



California Budget
& Policy Center

California Budget Perspective 2016-17

APRIL 2016

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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 state budget is a statement about our values and priorities.

The Governor's proposed 2016-17 budget continues to prioritize fiscal austerity over creating an economic future that benefits all Californians.



Overview

- California's fiscal outlook remains strong due to continued economic growth and new revenues approved by voters via Proposition 30 in 2012.
- However, the economic recovery has yet to reach many Californians.
- The Governor's proposed budget is framed by constraints:
 - Anticipation of a permanent reduction in annual revenues due to the expiration of Proposition 30, and
 - Additional deposits in future years to the state's rainy day fund, as required by Proposition 2.
- As a result, despite increased revenues, the Governor's proposed budget makes only limited additional investments in vital state programs and services.



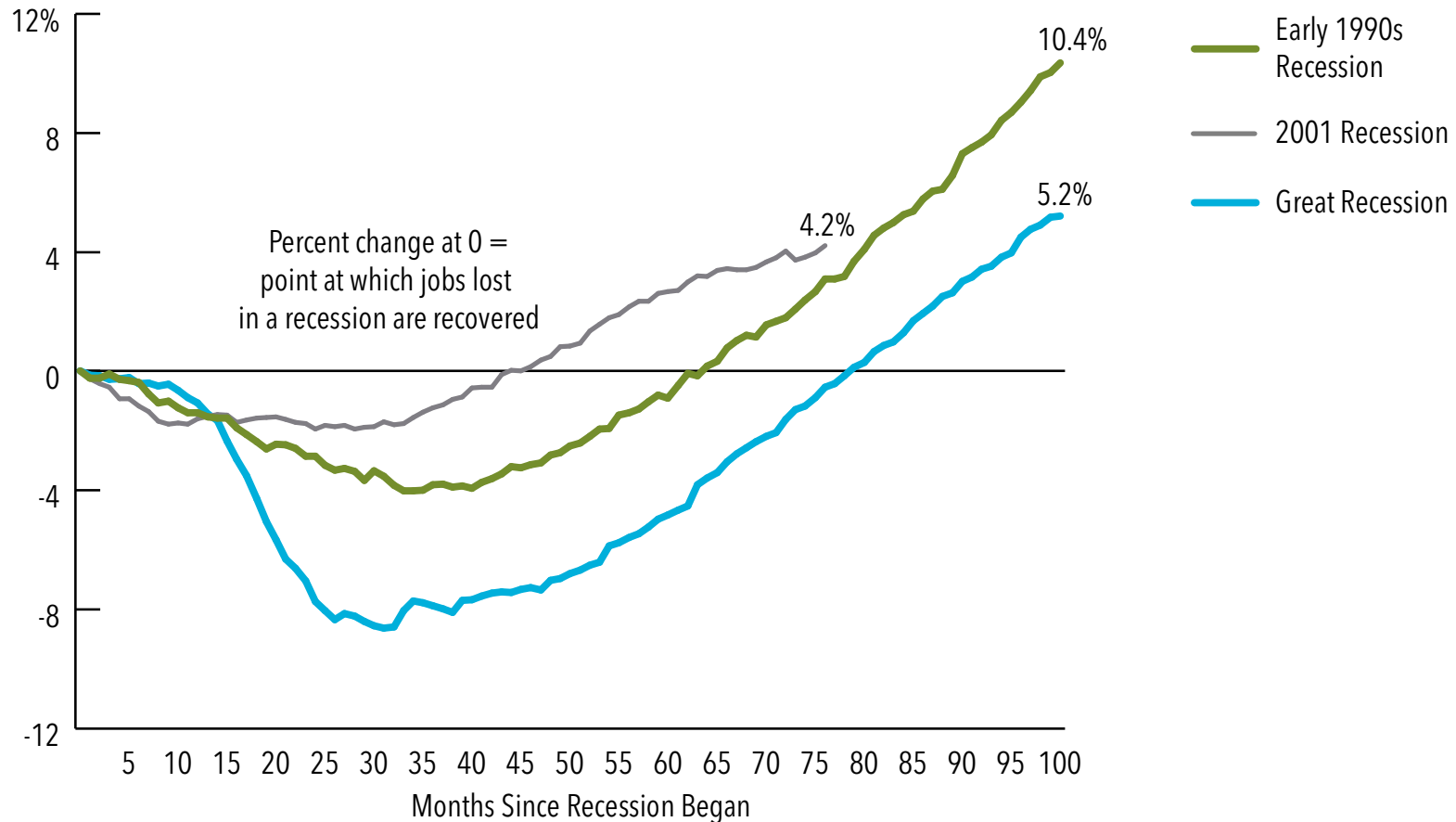
The Social and Economic Context of the State Budget

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



It Took Much Longer to Regain the Number of Jobs Lost in the Great Recession, Compared to Other Downturns

Percent Change in Total Nonfarm Jobs in California Since Each Recession Began



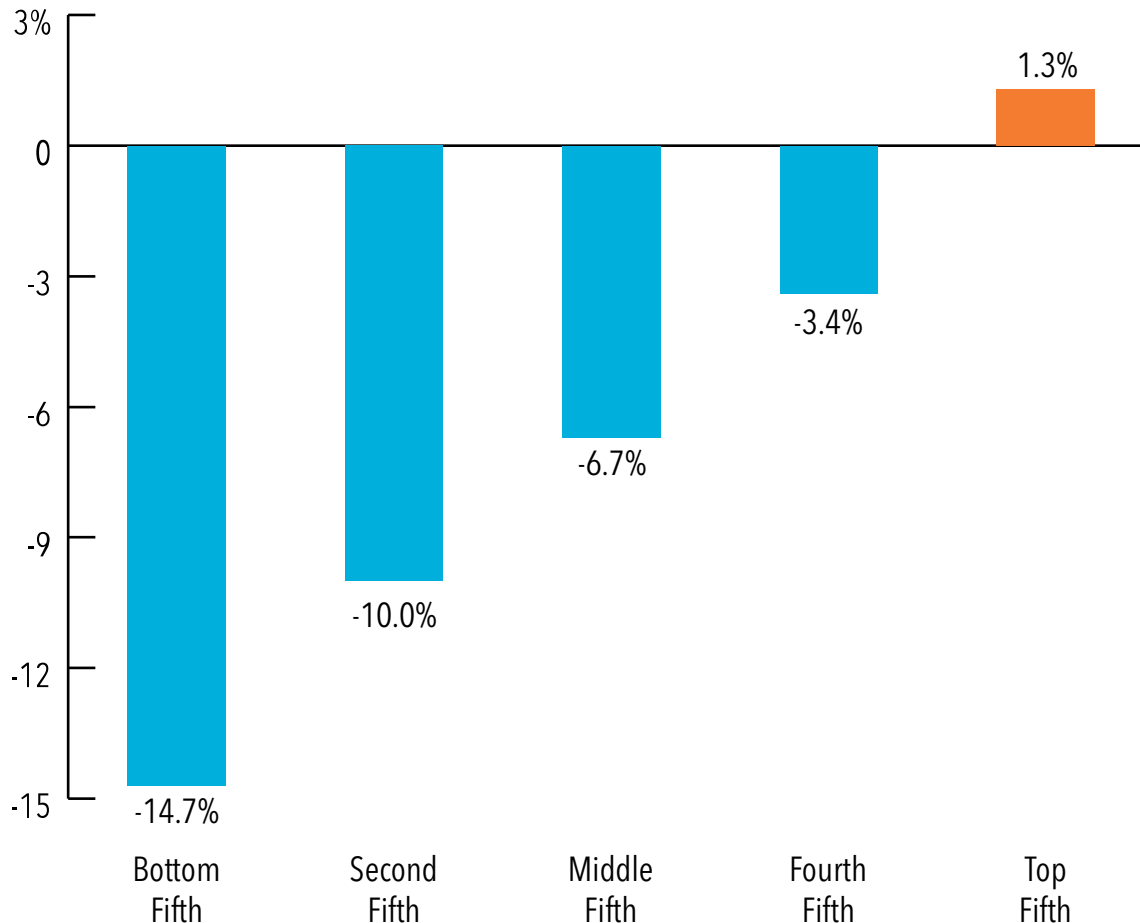
Note: "2001 Recession" includes data up to July 2007, the month the Great Recession began in California.

Source: US Bureau of Labor Statistics



Only Higher-Income Households Have Seen Their Incomes Recover From the Great Recession

Percent Change in Income Segment's Average Inflation-Adjusted Income, 2006 to 2014

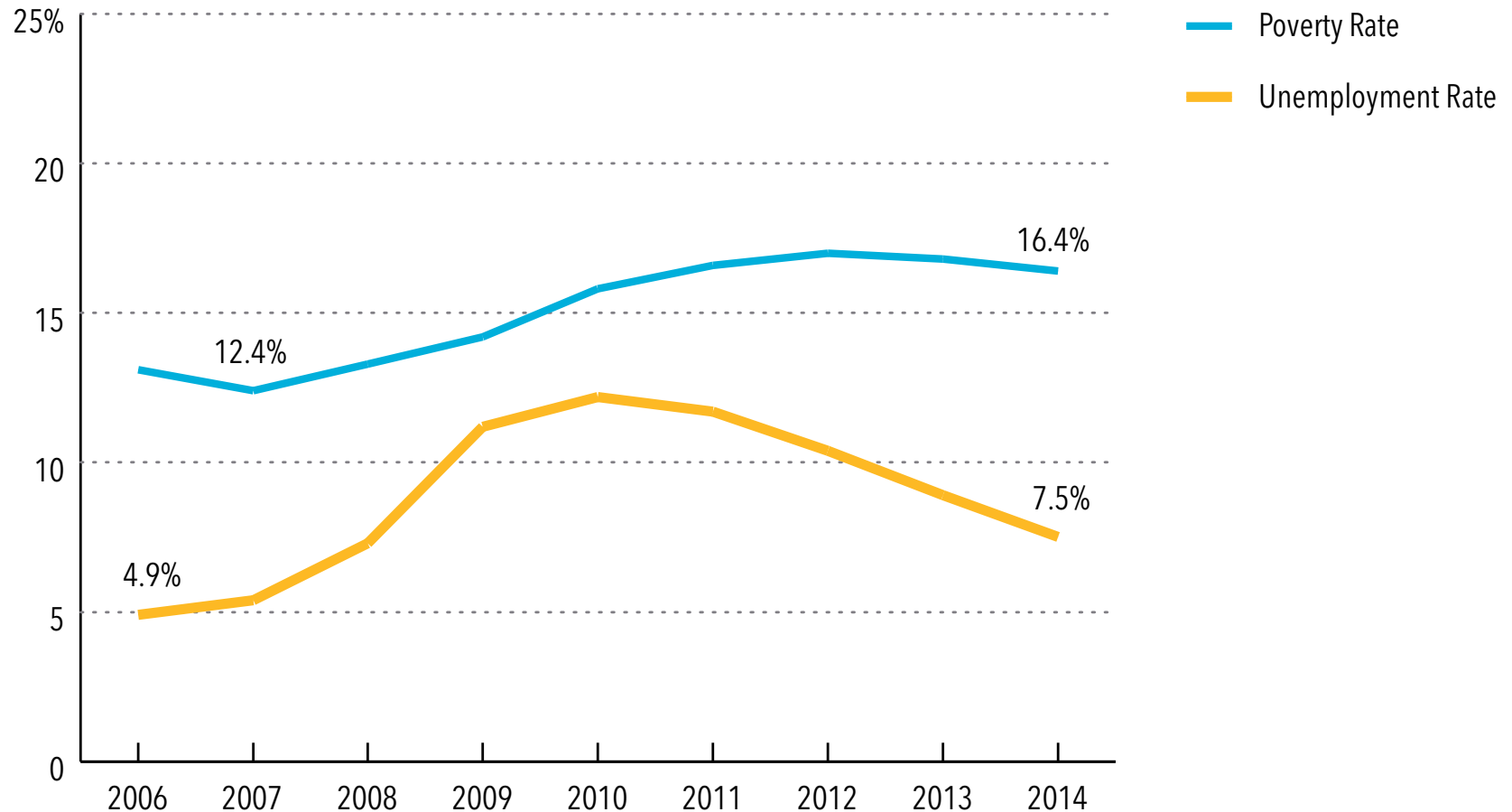


Source: US Census Bureau



California's Poverty Rate Remains High in Spite of a Steady Decline in the Unemployment Rate

California's Unemployment Rate and Poverty Rate

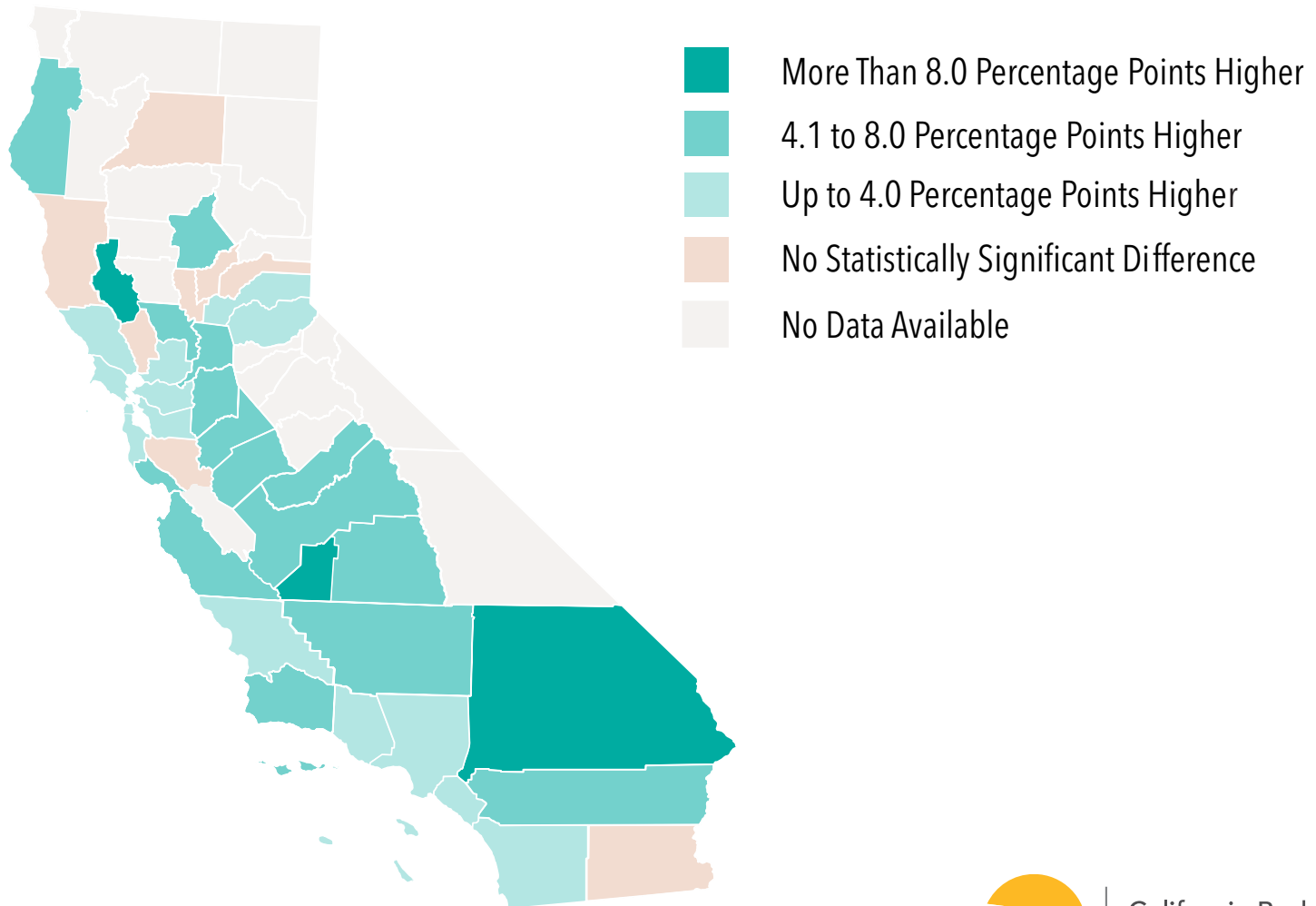


Source: Employment Development Department and US Census Bureau



Poverty Rates Remain High in Many Parts of the State, Even in Places Where Job Gains Have Been Strong

Percentage-Point Difference in Poverty Rate Between 2007 and 2014



Source: Budget Center analysis of US Census Bureau data



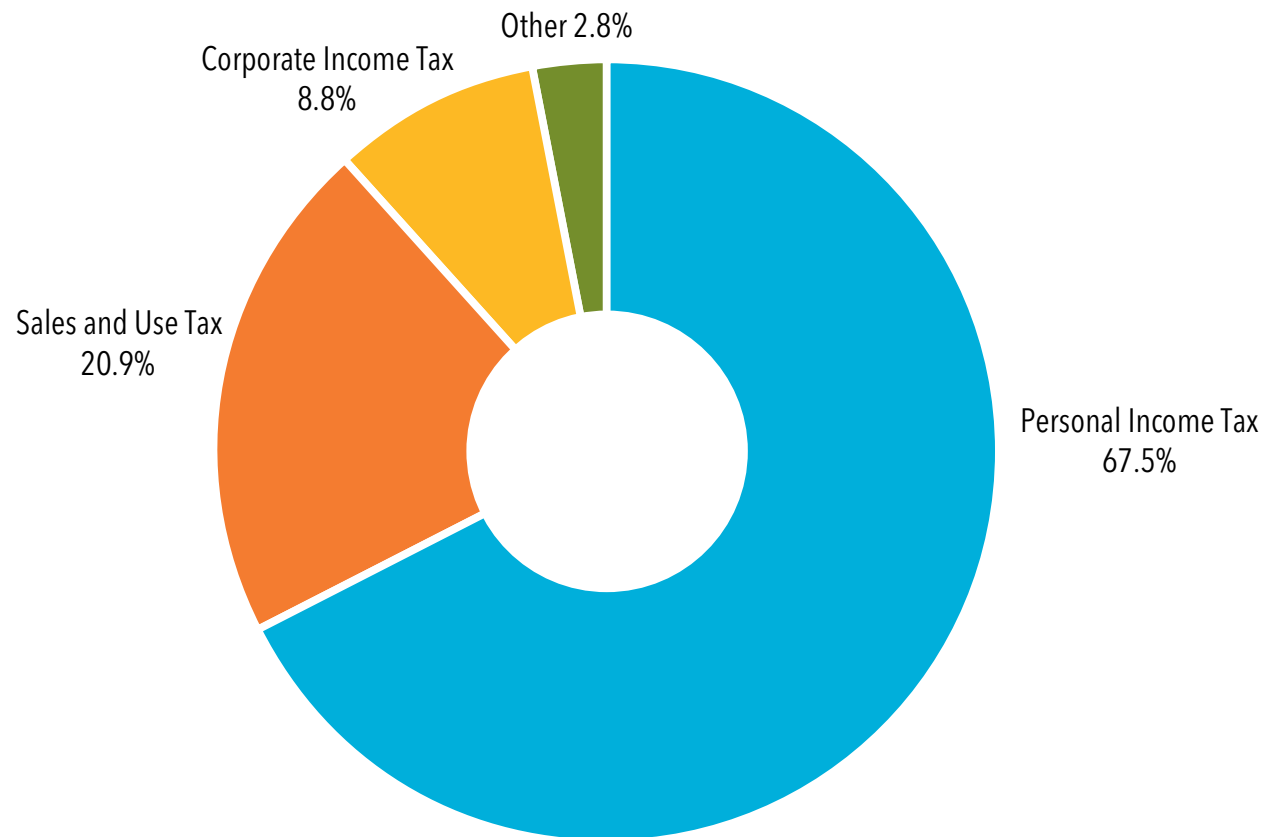
The Governor's Proposed 2016-17 Budget: Top Lines

The Governor projects \$124.2 billion in General Fund revenues, with more than 7 in 10 state dollars allocated to health and human services or education.



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



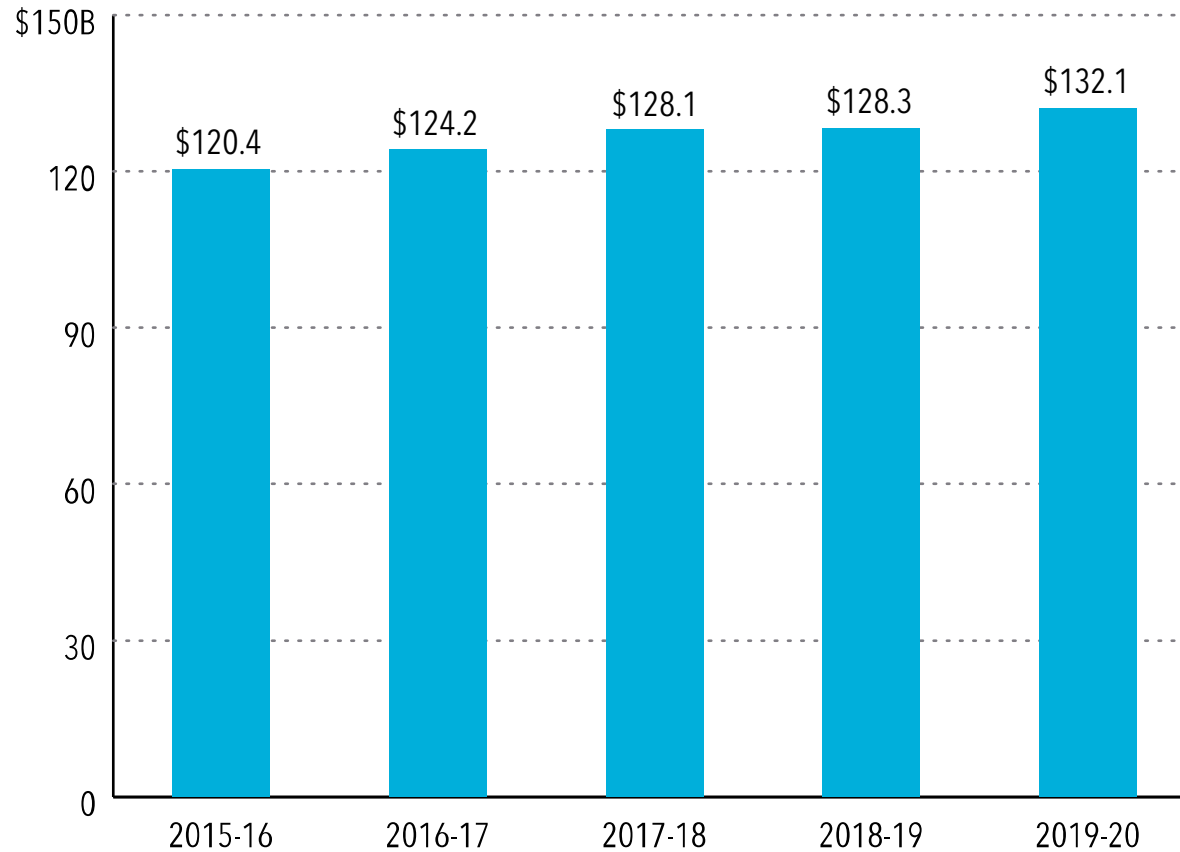
Note: Reflects total projected General Fund revenues before a \$1.6 billion transfer to the state's rainy day fund as required by Proposition 2, the ballot measure passed by voters in November 2014, and an additional \$2 billion transfer proposed by the Governor.

Source: Department of Finance



Annual General Fund Revenues Are Projected to Rise Modestly Through 2019-20

Dollars in Billions

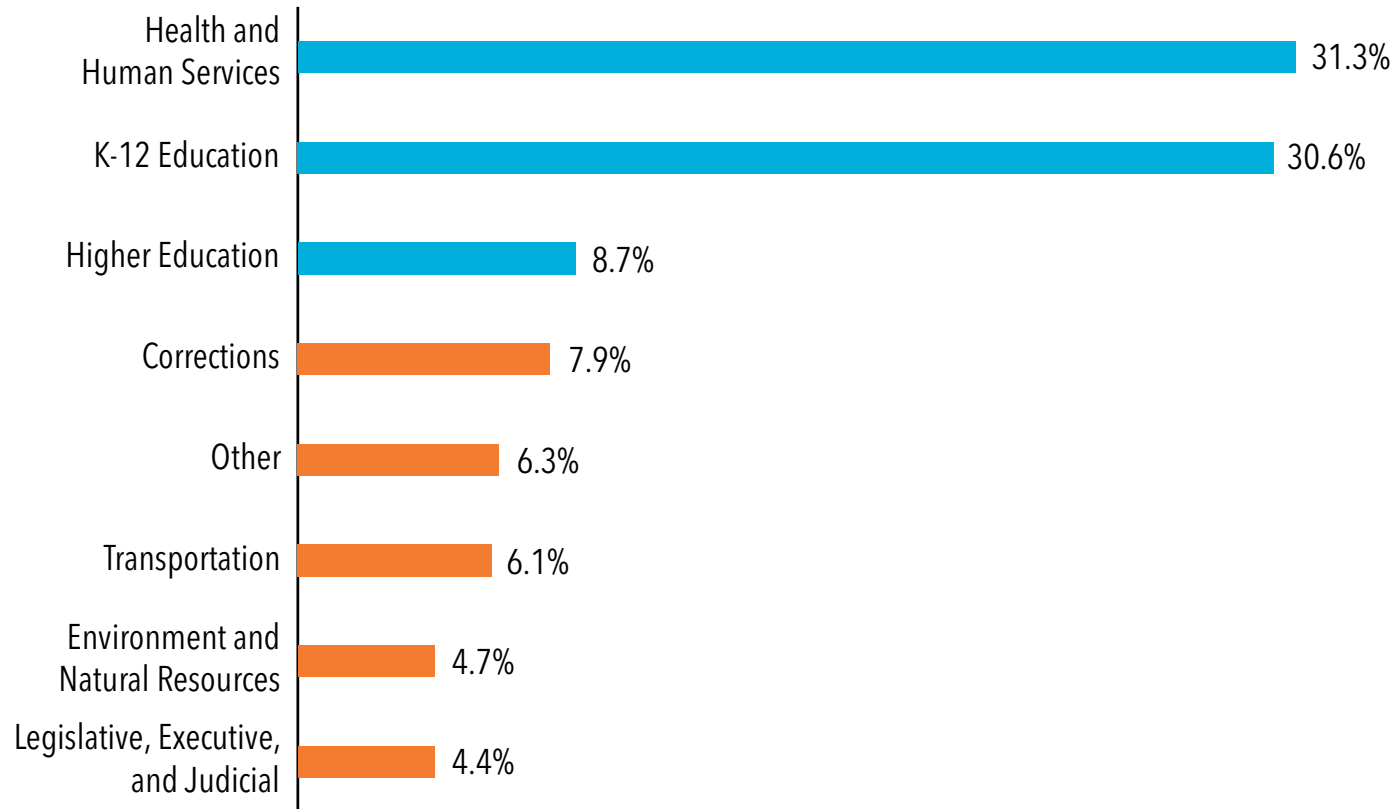


Note: 2015-16 is estimated; 2016-17 onward are projected. Figures reflect total projected General Fund revenues before transfers to the Budget Stabilization Account, the state's rainy day fund.
Source: Department of Finance



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 Governor's Proposed 2016-17 Budget: A Deeper Look

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).



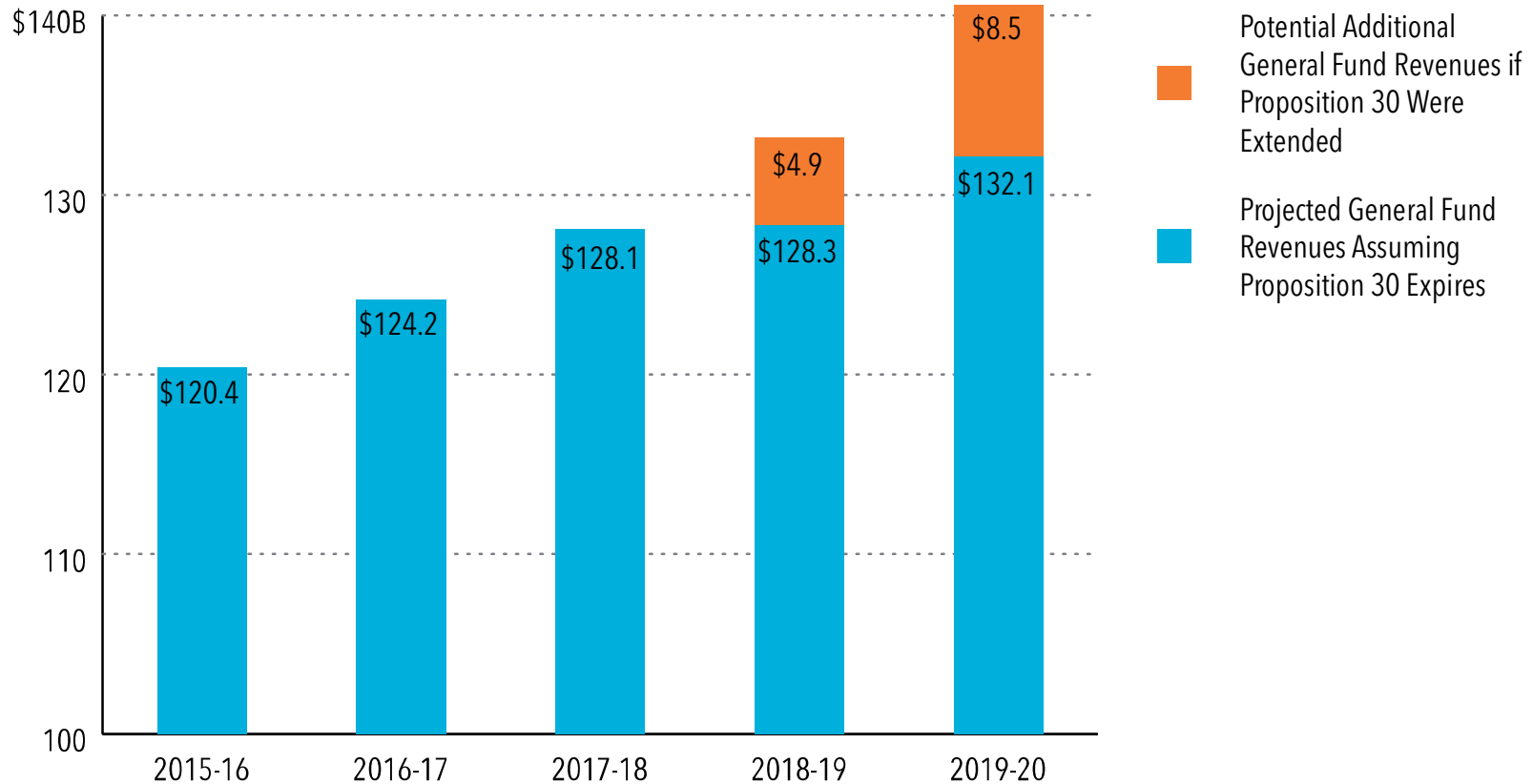
A Budget Proposal Framed by Prop. 30

- 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

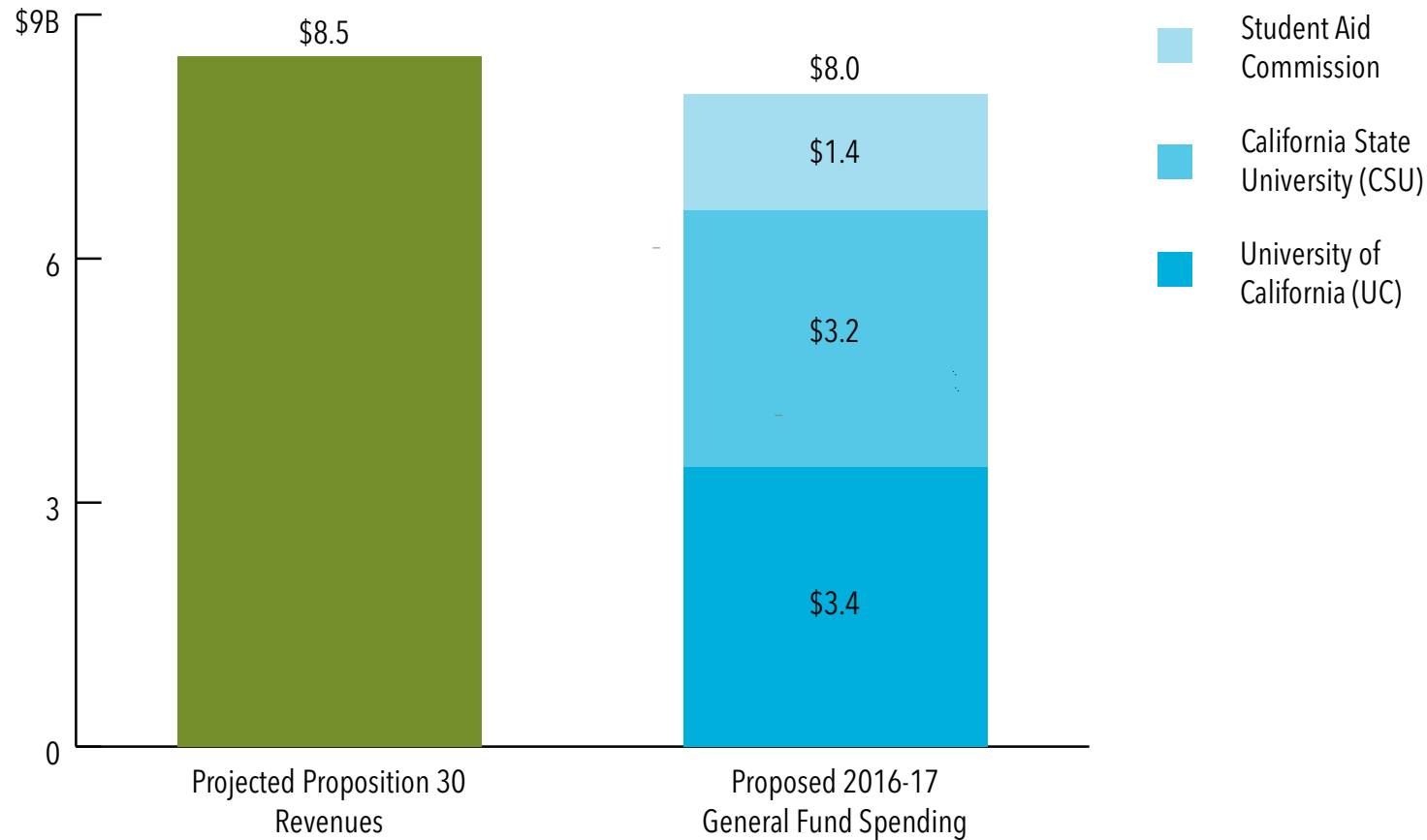


Note: 2015-16 is estimated; 2016-17 onward are projected. Additional revenues for 2018-19 and 2019-20 assume that personal income tax (PIT) revenue growth under an extended Prop. 30 would reflect the Administration's projected underlying PIT growth rate absent Prop. 30 taxes.
Source: Department of Finance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



Source: Department of Finance



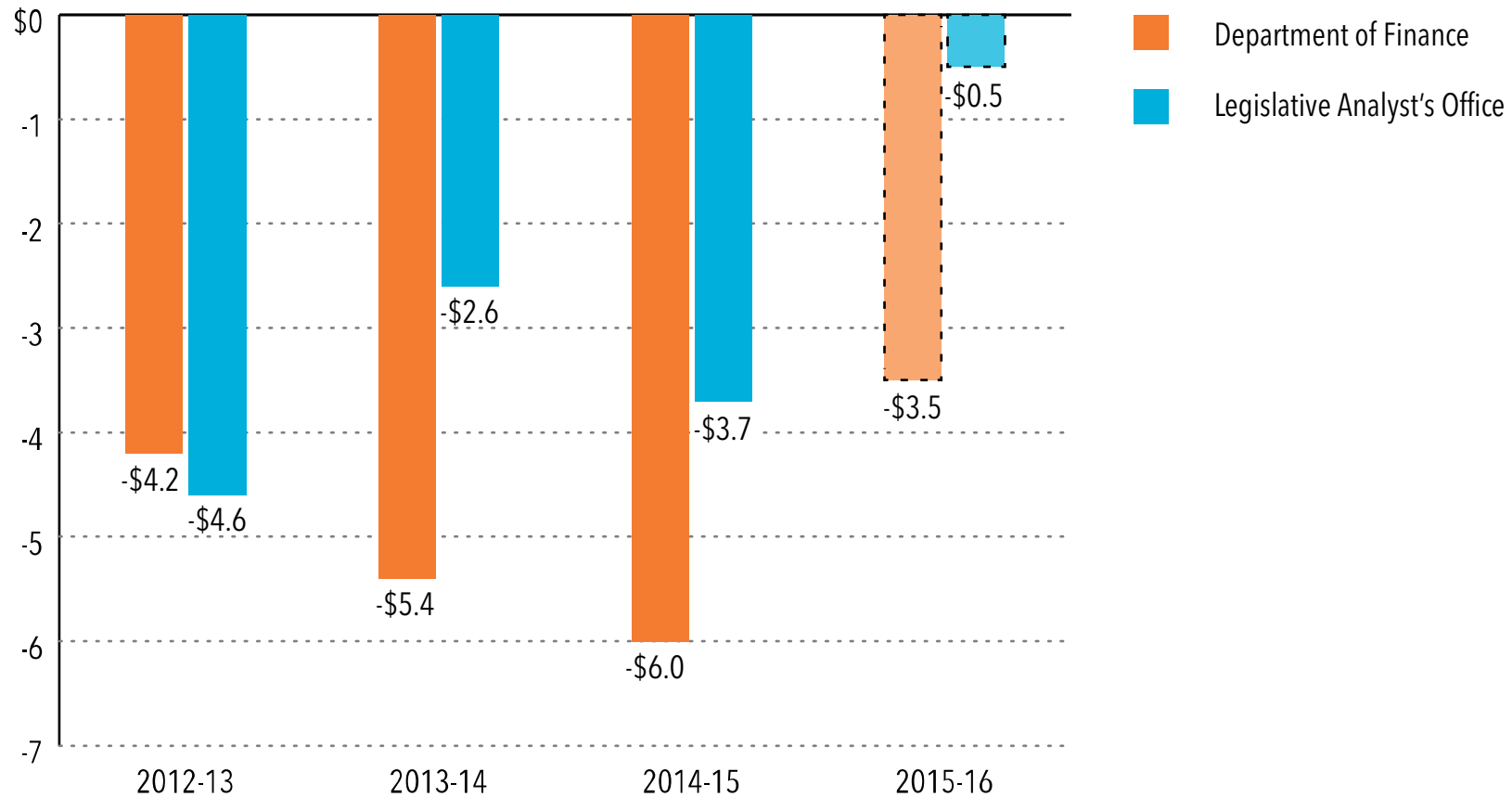
A Budget Proposal Framed by Prop. 2

- 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.



The Governor Has Underestimated General Fund Revenues by Billions in Each of the Past Four Years

Gap Between Fiscal Year Revenues Projected Each Preceding May and Actual, in Billions



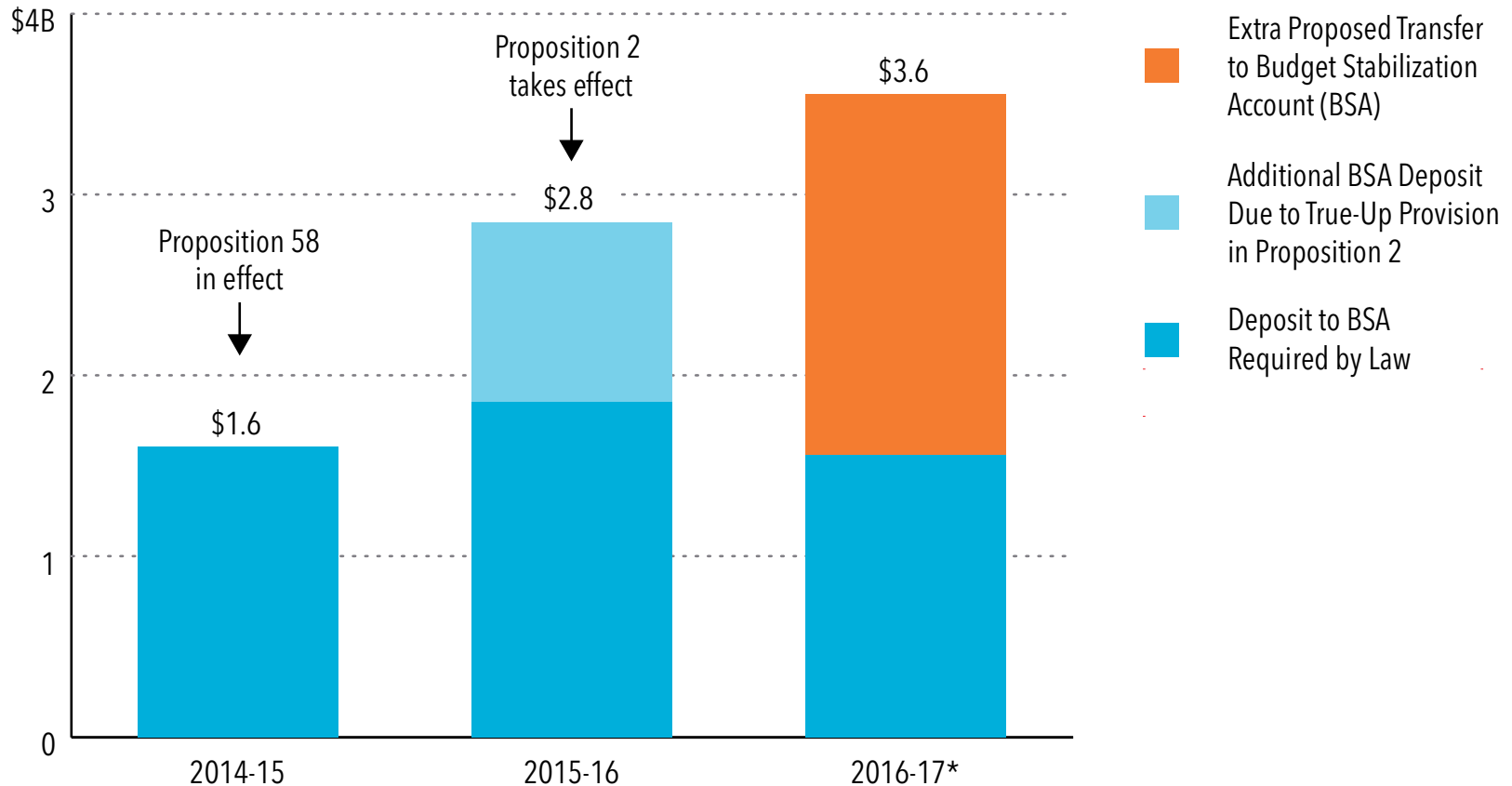
Note: 2015-16 projections are compared against the latest estimate of 2015-16 revenues from the Department of Finance because actual revenues will not be available until early 2017.

Source: Department of Finance and Legislative Analyst's Office



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



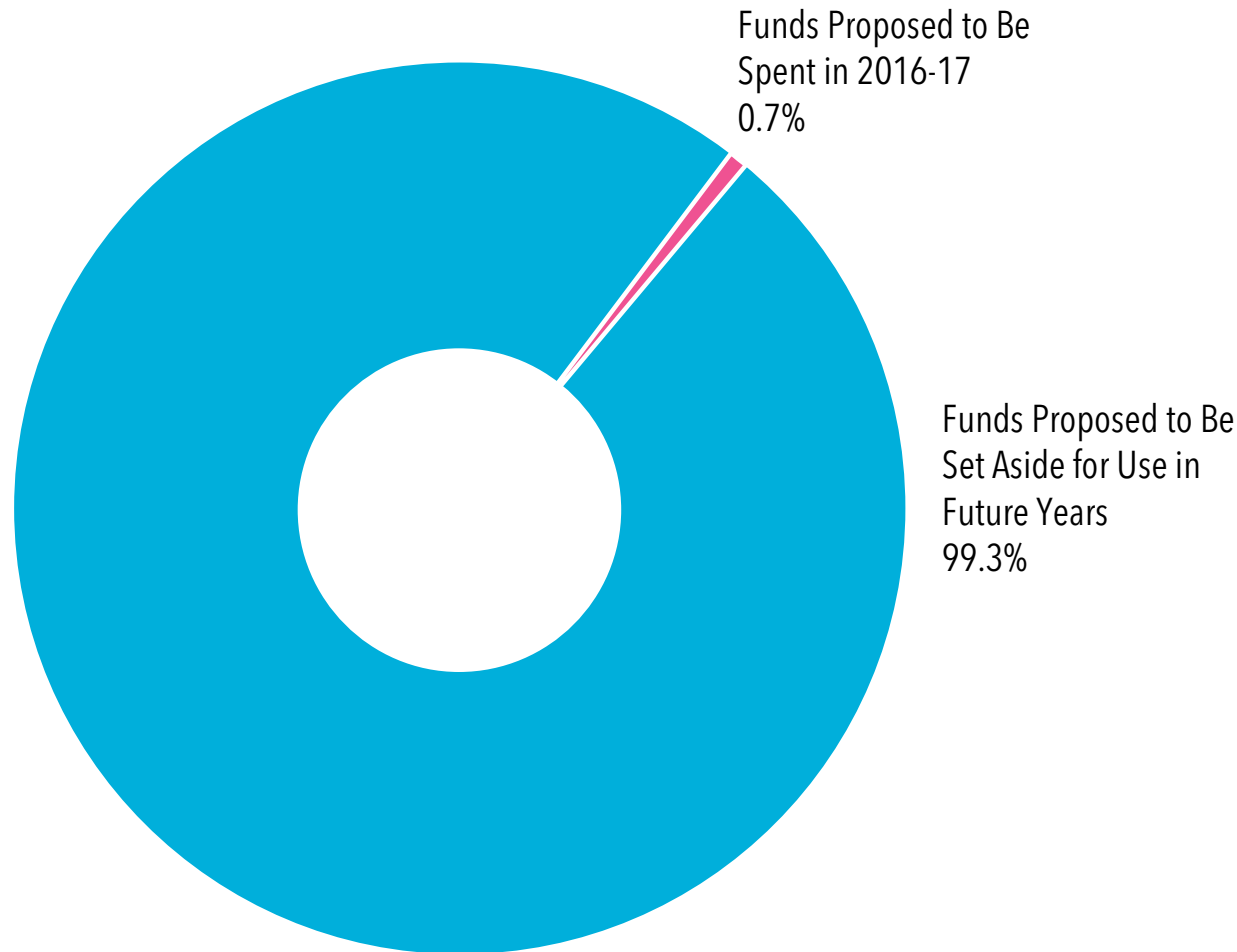
The Governor Also Sets Aside Funds by Allocating Them to Infrastructure – But Delays Spending the Funds

Of the \$1.5 billion set aside for state buildings projects, very little would be spent in 2016-17 and only 20 percent would be used by 2019-20.



Just a Fraction of the Dollars Proposed for State Buildings Projects Would Be Used in 2016-17

General Fund Revenues Set Aside in 2016-17 Under the Governor's Proposal = \$1.5 Billion

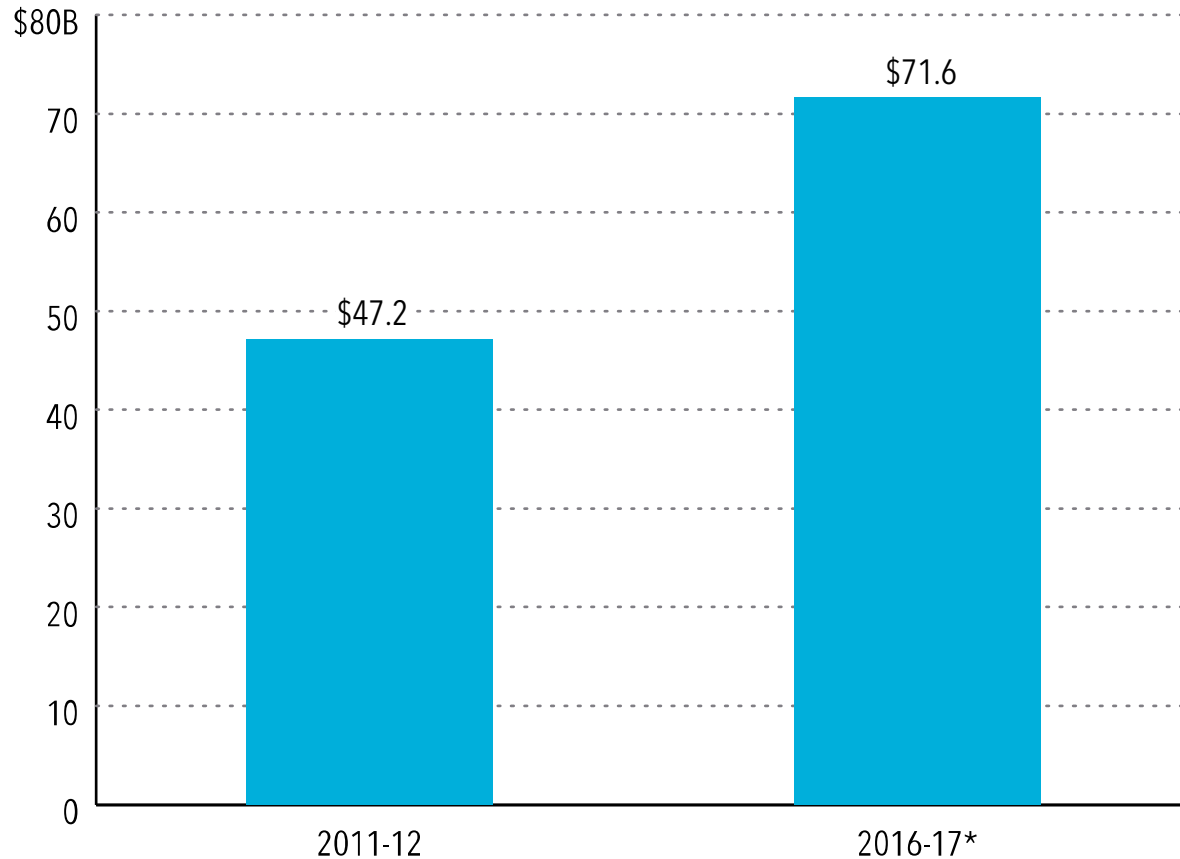


K-12 Education and California's Community Colleges

Higher revenues allow for increases in spending per student, paying down debt, and making workforce investments.



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.

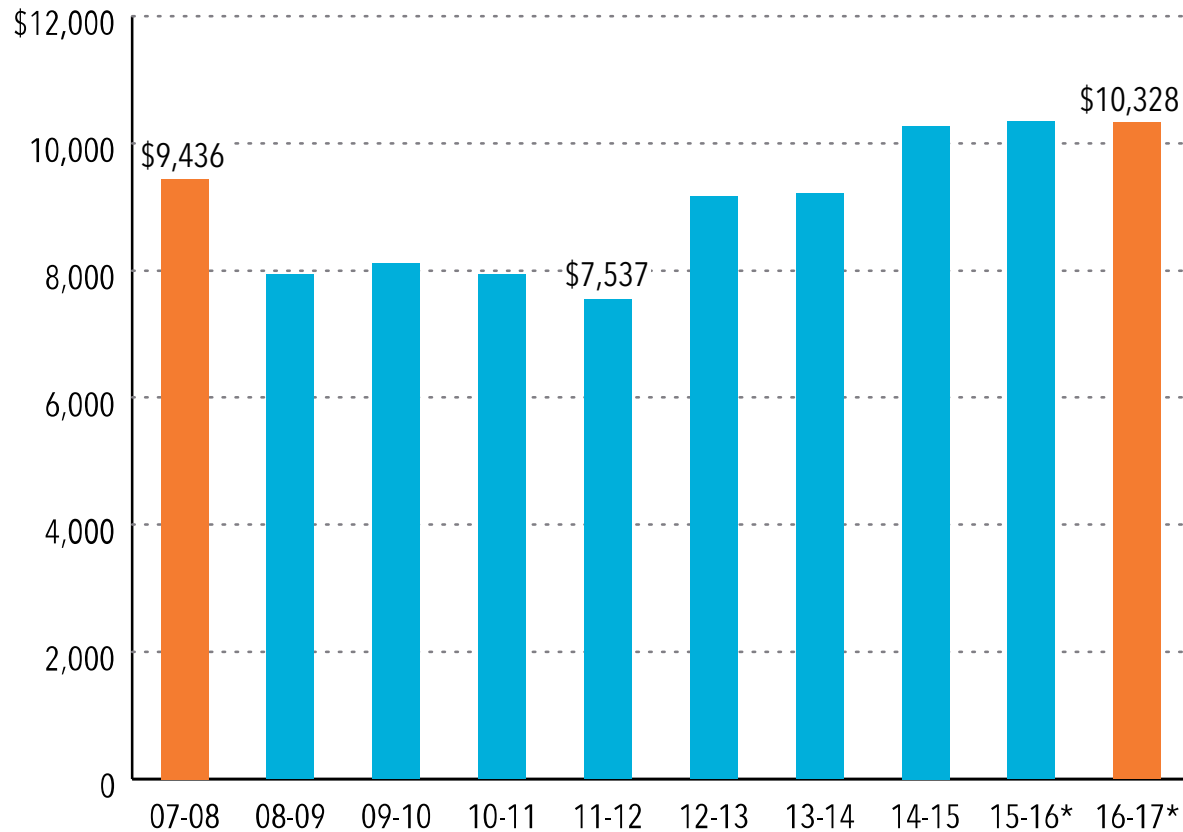
Note: Proposition 98 spending includes both state General Fund and local property tax dollars and excludes child care.

Source: Legislative Analyst's Office



Due to Higher Revenues, 2016-17 Spending Per Student Would Be Nearly \$900 Above 2007-08

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



* 2015-16 estimated and 2016-17 proposed.

Note: Figures reflect 2016-17 dollars and exclude adult education, preschool spending, and child care. Proposition 98 spending reflects both state General Fund and local property tax dollars.

Source: Legislative Analyst's Office



Higher Education: The California State University and University of California

Modest funding increases are contingent on improving performance standards and tuition and fees remaining flat.



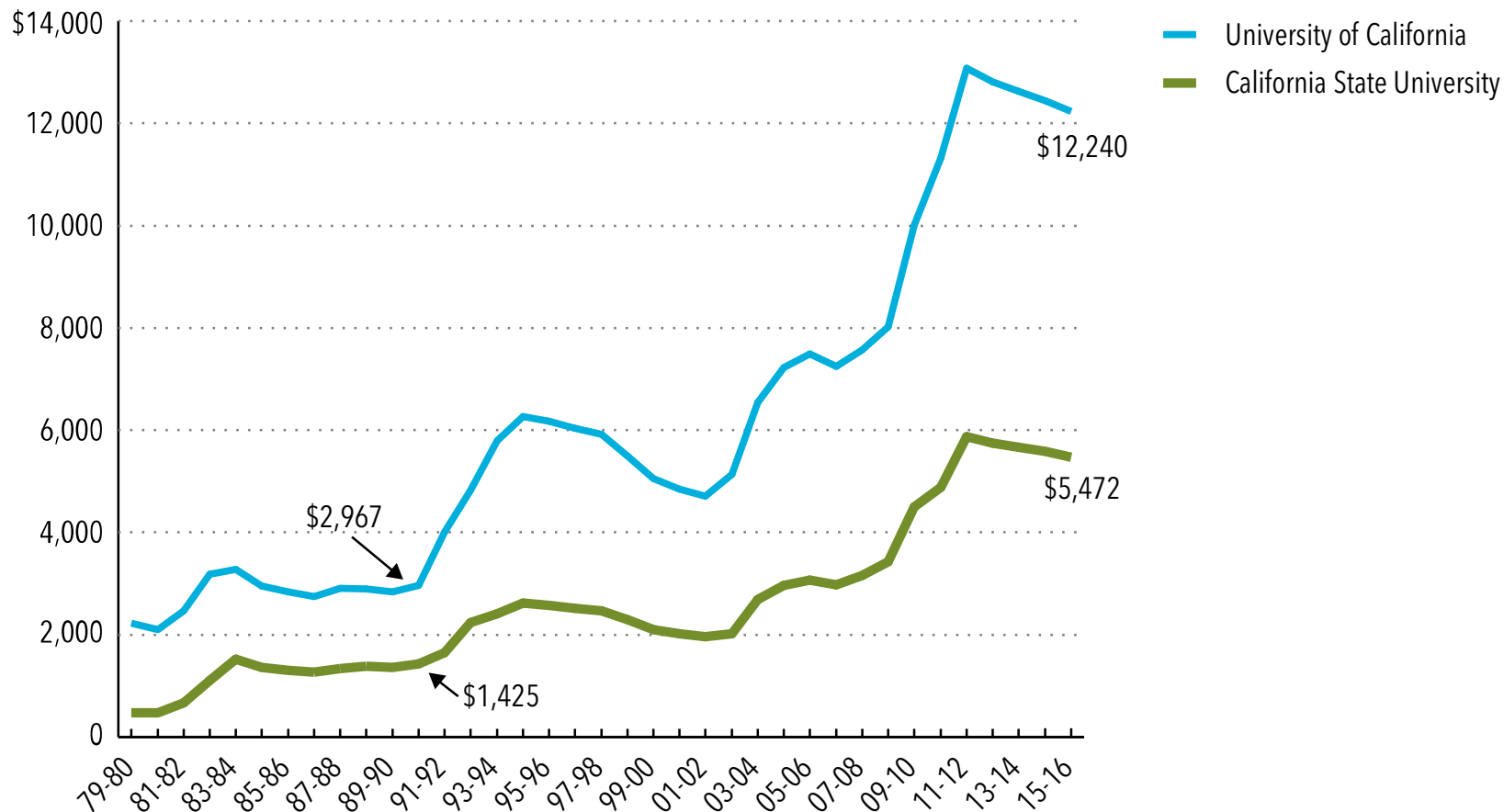
Funding Increases at CSU and UC Depend on Tuition Freezes and Reforms

- Modest funding increases are contingent on tuition and fees remaining flat at the California State University (CSU) and University of California (UC), as well as their achieving certain goals and improvements agreed to in 2015.
- CSU is expected to continue advancing reforms aimed at improving four-year graduation rates.
- UC is expected to continue implementing reforms aimed at achieving a 2-to-1 ratio of new freshman to community college transfers, reducing time-to-degree, and reducing employee pension debts and liabilities.



Since 1990-91, Tuition and Fees Have More Than Tripled at CSU and More Than Quadrupled at UC

Systemwide Tuition and Fees for California Resident Undergraduates, Inflation-Adjusted



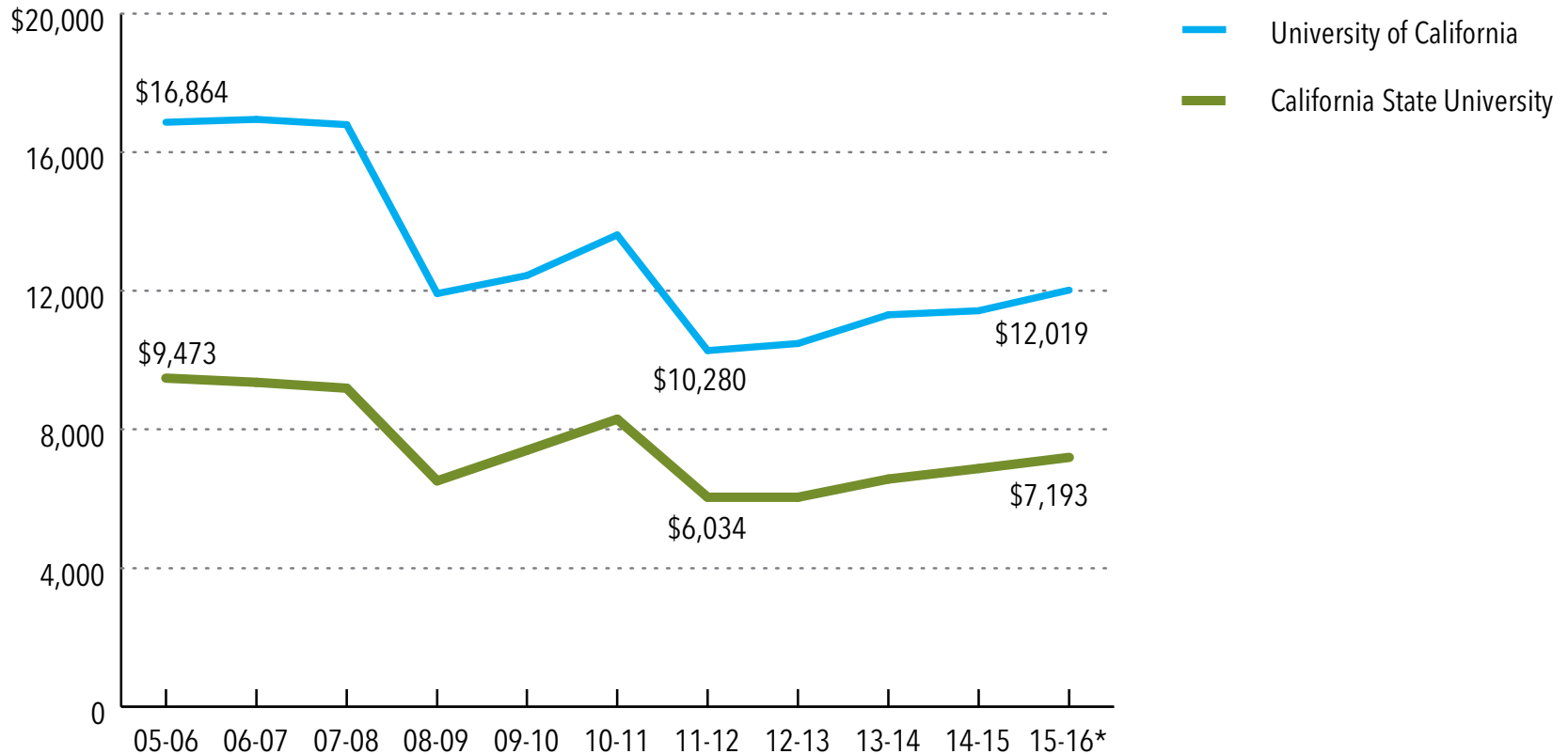
Note: Figures are in 2015-16 dollars. Without adjusting for inflation, systemwide tuition and fees at CSU have been frozen since 2011-12.

Source: California State University and University of California



State Spending Per Student at CSU and UC Remains Below Pre-Recession Levels, Despite Recent Increases

Direct General Fund Expenditures Per Full-Time Student, Inflation-Adjusted



* Estimated.

Note: Figures are in 2015-16 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: California State University, Department of Finance, and University of California



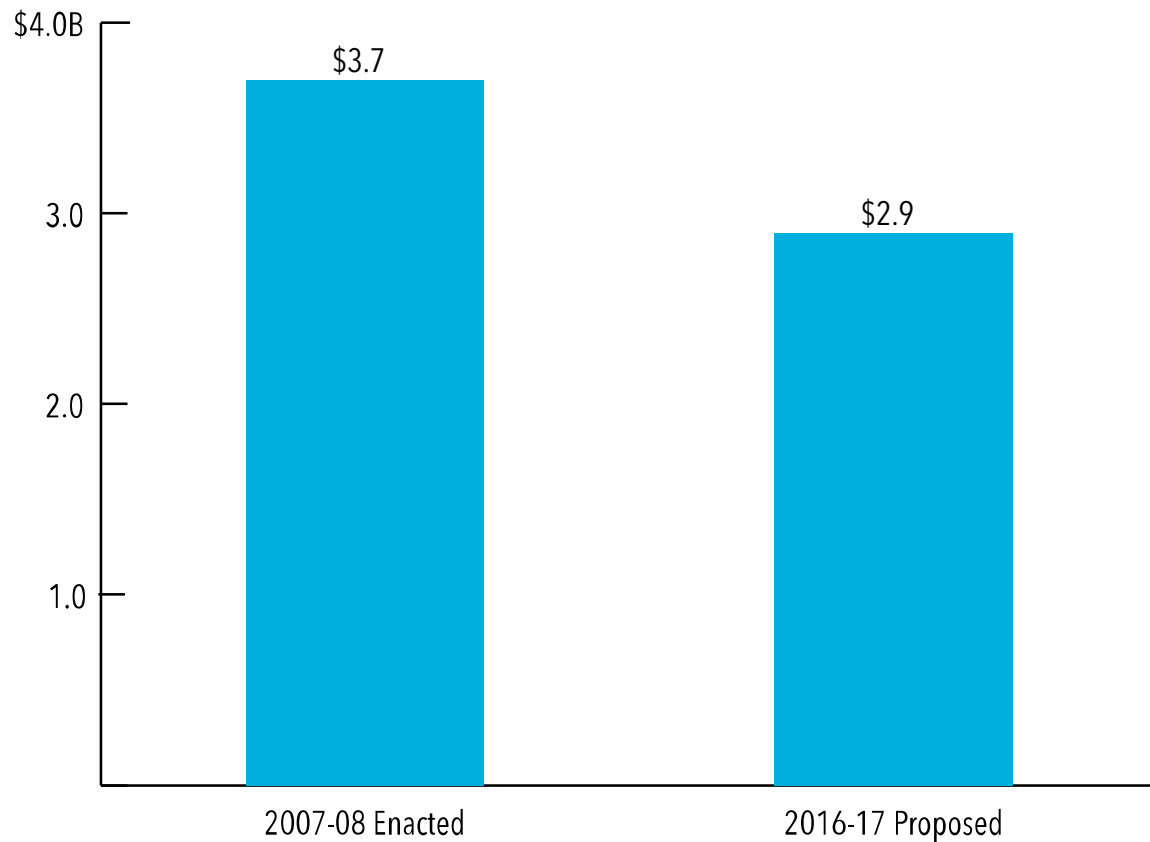
Early Education: Preschool and Child Care

Proposed spending remains below pre-recession levels despite a small boost in funding, and the Governor proposes structural reforms to the pre-K and child care systems.



Annual Funding for Child Care and Preschool Remains More Than 20 Percent Below the Pre-Recession Level

Total Funding for Subsidized Child Care and Preschool in California, Inflation-Adjusted



Note: Figures are in 2016-17 dollars and include federal and state funds for slots as well as for quality and support programs. Child care includes CalWORKs and non-CalWORKs programs. Preschool does not include Transitional Kindergarten.

Source: California Department of Education and Department of Finance



Proposed Reform: Early Education Block Grant

- The Governor proposes to consolidate funding for the state preschool and Transitional Kindergarten programs into a single funding stream, the “Early Education Block Grant.” Funding would remain within the Prop. 98 guarantee, but would be subject to the annual Budget Act.
- The stated goal of the new block grant is to build upon existing infrastructure in order to assist low-income and at-risk children as they move from an early education setting to kindergarten.
- It is not yet clear whether private providers would be able to participate, how programs would be structured and held accountable, or even which children would have priority.



Proposed Reform: Create a Plan to Alter Subsidized Child Care Payment System

- Families can access subsidized child care programs by selecting a provider that contracts directly with the state or by using a voucher to choose a provider of their choice. These two systems have different licensing requirements and payment rates, which are not up to date.
- The Governor proposes that the California Department of Education create a plan to move to a voucher-based system, eliminating direct contracts with providers.
 - The proposal does not make any changes in response to the federal reauthorization of the Child Care and Development Block Grant or restore any funding that was cut during and after the Great Recession.



Health and Human Services

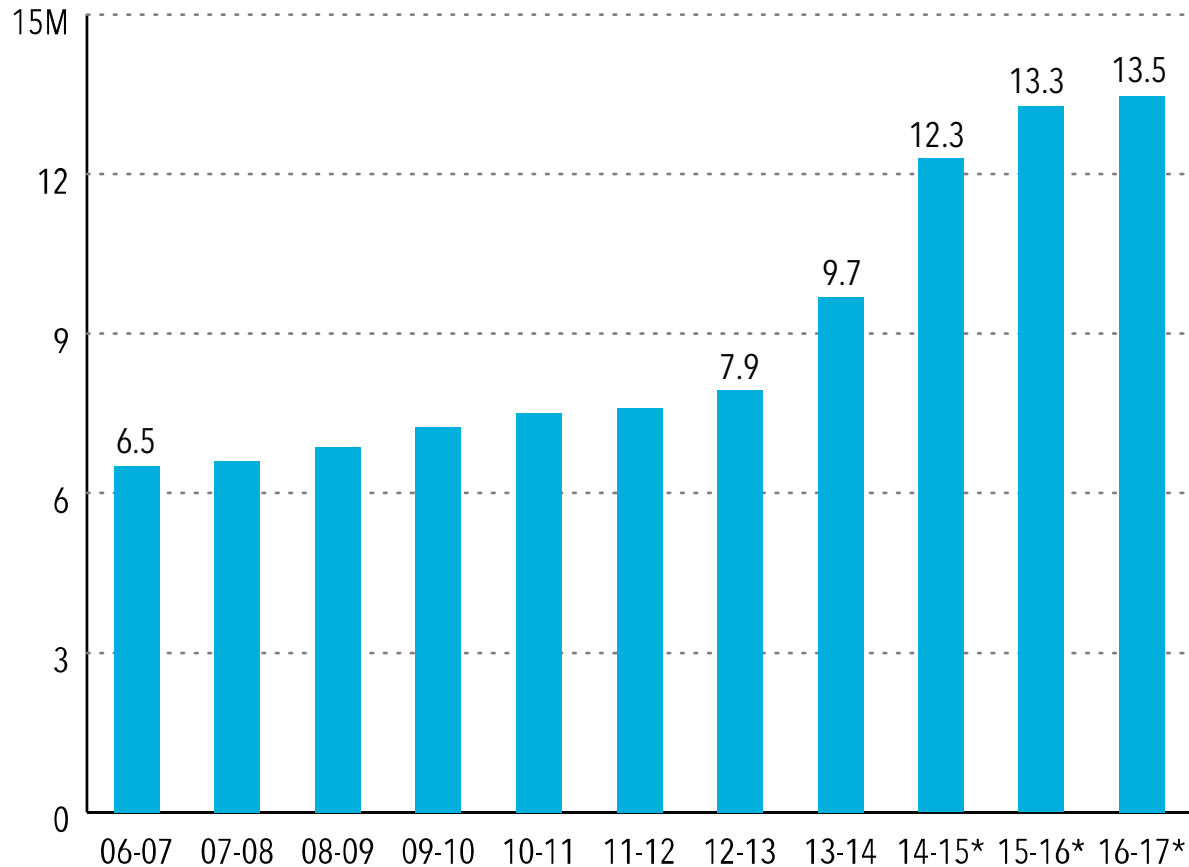
More than 13 million Californians are enrolled in Medi-Cal, although enrollment growth has slowed following the full implementation of federal health care reform in 2014.

Beyond Medi-Cal, the state's safety net remains severely weakened due to insufficient investment.



Medi-Cal Enrollment Growth Is Slowing, Following Substantial Increases in 2013-14 and 2014-15

Enrollment Gains in Prior Years Were Largely Due to Implementation of Health Care Reform



Note: 2014-15 and 2015-16 are estimated, and 2016-17 is projected. Figures reflect average monthly enrollment.

Source: Department of Health Care Services



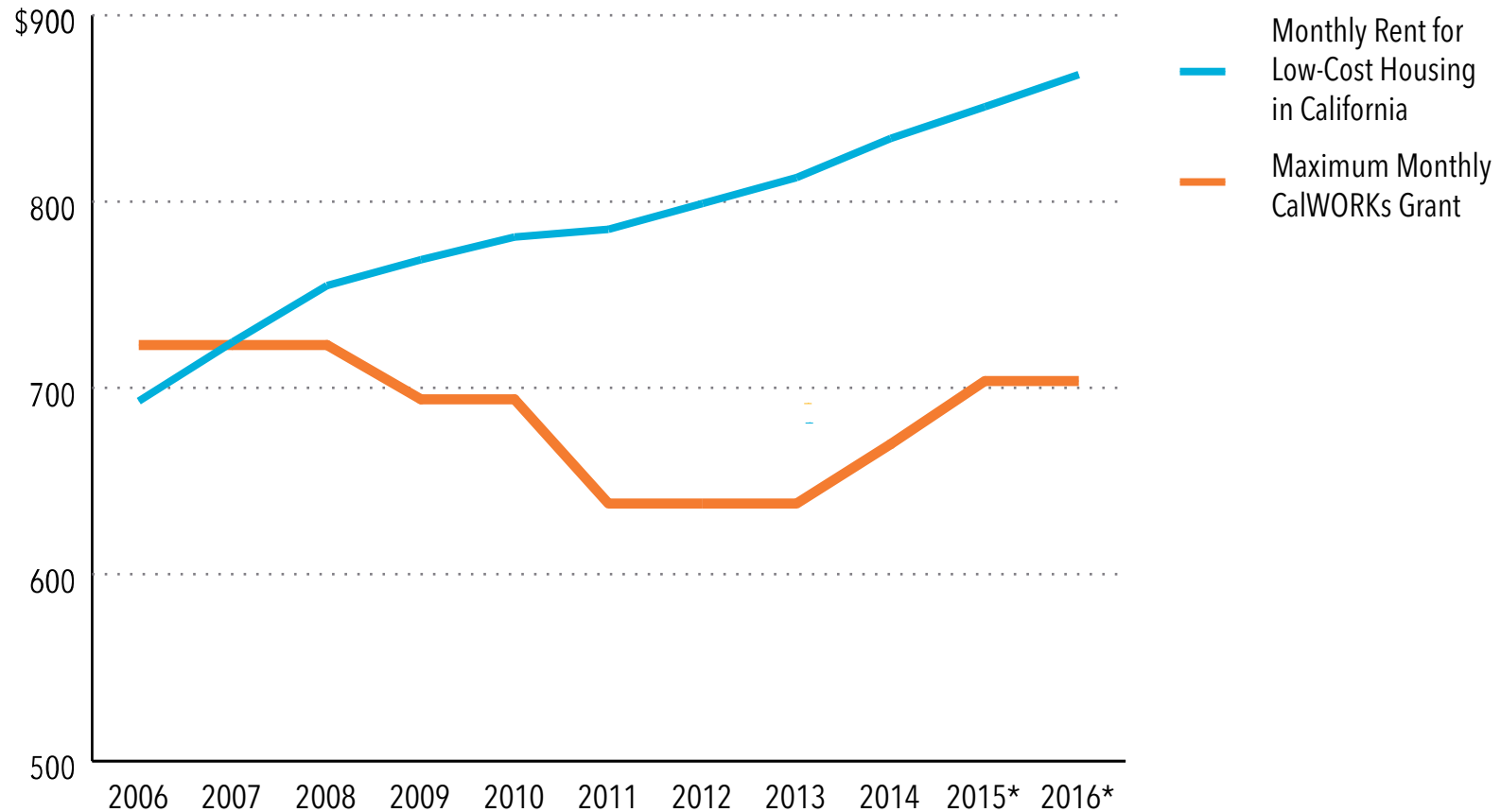
Policymakers Revise the “MCO Tax” to Help Fund Medi-Cal and Other Services

- California taxes certain managed care organizations (MCOs) and uses the proceeds to:
 - Bring in more than \$1 billion in federal funds each year to support health care services through Medi-Cal.
 - Reduce – or “offset” – state spending on Medi-Cal by over \$1 billion per year, with these freed-up dollars used to support other state priorities.
- In February, state policymakers revised the MCO tax in order to comply with new federal guidelines. This revised tax will be in effect from July 1, 2016 through June 30, 2019.
- In addition, the MCO tax package *reduces* two taxes that health plans would otherwise pay – resulting in net savings for the industry – and boosts funding for a range of purposes, including developmental services.



CalWORKs Grants Provide Less Support Than in 2006 Even As Rents for Low-Cost Housing Have Risen

Maximum Monthly CalWORKs Grant Compared to 25th Percentile Monthly Rent

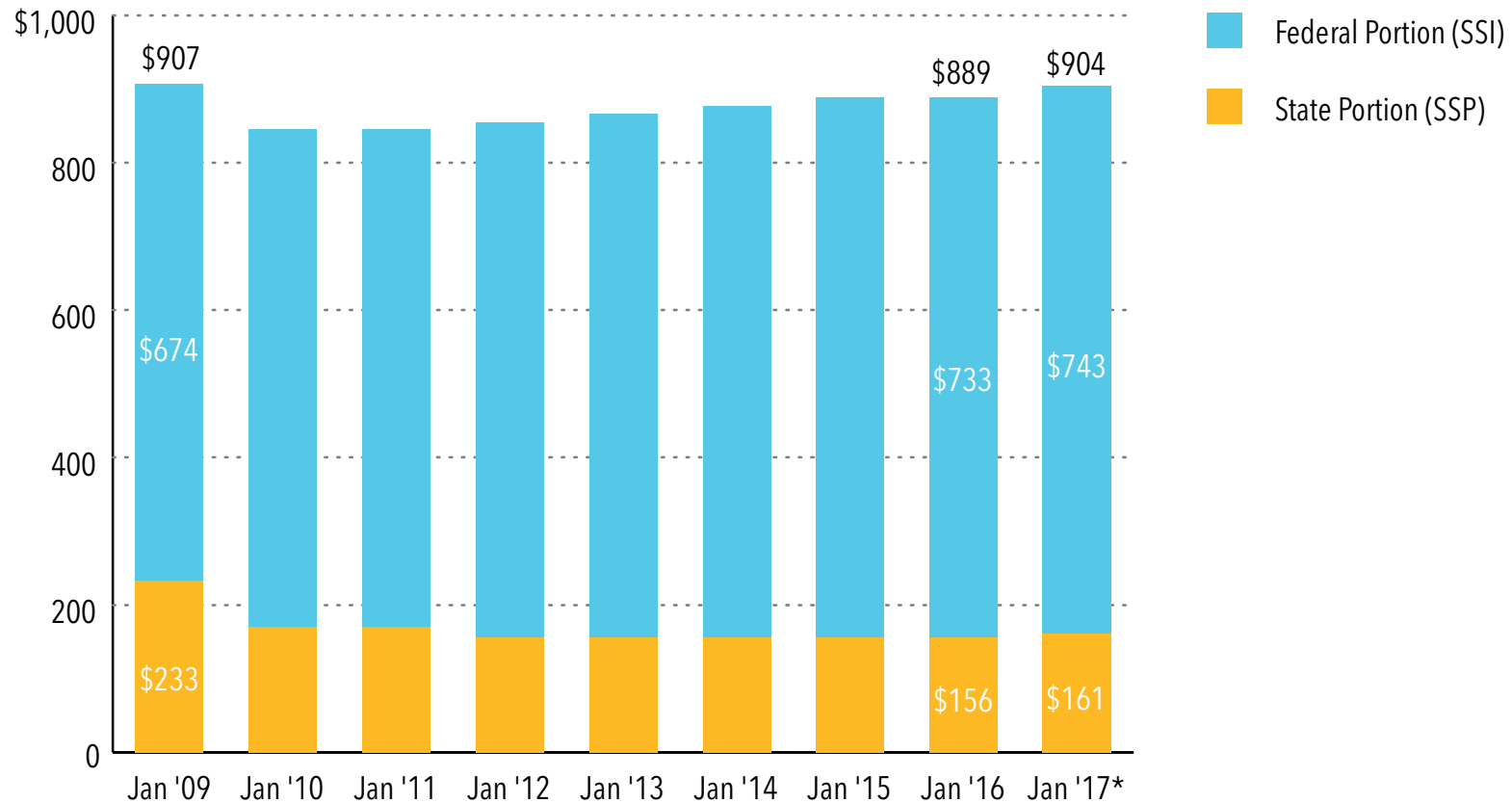


* Rents are estimated based on the compound annual growth rate between 2011 and 2014.
Note: CalWORKs grant is for a family of three in "high-cost" counties. The Governor's proposed budget assumes that there will be no increase to CalWORKs grants in the 2016-17 fiscal year, which begins July 1. Rent excludes utilities and reflects all unit sizes.
Source: Department of Social Services and US Census Bureau, American Community Survey



SSI/SSP Grants Would Remain Below the 2009 Level, Even With the Governor's Proposed Increase to the SSP Portion

Maximum Monthly SSI/SSP Grant for Individuals Who Are Elderly or Have Disabilities



* Includes a projected 1.39 percent federal cost-of-living adjustment (COLA) to the SSI portion. In addition, reflects the Governor's proposal to provide a one-time state COLA to the SSP portion, which the Legislative Analyst's Office indicates would equal 2.76 percent.
 Source: Department of Social Services and Legislative Analyst's Office

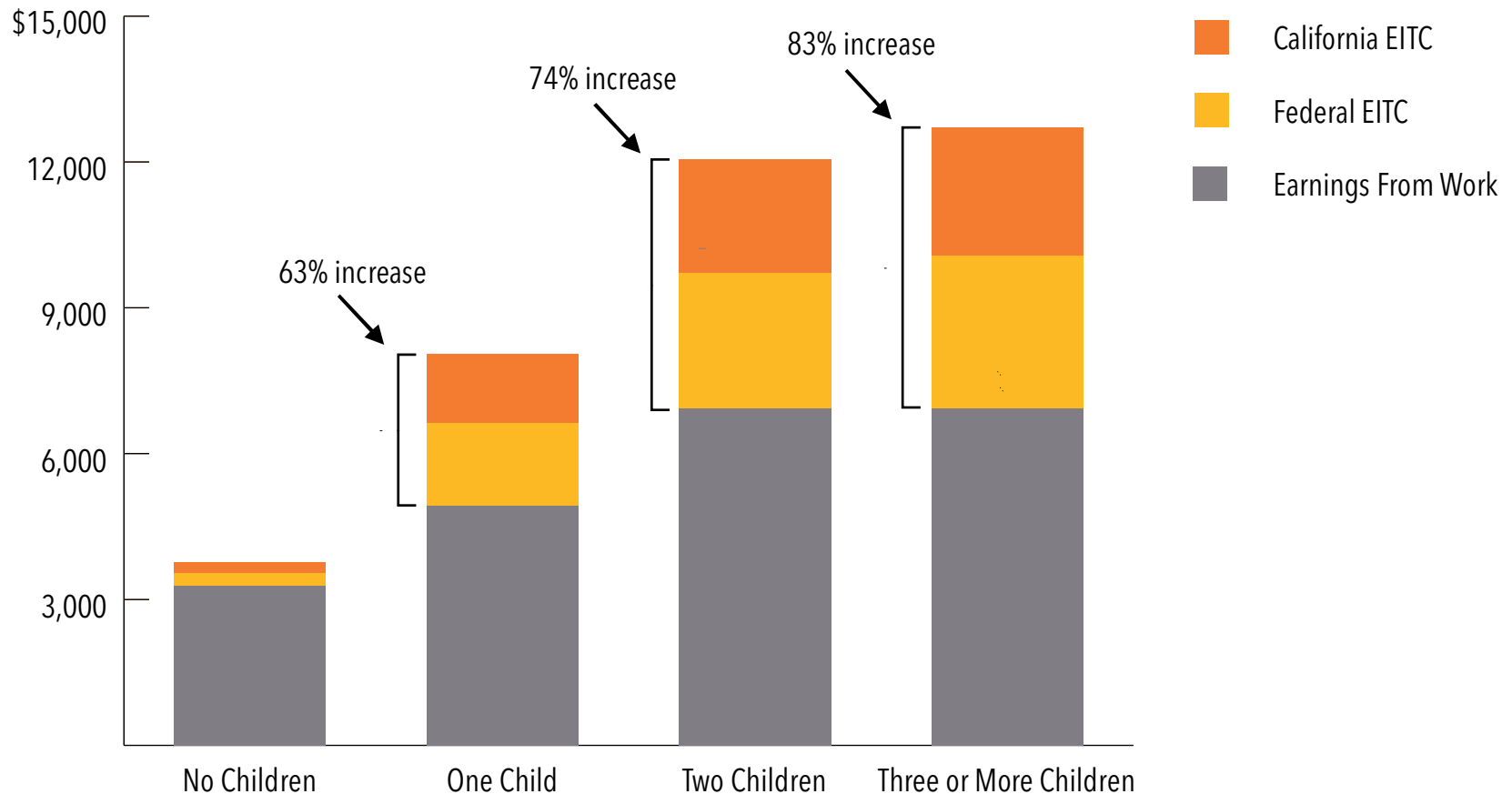


The Governor's proposed 2016-17 budget includes \$380 million for the California Earned Income Tax Credit, the same amount as in 2015-16.



The California and Federal EITCs Could Significantly Boost the Incomes of Working Families With Children

Maximum Increase in Income From the State and Federal Earned Income Tax Credits, 2015



Source: Budget Center analysis of the California and federal Earned Income Tax Credits

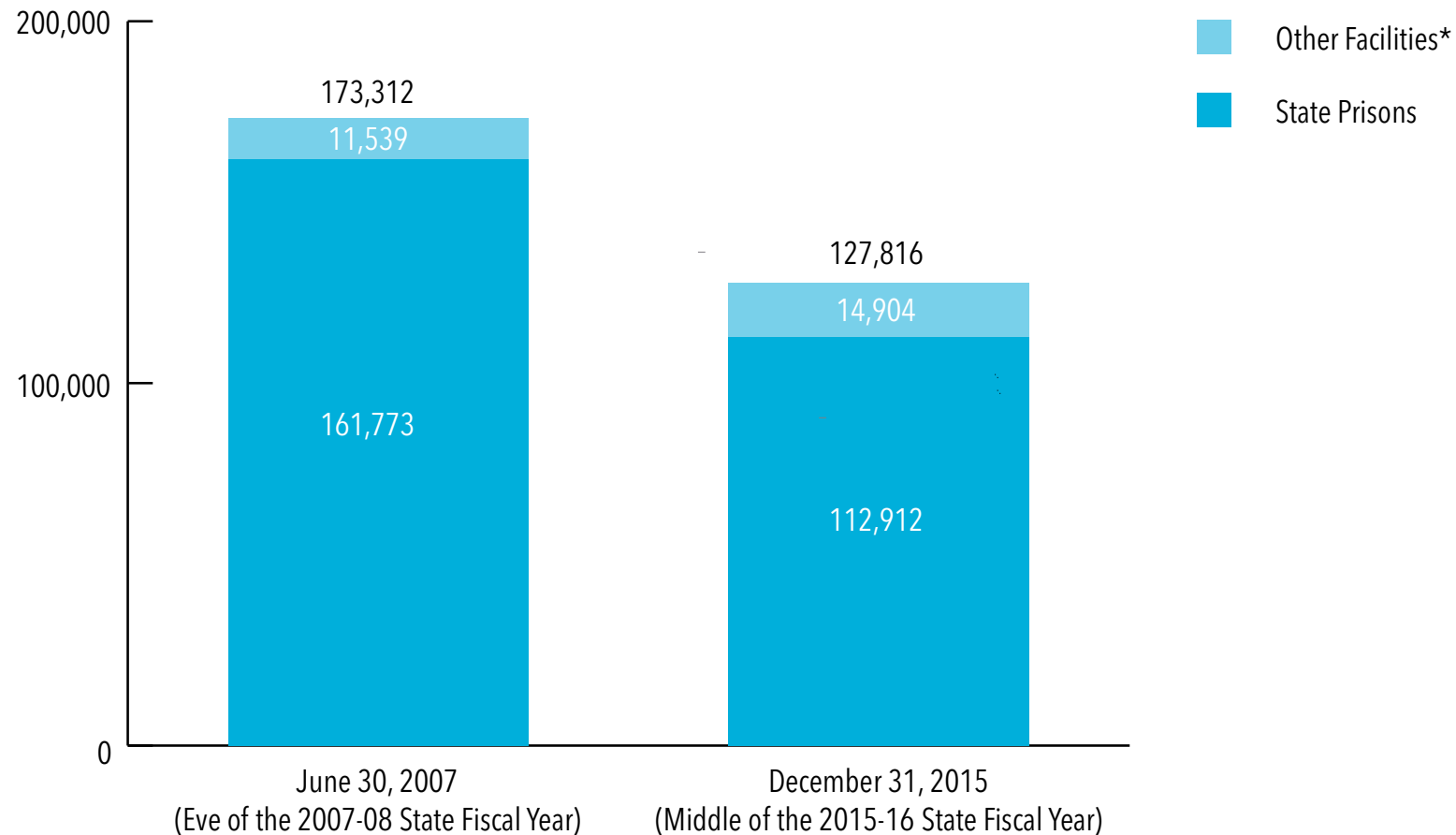


Corrections

State corrections spending continues to rise despite a declining correctional population. The Governor's proposal to spend \$250 million from the General Fund to build local jails contributes to increased corrections expenditures in 2016-17.



The Number of Incarcerated Adults in State Custody Is Down by More Than One-Quarter Since Mid-2007



* In-state and out-of-state contract facilities, fire camps, and state hospitals for the mentally ill.
Source: California Department of Corrections and Rehabilitation



The Number of Adult Parolees Under State Jurisdiction Is Down by Nearly Two-Thirds Since Mid-2007

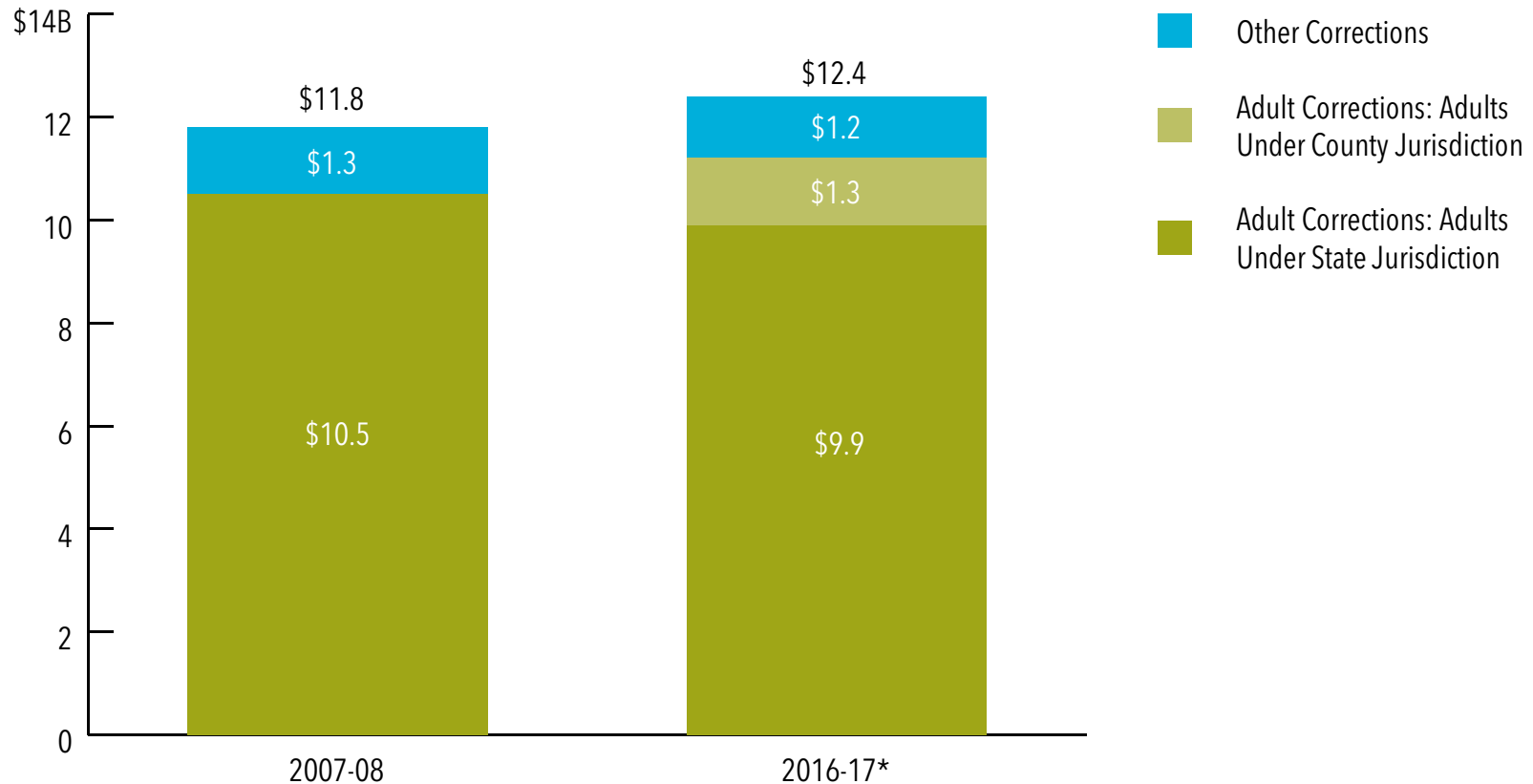


Source: California Department of Corrections and Rehabilitation



Total Corrections Spending in 2016-17 Would Exceed the 2007-08 Level Under the Governor's Proposed Budget

Dollars in Billions, Inflation-Adjusted



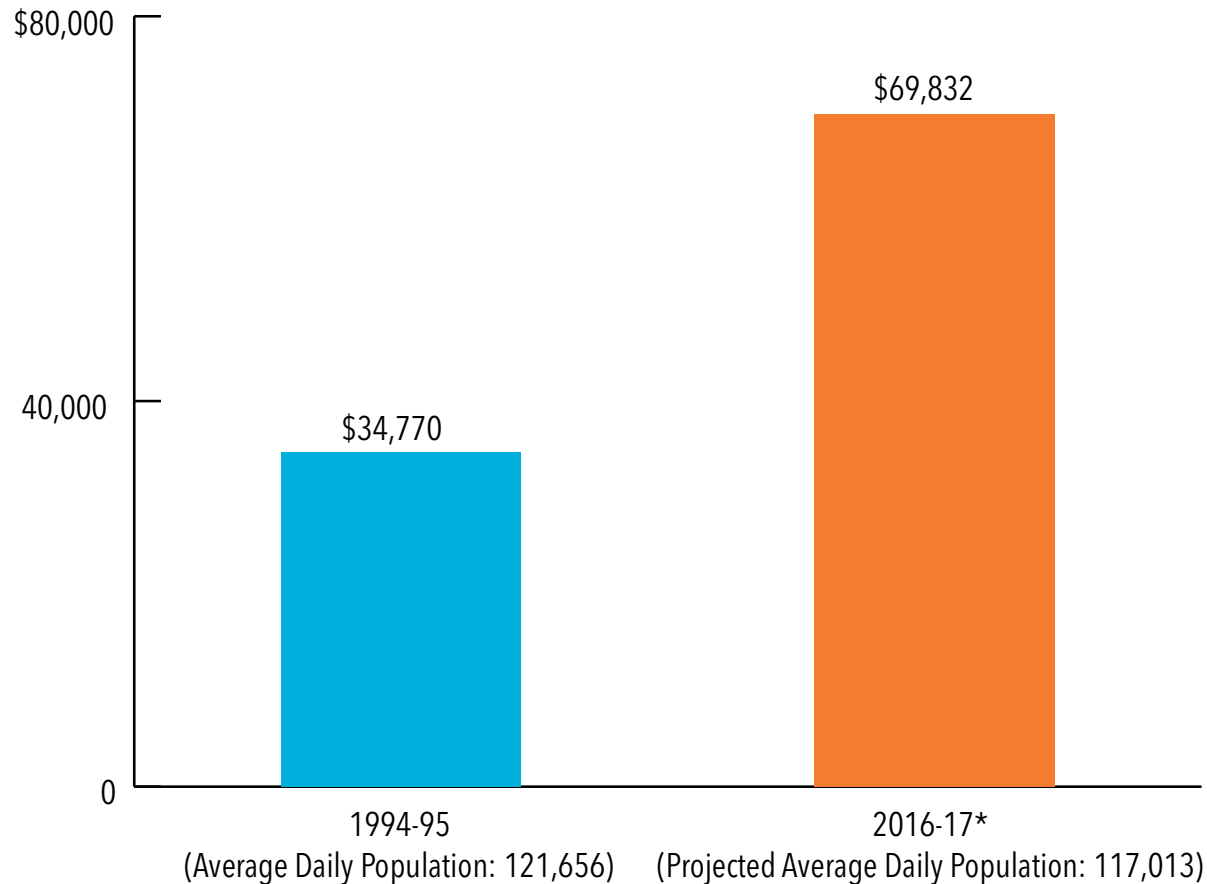
* Proposed.

Note: Figures reflect 2016-17 dollars and include spending from multiple sources for the California Department of Corrections and Rehabilitation, the Board of State and Community Corrections, and local community corrections and juvenile justice programs funded through the 2011 "realignment."
 Source: Department of Finance



Spending Per Incarcerated Adult Would Be Twice the 1994-95 Level Under the Governor's Proposed Budget

Per Capita Cost for Adults Housed in State Prisons and Fire Camps, Inflation-Adjusted



* Proposed.

Note: 1994-95 per capita cost reflects 2016-17 dollars.

Source: Department of Finance



Budgets are not outcomes.

Budgets are tools for advancing our state's values and priorities, and reflect Californians' collective efforts to help strengthen our communities and ensure the continued vibrancy of our state. The 2016-17 state budget presents additional opportunities to improve outcomes for Californians, helping them access economic opportunity and be better prepared to face future downturns.





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