



California Budget
& Policy Center

California Budget Perspective 2018-19

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SOUTHERN CALIFORNIA GRANTMAKERS
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calbudgetcenter.org

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 Governor's Proposed 2018-19 Budget:

Top Lines and Key Context



From the Budget Center's *First Look* analysis (1/12/2017):

The Governor's proposed budget "prioritizes building up reserves amid deep uncertainty about looming federal budget proposals, the impact of the recently enacted federal tax bill, and future economic conditions."



Putting the Governor's Proposed 2018-19 State Budget in Context

Several key considerations provide the backdrop:

- State revenues for the coming fiscal year projected to be higher than previously forecast
- 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 Great Recession
- Various key public services and supports still operating at diminished levels due to state cuts made during and after the recession



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

Other considerations:

- The potential risk of a near-term economic downturn
- The impact of the federal tax legislation enacted in December
- The continued prospect of cuts/changes at the federal level, as proposed by President Trump and congressional leaders



The Governor's Proposed Budget: Top Lines

- Forecasts revenues \$4.2 billion *higher* over a three-year “budget window” than previously projected
- Places heavy emphasis on building up state reserves, including a major discretionary deposit to rainy day fund
- Funds full implementation of K-12 funding formula while proposing new allocation system for community colleges
- Includes various types of one-time funding across budget
- Contains no new investments in many key services that help families make ends meet and advance economically



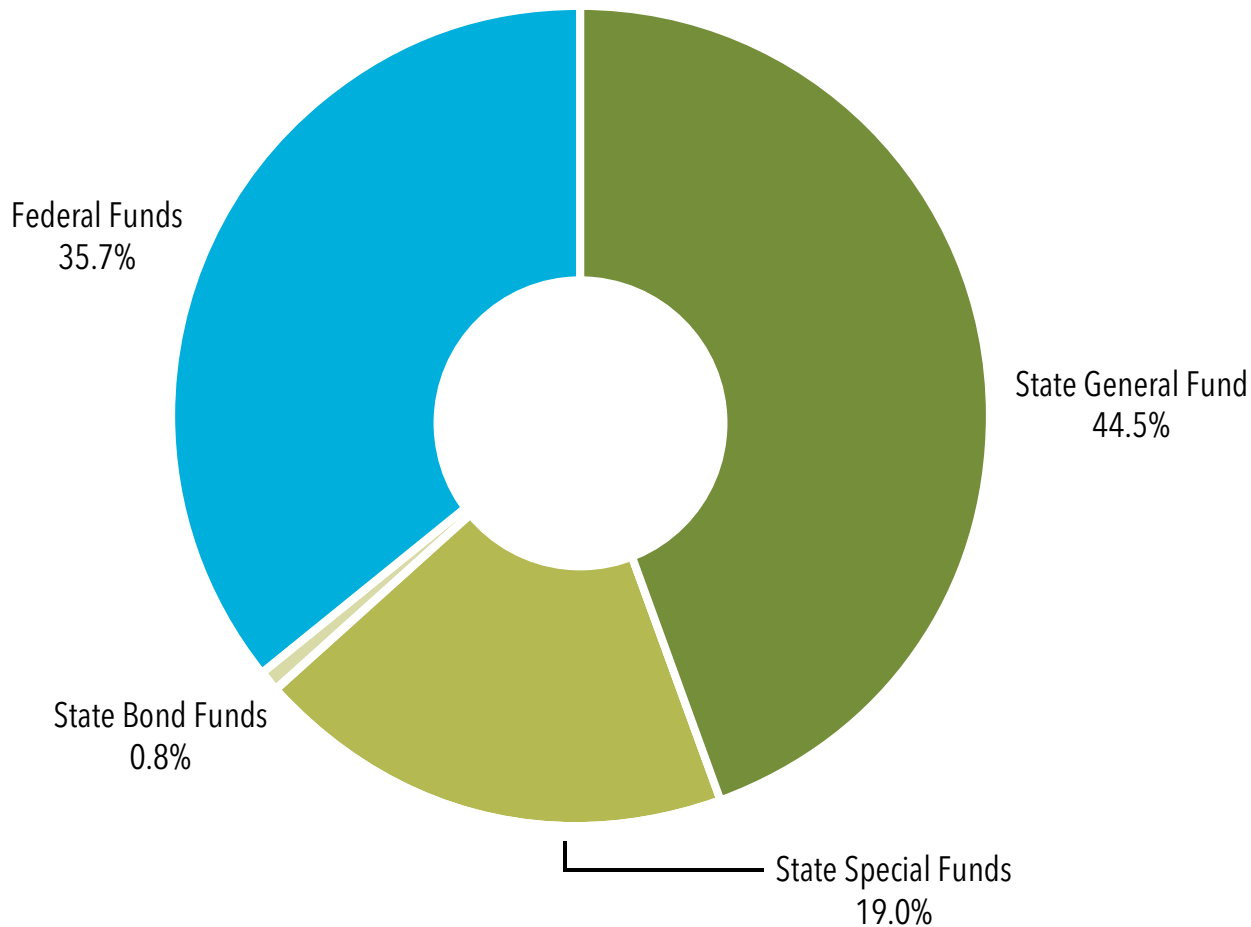
The Federal Backdrop to the State Budget

Federal funds make up a large share of the total state budget and mainly support health and human services.



Federal Funds Account for More Than One-Third of California's State Budget

Total Proposed 2018-19 Expenditures = \$296.2 Billion

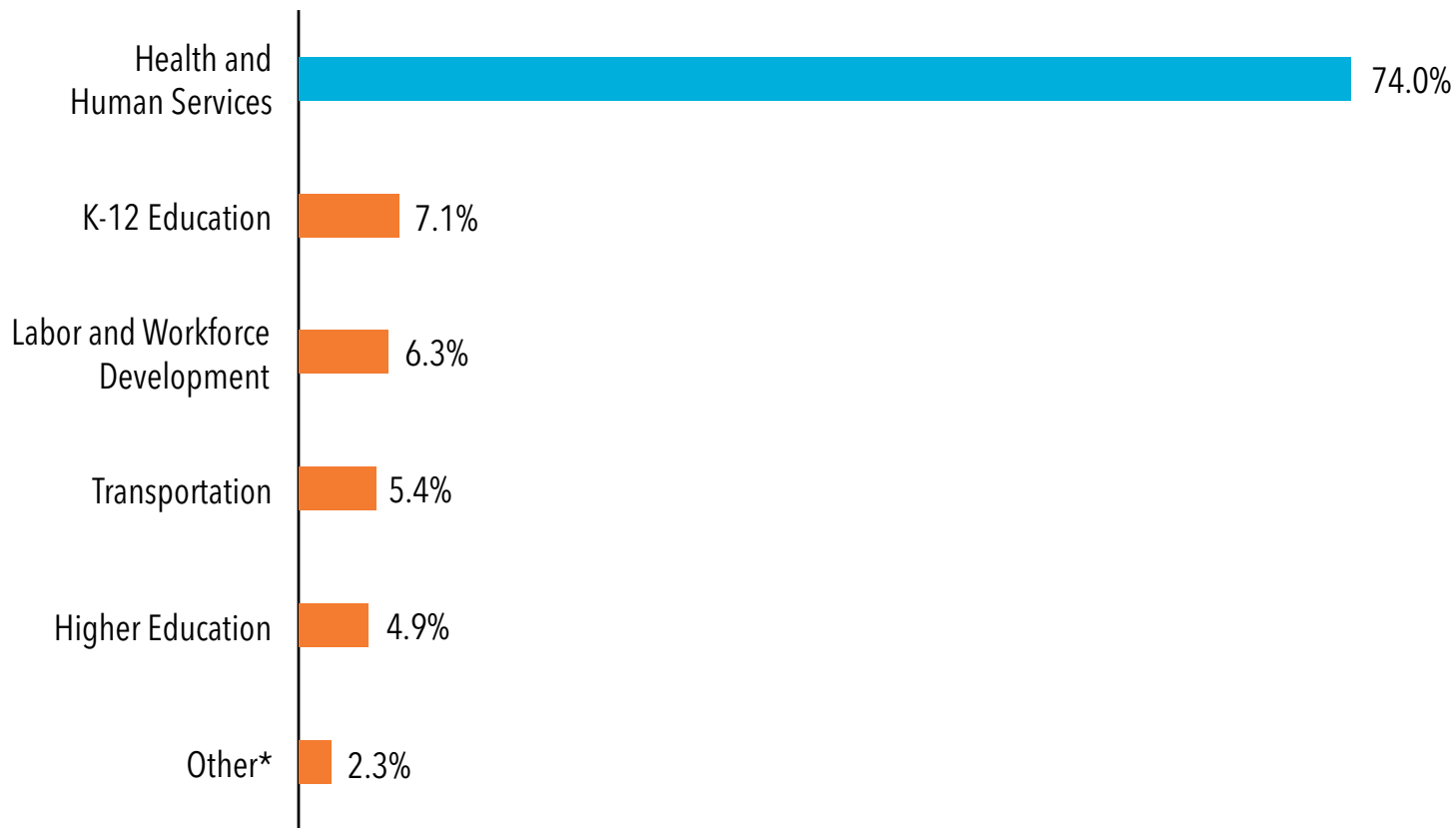


Source: Department of Finance



More Than 7 in 10 Federal Dollars Spent Through the State Budget Support Health and Human Services

Federal Funds Estimated to Be Spent Through the State Budget in 2018-19 = \$105.9 Billion



* Includes Environmental Protection; Legislative, Judicial, and Executive; Corrections and Rehabilitation; and other state budget categories that account for relatively small shares of federal funds.

Source: Department of Finance



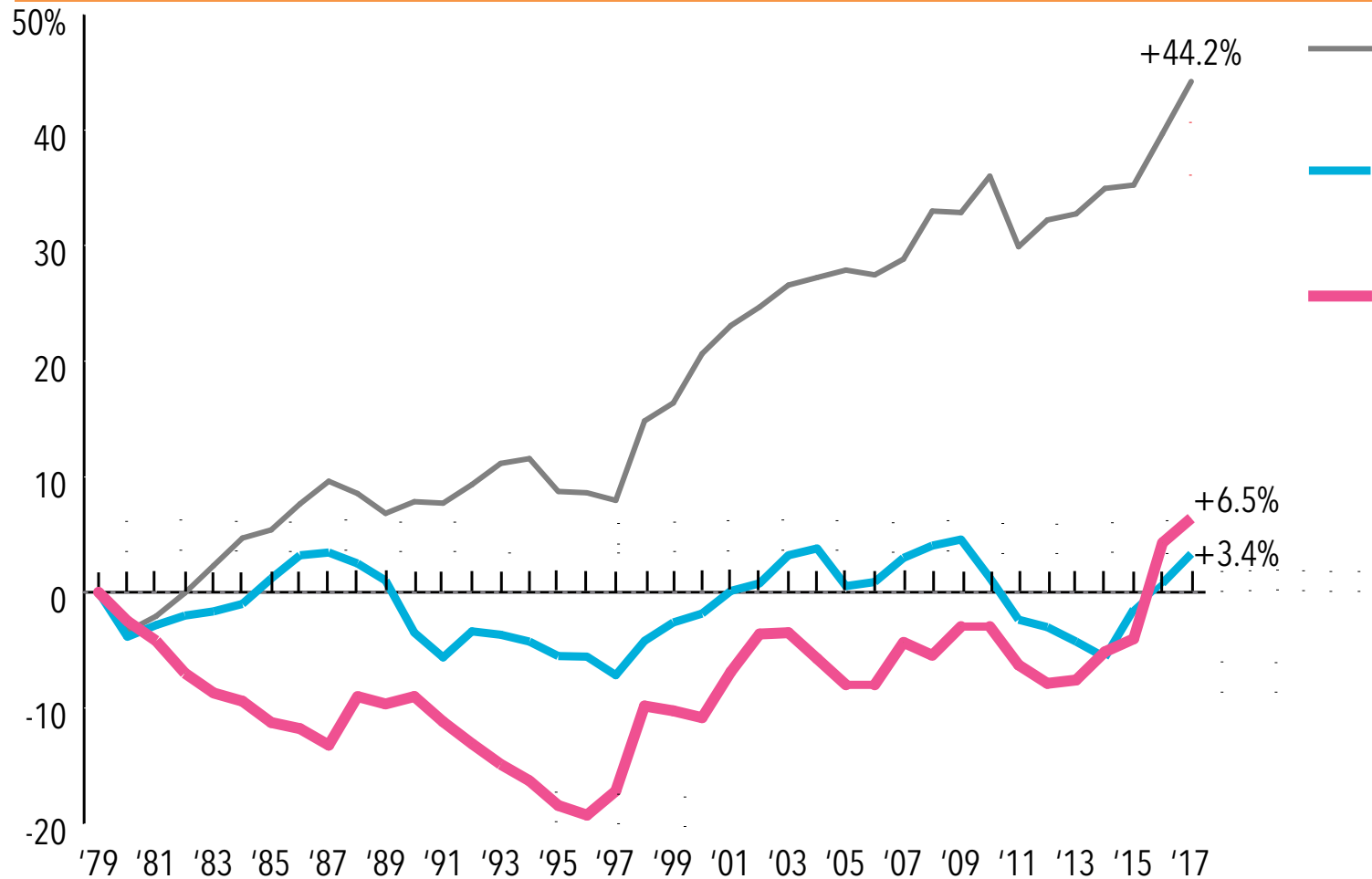
The Social and Economic Context of the State Budget

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



California's Low- and Midwage Workers Have Seen Only Modest Gains Since

Percent Change in Inflation-Adjusted Hourly Wages for Workers Ages 18-64



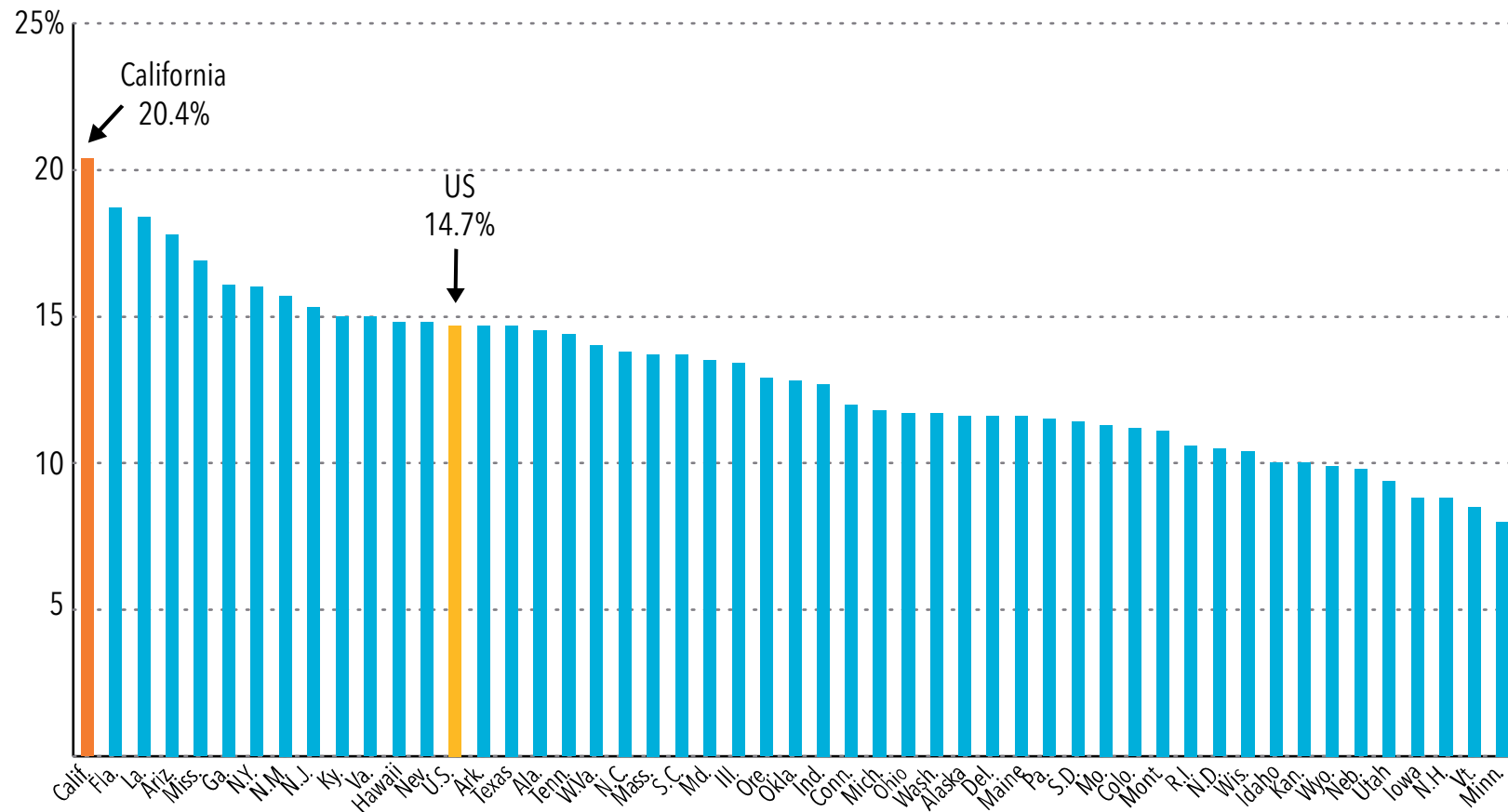
Note: Figures reflect 2017 dollars.

Source: Economic Policy Institute analysis of US Census Bureau, Current Population Survey data



California Has the Highest Poverty Rate of the 50 States Under the Supplemental Poverty Measure (SPM)

State Poverty Rate Under the SPM, 2014-2016

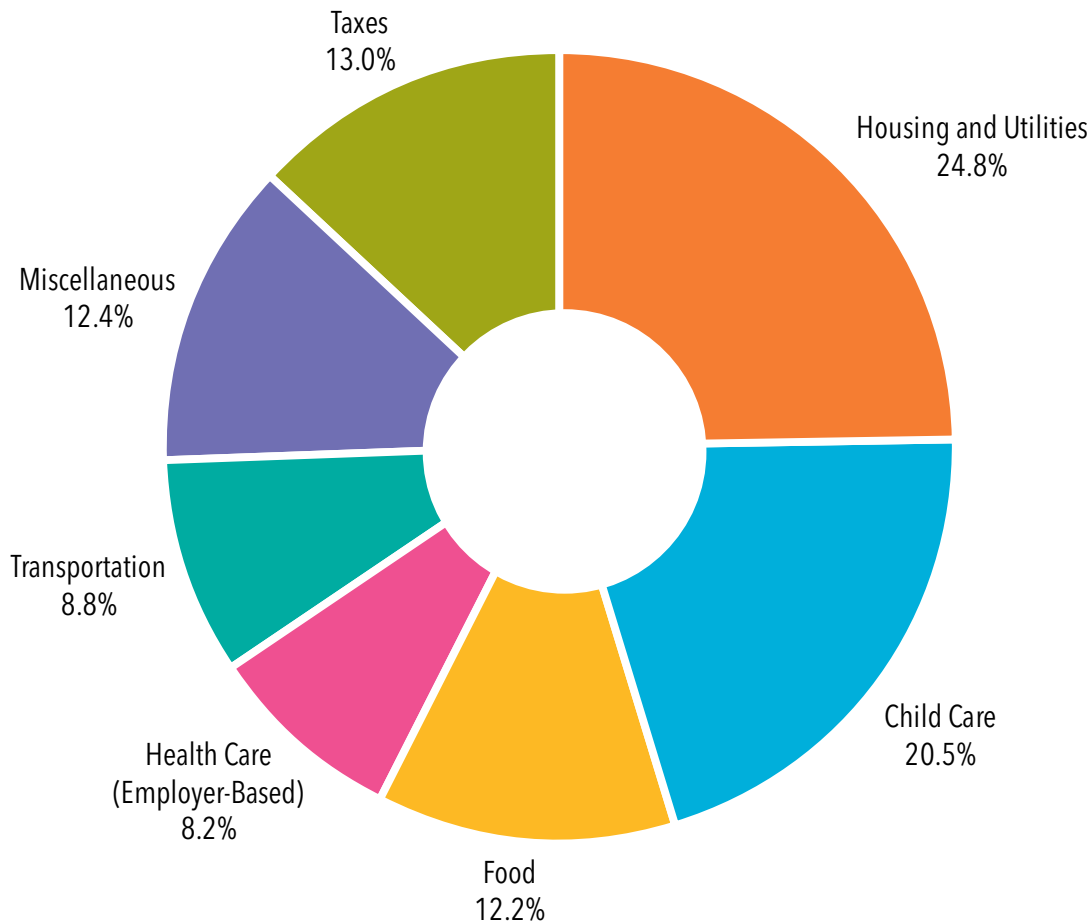


Source: US Census Bureau



On Average, Nearly Half of a Two-Working-Parent Family Budget in California Pays for Housing and Child Care

Statewide Average Annual Basic Family Budget for a Two-Working-Parent Family = \$75,952



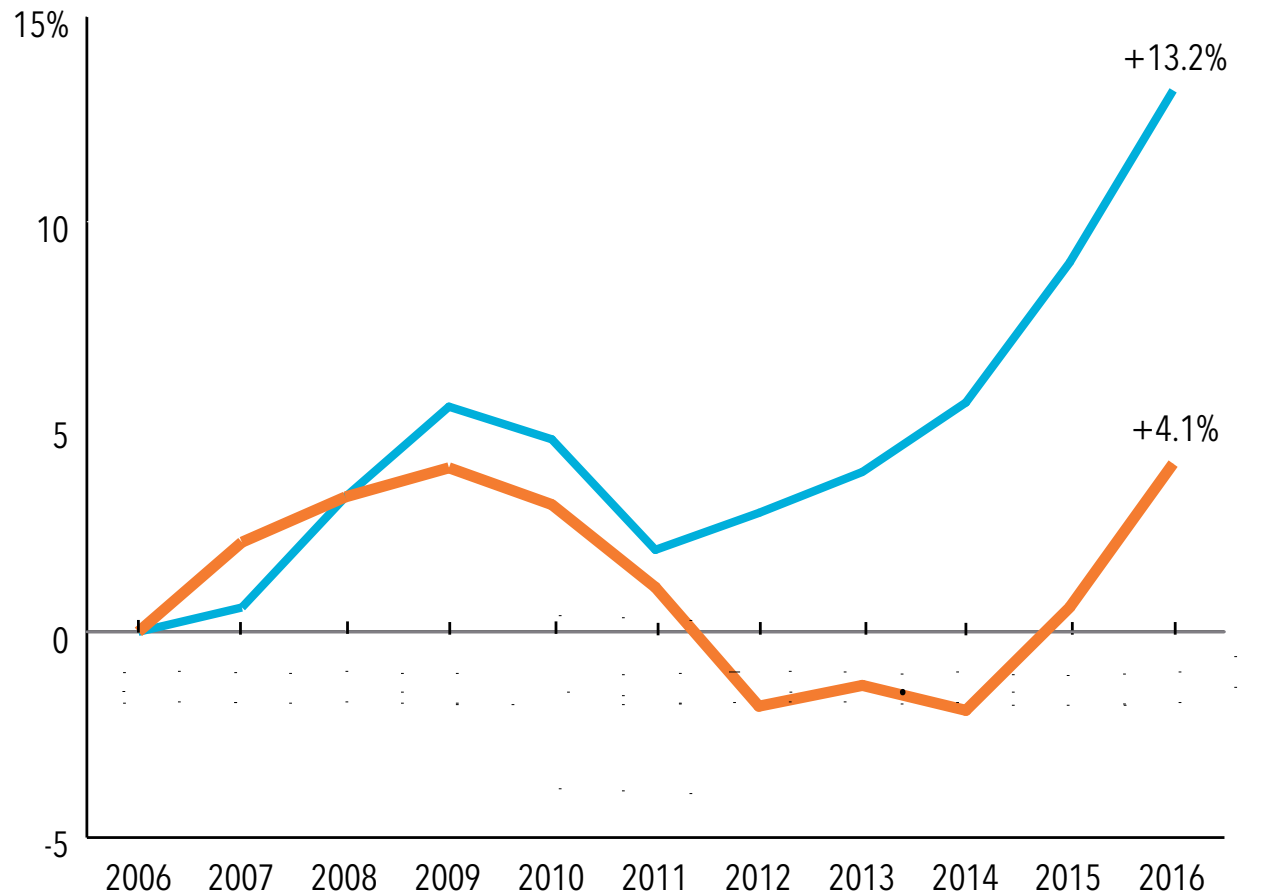
Note: Statewide average family budget calculated by averaging all county family budgets, weighted by county population.

Source: Budget Center *Making Ends Meet* 2017 analysis



Workers' Earnings Have Not Kept Pace With Rents in California

Percent Change in Inflation-Adjusted Median Rent and Median Annual Earnings Since 2006



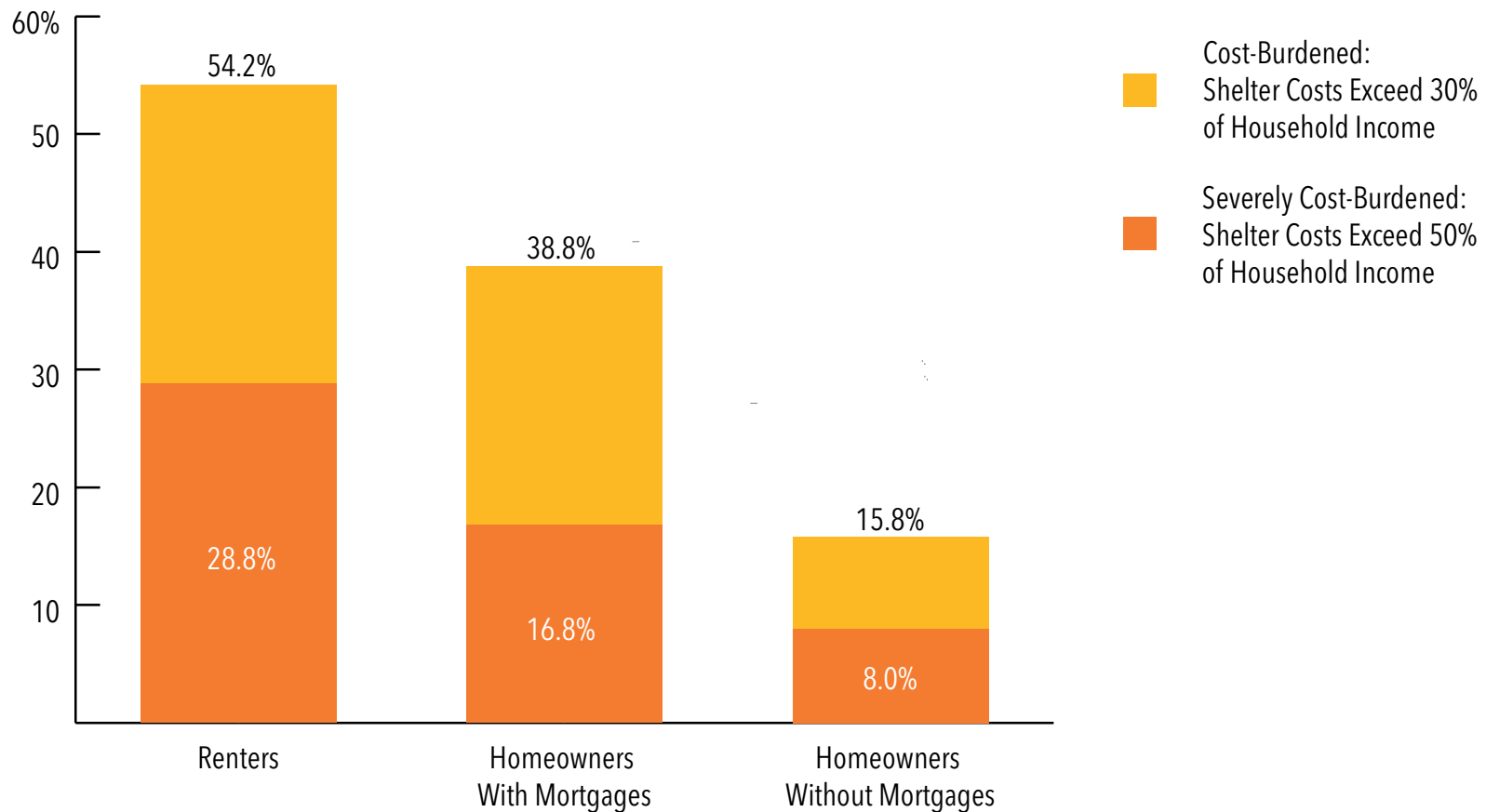
Note: Median annual earnings for individuals working at least 35 hours per week and 50 weeks per year. Excludes workers with \$0 or negative total earnings.

Source: Budget Center analysis of US Census Bureau, American Community Survey data



More Than Half of California's Renters and Over a Third of Homeowners With Mortgages Have High Housing Costs

Percentage of Households With Housing Cost-Burden or Severe Housing Cost-Burden, 2015



Note: Definitions of housing cost-burden are from the US Department of Housing and Urban Development.

Source: Budget Center analysis of US Census Bureau, American Community Survey data



Key Elements of Governor's Proposed Budget



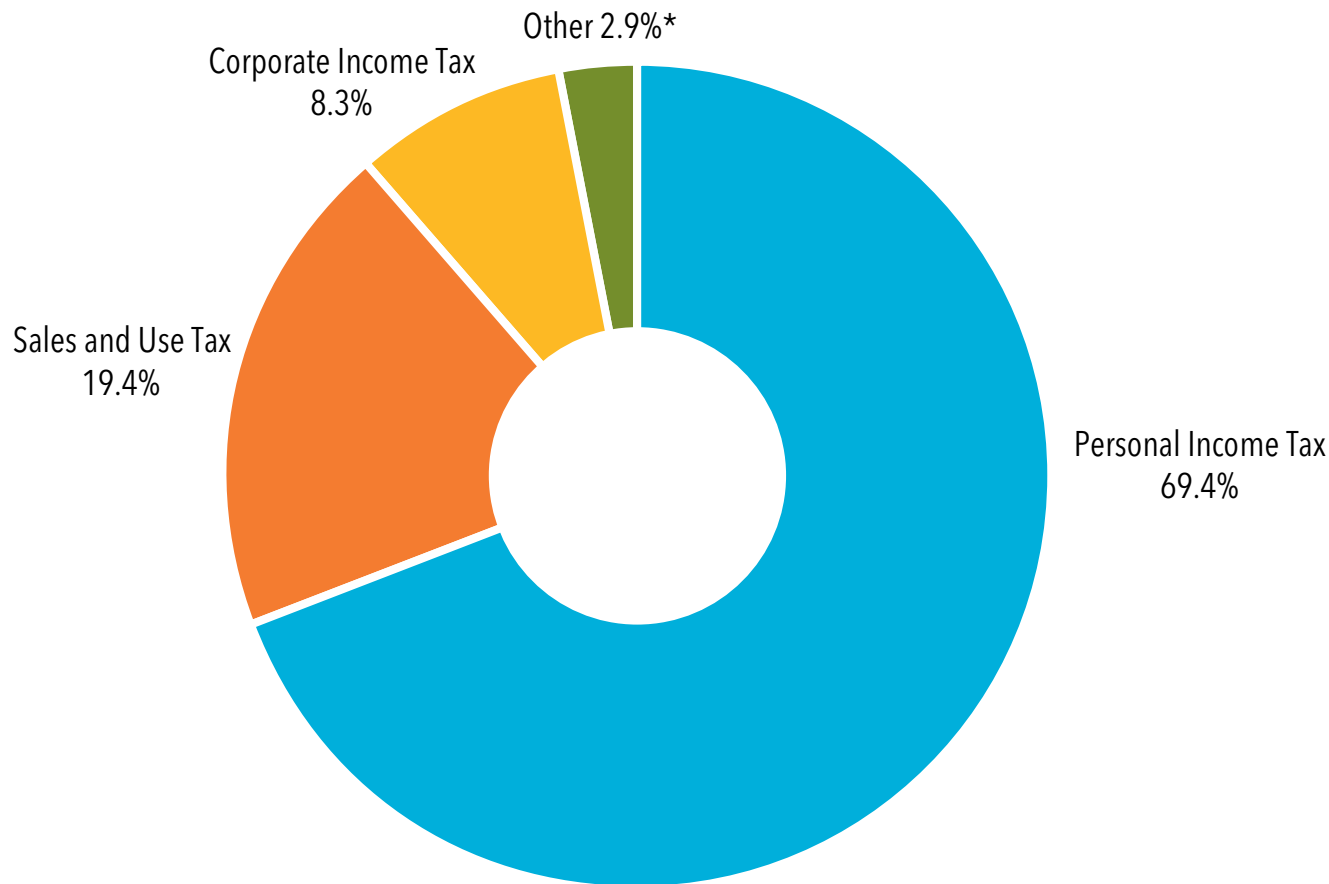
Stronger revenue forecast is largely driven by higher projections for personal income tax and sales and use tax revenues.

But Administration cautions that its revenue projections do not yet account for the recently enacted federal tax legislation.



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

Projected 2018-19 General Fund Revenues = \$134.8 Billion



Note: Reflects total projected General Fund revenues before a \$5.1 billion transfer to the state's rainy day fund, \$1.5 billion of which is required by Proposition 2 (2014).

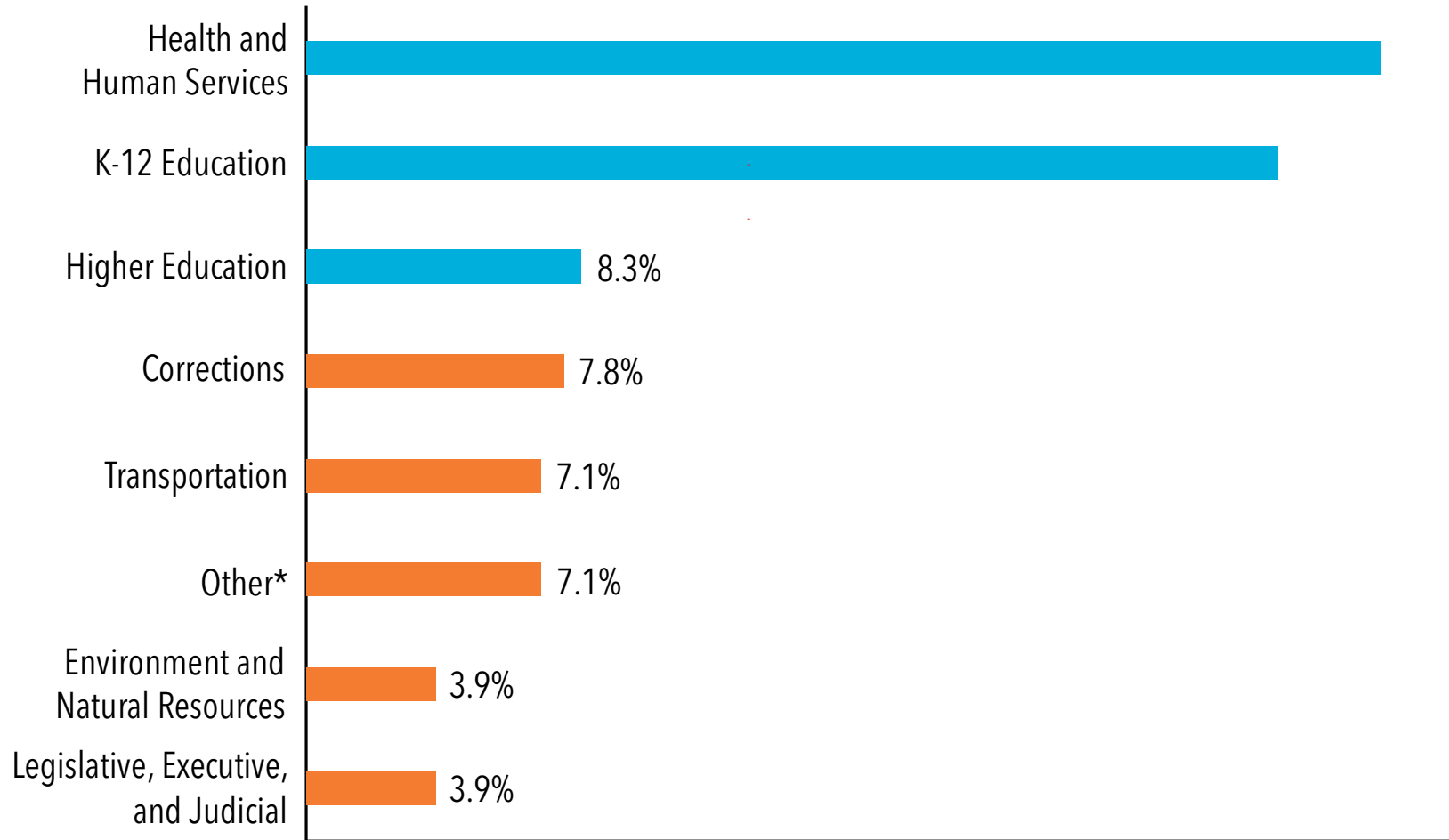
* Includes Highway Users Taxes, Insurance Tax, Alcoholic Beverage Taxes and Fees, Cigarette Tax, Motor Vehicle Fees, and other various additional sources of revenue.

Source: Department of Finance



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

Proposed 2018-19 General Fund and Special Fund Expenditures = \$187.8 Billion



*Includes Business, Consumer Services, and Housing; Labor and Workforce Development; Government Operations; and General Government.
Source: Department of Finance



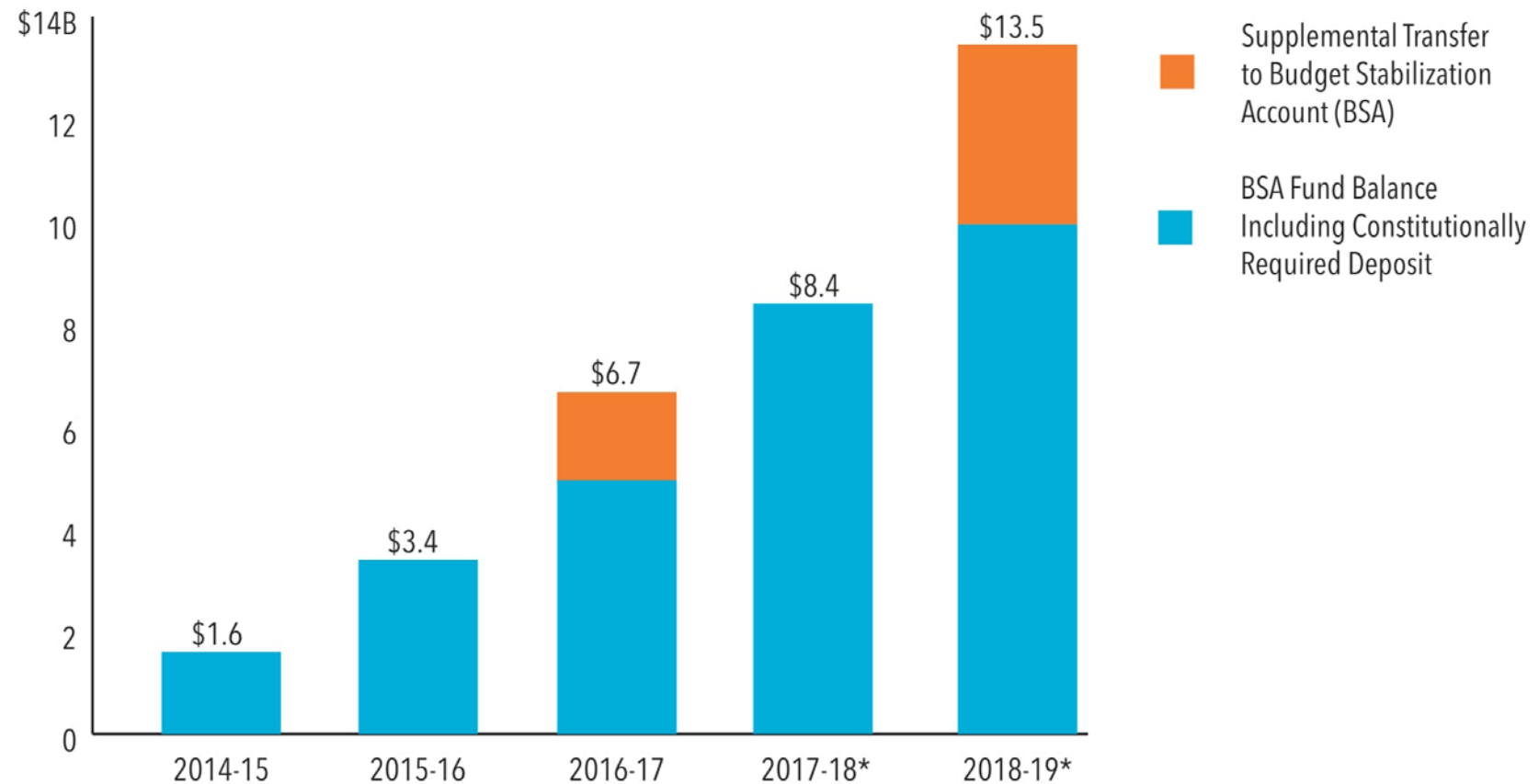
Governor opts to bring rainy day fund to its maximum level.

Proposed budget makes \$3.5 billion “supplemental” transfer to rainy day fund (beyond the \$1.5 billion that Prop. 2 requires), but this means these dollars are not readily available to respond to federal budget cuts or other future developments.



Budget Proposal Calls for Bringing the Rainy Day Fund to Its Maximum Level

Governor Proposes an Extra \$3.5 Billion Beyond What Proposition 2 Requires in 2018-19



* 2017-18 estimated and 2018-19 projected.
Source: Department of Finance



Proposed budget continues recent trend of reinvesting in K-12 education, community colleges, and higher education.



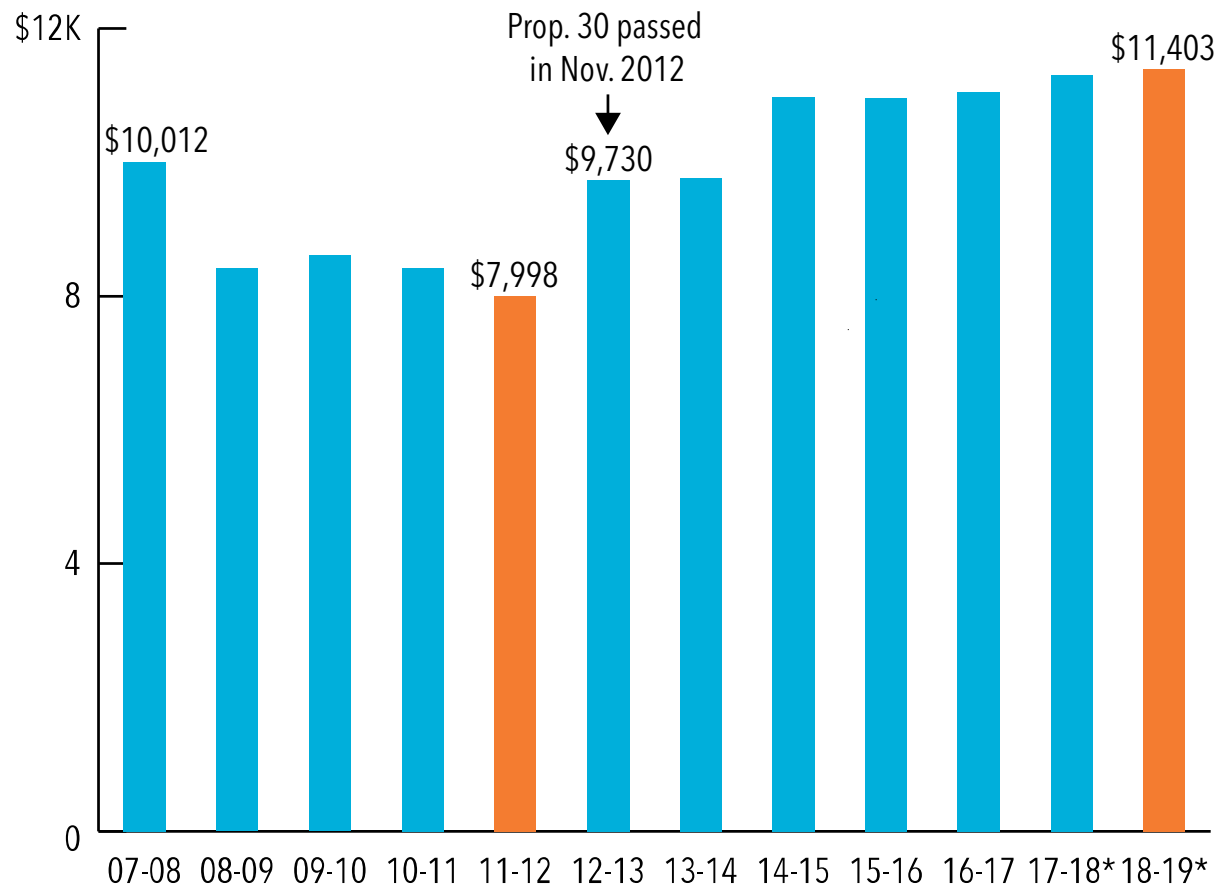
Budget proposal provides funding to support full implementation of Local Control Funding Formula (LCFF).

With \$2.9 billion increase in annual funding in 2018-19, state reaches full implementation two years faster than the eight years originally estimated.



Due to Higher Revenues, 2018-19 Spending Per Student Would Be More Than \$3,400 Above 2011-12

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



* 2017-18 estimated and 2018-19 proposed.

Note: Figures reflect 2018-19 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



Governor allocates \$175 million in 2018-19 for new funding formula for California Community Colleges.

Proposed 2018-19 budget also provides \$120 million, including \$100 million in one-time funding, to establish a fully online community college.



Governor Proposes New Funding Formula for California Community Colleges

The proposal would allocate general-purpose apportionments to CCC districts beginning in 2018-19 through three grants:

- A **base grant** (approximately 50% of funding) based on a per-Full-Time Equivalent Student (FTES) funding rate;
- A **supplemental grant** (approximately 25% of funding) based on the number of low-income students CCC districts enroll; and
- A **student success incentive grant** (approximately 25% of funding) based on each CCC districts prior year numbers of:
 - degrees and certificates granted;
 - students who complete a degree or certificate in 3 years or less; and
 - Associate Degree for Transfer granted.
- In 2018-19, funding for all CCC districts would be held harmless to the level that the district received in 2017-18.



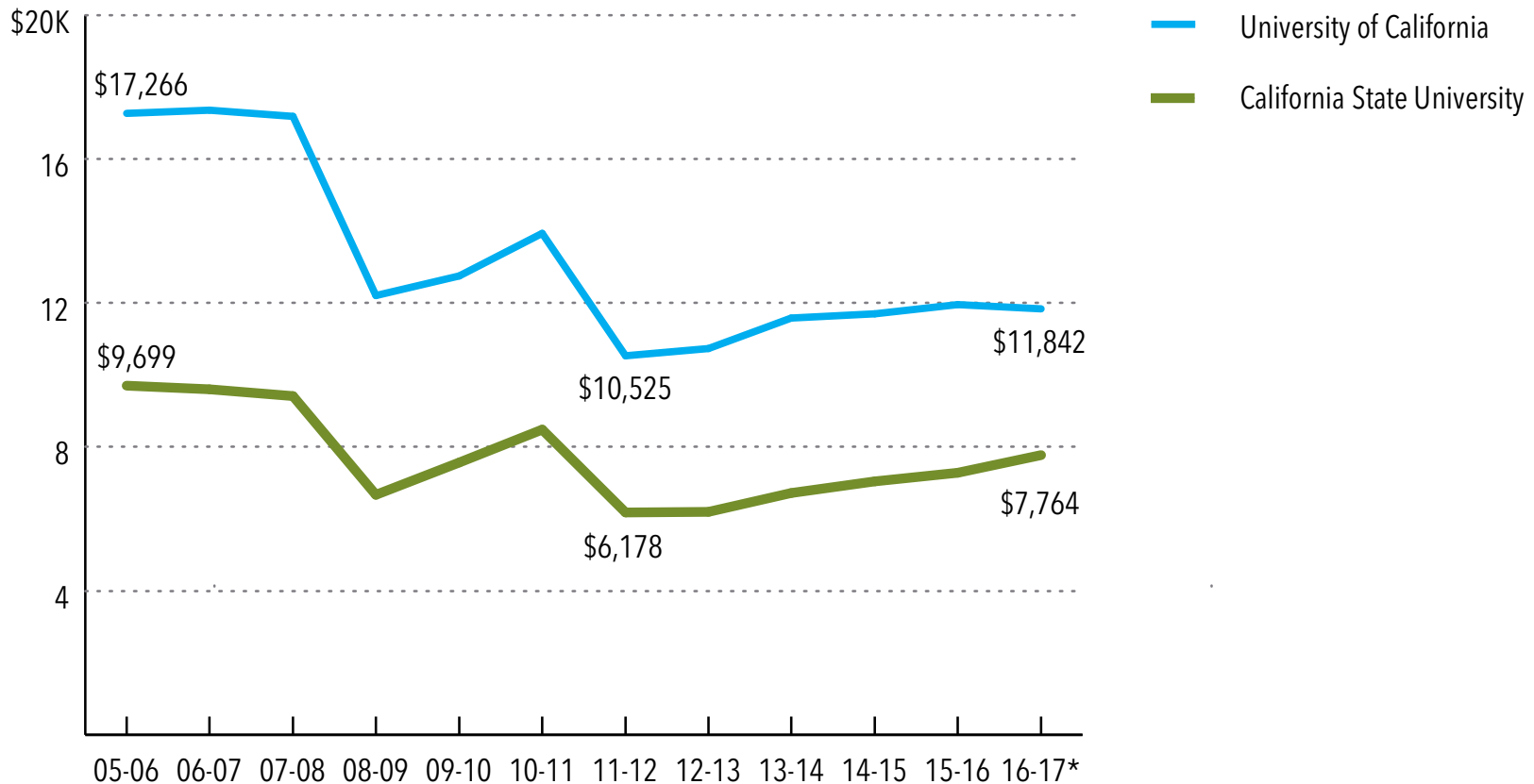
Proposed budget includes modest funding increases for CSU and UC.

Governor increases funding for both institutions by \$92.1 million in the coming year, though with the expectation that they will implement certain improvements.



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 2016-17 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



Proposed budget includes one-time funding for competitive grants for child care and preschool providers.

Budget also provides slight increase in payment rate for ECE providers contracting directly with the state, while continuing multiyear plan (approved in 2016-17 budget) to begin reinvesting in child care and preschool programs.



Proposal Includes One-Time Funding for New Early Care and Education Grants

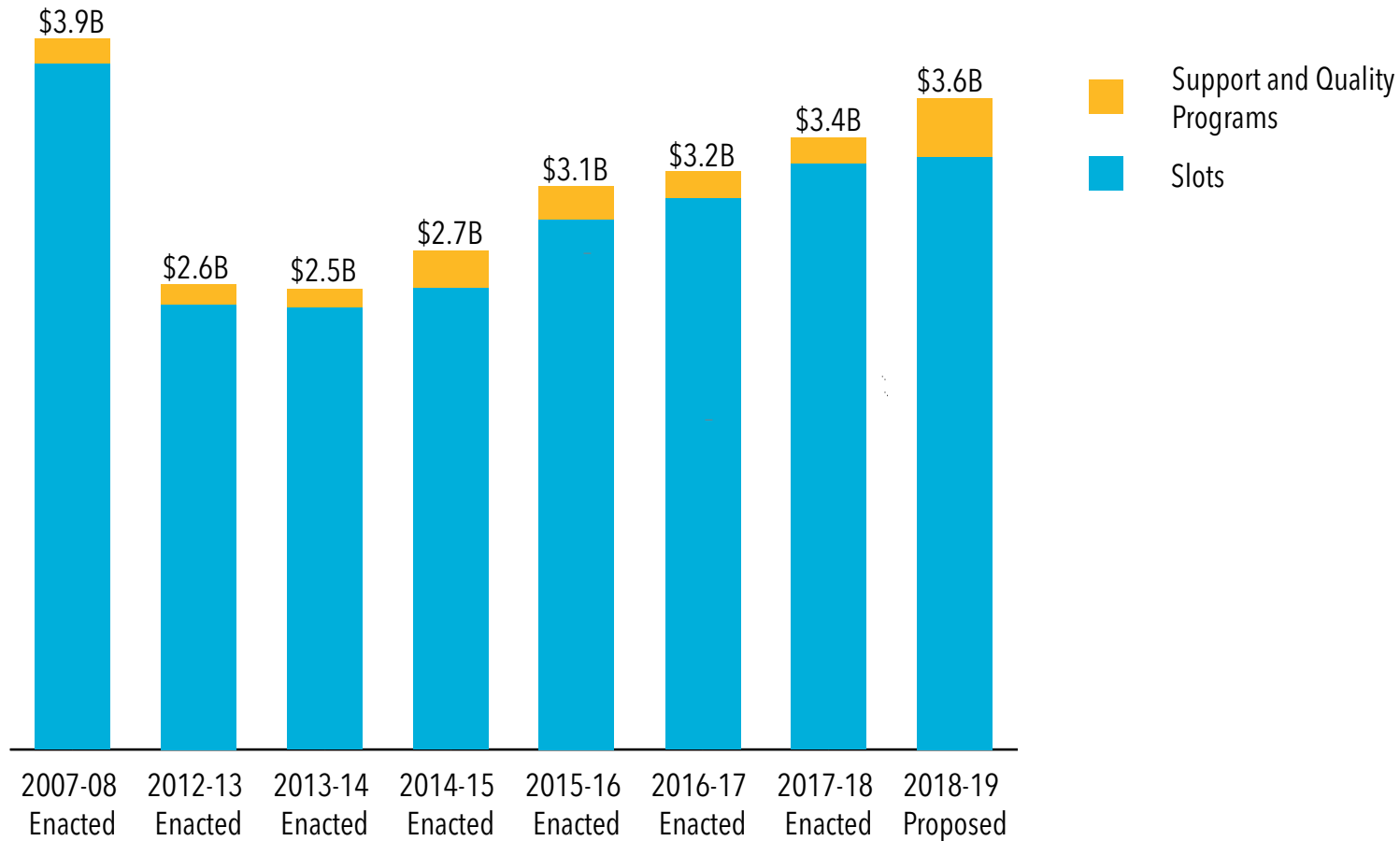
Through a competitive grant process, the Inclusive Early Education Expansion Program would distribute 167.2 million in one-time funds over five years to low-income and high-need areas. Specifically:

- Nearly three-quarters of the funds (\$125 million Proposition 98) would be for Local Education Agencies. The remainder (\$42.2 million federal TANF funds) would be for other child care and preschool providers.
- Funds are to be used for one-time funding for professional development and/or facility renovations or equipment and grantees must provide a 33% local match.
- Grantees would also have to demonstrate that they would serve additional children, but the funds may not be used for ongoing expenses, such as slots for more children.



Annual Funding for Child Care and Preschool Remains Well Below the Pre-Recession Level

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



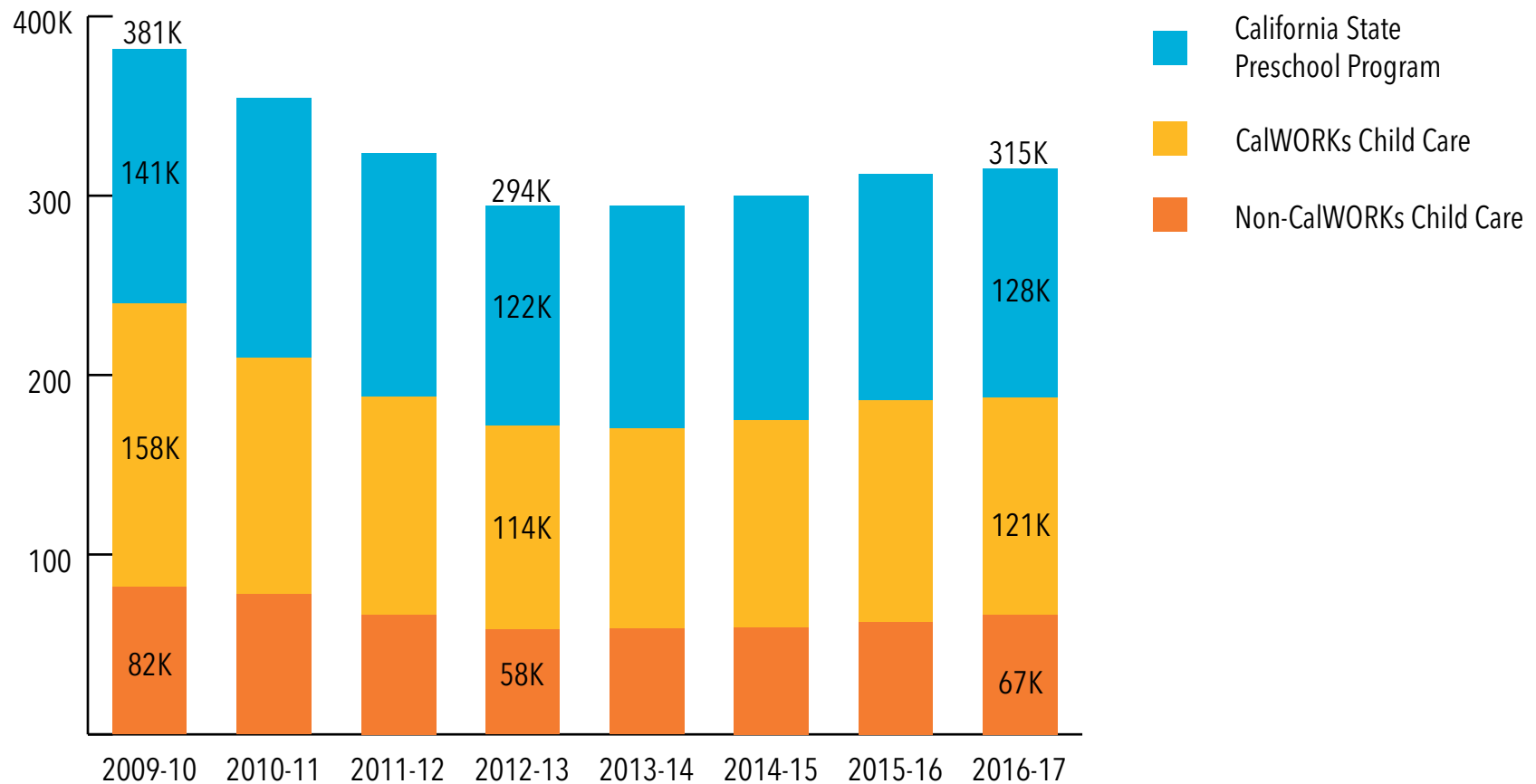
Note: Figures are in 2018-19 dollars and include federal and state funds for slots as well as for quality and support programs. Child care includes CalWORKs and non-CalWORKs programs. Preschool excludes Transitional Kindergarten.

Source: California Department of Education and Department of Finance



Enrollment in Subsidized Child Care and Preschool Has Not Recovered From Recession-Era Cuts

Average Monthly Number of Children Enrolled



Note: Figures are rounded to the nearest thousand. California Community Colleges CalWORKs Stage 2 data for 2016-17 reflect estimates, not actuals.
Source: California Community Colleges Chancellor's Office, California Department of Education, and Department of Social Services



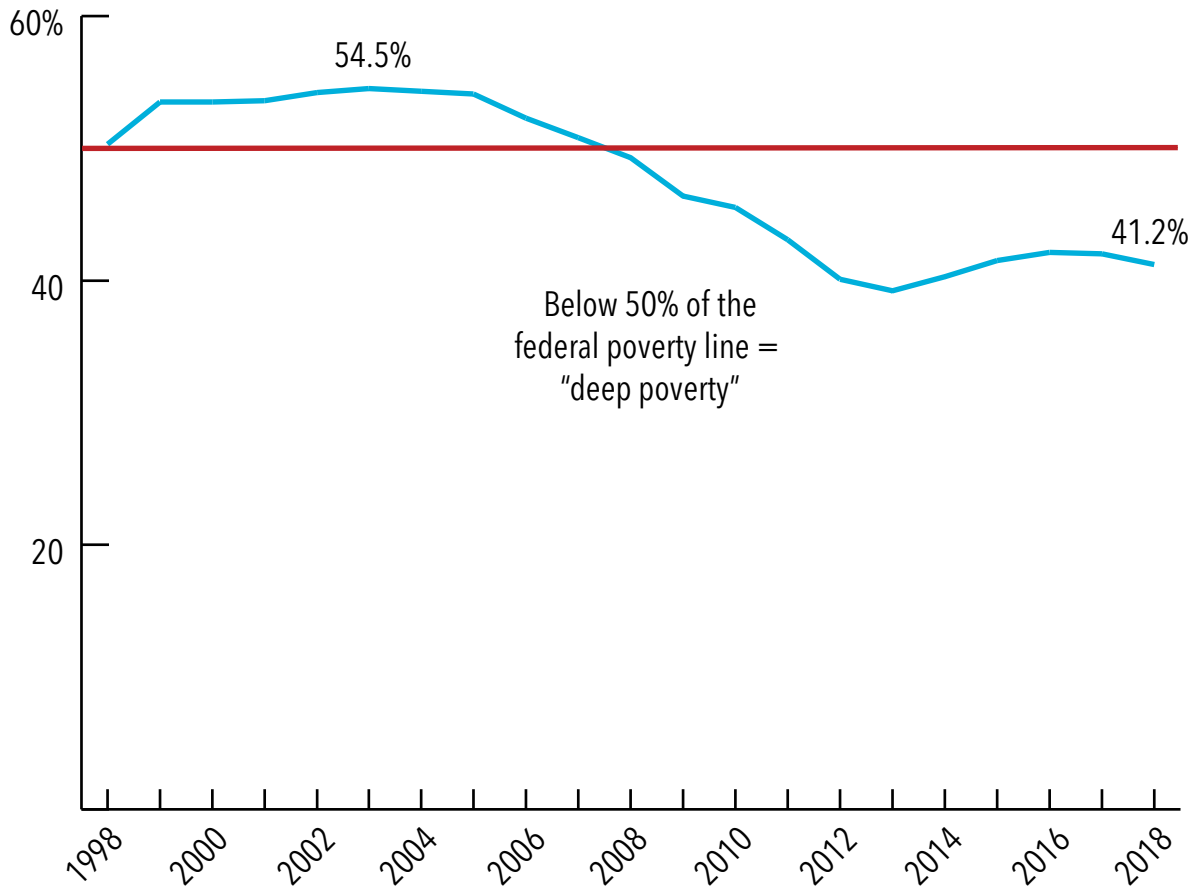
Budget includes one-time increase to CalWORKs “single allocation” and initiates home visiting pilot program.

Governor allocates \$158.5 million in federal (TANF) funds to offer home visiting pilot program through 2021. However, proposed budget does not increase CalWORKs grants or time limits.



Without an Increase in 2018-19, CalWORKs Grants Will Be Below the Deep-Poverty Line for the Eleventh Straight Year

Annualized Maximum Grant for a Family of Three as a Percentage of the Federal Poverty Line



Note: Grants are for high-cost counties. The proposed 2018-19 budget does not increase grant levels.
Source: Budget Center analysis of Department of Social Services, US Department of Health and Human Services, and US Social Security Administration data



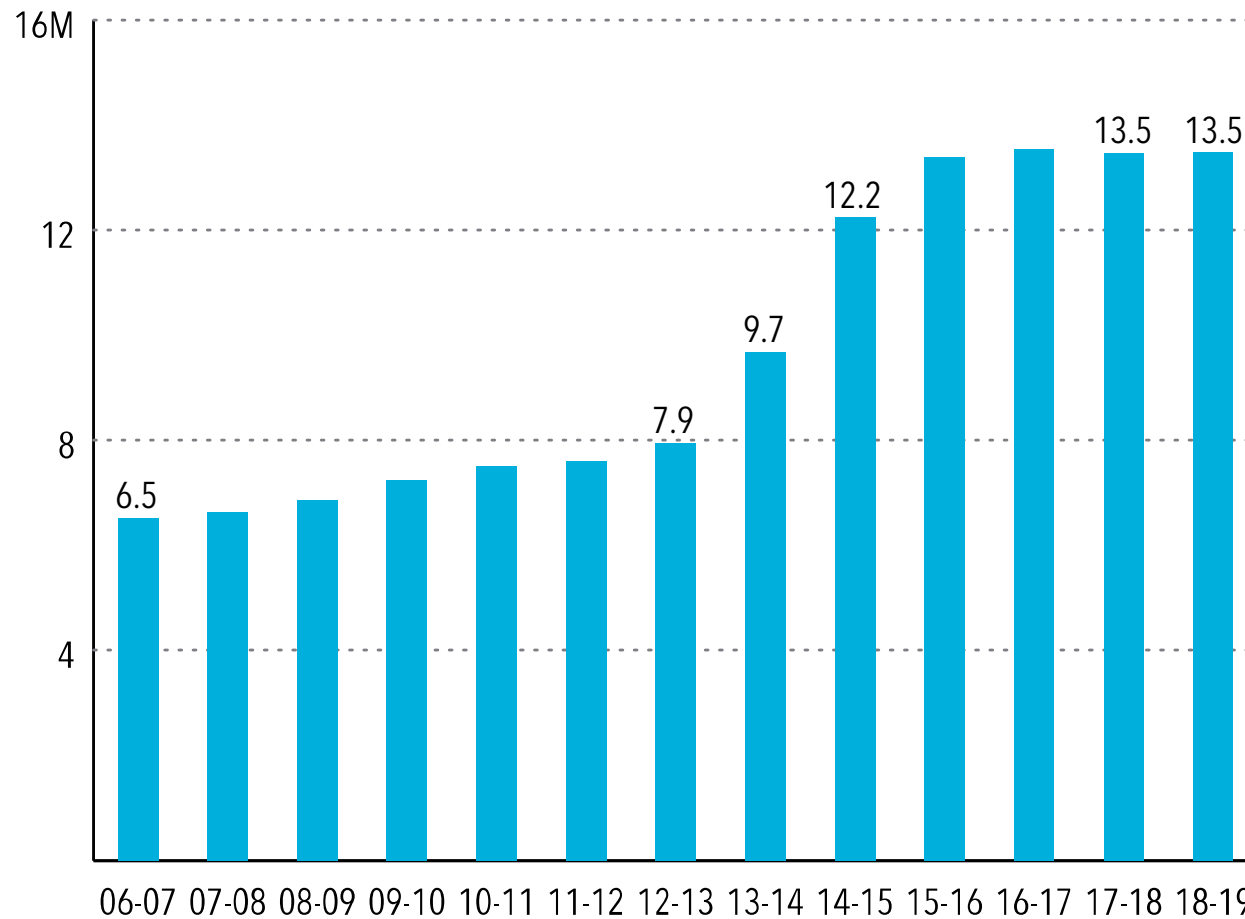
Governor acknowledges uncertainty over future of Affordable Care Act, but assumes current policies remain.

Proposed 2018-19 budget includes total Medi-Cal spending of \$101.5 billion, with roughly two-thirds (\$67.1 billion) being federal dollars.



Medi-Cal Enrollment Exceeds 13 Million, More Than Twice the 2006-07 Level

Enrollment Gains Have Been Due to Full Implementation of Health Care Reform

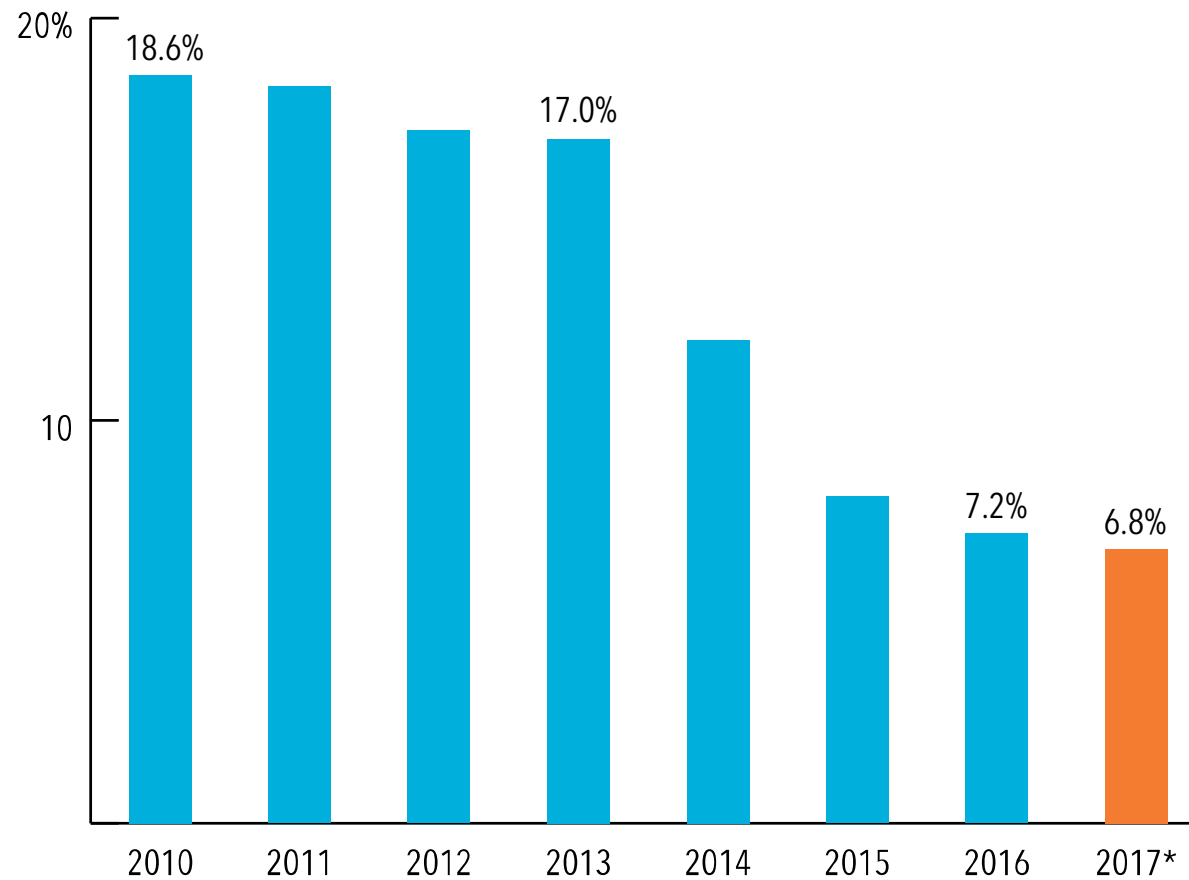


Note: Data for 2012-13 through 2017-18 are state estimates and 2018-19 is projected. Figures reflect average monthly enrollment.
Source: Department of Health Care Services



The Share of Californians Without Health Care Coverage Continued to Decline Into 2017

California Fully Implemented Federal Health Care Reform in January 2014



* January to June.

Note: Estimates are based on survey respondents' health care coverage status at the time of the interview.

Source: National Center for Health Statistics, National Health Interview Survey



Governor's budget assumed Congress would renew Children's Health Insurance Program (CHIP) funding at a lower funding level.

In the meantime, the Congressional budget deal reached in early February extends CHIP funding for 10 years.



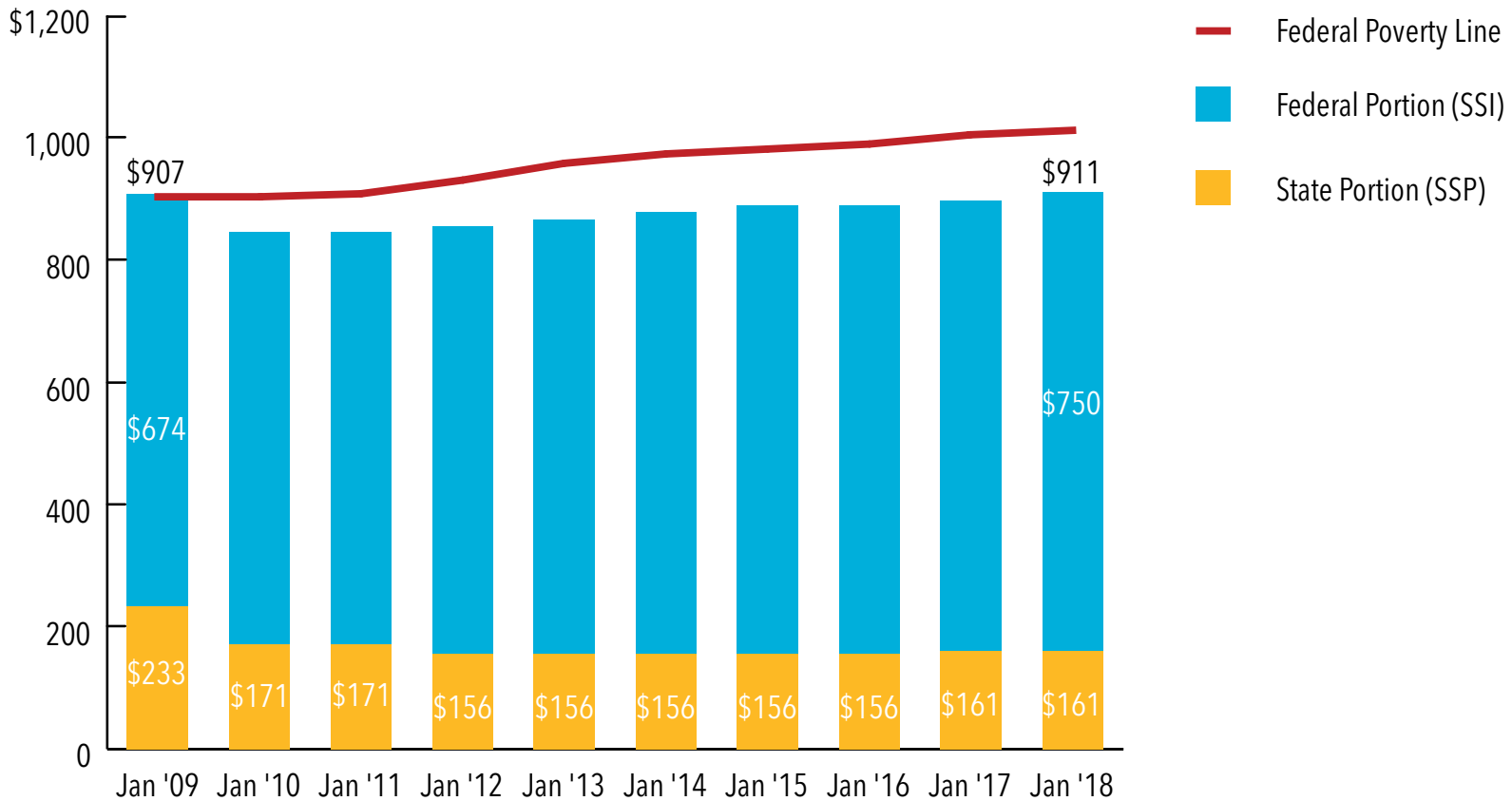
Proposed budget does not include an increase to the state (SSP) portion of SSI/SSP grants.

The current maximum SSI/SSP grant for individuals is equal to just 90% of the federal poverty line.



Due to State Cuts, SSI/SSP Grants Are Only \$4 Per Month Higher Than in 2009 and Remain Below the Poverty Line

Maximum Monthly Grant for Individuals Age 65 or Older or Who Have a Disability



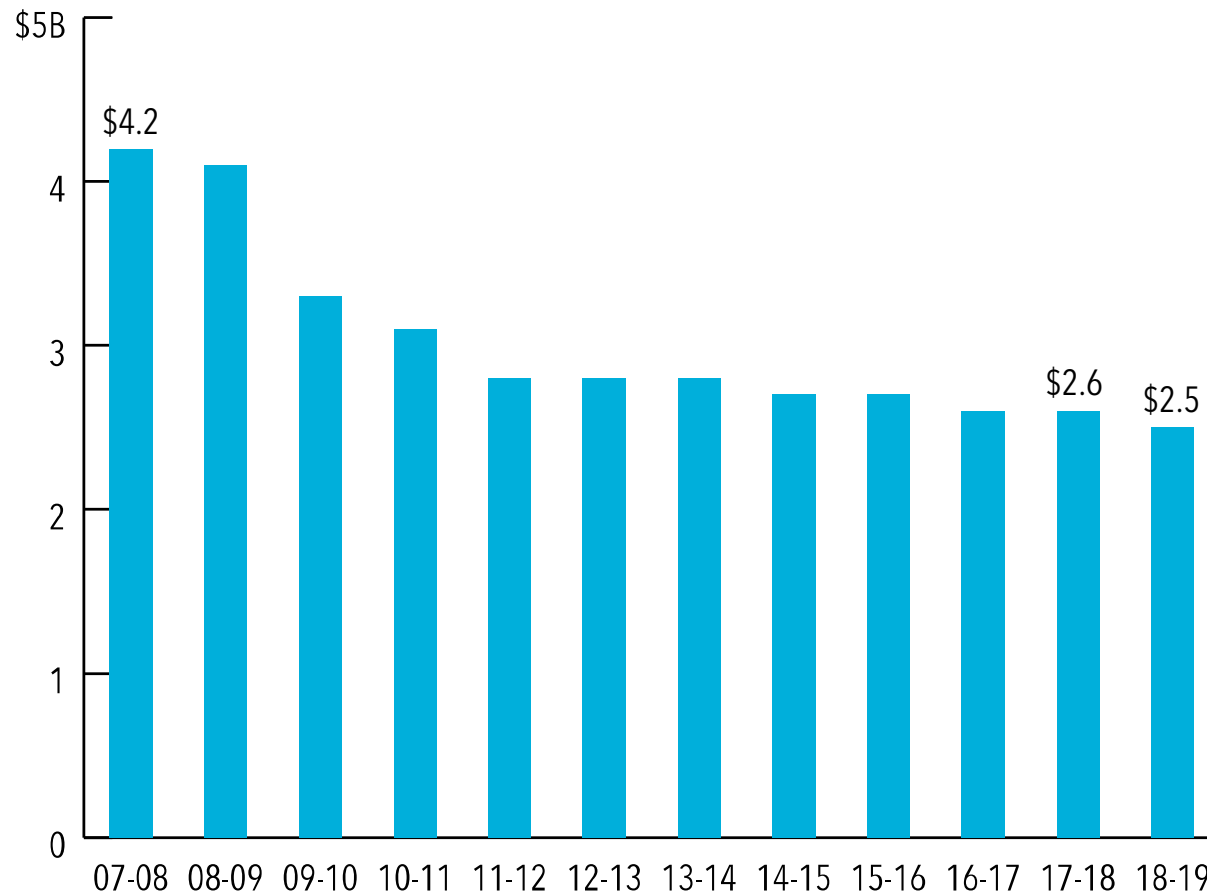
Note: The federal cost-of-living adjustment (COLA) for the SSI portion of the grant is projected to be 2.6% (\$20 per month) effective January 1, 2019. The Governor's proposed 2018-19 budget does not include a state COLA for the SSP portion of the grant in 2019.

Source: Department of Social Services and US Department of Health and Human Services



Due to Budget Cuts, State Spending for SSI/SSP Grants Is About 40% Below the 2007-08 Level

General Fund Expenditures in Billions, Inflation-Adjusted



Note: Figures are in 2018-19 dollars. All figures are estimates except for 2018-19, which reflects the Governor's proposed expenditure level.

Source: Department of Social Services



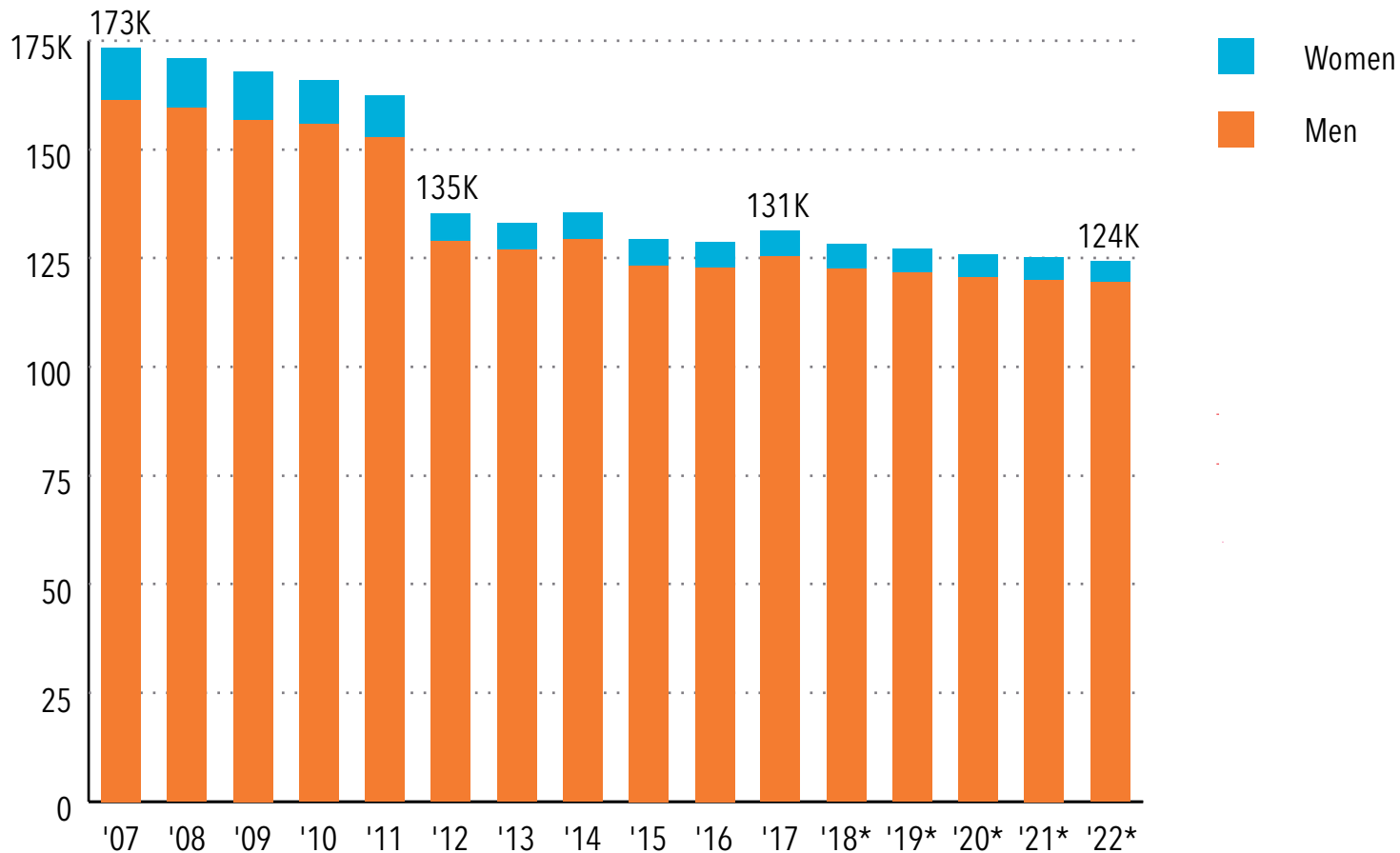
Governor's budget assumes a modest drop in incarceration through 2022 due to reforms.

Even with Prop. 57 (2016) and other reforms reducing the number of state prisoners, spending on state corrections – total and per incarcerated adult – remains high.



The Number of Adults Incarcerated at the State Level Is Projected to Decline by Just 5% From 2017 to 2022

As of June 30 of Each Year



* Projected.

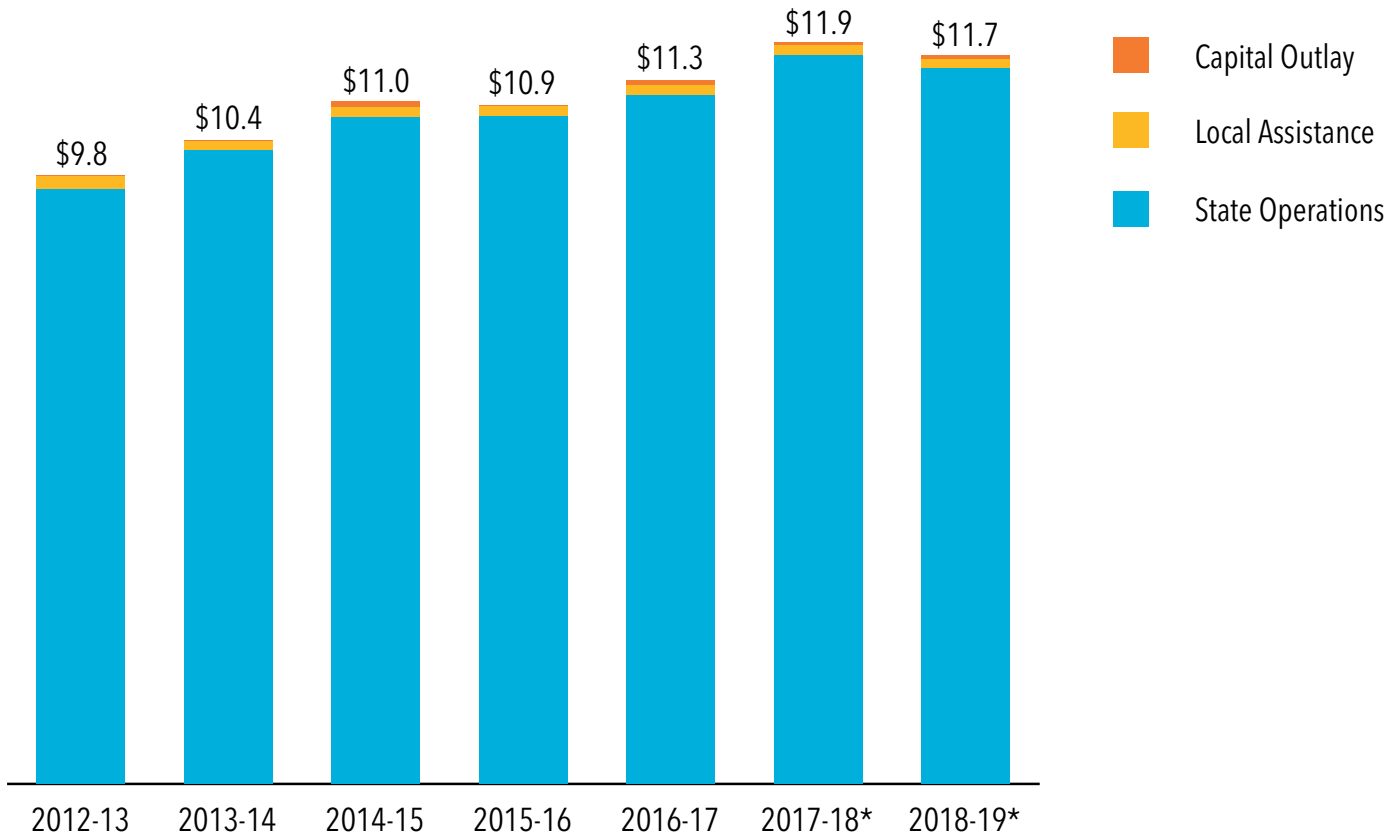
Note: Data reflect individuals housed in a range of facilities, including (but not limited to) prisons operated by the State of California and out-of-state correctional facilities.

Source: California Department of Corrections and Rehabilitation



State Support for the Department of Corrections and Rehabilitation (CDCR) Is Up Substantially From 2012-13

Inflation-Adjusted General Fund Dollars in Billions



* 2017-18 estimated and 2018-19 proposed.

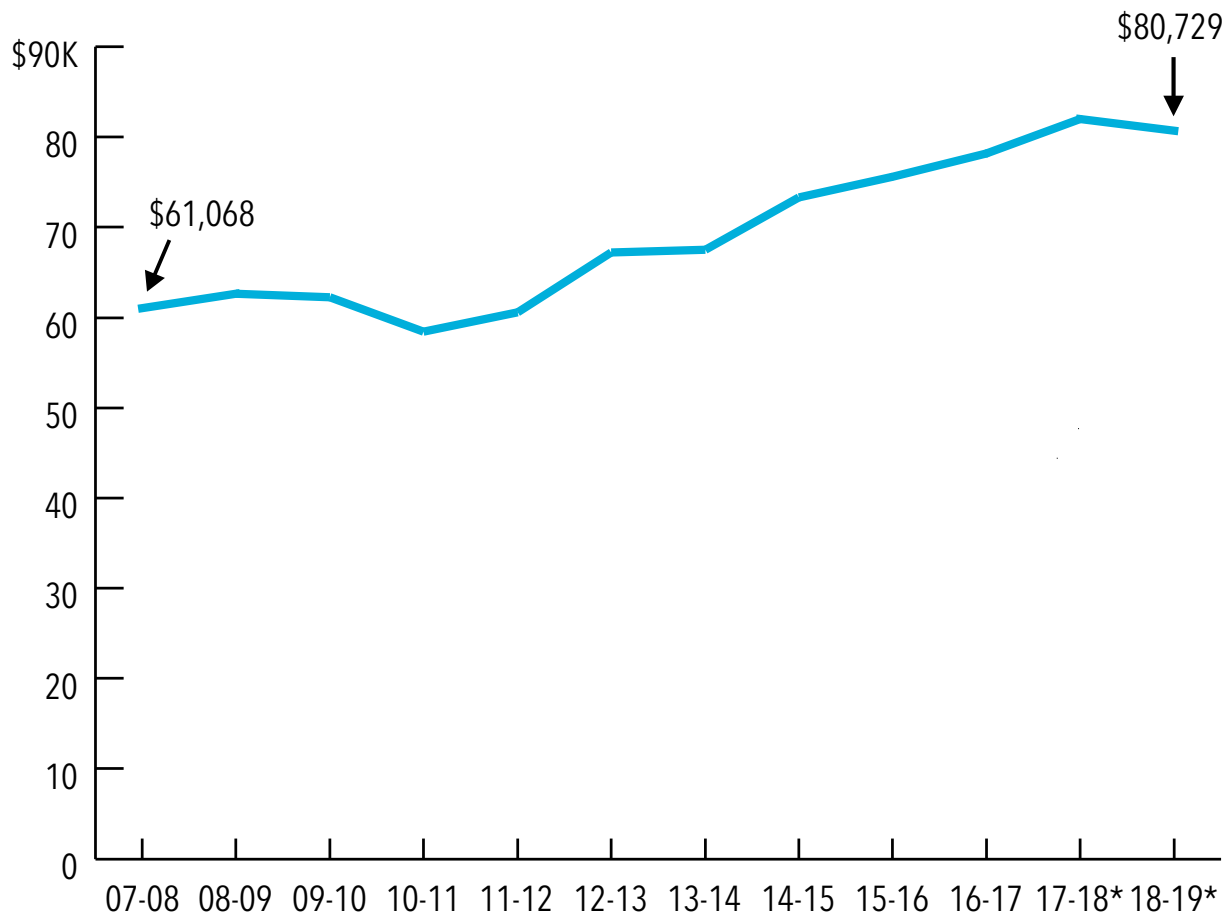
Note: Effective July 1, 2017, the CDCR assumed responsibility for operating 24-hour inpatient psychiatric care in three prisons. This change increased CDCR spending by roughly \$270 million beginning with the 2017-18 fiscal year. Figures reflect 2018-19 dollars.

Source: Department of Finance



Spending Per Incarcerated Adult Is Up by Nearly One-Third Since 2007-08

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



* 2017-18 estimated and 2018-19 proposed.
Note: Figures reflect 2018-19 dollars.
Source: Department of Finance



In a number of key areas, the Governor's proposed budget reflects implementation or continuation of previously enacted policies.



Other Core Elements of Governor's Proposed 2018-19 State Budget

- Continues to support, but proposes no changes to, California Earned Income Tax Credit (CalEITC)
- Reflects the first year (\$4.6 billion) of a 10-year, \$55 billion transportation funding package enacted in 2017.
- Includes proposals to implement the 2017 legislative housing package
 - Allocates \$245 million from a real estate transaction fee established by Senate Bill 2 for affordable housing and homelessness programs.
 - Anticipates voter approval in November 2018 of \$4 billion housing bond and allocates \$277 million in bond funds for Multifamily Housing Program.



Governor's budget maintains resources to address impact of federal actions on immigration.

Among other resources, the proposed budget includes \$45 million for legal services related to immigration status and maintains increased funding for the Attorney General's office to address federal actions.



What Happens Next? Key Issues to Watch



Some Key Issues and Questions to Watch Going Forward

- Impact of newly enacted federal tax law: What is the Governor's and Legislature's assessment of the effects of new tax policies? And how do they respond?
- Future federal actions: To what extent do Republican leaders follow through on threats to slash Medicaid, Medicare, food assistance, and other key supports?
- Legislature's response: Do Assembly and Senate push for greater investment in supports that help Californians to make ends meet?





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