California Budget Perspective 2019-20

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SCOTT GRAVES, DIRECTOR OF RESEARCH
A PRESENTATION TO:
THE ARC CALIFORNIA AND UCP
CALIFORNIA COLLABORATION
12TH ANNUAL DEVELOPMENTAL DISABILITIES
PUBLIC POLICY CONFERENCE
SACRAMENTO, MARCH 18, 2019
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

- California: 18.1%
- Rest of the US: 13.7%

- California: 20.3%
- Rest of the US: 15.5%

Source: Budget Center analysis of US Census Bureau, Current Population 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
California State Revenues and Spending: The Basics
The Personal Income Tax Is Projected to Account for Over Two-Thirds of California’s General Fund Revenues
Projected 2019-20 General Fund Revenues = $144.4 Billion

* Includes Highway Users Taxes, Insurance Tax, Alcoholic Beverage Taxes and Fees, Cigarette Tax, Motor Vehicle Fees, and other sources of revenue.
Note: Reflects total projected General Fund revenues before a $1.8 billion transfer to the state’s rainy day fund as required by Proposition 2 (2014).
Source: Department of Finance
State Funds Account for Nearly Two-Thirds of California’s State Budget
Total Proposed 2019-20 Expenditures = $314.5 Billion

Note: Figures do not sum to 100 due to rounding.
Source: Department of Finance
More Than Two-Thirds of State Dollars Support Health and Human Services or Education
Proposed 2019-20 General Fund and Special Fund Expenditures = $203.7 Billion

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and Human Services</td>
<td>31.8%</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>28.9%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>8.5%</td>
</tr>
<tr>
<td>Corrections</td>
<td>7.6%</td>
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<tr>
<td>Other*</td>
<td>7.5%</td>
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<tr>
<td>Transportation</td>
<td>7.1%</td>
</tr>
<tr>
<td>Environment and Natural Resources</td>
<td>4.4%</td>
</tr>
<tr>
<td>Legislative, Executive, and Judicial</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

* Includes Business, Consumer Services, and Housing; Labor and Workforce Development; Government Operations; and General Government.
Note: Figures do not sum to 100 due to rounding.
Source: Department of Finance
10 Key Elements of the Governor’s Proposed Budget
1. 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
2. Governor proposes to significantly expand the California Earned Income Tax Credit (CalEITC).

The proposal would extend the credit to 400,000 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.
Proposed Budget Would Extend the CalEITC to More People and Increase the Size of the Credit

Proposed CalEITC for Parents With Two Children, Tax Year 2018
Proposed Budget Would Provide an Additional $500 to Families With At Least One Child Under Age 6

Proposed CalEITC for Parents With Two Children, Tax Year 2018

Maximum credit would increase from $2,559 to $3,059.

At earnings of $16,500, CalEITC would increase by an estimated $923.

At earnings of $22,000, CalEITC would increase by an estimated $800.

Maximum credit would increase from $2,559 to $3,059.
3. Governor proposes major 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

Below 50% of the federal poverty line = “deep poverty”
4. Governor proposes a multi-pronged, state-level approach to address housing affordability issues.

Proposals include regulatory changes, one-time planning and incentive funding, and an ongoing expansion of tax credits that help finance affordable housing development.
5. 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


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
6. Proposed budget includes targeted funding increases for mental health services.
The Governor Proposes Targeted Funding Increases for Mental Health Services

The proposed budget includes:

- $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.

- $50 million to increase support for mental health workforce programs.

- $25 million to improve efforts to “detect and intervene when young people have had, or are at high risk of experiencing, psychosis.”
7. 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.
Total 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. 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

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
9. Budget proposal includes increased funding for community colleges, CSU, UC, and student aid.
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
10. Funding for state corrections would continue to exceed $12 billion under the proposed budget.

On the bright side, 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Spending Per State Prisoner</th>
<th>Spending Per K-12 Student</th>
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</thead>
<tbody>
<tr>
<td>07-08</td>
<td>$63,867</td>
<td>$10,471</td>
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<tr>
<td>08-09</td>
<td>$64,105</td>
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<tr>
<td>09-10</td>
<td>$65,435</td>
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<tr>
<td>10-11</td>
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<td>17-18</td>
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</tr>
<tr>
<td>18-19</td>
<td>$67,867</td>
<td>$10,053</td>
</tr>
<tr>
<td>19-20</td>
<td>$83,064 (30% increase)</td>
<td>$11,853 (13% increase)</td>
</tr>
</tbody>
</table>

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
What Happens Next?
Key Issues to Watch
Some Key Issues and Questions to Watch Going Forward

• If projected revenues come up short, the amount of discretionary funds would be reduced.

• Some of the Governor’s proposals would require a two-thirds vote 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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