



California Budget
& Policy Center

Dollars and Democracy: An Introduction to the State Budget Processes

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AFSCME BRIEFING

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calbudgetcenter.org

Overview of the Presentation

- Highlight **key facts** about California's state budget
- Describe the **constitutional framework** for the state budget process
- Review the budget process timeline, including the **Governor's role** and the **Legislature's role**
- Provide a brief overview of the Governor's Proposed 2016-17 Budget

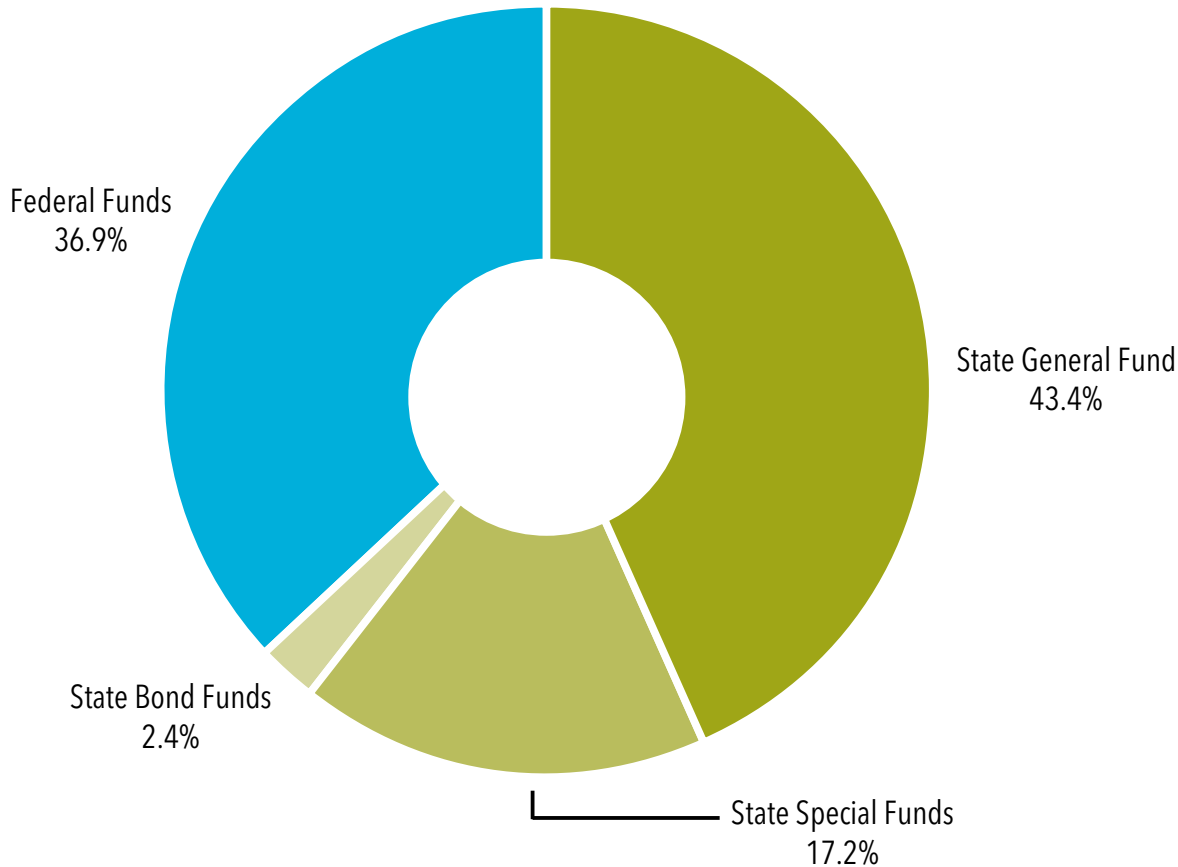


The State Budget: Quick Facts



State Funds Account for Nearly Two-Thirds of California's State Budget

Enacted 2015-16 Expenditures = \$265.5 Billion

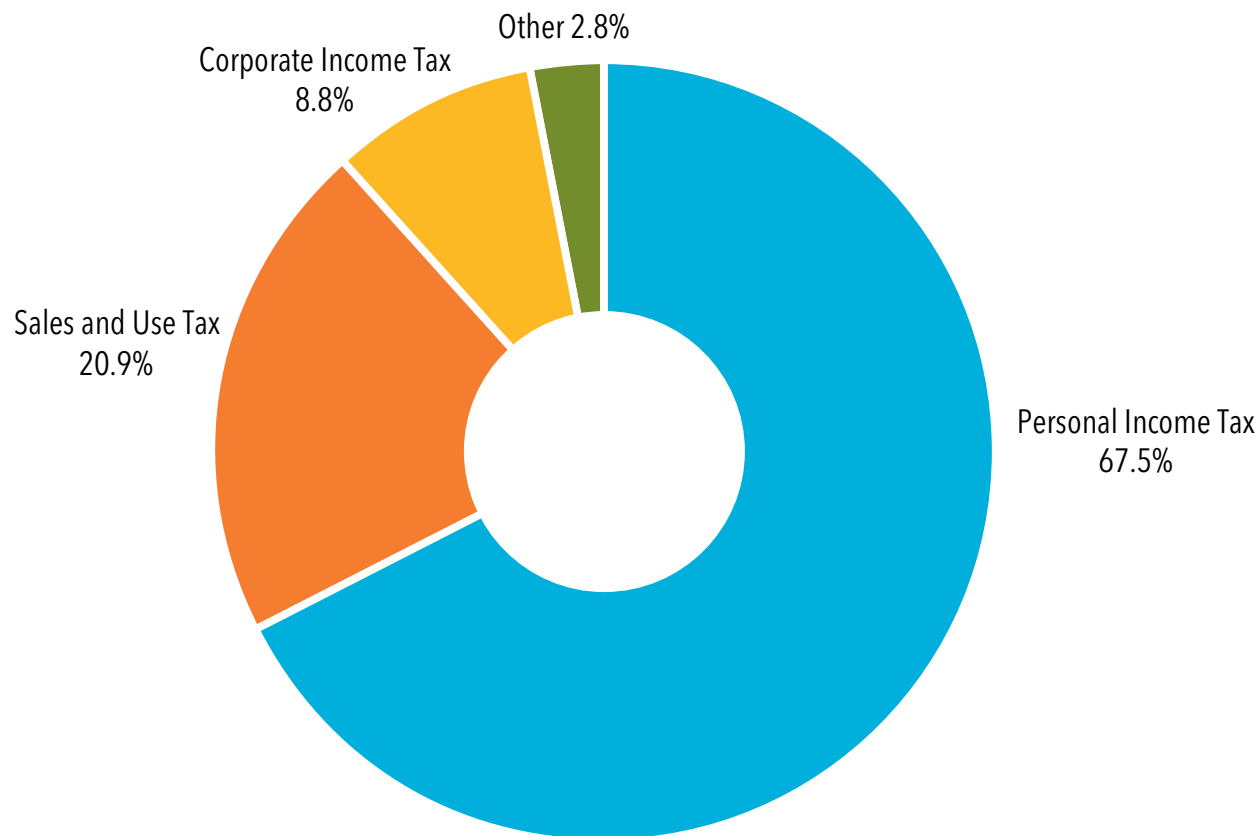


Note: Percentages do not sum to 100 due to rounding.
Source: Department of Finance



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

Projected 2016-17 General Fund Revenues = \$124.2 Billion



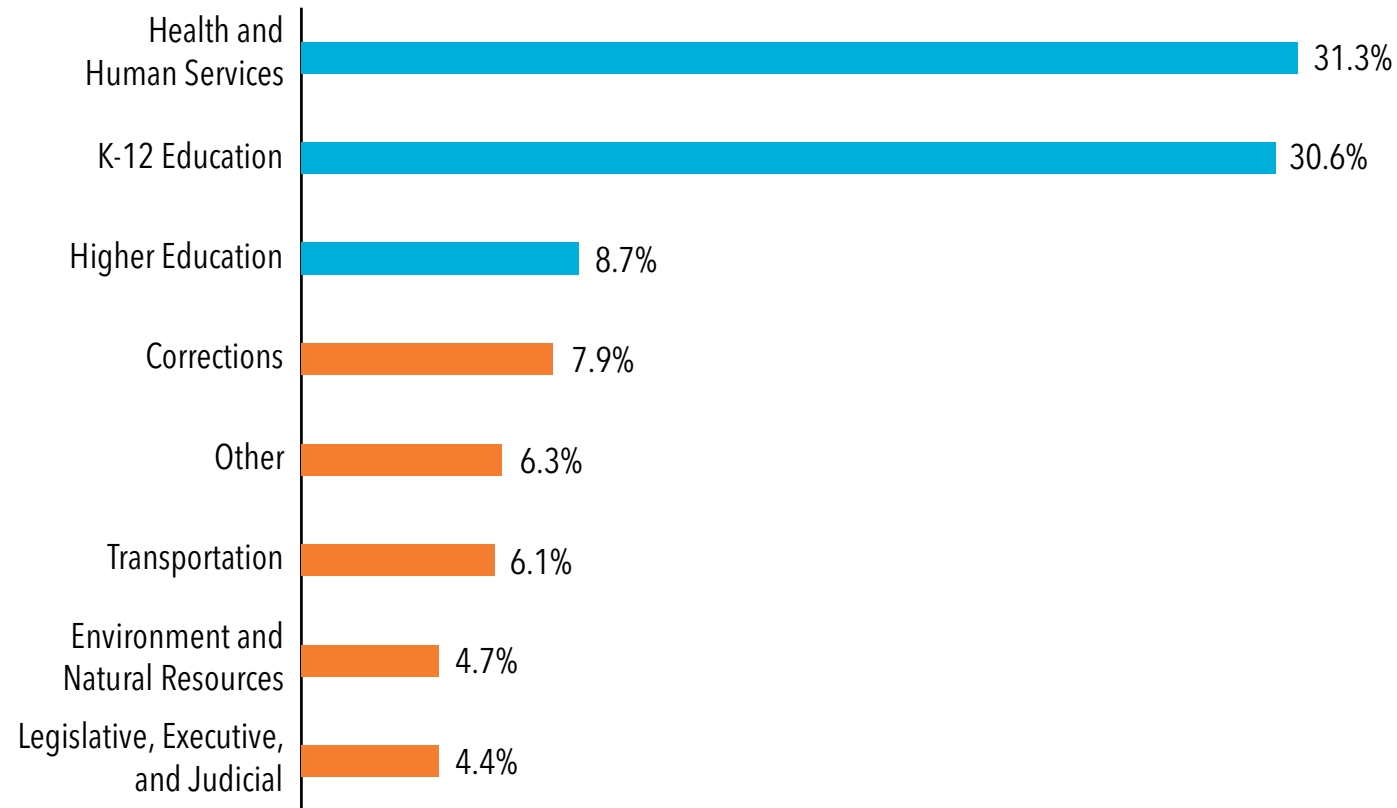
Note: Reflects total projected General Fund revenues before a \$1.6 billion transfer to the state's rainy day fund as required by Proposition 2, the ballot measure passed by voters in November 2014, and an additional \$2 billion transfer proposed by the Governor.

Source: Department of Finance



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

Proposed 2016-17 General Fund and Special Fund Expenditures = \$167.6 Billion



**The “budget package”
consists of the budget bill
and budget-related bills.**



Bills in the 2015-16 Budget Package

- **AB 93:** The initial 2015-16 budget bill
- **SB 97 and SB 101:** Two additional budget bills that amended the *2015-16* budget bill
- **AB 116:** Another budget bill that amended the *2014-15* budget bill
- **Other bills in the budget package:** AB 95, AB 104, AB 114, AB 117, AB 119, SB 75, SB 78, SB 79, SB 80, SB 81, SB 82, SB 83, SB 84, SB 85, SB 88, SB 98, SB 99, SB 102, SB 103, and SB 107



**The state Constitution
establishes the rules of the
budget process.**



**The state Constitution
sets two budget-related
deadlines:
January 10 and June 15.**



The budget bill and most budget-related bills can be passed by a simple majority vote.

(Proposition 25 of 2010)



Placeholder Proposition 25 Trailer Bills Listed in the 2015-16 Budget Bills

- **Sec. 39.00** The Legislature hereby finds and declares that **the following bills are** other bills providing for appropriations **related to the Budget Bill** within the meaning of subdivision (e) of Section 12 of Article IV of the California Constitution:
AB 94, AB 95, AB 104, AB 105, AB 106, AB 107, AB 108, AB 109, AB 110, AB 111, AB 112, AB 113, AB 114, AB 115, AB 116, AB 117, AB 118, AB 119, AB 120, AB 121, AB 122, AB 123, AB 124, AB 125, AB 126, AB 127, AB 128, AB 129, AB 130, AB 131, AB 132, AB 133, AB 134, AB 135, AB 136, AB 137, AB 138, SB 70, SB 71, SB 72, SB 73, SB 74, SB 75, SB 76, SB 77, SB 78, SB 79, SB 80, SB 81, SB 82, SB 83, SB 84, SB 85, SB 86, SB 87, SB 88, SB 89, SB 90, SB 91, SB 92, SB 93, SB 94, SB 95, SB 96, SB 97, SB 98, SB 99, SB 100, SB 101, SB 102, SB 103, SB 104, SB 105, SB 106, SB 107, SB 108, and SB 109.



**A supermajority (two-thirds)
vote is needed to approve any
tax increase.
(Proposition 26 of 2010)**



Proposition 26 added this key phrase to the state Constitution:

“Any change in state statute which results in **any** taxpayer paying a higher tax” requires a two-thirds vote of each house of the Legislature.



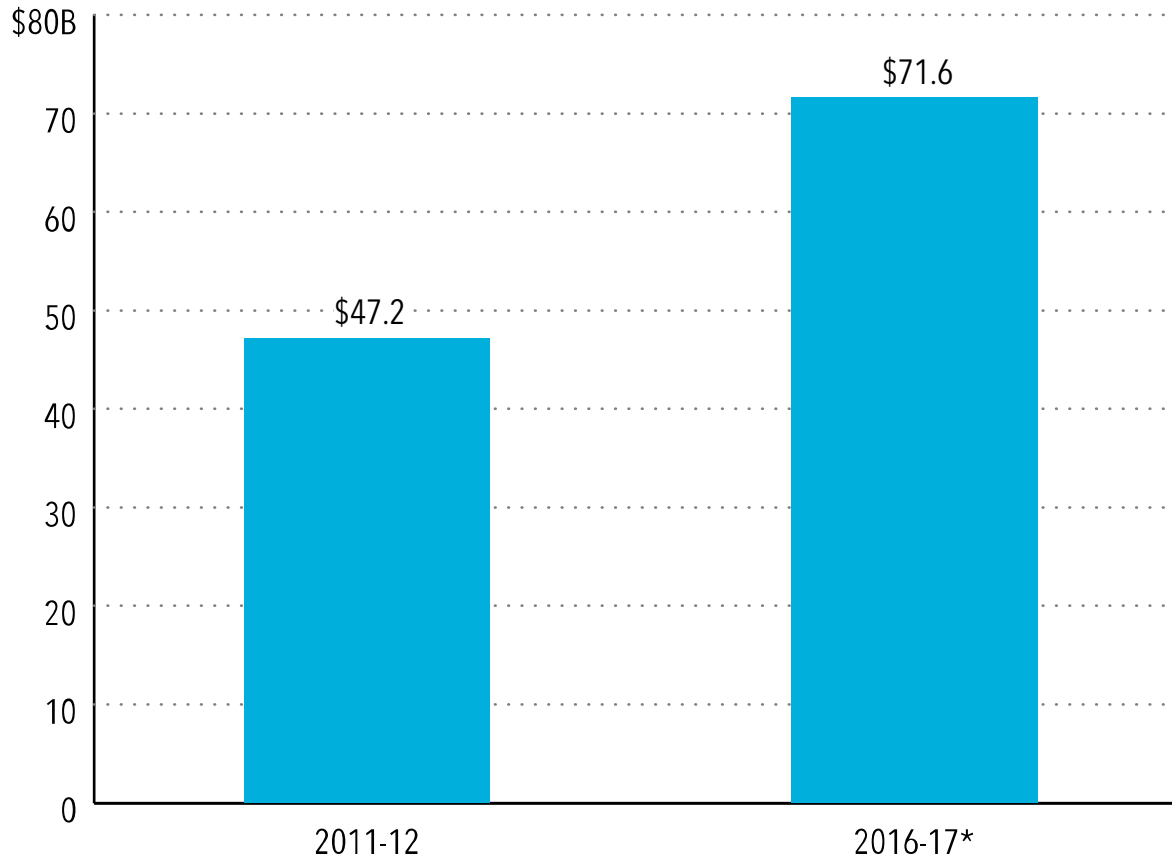
**The state Constitution
contains complex formulas
that establish state budget
priorities.**



**K-14 education is guaranteed
a minimum level of funding.
(Proposition 98 of 1988)**



Increased Revenues Boost K-14 Education Spending to More Than \$70 Billion, Over 50 Percent Above 2011-12 Proposition 98 Spending, Not Inflation-Adjusted



* 2016-17 proposed.

Note: Proposition 98 spending includes both state General Fund and local property tax dollars and excludes child care.

Source: Legislative Analyst's Office



**Some state revenues must
be set aside to pay down
debts and save for a rainy day.
(Proposition 2 of 2014)**



**The budget process is cyclical,
not linear.**

**Decisions are made throughout the year, both
in public settings and behind the scenes.**



The Governor has the lead role in crafting the budget.

Department of Finance (DOF)

Governor's proposed budget

May Revision

Line-item veto authority



The Legislature reviews and revises the Governor's proposals.

Assembly Budget Committee

Senate Budget and Fiscal Review Committee

Legislative Analyst's Office (LAO)



State Budget Process: July to December

DOF crafts the Governor's proposed budget.

Legislative leaders develop budget priorities.

Legislative staffers look ahead to the upcoming budget deliberations.



State Budget Process: January to Mid-May

Proposed budget released by January 10.

Budget committees review proposed budget.

Governor's staff explains and defends the proposed budget.



State Budget Process: Mid-May to June

May Revision released by May 14.

Assembly and Senate finalize their versions of the budget.

“Big 3” negotiate final budget deal.



The Governor's Proposed 2016-17 Budget

The Governor's proposal is framed by constraints that stem from the coming expiration of tax increases included in Proposition 30 (2012) and rainy day fund requirements included in Proposition 2 (2014).



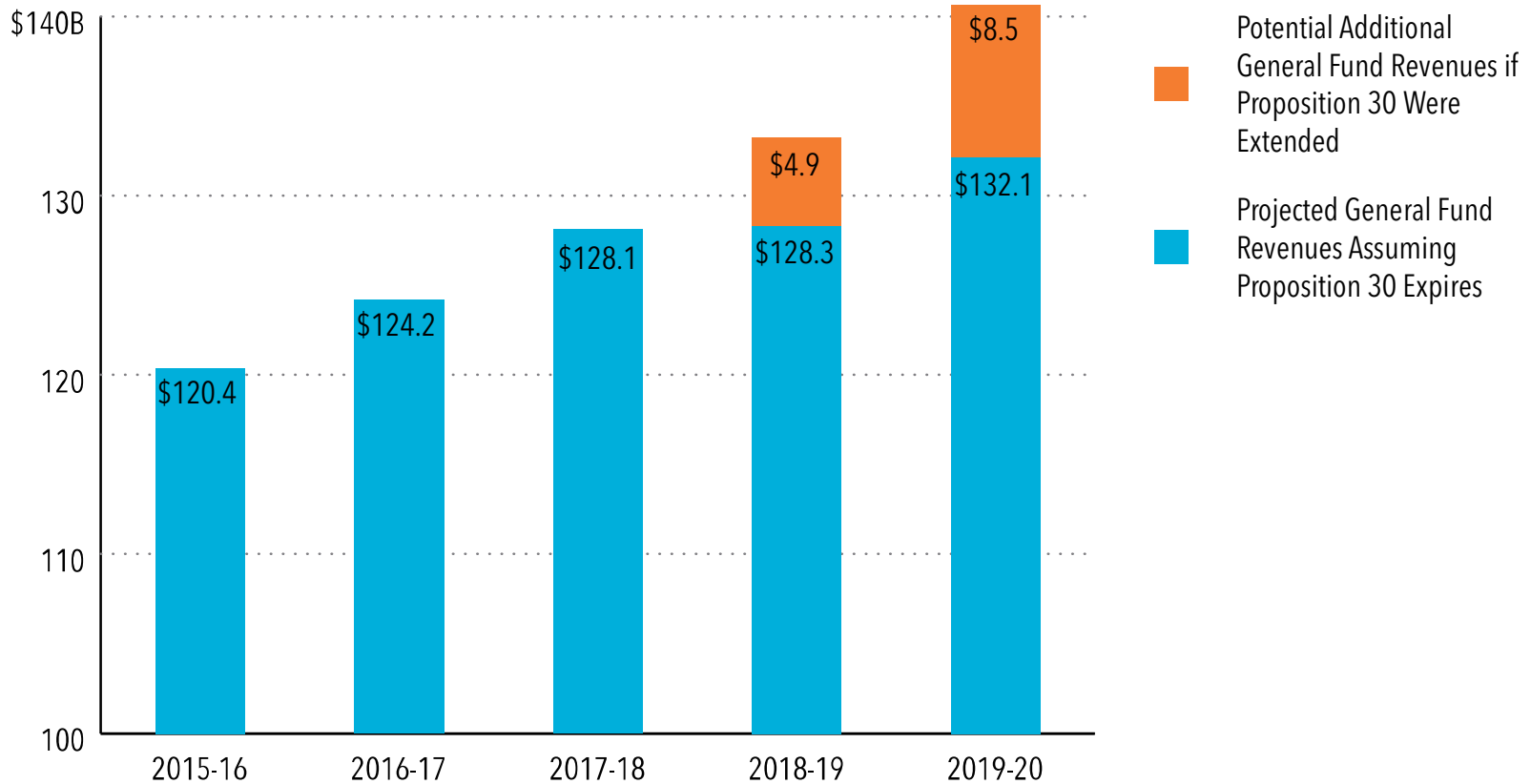
A Budget Proposal Framed by Prop. 30

- The personal income and sales tax rate increases approved by voters in 2012 raise billions of dollars each year to fund vital state priorities. These tax increases are set to expire, in total, by the end of 2018.
 - The Governor's budget assumes the expiration of the tax increases, leaving a permanent gap in state revenues and constraining the state's ability to boost investments in public services and systems over the long term.
 - The size of this gap by 2019-20 would be nearly equal to state spending on CSU, UC, and student financial aid.



Expiration of Proposition 30's Personal Income Tax Rate Increases Would Leave Permanent Gap in State Revenues

General Fund Revenues Before Transfers to the Budget Stabilization Account, in Billions

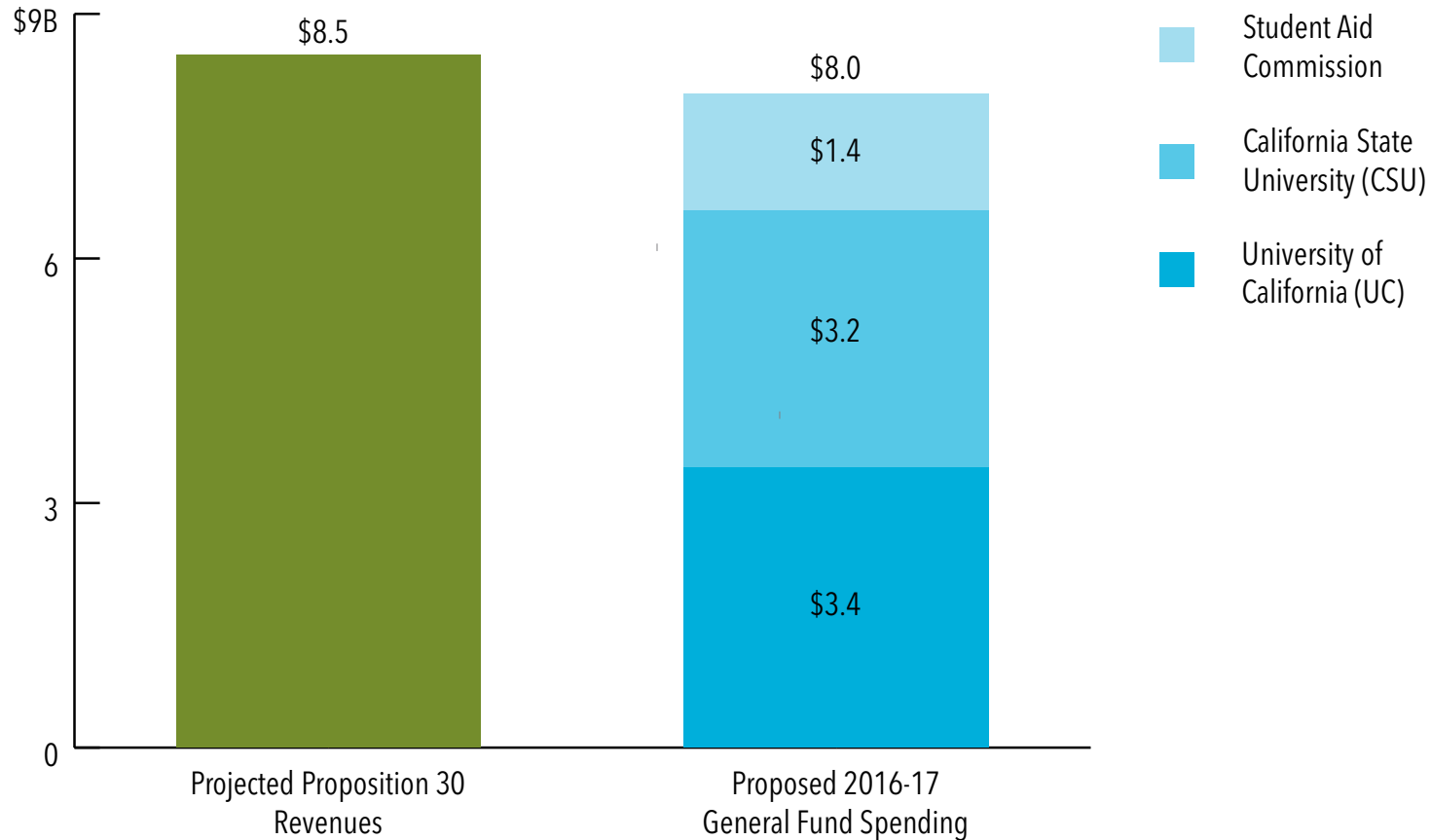


Note: 2015-16 is estimated; 2016-17 onward are projected. Additional revenues for 2018-19 and 2019-20 assume that personal income tax (PIT) revenue growth under an extended Prop. 30 would reflect the Administration's projected underlying PIT growth rate absent Prop. 30 taxes.
Source: Department of Finance (DOF) and Budget Center calculations based on DOF data



Proposition 30 Is Projected to Raise \$8.5 Billion in 2016-17, More Than CSU, UC, and Student Aid Funding

Dollars in Billions



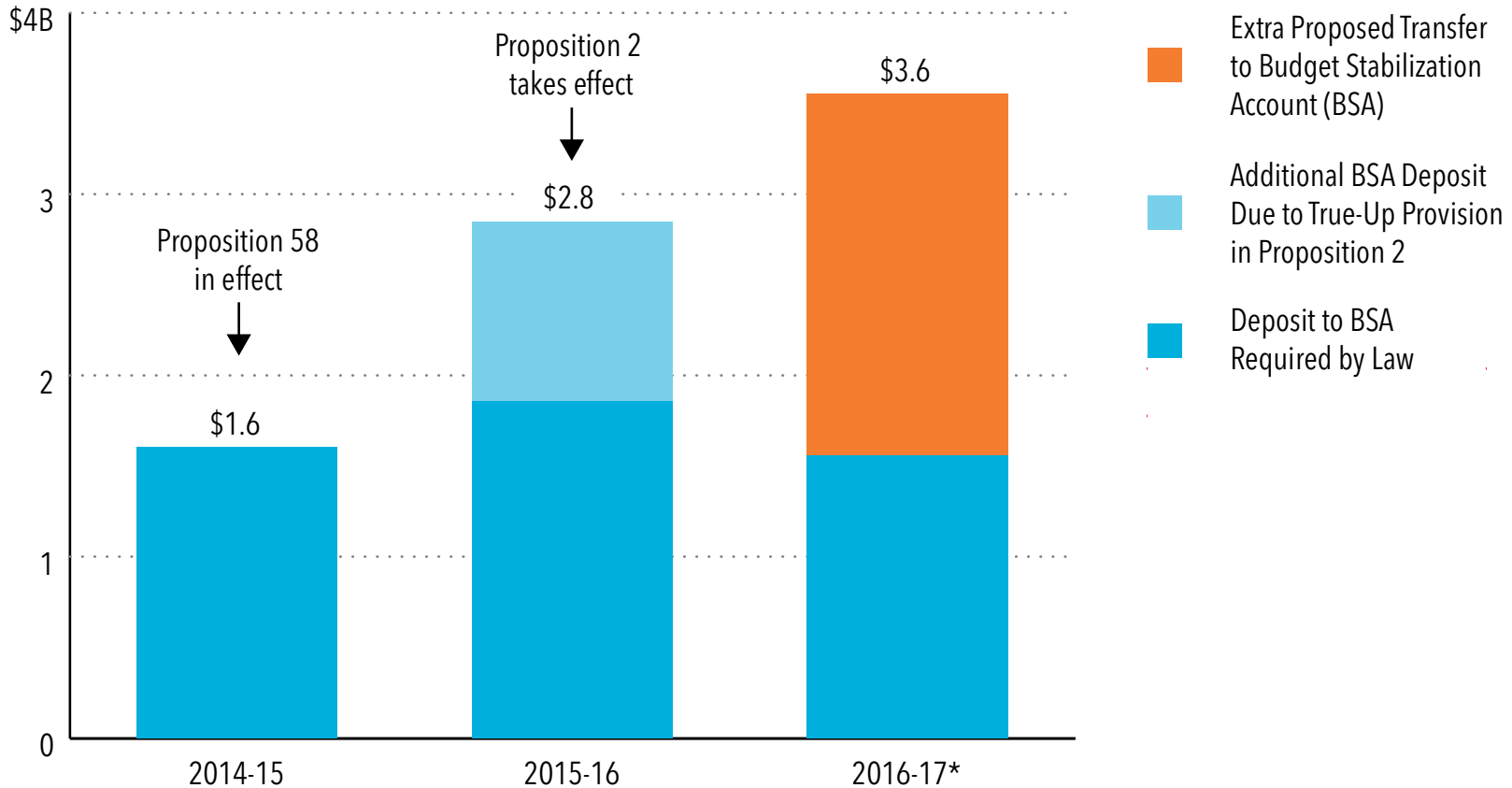
A Budget Proposal Framed by Prop. 2

- Proposition 2 (2014) constitutionally requires the state to set aside tax revenues each year, with half of these funds deposited into the state's Budget Stabilization Account (BSA), often referred to as the "rainy day fund," and the other half used to pay down budgetary debt.
- Proposition 2 also requires the state to true-up prior years' deposits to the rainy day fund if actual revenues turn out to be higher or lower than projected.
- Because the Administration has significantly underestimated state revenues in prior years, the proposed 2016-17 budget sets aside an extra \$2 billion to cover future true-ups in advance. This would bring the total rainy day fund deposit to \$3.6 billion in 2016-17.



Proposed 2016-17 Rainy Day Fund Deposit Is Much Higher Than in Previous Years

Governor Proposes an Extra \$2 Billion Deposit Beyond What Proposition 2 Requires



* Proposed
Source: Department of Finance



Public Employees Compensation

- Signals the Administration's intent to negotiate labor contracts that "prefund" retiree health benefits, with the costs shared equally between the state and employees.
- Builds on last year's state agreement with professional engineers.
- The 2016-17 Proposed Budget sets aside \$300 million in the General Fund to pay for potential increases in employee compensation as part of "good faith" negotiations with collective bargaining units.





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