



California Budget  
& Policy Center

# Briefing on the Governor's Proposed 2017-18 State Budget

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# Today's Speakers

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# **The Governor's Proposed 2017-18 Budget:**

## **Top Lines and Key Context**



## **From the Budget Center's *First Look*, released last week:**

The Governor's proposed budget "reflects both deep uncertainty about federal actions and a tempered economic and fiscal outlook for the state."



# Putting the Governor's Proposed 2017-18 State Budget in Context

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Several major considerations provide the backdrop:

- Prospect of likely cuts/changes at the federal level with the Trump Administration taking office
- California's comprehensive implementation of federal Affordable Care Act (ACA), including Medi-Cal expansion, in recent years
- State revenues coming in lower than projected



# Putting the Governor's Proposed State Budget in Context (cont.)

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- Various key public services and supports still operating at severely diminished levels due to state cuts made during and after the Great Recession
- Economic hardship – overall poverty as well as child poverty – that remains very high in most parts of the state, even several years after the end of the recession



# The Governor's Proposed Budget: Top Lines

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- Assumes current federal policies and funding levels
- Forecasts revenues that are \$5.8 billion lower (over three-year period) than previously projected
- Foresees \$1.6 billion shortfall for 2017-18 absent policy actions
- Contains no new investments in many key services that help families make ends meet and advance
- Continues to emphasize building up reserves and paying down state budgetary debt



# **Part I: Economic Outlook and Revenue Projections**



# **Administration expects economic growth to continue, but points to some risks.**

**Governor's proposed budget assumes economic growth will continue at moderate pace in next few years.**



**Partly due to lower revenue forecast, Governor projects \$1.6 billion shortfall absent policy actions to address it.**



# **Part II: Key Elements of Governor's Proposed Budget**



# Proposed budget emphasizes uncertainty as to fate of the federal Affordable Care Act

California would lose well over \$20 billion in federal funding each year if Republicans roll back Medicaid expansion and end subsidies for health insurance marketplaces (Covered California).



**Governor projects tobacco tax increase from Proposition 56 (2016) will provide \$1.7 billion this coming fiscal year.**

**The Administration allocates most of this amount — \$1.2 billion — to Medi-Cal.**



# **Governor's proposed budget continues emphasis on building reserves, partly as required by Prop. 2 (2014).**

**Total state reserves would be a projected \$9.5 billion at end of 2017-18, including \$7.9 billion in the "rainy day fund."**



# **Proposed budget rescinds certain one-year commitments that were part of last summer's budget agreement.**

**These include funds for affordable housing programs (\$400 million), renovating/replacing state office buildings (\$300 million), and Housing and Disability Advocacy Program (\$45 million).**



**Proposed budget “pauses,”  
until next year, plan approved  
in 2016 to reinvest in early  
care and education.**



**Governor proposes to shift additional In-Home Supportive Services (IHSS) costs to counties.**



# Other Core Elements of Governor's Proposed 2017-18 State Budget

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- In light of lower revenues, reflects slowed growth in funding for K-12 education and community colleges (Prop. 98 minimum guarantee)
- Continues modest increases in CSU and UC funding, but reduces key student aid programs
- Continues to support, but proposes no changes to, California Earned Income Tax Credit (CalEITC)
- Includes no new investment in key public supports for low-income Californians, such as CalWORKs (welfare-to-work) and SSI/SSP (basic cash income for seniors and people with disabilities)



# Other Core Elements of Governor's Proposed 2017-18 State Budget (cont.)

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- Reflects changes to state-run retirement systems
  - Additional state contributions for CalPERS, which has lowered its discount rate (expected return on investment), and CalSTRS, where Governor expects a lower discount rate as well
  - \$15 million loan from General Fund for start-up implementation of Secure Choice program
- Projects that Prop. 57 criminal justice reform measure (2016) will result in net state savings of \$22.4 million, increasing to about \$140 million by 2020-21
- Asks Legislature to approve 10-year transportation funding package and to affirm “cap and trade” program



# Part III: Issues to Watch



# Some Key Issues and Questions to Watch Going Forward

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- Federal actions: To what extent do Trump Administration and Republican leaders follow through on Obamacare repeal and other threatened cuts?
- Legislature's response: Do Assembly and Senate push for greater investment, especially in affordable housing, CalEITC, other supports for Californians still struggling in the wake of the Great Recession, and increased CSU/UC funding?
- Revenue forecast: Does Administration's revenue outlook improve by the release of its revised budget in May?



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# Part IV: Questions and Discussion



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