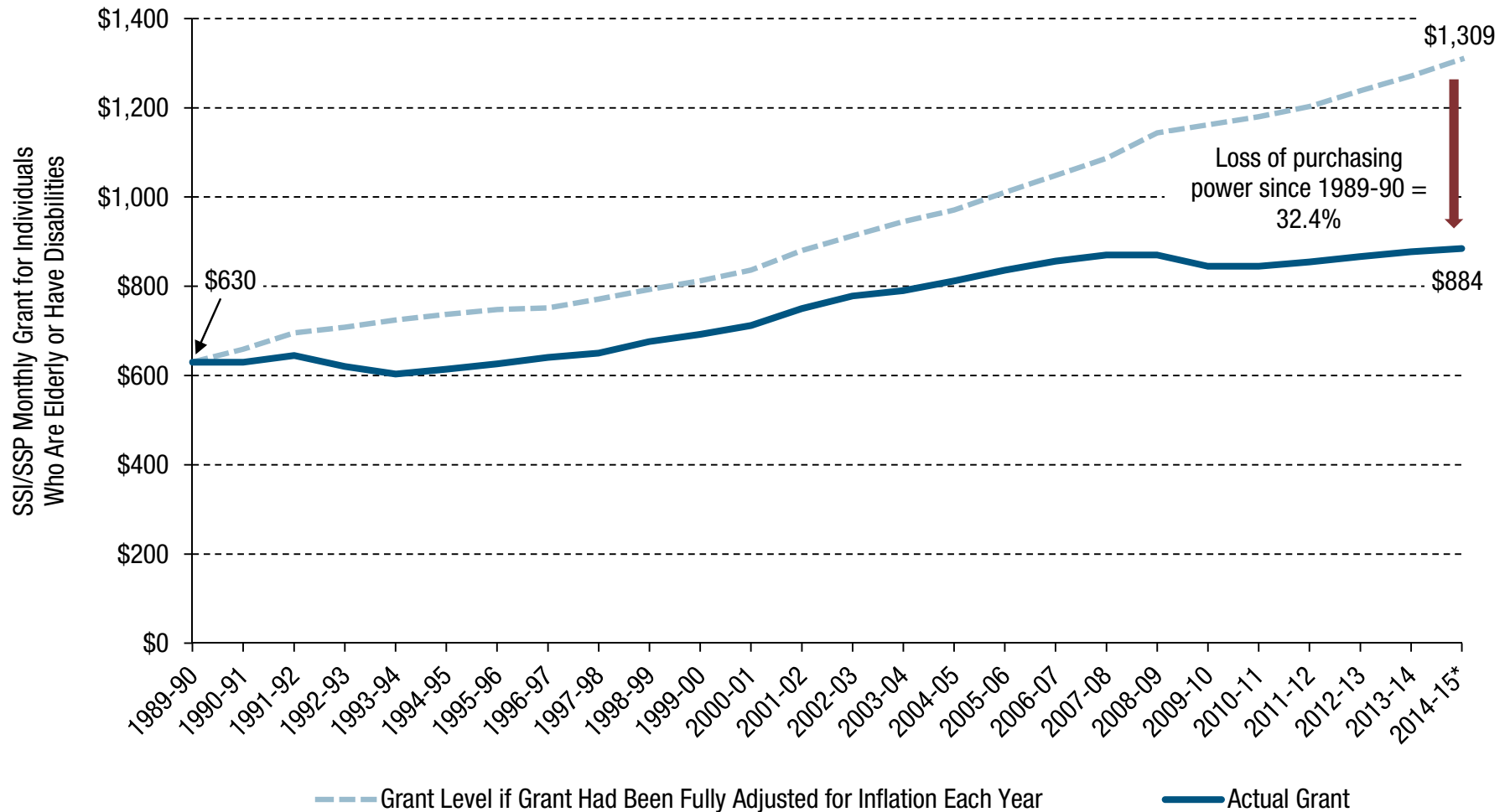
Source: CBP analysis of Department of Social Services and US Social Security Administration data

# Proposed Budget Does Not Restore COLA for SSI/SSP

- Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants help nearly 1.3 million low-income seniors and people with disabilities afford food and other basic necessities.
- Policymakers reduced the state's SSP portion of the grant to the minimum allowed by federal law for both individuals and couples in recent years. In addition, policymakers eliminated the annual state COLA in 2009, and the Governor does not propose to restore it in 2014-15.
- Effective January 2015, SSI/SSP monthly grant levels are projected to be \$884 for individuals and \$1,488 for couples. The federal SSI portion is expected to increase by 1 percent in 2015, but overall, the purchasing power of SSI/SSP grants will remain nearly one-third below what it was 25 years ago.



## SSI/SSP Grants Have Lost Nearly One-Third of Their Purchasing Power Since 1989-90 Due to State Budget Cuts



\* Reflects a projected 1.0 percent federal cost-of-living adjustment (COLA) to the SSI portion of the grant effective January 1, 2015. The annual state COLA for SSI/SSP grants was eliminated starting in 2010-11, and the Governor does not propose to reinstate it in 2014-15.  
 Source: CBP analysis of Department of Finance and Department of Social Services data

# Governor Proposes to Spend Nearly \$10 Billion on State Corrections in 2014-15

- The Governor proposes total 2014-15 funding of nearly \$10 billion (\$9.6 billion General Fund) for state corrections, which includes prison security and parole.
- In addition, counties are projected to receive \$1.1 billion in dedicated special fund revenues in 2014-15 for their role in managing and supervising certain “low-level” felony offenders and parolees (“community corrections”). State policymakers transferred responsibility for these offenders and parolees to counties beginning in 2011-12 as part of the 2011 “realignment.”

# Spending on State Corrections Briefly Dropped Following Realignment, But Has Begun to Climb Again

- Spending on state corrections fell from \$9.7 billion in 2010-11 – the fiscal year before realignment took effect – to \$8.8 billion in 2012-13, a 9.1 percent drop.
- This brief downward trend has since reversed and, under the Governor’s proposed budget, spending on state corrections in 2014-15 would be \$1.1 billion (12.8 percent) higher than the 2012-13 level.
- Spending on state corrections in 2014-15 would account for 9.0 percent of total General Fund expenditures – three times higher than in 1980-81 (2.9 percent).

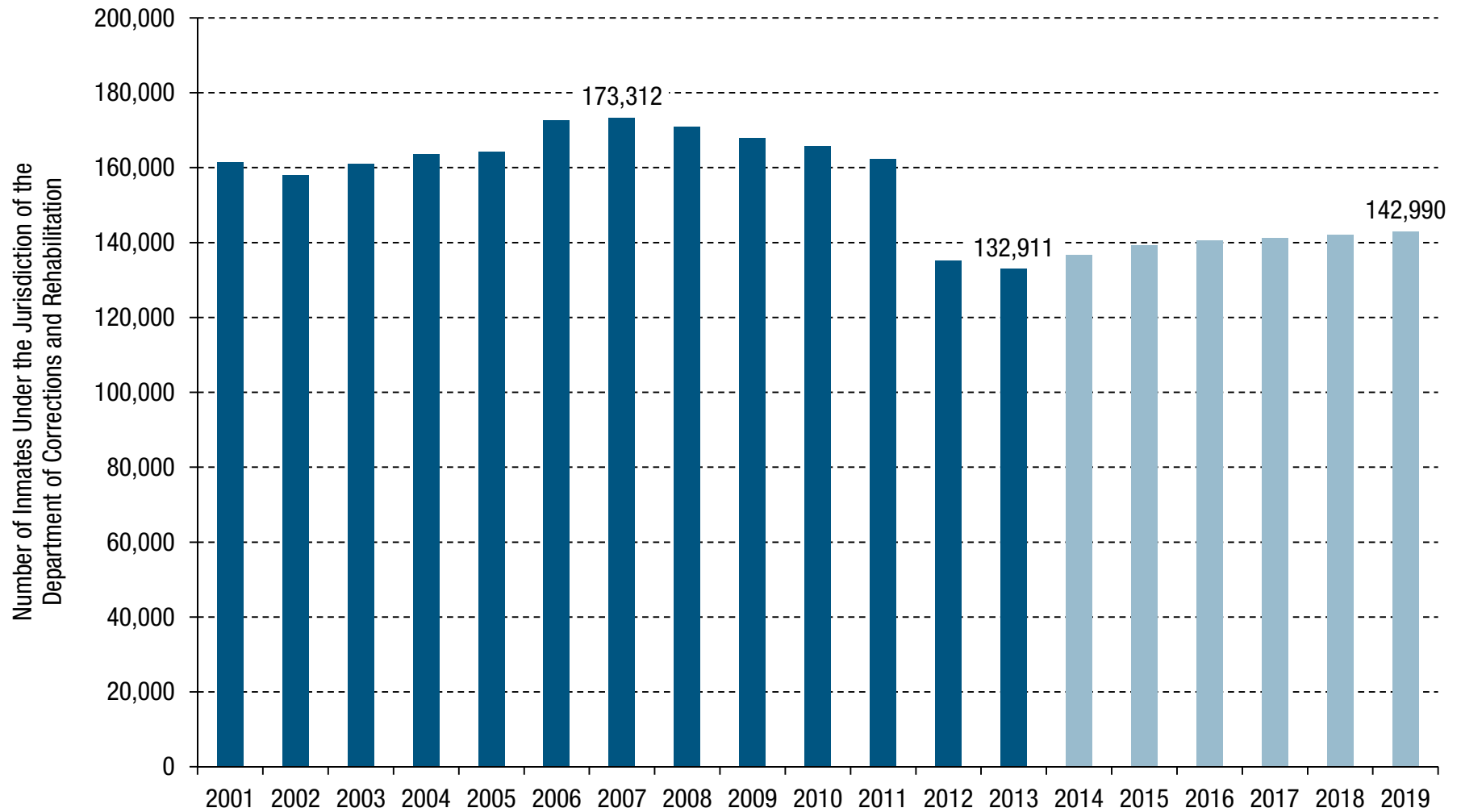
# The State Has Until Early 2016 to Meet a Court-Ordered Prison Population Cap

- California is under a federal court order to reduce the prison population to 137.5 percent of capacity (about 112,200 inmates). The state's prisons currently house nearly 118,000 inmates – 144.2 percent of capacity.
- Recently, the court announced that it would grant the state's request for a two-year extension of the deadline for meeting the prison population cap. The new deadline is February 28, 2016.
- The state is also required to meet interim population-reduction benchmarks in 2014 and 2015.

# The State Has Until Early 2016 to Meet a Court-Ordered Prison Population Cap (Continued)

- The extension provides for a court-appointed “compliance officer,” who “will have the authority to release prisoners” if the state fails to achieve the specified benchmarks.
- Moreover, due to the extension, an estimated \$81 million in state funds will be made available – based on a formula included in last year’s SB 105 – for a range of rehabilitative services aimed at reducing recidivism.
- Expanding rehabilitative services is essential in helping the state to permanently reduce the prison population, which otherwise is projected to rise by more than 10,000 by 2019.

## After Declining Substantially in Recent Years, the Number of State Inmates Is Projected to Rise by More Than 10,000 by 2019



Note: Reflects inmates housed in state prisons and other facilities in and outside of California. Data are as of June 30 of each year, and 2014 to 2019 are projected.  
Source: Department of Corrections and Rehabilitation



# Policy Considerations and Choices: Building a Platform for Broadly Shared Prosperity

# The Measure of a Good Budget

- A good budget should take a balanced approach that strives for:
  - Improving outcomes for individuals, families, and communities.
  - Investing in long-term economic growth and broadly shared prosperity.
  - Paying down debt and saving for a rainy day.



# Charting a Path Forward

- Policymakers can move California forward by:
  - Reinvesting in child care and preschool slots cut in prior years.
  - Increasing CalWORKs grants so they are sufficient to lift families out of "deep poverty."
  - Providing cost-of-living adjustments for grants that help low-income seniors and people with disabilities.
  - Ensuring that qualified, eligible California students have access to an education at UC, CSU, or a community college.
  - Aligning community college, adult education, and workforce development systems to promote development of basic skills.