



California Budget
& Policy Center

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

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The **Policy Perspectives Speakers Series** features in-person and online events that provide expert analysis and insights on key policy questions facing California.

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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

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.)

- 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

- 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

- 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.)

- 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

- 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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