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California Budget Perspective 2019-20

MARCH 2019

California Budget & Policy Center

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

Acknowledgments

The staff of the Budget Center prepared this chartbook.



The Governor's Proposed 2019-20 Budget:

Key Context and Top Lines



Putting the Governor's Proposed 2019-20 State Budget in Context

- State revenues for the coming fiscal year are projected to be higher than previously forecast.
- Economic hardship remains high in most parts of the state, even nearly a decade after the end of the Great Recession.
- Various key public services and supports continue to operate at diminished and inadequate levels.
- Revenue projections could be lower when the Governor releases his revised budget (the May Revision), and there's the potential risk of a near-term economic downturn.



The Governor's Proposed Budget: Top Lines

- Assumes about \$20 billion in discretionary resources to be allocated in 2019-20.
- Places heavy emphasis on reducing debt and building up state reserves.
- Includes various types of one-time funding across the budget.
- Proposes investments in key services intended to address affordability and help Californians advance economically, including early childhood development, health care, housing, education, and income supports (CalEITC, CalWORKs).



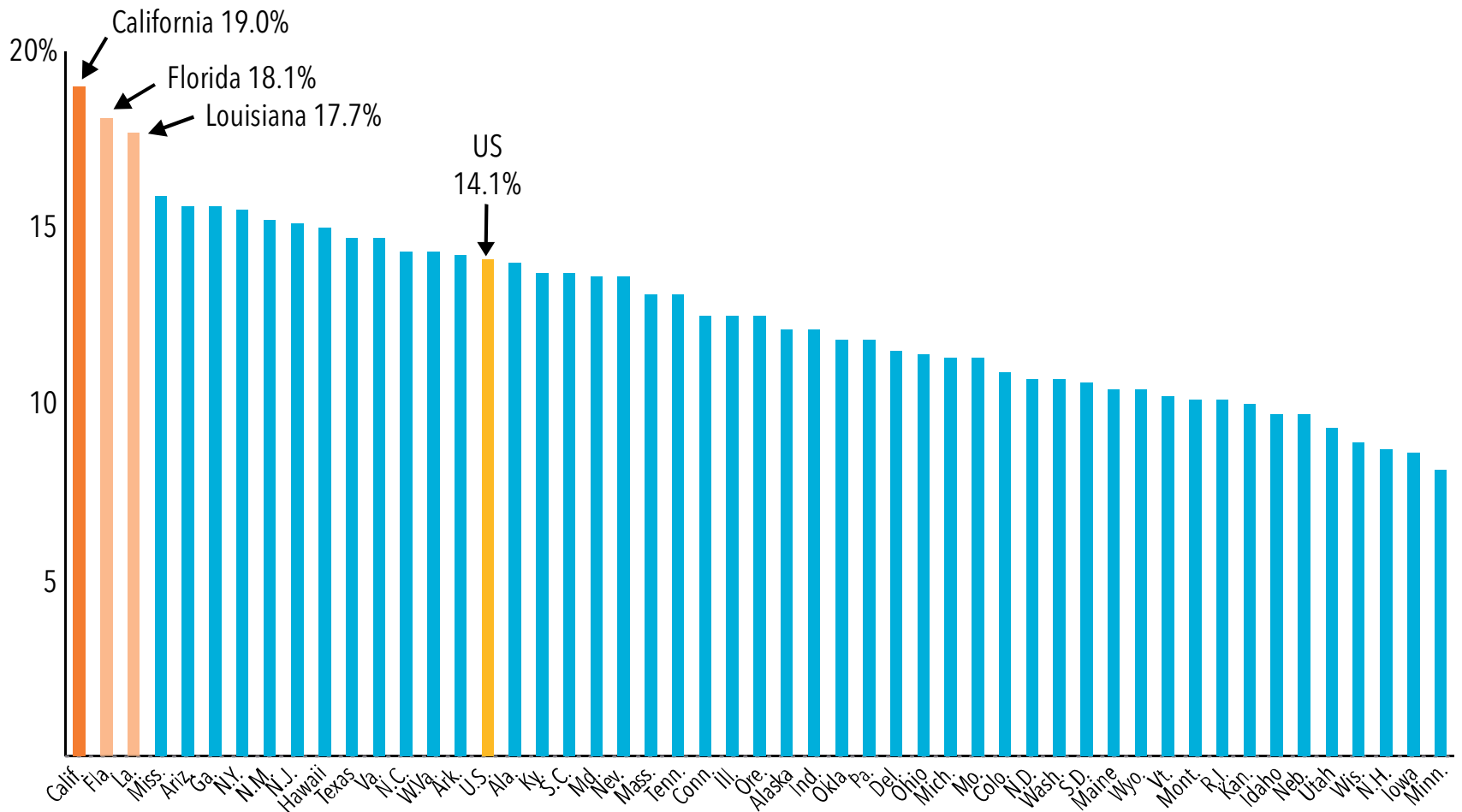
The Social and Economic Context of the State Budget

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



California Has One of the Highest Poverty Rates of the 50 States Under the Supplemental Poverty Measure

State Poverty Rate Under the SPM, 2015-2017



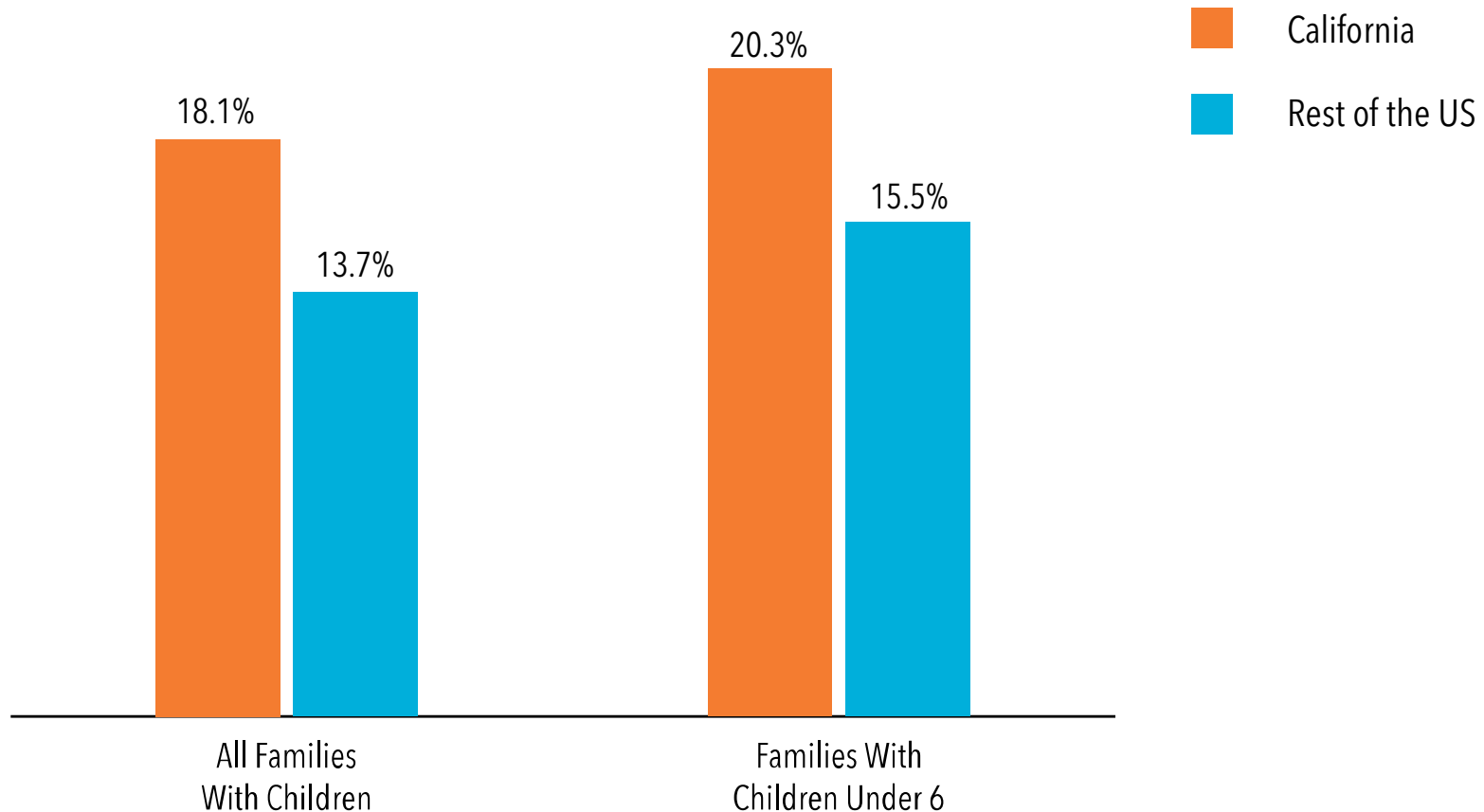
Note: Poverty rates for California, Florida, and Louisiana are not statistically different.

Source: US Census Bureau, Current Population Survey



Families With Children Are Significantly More Likely to Live in Poverty in California Than in the Rest of the US

Poverty Rate Based on the Supplemental Poverty Measure, 2017

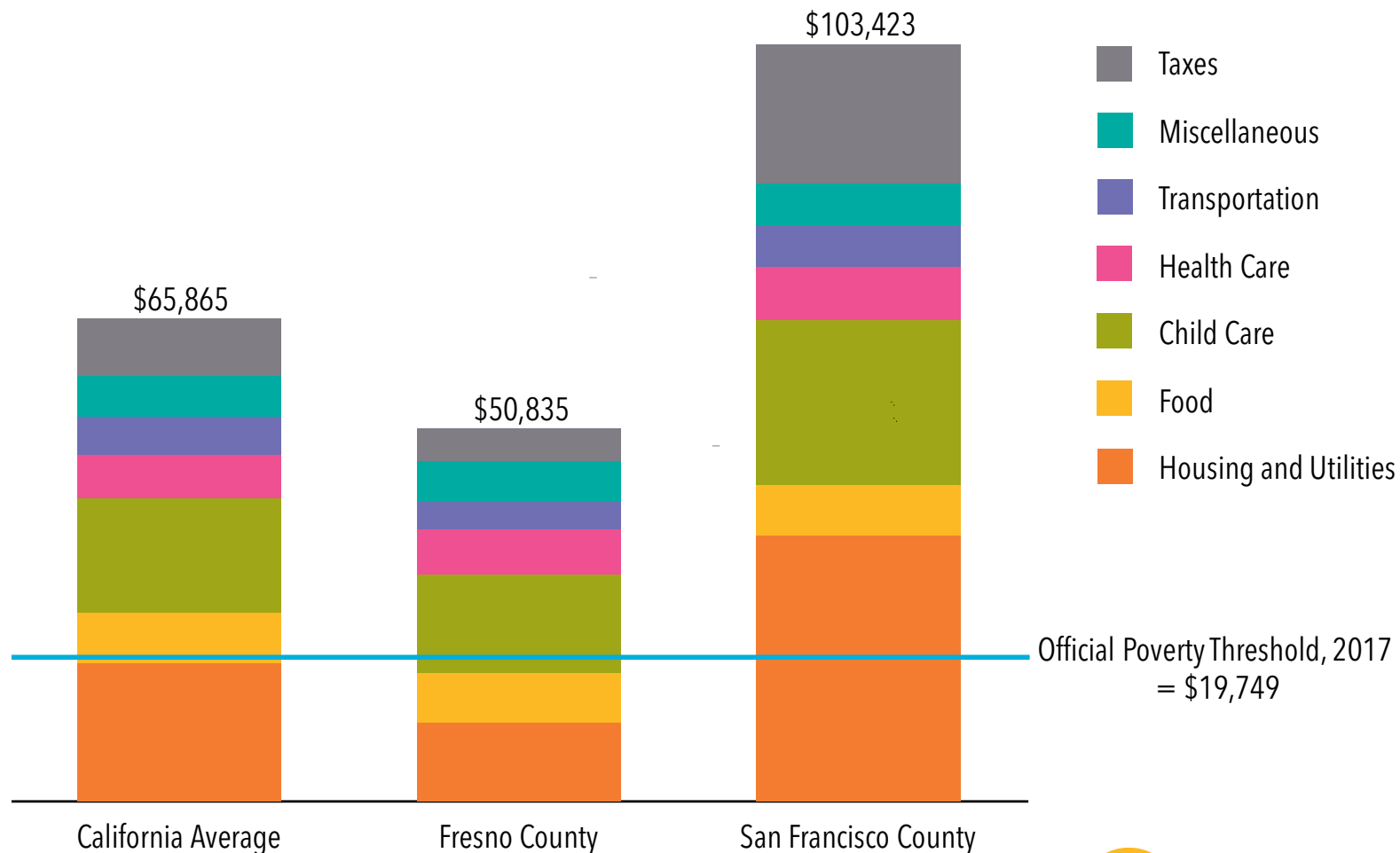


Source: Budget Center analysis of US Census Bureau, Current Population Survey data



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

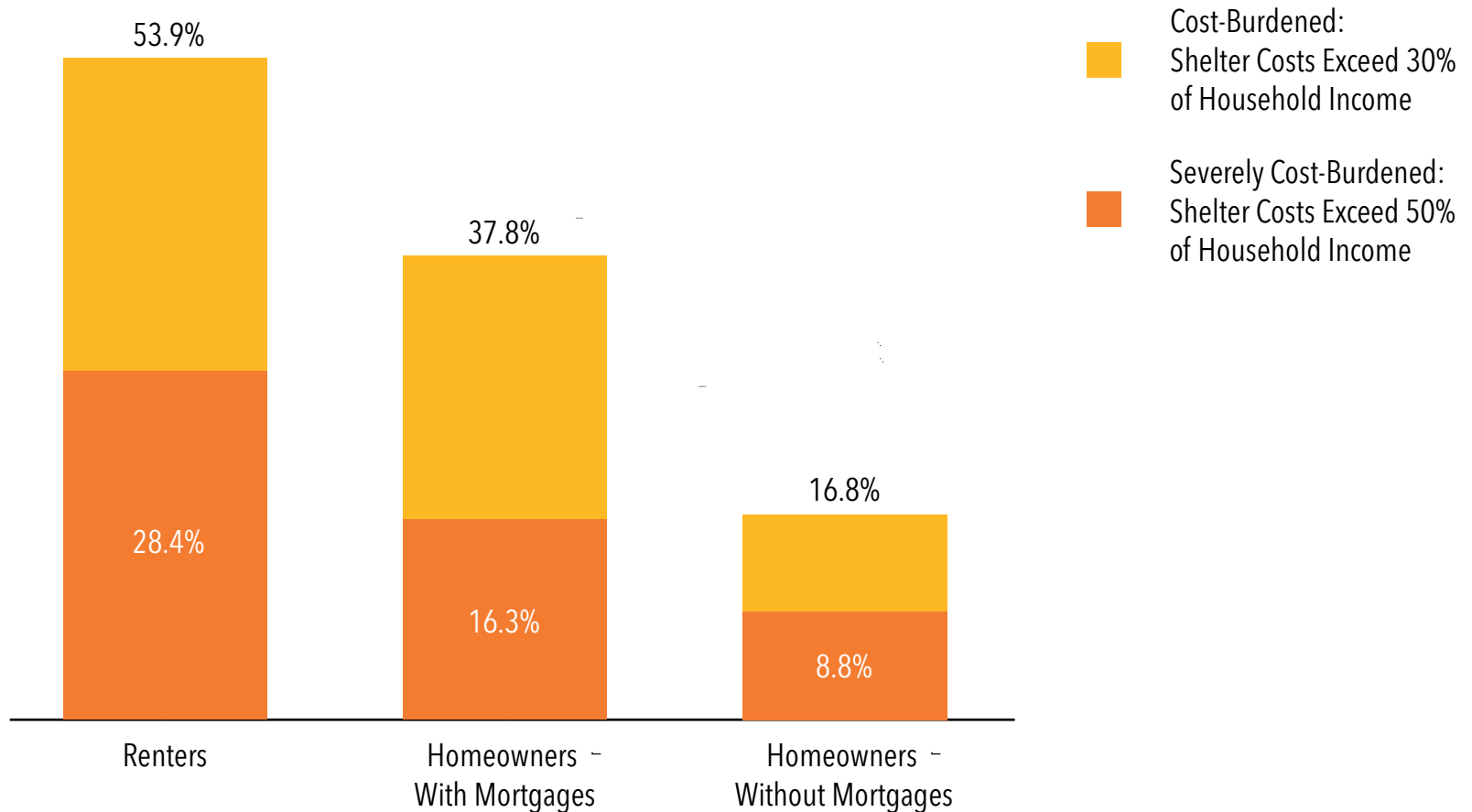


Note: Assumes one preschool-age and one school-age child and a single parent working full-time.
Source: Budget Center *Making Ends Meet* 2017 analysis and US Census Bureau



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, 2017

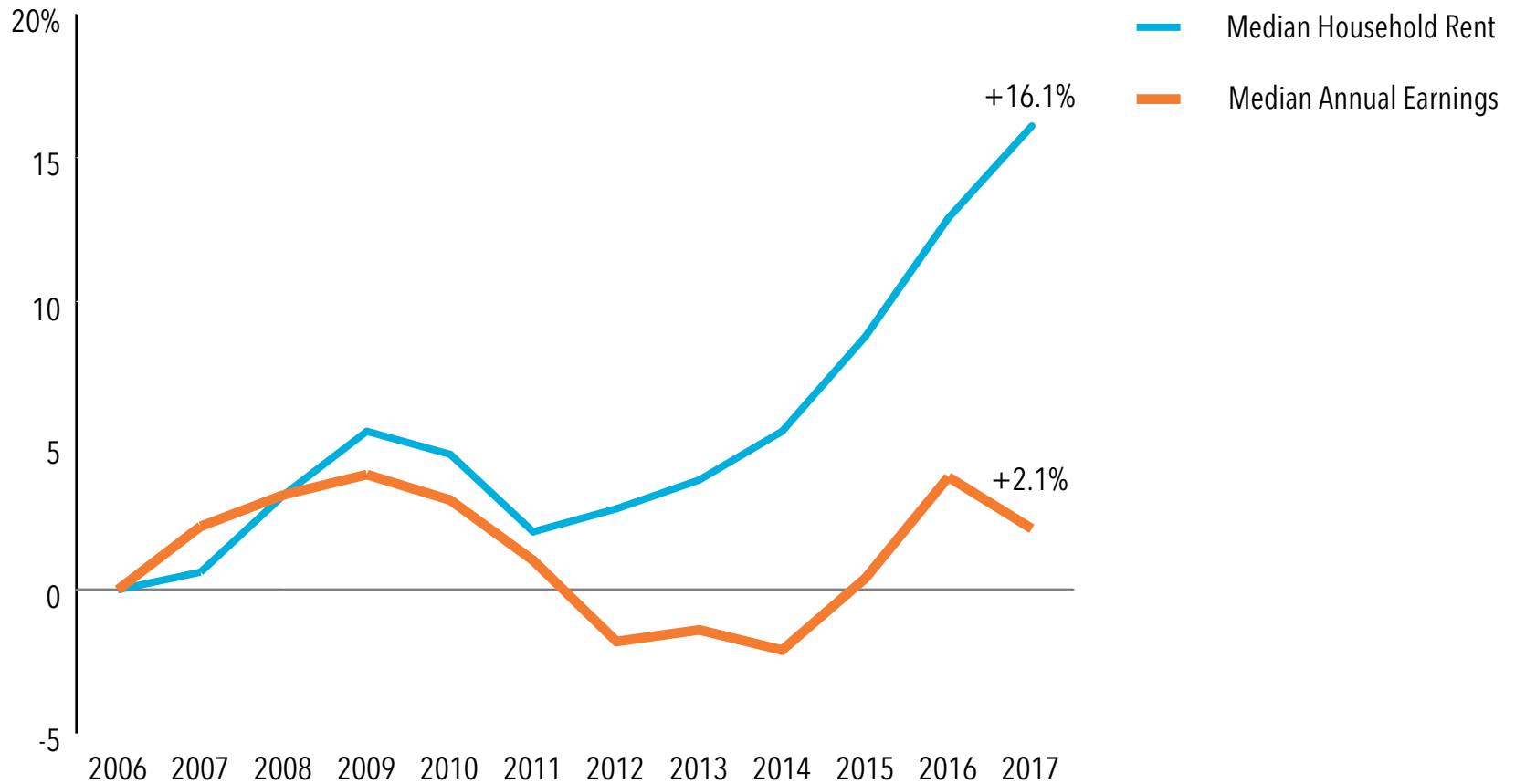


Note: Definitions of housing cost burden are from the US Department of Housing and Urban Development.
Source: Budget Center analysis of US Census Bureau, American Community Survey data



Workers' Earnings Have Not Kept Pace With Rents in California

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



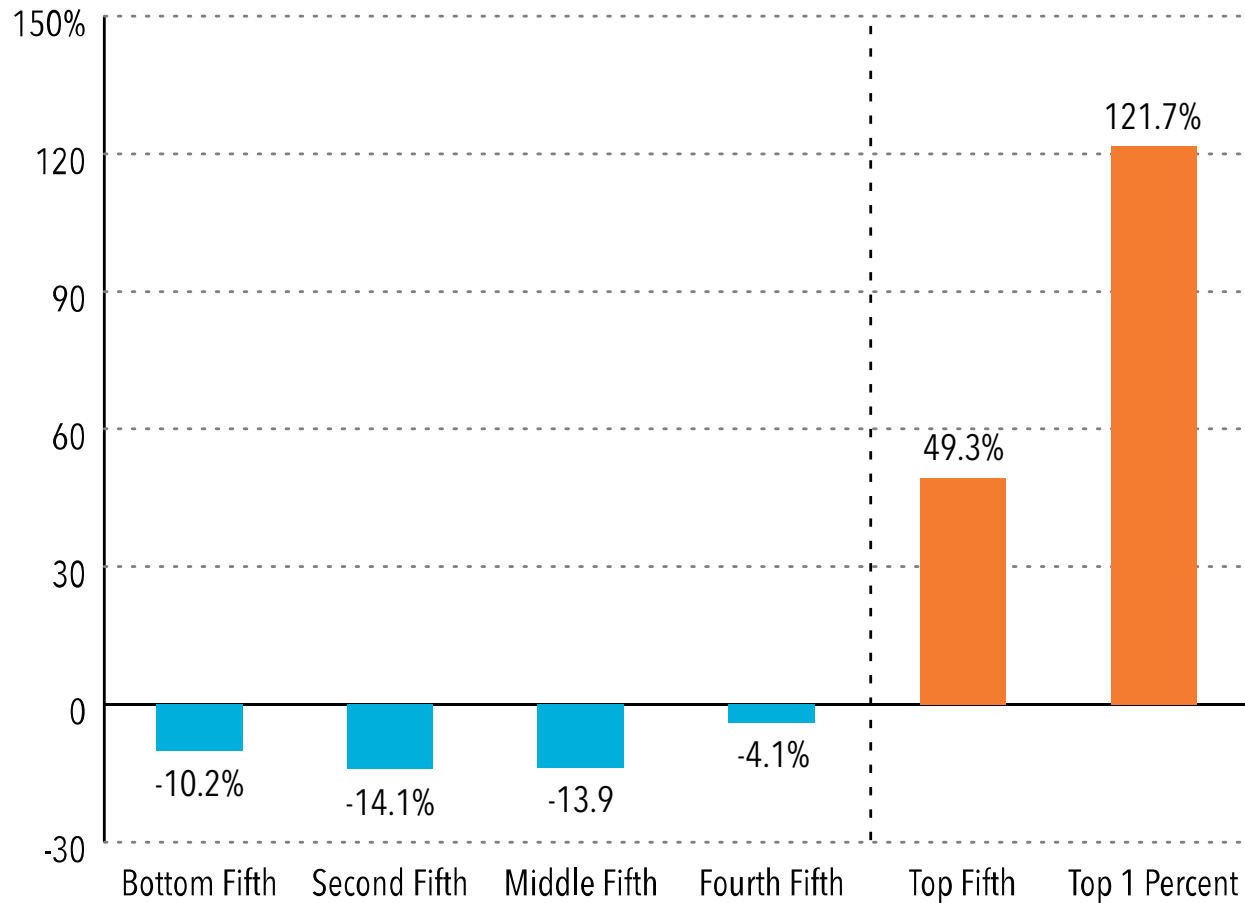
Note: Median annual earnings for individuals working at least 35 hours per week and 50 weeks per year. Excludes workers with \$0 or negative total earnings.

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



Incomes Have Grown Only for the Highest-Income California Families Over the Last Generation

Percent Change in Average Adjusted Gross Income (AGI), 1987-2016, Inflation-Adjusted



Source: Franchise Tax Board



Key Elements of the Governor's Proposed Budget



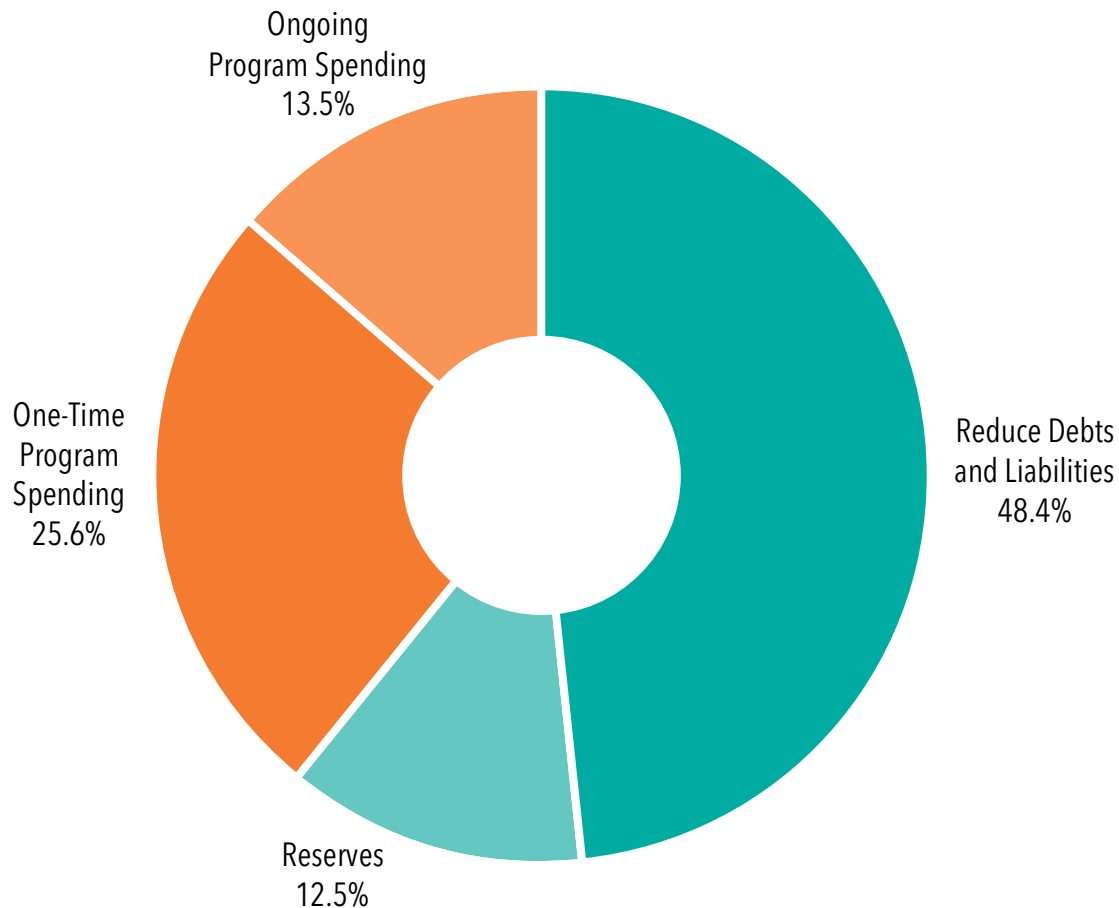
Governor's budget assumes the state has about \$20 billion in "discretionary resources" to allocate in the budget process.

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



Governor Proposes to Use More Than 60% of Discretionary Resources to Reduce Debt and Build Reserves

Total Discretionary Resources Projected as of the Proposed 2019-20 Budget = \$20.1 Billion*



* This amount reflects a downward adjustment of \$475 million to account for an error in the Governor's proposed 2019-20 budget that was identified by the Legislative Analyst's Office. Source: Legislative Analyst's Office



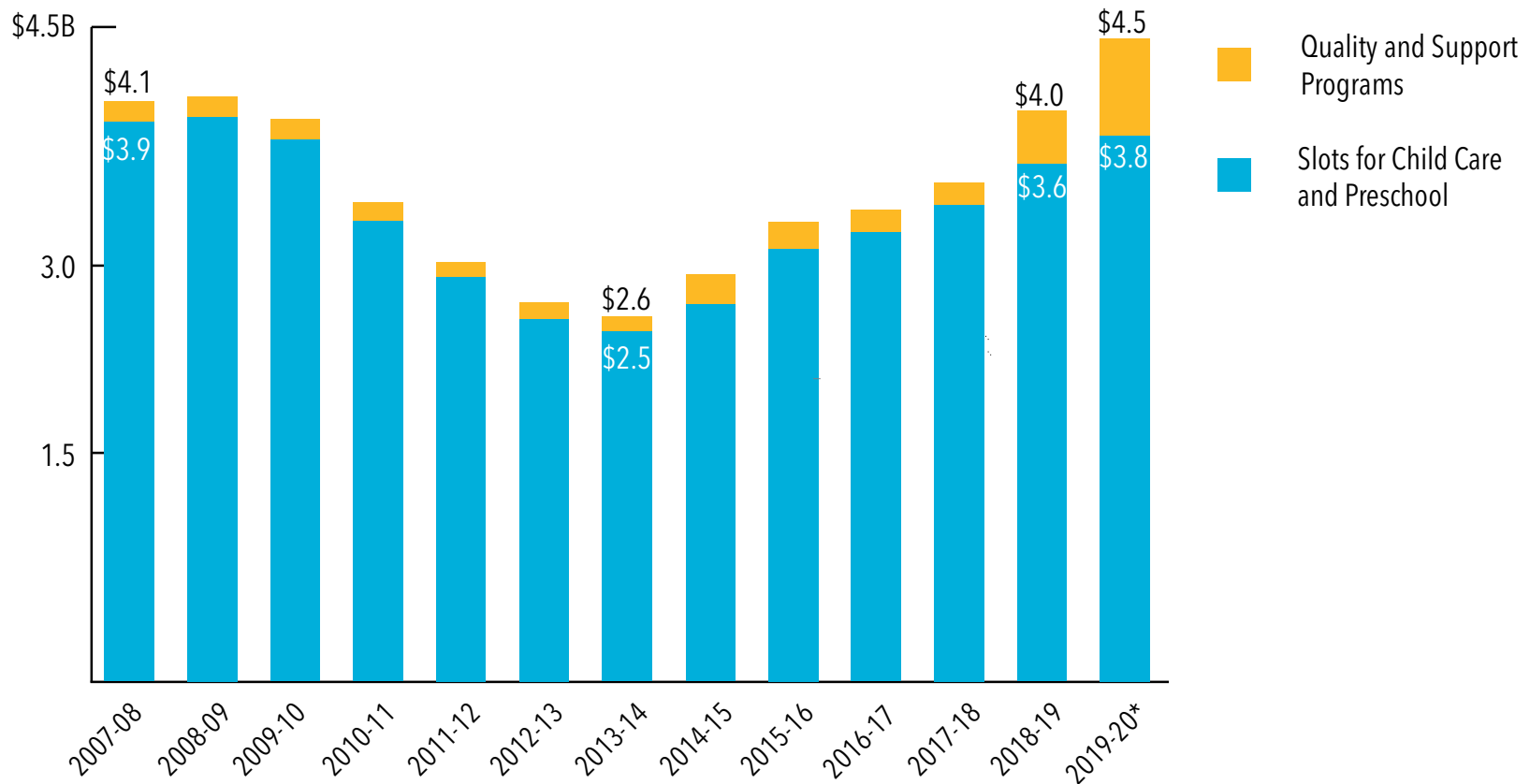
Proposed budget includes a significant down payment for California's subsidized child care and development system.

The Governor proposes \$490 million in one-time funding for child care infrastructure and workforce development grants along with \$125 million to add 10,000 full-day, full-year California State Preschool Program slots.



Proposed Funding for Child Care and Preschool Surpasses Pre-Recession Levels With Boost From One-Time Dollars

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



* Proposed.

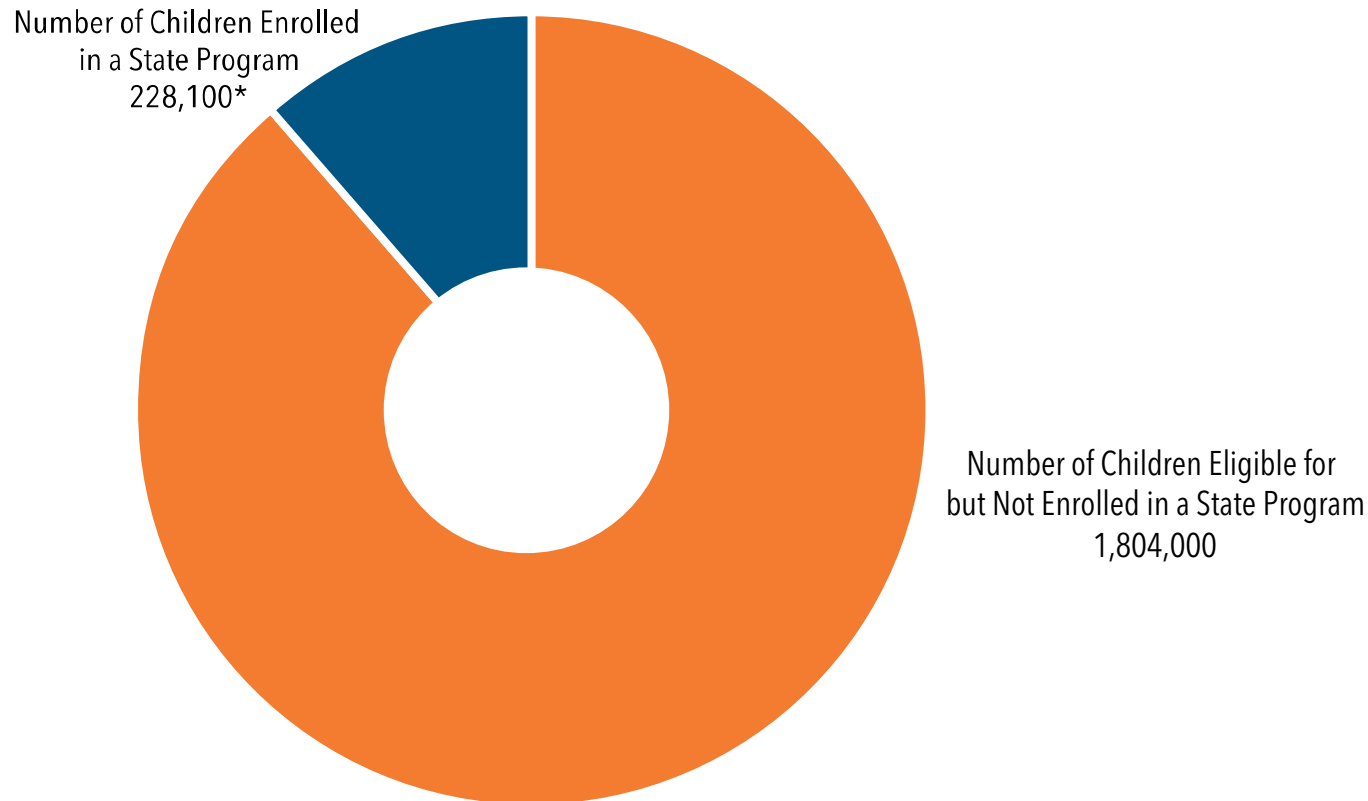
Note: Figures reflect the enacted budget each year except for 2008-09, which reflects the revised budget as of February 2009. Figures include federal and state funds for slots as well as for quality and support programs and are in 2019-20 dollars. Child care includes CalWORKs and non-CalWORKs programs. Preschool excludes Transitional Kindergarten.

Source: California Department of Education and Department of Finance



8 in 9 Children Eligible for Subsidized Child Care Did Not Receive Services From Full-Day, Full-Year Programs in 2017

Estimated Number of California Children Eligible for Subsidized Child Care = 2,032,000



* Enrollment is for children from birth through age 12 in October 2017, except for California Community College CalWORKs Stage Two, which reflects a Department of Finance estimate for the 2017-18 fiscal year. Includes children enrolled in the full-day California State Preschool Program (CSPP). Excludes children enrolled in the part-day CSPP or the Handicapped Child Care Program. Source: California Department of Education, Department of Finance, Department of Social Services, and Budget Center analysis of US Census Bureau, American Community Survey data



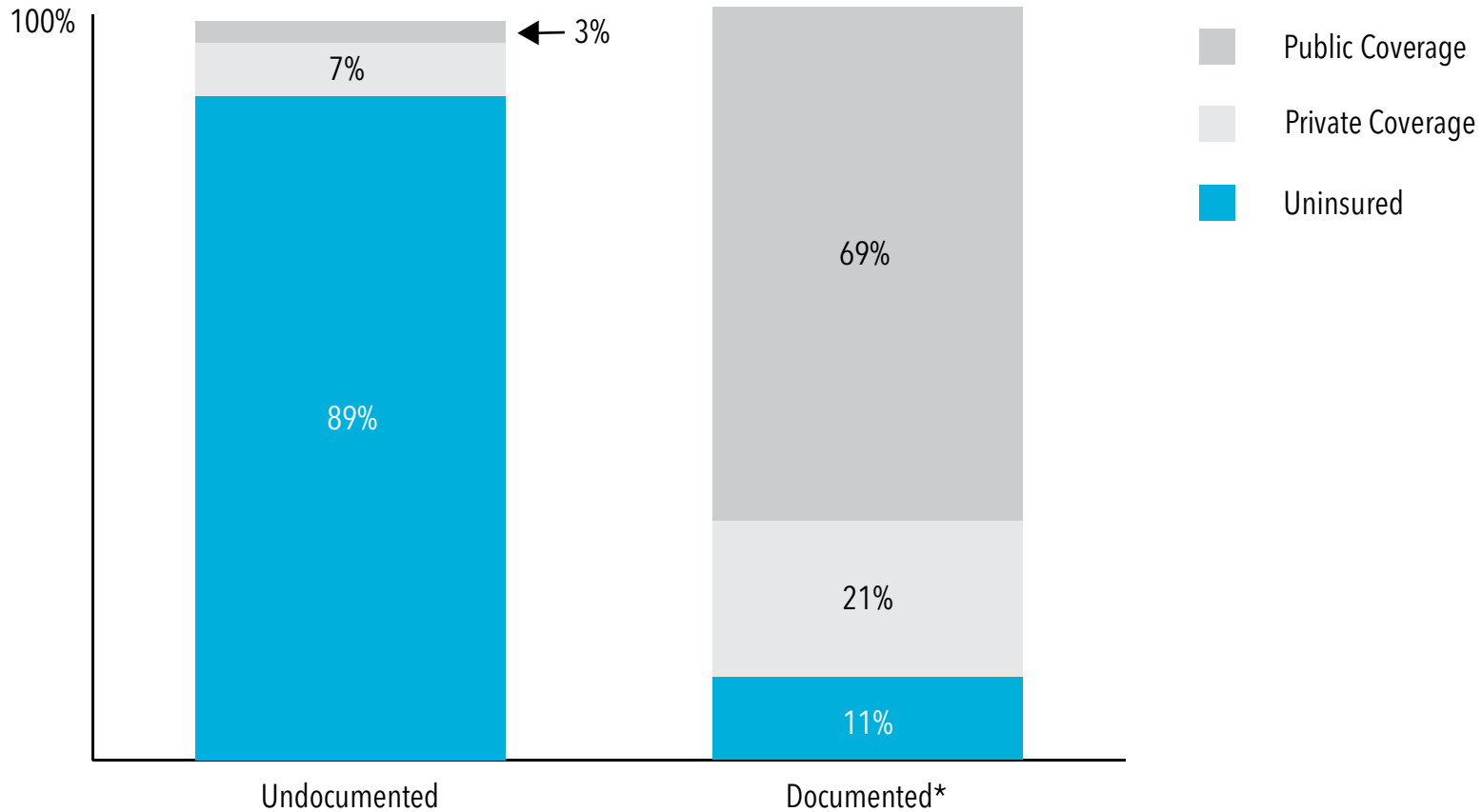
Governor proposes to expand full-scope Medi-Cal coverage to undocumented adults ages 19 to 25.

Governor also calls for creating new state subsidies to lower the cost of health insurance for Californians with incomes between 250% and 600% of the poverty line.



Nearly 9 in 10 Undocumented Adults With Low Incomes Lack Health Coverage

Health Insurance Status of California Adults With Low Incomes, Ages 19 to 64, 2016-2017



* Includes US-born citizens, naturalized citizens, and legal permanent residents.
Note: "Low income" is defined as having an income at or below 138% of the federal poverty line. Figures do not sum to 100 due to rounding.
Source: UCLA Center for Health Policy Research



Governor proposes a multi-pronged, state-level approach to housing affordability.

Proposals include regulatory changes, one-time planning and incentive funding, and an ongoing expansion of tax credits that help finance affordable housing development.



The Governor Proposes to Significantly Expand the State Role in Housing

- The state would develop new short-term goals and revamp the process for setting long-term housing goals; the Governor's proposal includes \$750 million one-time to support local efforts to meet goals.
- The state would play a more active role in reviewing local housing plans and enforcing housing goals and production.
- The budget proposes to link housing production to certain transportation funds and other sources to incentivize local governments to demonstrate progress in meeting goals.
- Excess state property would be made available for affordable housing projects.



Housing Proposals Also Include Expansion of Tax Credit and Loan Programs

- Expands the Low Income Housing Tax Credit (LIHTC) program to support housing development (\$500 million ongoing).
- Supports construction of housing for moderate-income households through the existing Mixed Income Loan Program (\$500 million one-time).
- Aligns the use of tools to encourage investment in affordable housing in distressed areas: Enhanced Infrastructure Finance Districts (EIFDs) and Opportunity Zones (OZs).
 - Would eliminate a 55% voter-approval requirement for EIFDs to issue bonds to fund projects.



Governor proposes to significantly expand the California Earned Income Tax Credit (CalEITC).

The proposal would extend the credit to 1 million additional tax filers as well as increase the size of the credit for many filers, paid for by conforming to some elements of the 2017 federal tax bill.



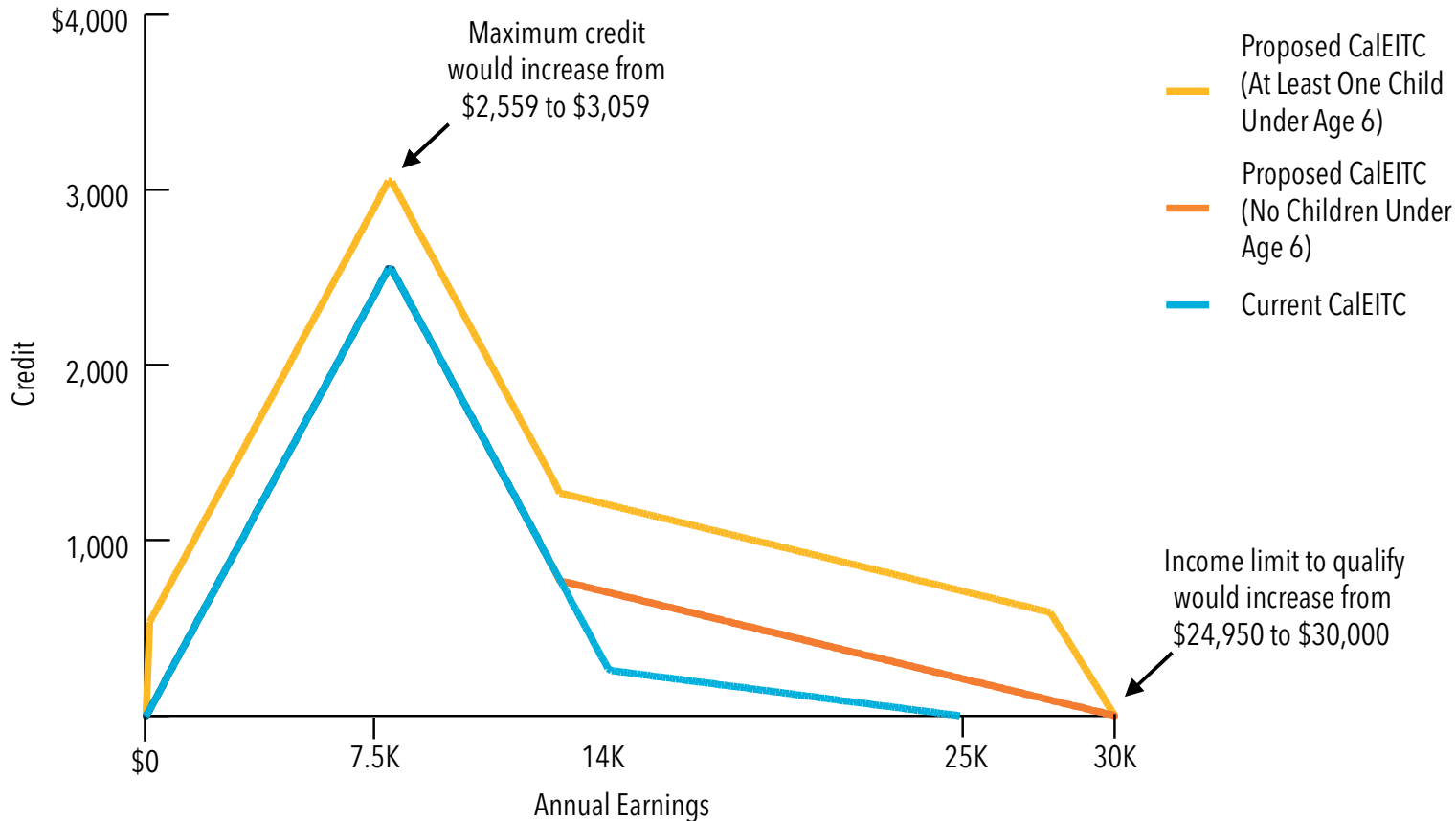
The Governor Proposes to Significantly Expand the CalEITC

- The maximum annual income to qualify for the CalEITC would increase to \$30,000 – roughly equal to full-time, year-round earnings at a \$15 hourly wage, which will be the state minimum wage as soon as 2022.
- Families and individuals who are currently eligible for small credits would see their credit increase substantially.
- Families with at least one child under age 6 and earnings up to \$28,000 would qualify for an additional \$500. This would be on top of the increased CalEITC for families who currently qualify for small credits.



The Proposed Budget Would Increase the Size of the CalEITC and Extend the Credit to More Tax Filers

CalEITC for Parents With Two Qualifying Children, Tax Year 2018



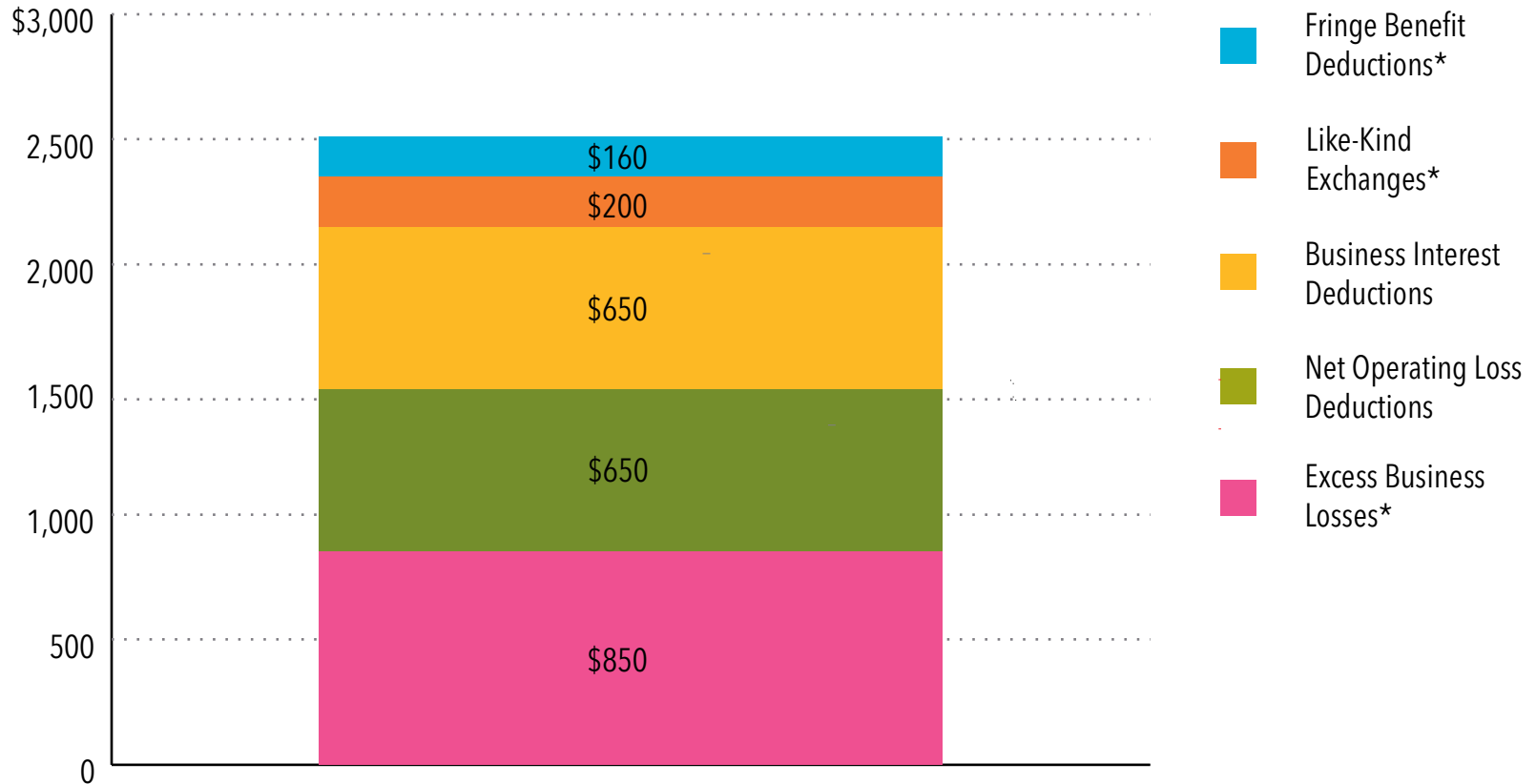
Note: Under the proposal, the income limit would also increase to \$30,000 for other families with qualifying children as well as for tax filers without any qualifying children.

Source: Budget Center analysis based on personal communication with Department of Finance



California Could Raise \$2.5 Billion in Revenue by Conforming to Five Federal Tax Law Provisions

Estimated Annual Revenue Gain from Limiting Five Business Tax Breaks (Dollars in Millions)



*Provisions included in Governor's budget proposal

Note: Chart shows second-year estimates, as first-year estimates are higher and second-year estimates are more likely to reflect ongoing revenue impacts.

Source: Franchise Tax Board



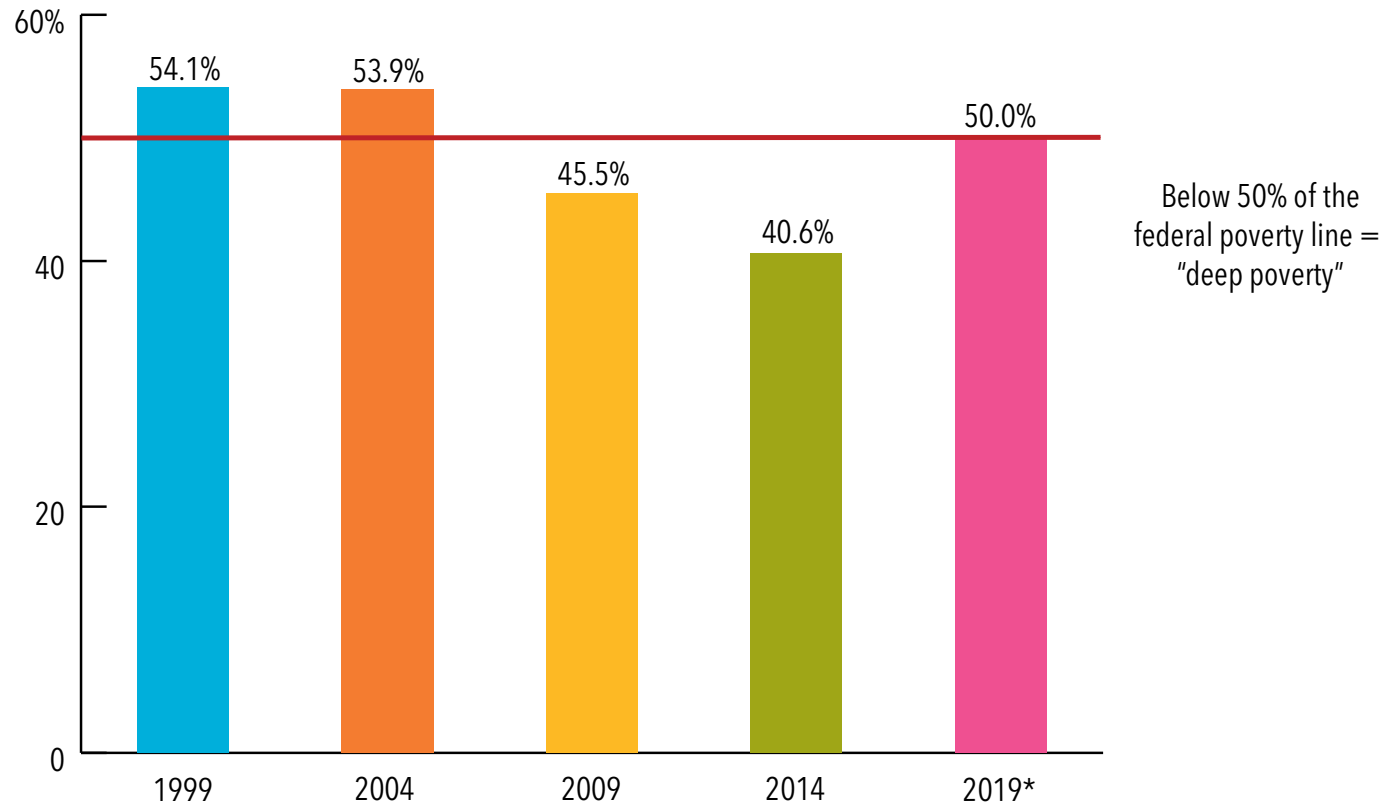
Governor proposes significant increase to CalWORKs grants to raise them to deep-poverty threshold.

The maximum grant for a family of three has been below the deep-poverty level (50% of the federal poverty line) for the past 11 years.



The 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 13.1%, effective October 1, 2019.

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



Governor Newsom's 2019-20 Proposal to Raise CalWORKs Grants

- The Governor proposes a 13.1% increase effective October 1, 2019.
- This proposal would:
 - Raise monthly grants to 50% of the federal poverty line for a family of three.
 - Cost \$347.6 million General Fund in 2019-20, rising to a projected full-year cost of \$455.4 million General Fund.



Proposed budget includes targeted funding increases for mental health services.



The Governor Proposes Targeted Funding Increases for Mental Health Services

- Allocates \$100 million to provide additional supportive housing services for people who are homeless or at risk of becoming homeless, with a focus on people with mental illness.
- Provides \$50 million to increase support for mental health workforce programs.
- Adds \$25 million to improve efforts to “detect and intervene when young people have had, or are at high risk of experiencing, psychosis.”

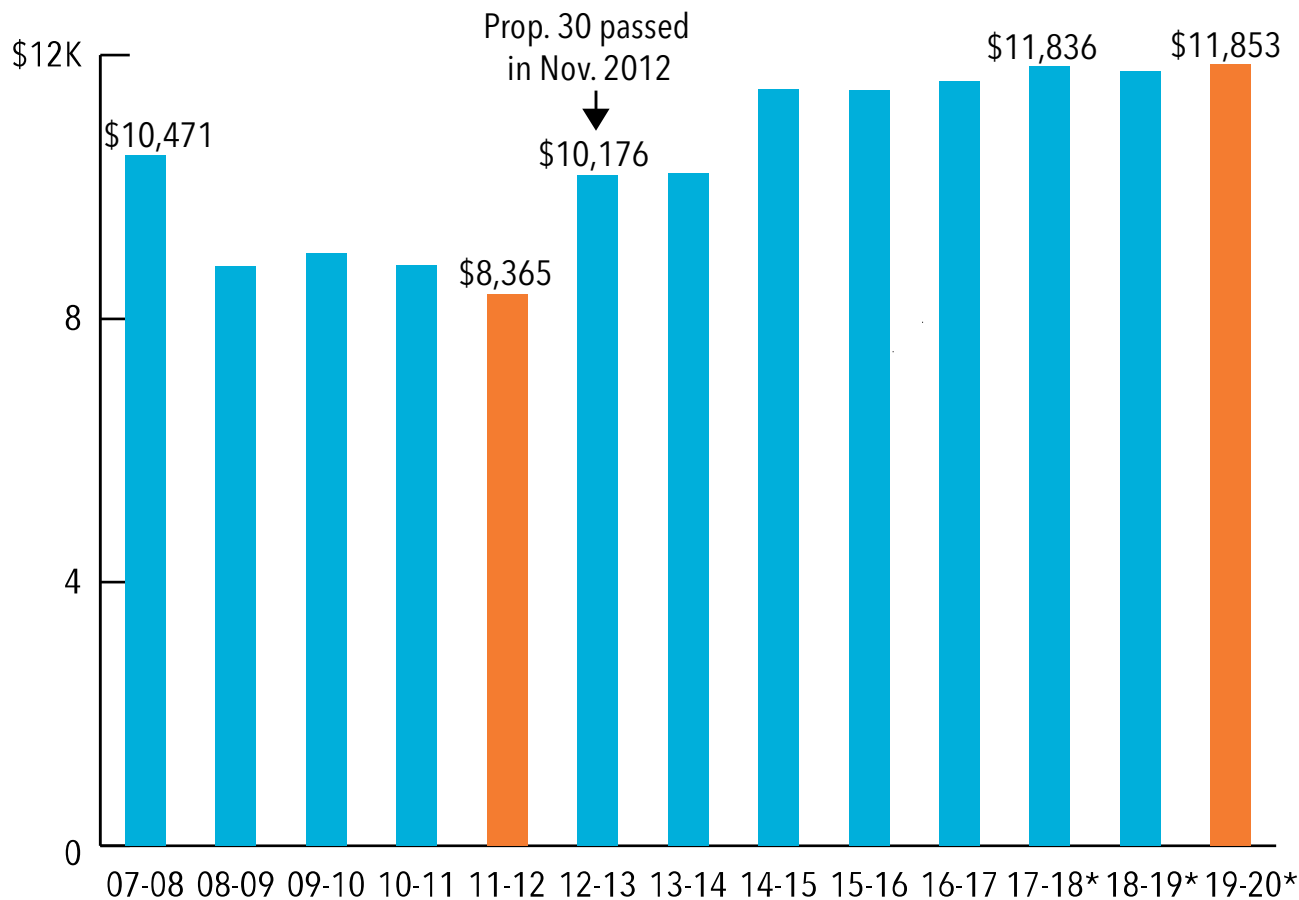


Proposed budget reflects increases in funding for K-12 education and continues support for the Local Control Funding Formula.



Spending Per Student Would Be Nearly \$3,500 Higher Than in 2011-12, but Similar to Recent Years' Levels

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



* 2017-18 and 2018-19 estimated and 2019-20 proposed.

Note: Figures reflect 2019-20 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 includes increased funding for community colleges, CSU, UC, and student aid.



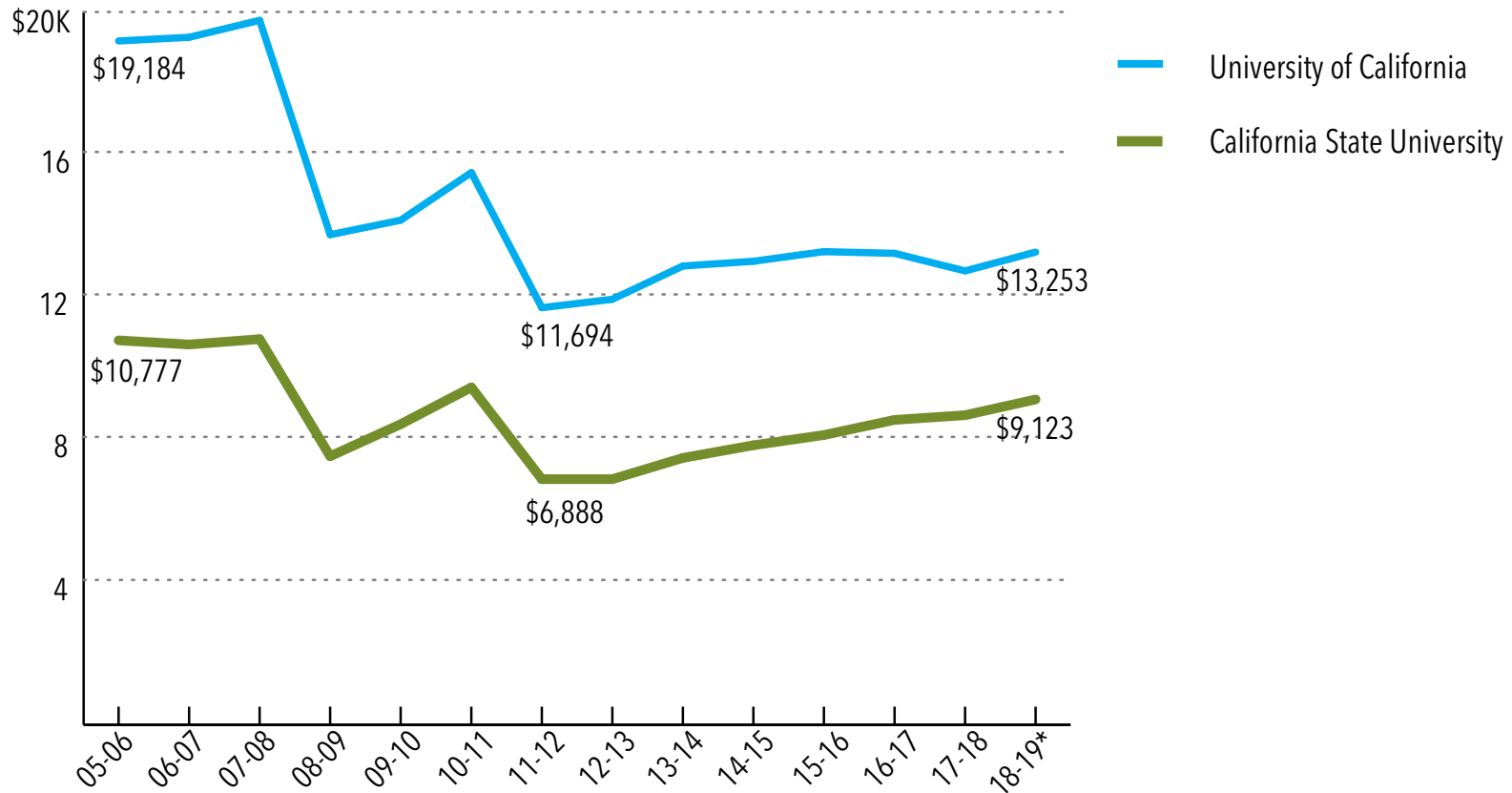
Governor's Budget Proposal Increases Support for Higher Education

- Provides \$40 million ongoing for a second year of tuition-free college for first-time, full-time students at California Community Colleges (CCCs).
- Increases ongoing funding for the California State University (CSU) by \$300 million and for the University of California (UC) by \$240 million.
- Provides increases for the Cal Grant Program:
 - \$122 million ongoing to support students with dependent children attending CCCs, CSU, and UC.
 - \$10 million ongoing to support students who enroll in college more than a year after high school graduation.



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.

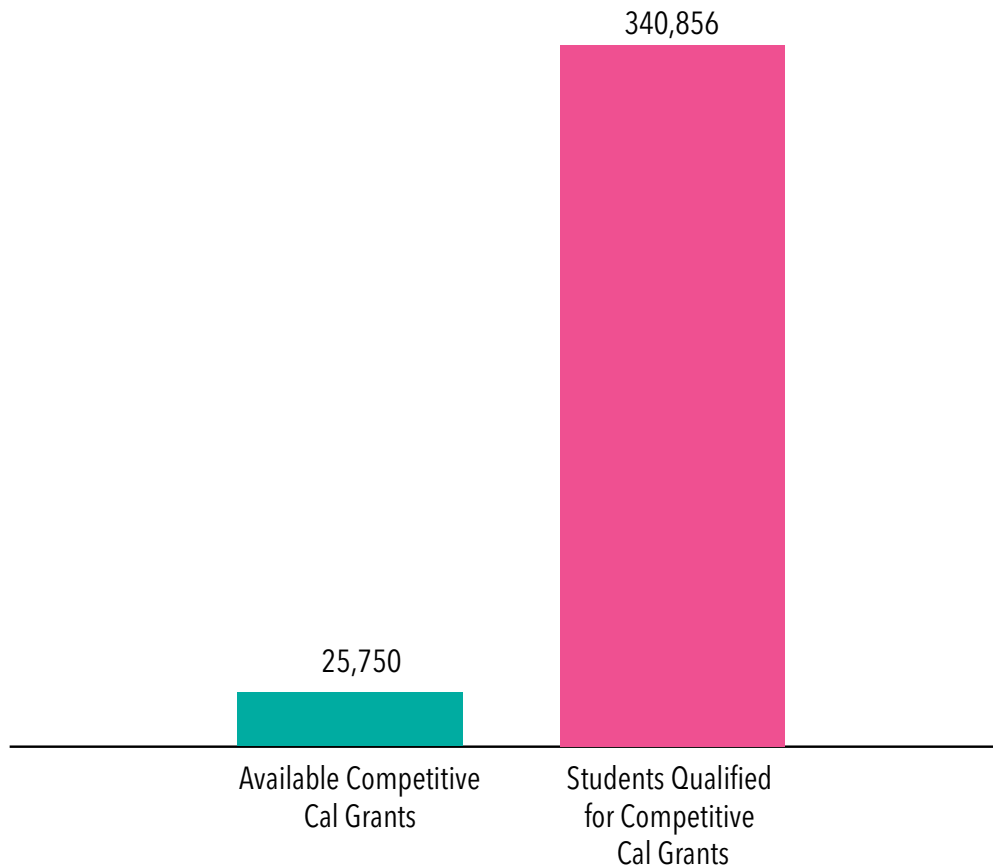
Note: Figures are in 2018-19 dollars and reflect "full-time equivalent" enrollment, which accounts for credits taken by each student relative to a full-time course load. Data exclude indirect state funding for CSU and UC attributable to Cal Grant tuition and fee payments.

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



Demand for Competitive Cal Grants Far Exceeds Supply

Available Grants Compared to Number of Qualified Students, 2017-18



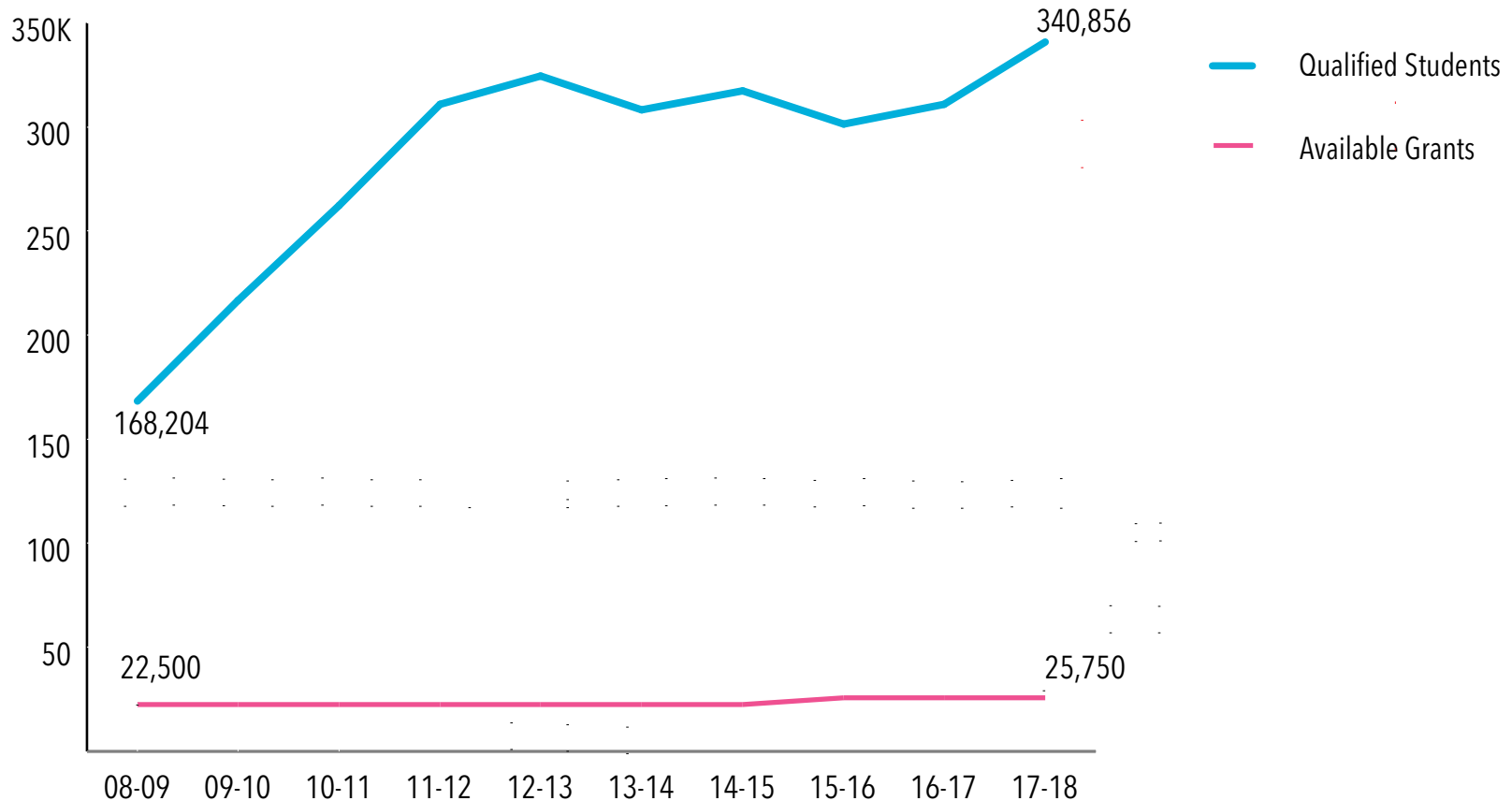
Note: Competitive Cal Grant awards provide aid to low- and middle-income students who meet certain GPA and income requirements, and apply to attend college more than one year after high school graduation. The Legislature establishes the number of awards available each year.

Source: California Student Aid Commission



The Number of Students Who Qualify for a Competitive Cal Grant Has Doubled in the Past 10 Years

Number of Students Who Qualify Far Exceeds Number of Available Grants



Note: Competitive Cal Grant Awards provide aid to low- and middle-income students who meet certain GPA and income requirements, and apply to attend college more than one year after high school graduation. The Legislature establishes the number of awards available each year.

Source: California Student Aid Commission



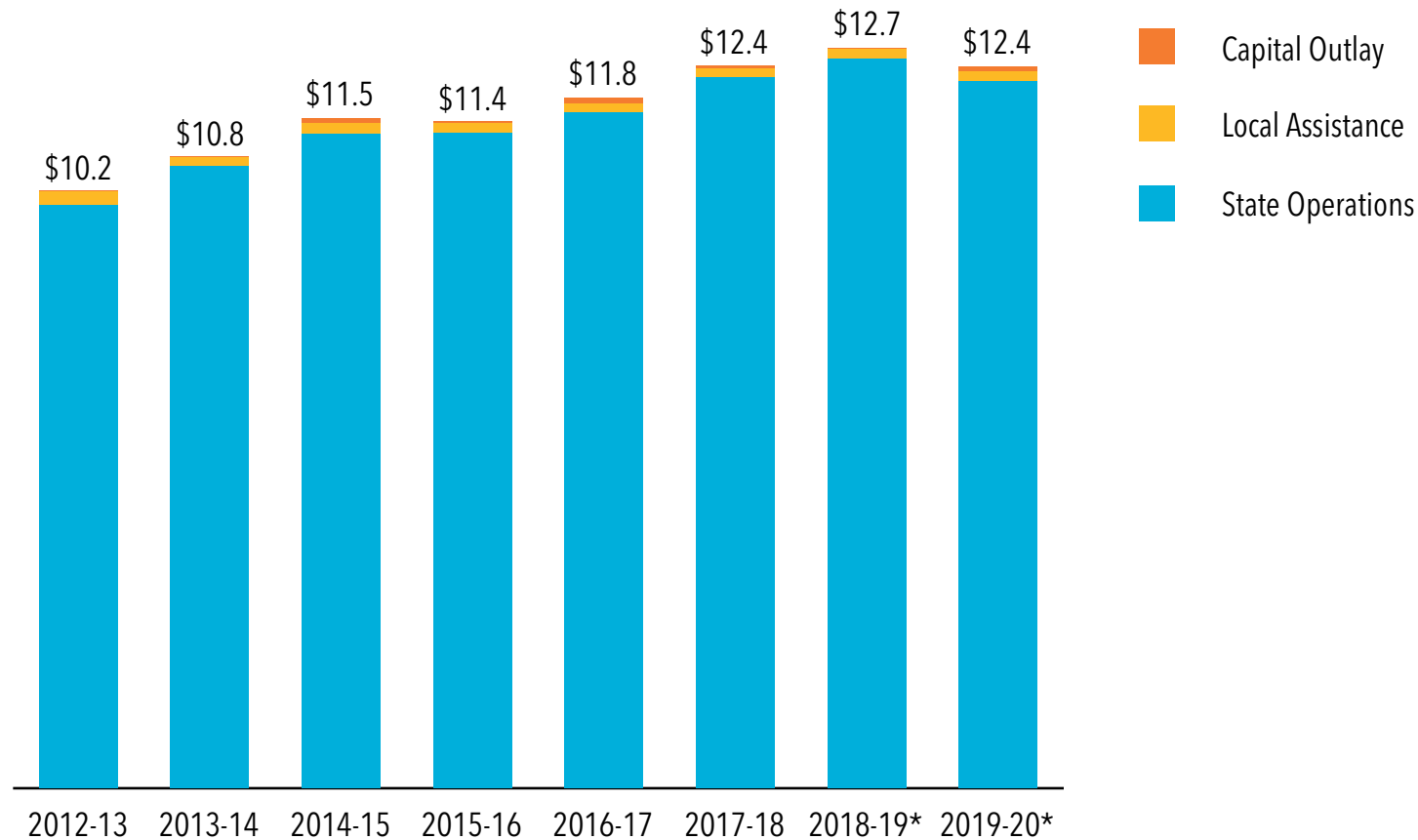
Annual funding for state corrections would continue to exceed \$12 billion under the proposed budget.

Yet, because of a declining state prison population, California is expected to end the use of out-of-state correctional facilities by June 2019.



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

Inflation-Adjusted General Fund Dollars in Billions



* 2018-19 estimated and 2019-20 proposed.

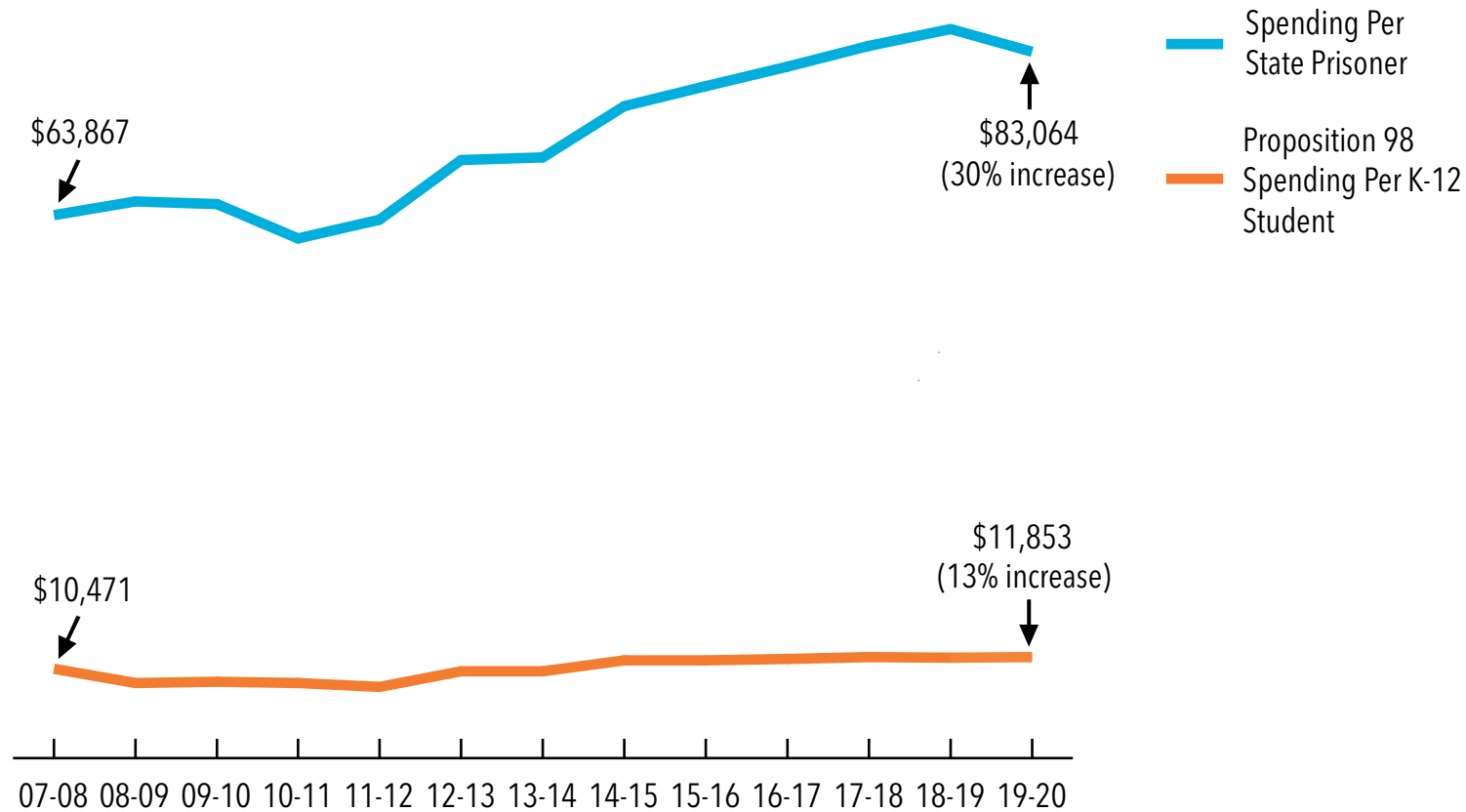
Note: Effective July 1, 2017, the CDCR assumed responsibility for operating 24-hour inpatient psychiatric care in three prisons. This change increased CDCR spending by roughly \$275 million beginning with the 2017-18 fiscal year. Figures are inflation-adjusted to 2019-20 dollars.

Source: Department of Finance



Since 2007-08, Spending Per State Prisoner Has Increased More Than Twice as Fast as Spending Per K-12 Student

Inflation-Adjusted Per Capita Expenditures



Note: 2018-19 spending is estimated; 2019-20 is proposed. The "state prisoner" category includes a relatively small number of individuals housed in state fire camps. Proposition 98 spending includes both state General Fund and local property tax dollars.
 Source: Department of Finance and Legislative Analyst's Office



Governor's budget commits resources to address the impact of federal actions on immigration.



Support for Immigration Services Included in the Governor's Budget Proposal

- Proposes new immigration rapid response funding to address the humanitarian crisis at the border resulting from federal actions.
- Provides continued funding for legal services to assist with applications for DACA, naturalization, deportation defense, and other remedies.
 - Includes funding to support legal services for undocumented students and their families on the campuses of the CSU and community colleges.
- Extends Medi-Cal eligibility to undocumented adults ages 19 to 25.



Other Core Elements of Governor's Proposed 2019-20 State Budget

- Shifts state-level responsibility for justice-involved youth from the California Department of Corrections and Rehabilitation to the state's Health and Human Services Agency.
- Provides \$50 million one-time to boost participation in the 2020 Census.
- Proposes additional investments in disaster preparedness, response, and recovery.



What Happens Next? Key Issues to Watch



Some Key Issues and Questions to Watch Going Forward

- If state revenues fall short of projections, less discretionary funding would be available.
- Some of the Governor's proposals would require a 2/3 vote of each house of the Legislature. Are state legislators willing to take those votes?
- Legislature's response: Do Assembly and Senate leaders seek to scale back, expand, or restructure the Governor's proposals?





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