Progressive Budgeting: Strategies for Challenging Times

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Direction of emerging federal policy...
Trump Budget: Tax Cuts For Heirs and Corporations, Cuts to Low- and Moderate-Income Programs

Costs or savings over ten years

- $2.5 trillion
  - Repeal estate tax
  - Cut the top corporate tax rate

- $2.5 trillion
  - Cuts to low- and moderate-income programs

*+$270 billion for repealing estate tax and $2.2 trillion for cutting top corporate rate to 15 percent. Plan also includes other tax cuts tilted to the top.

Source: Joint Committee on Taxation, Committee for a Responsible Federal Budget, and CBPP based on Office of Management and Budget and Congressional Budget Office
Budgets are statements about our values and priorities.
Key Themes

To shape budgets to reflect progressive values and priorities in a challenging national environment:

- Engage with budget processes that determine revenues from higher levels of government.
- Build resilience to deal with cuts from above.
- Raise own revenues from those who can most afford to contribute.
- Target expenditures to those who have been left out or left behind.
The Role of Revenues From Higher Levels of Government
State budgets = state funds + federal funds.

Local budgets = local funds + state funds + federal funds.
Federal Funds Account for More Than One-Third of California’s State Budget
Total Proposed 2017-18 Expenditures = $284.5 Billion

- Federal Funds: 36.9%
- State General Fund: 43.1%
- State Bond Funds: 0.8%
- State Special Funds: 19.2%

Source: Department of Finance
State and Federal Funds Combined Comprise Nearly Half of California’s Counties’ Revenues, 2012-13

* Reflects a range of smaller revenue sources, including other taxes, fines, licenses, and permits. Note: Data exclude the City and County of San Francisco. Source: State Controller’s Office
MUNICIPAL REVENUE RELIANCE & CAPACITY

- >82%
- 71 – 82%
- 60 – 70%
- <60%

Mean: 71%
Standard Deviation: 11%

Note: Shading shows average share of own revenues for municipalities within each state in FY2012.
Source: National League of Cities
Funds from higher levels of government often support specific systems and services.
More Than 7 in 10 Federal Dollars Spent Through the California State Budget Support Health and Human Services
Federal Funds Projected to Be Spent Through the State Budget in 2017-18 = $105.0 Billion

- Health and Human Services: 74.4%
- K-12 Education: 7.2%
- Labor and Workforce Development: 6.5%
- Higher Education: 4.9%
- Transportation: 4.7%
- Other*: 2.4%

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

Note: Percentages do not sum to 100 due to rounding.
Source: Department of Finance
Budget cycles determine opportunities to shape revenue decisions.

Decisions are made throughout the year, both in public settings and behind the scenes.
Navigating the State Budget Process

Each year the Governor and Legislature work to craft the state’s spending plan. While the January-to-June period gets the most attention, the process of developing the budget is an ongoing enterprise, giving Californians ample opportunity to stay engaged and involved year-round.

The Governor
The Governor has the lead role in developing the state budget. Each year the Governor proposes a spending plan, which is introduced as the budget bill in the Legislature. The Governor can sign or veto the budget bill passed by legislators as well as other bills in the budget package that make policy changes related to the budget. The Governor can also reduce or eliminate individual appropriations using the line-item veto.

The Legislature
The Legislature – made up of the Assembly and Senate – reviews the Governor’s proposed budget and crafts its own version of the spending plan. The Legislature can maintain, modify, or reject the Governor’s proposals, with review occurring through each house’s budget committee and related subcommittees. The Legislature must pass the budget bill, but not other bills in the budget package, by June 15. The Legislature can override a Governor’s veto by a two-thirds vote of each house.

The Public
The public has various opportunities for input during the budget process. Members of the public can meet with officials from the Governor’s administration and with legislators and their staffs, testify before budget committees and subcommittees, and write letters of support and opposition. Through individual engagement or as part of coalitions, members of the public can express their budget priorities and areas of concern.

In the months following the release of the Governor’s proposed budget, members of the public can testify at budget subcommittee hearings and meet with legislative staff and officials from the Governor’s administration to share budget priorities and discuss areas of concern.

After the release of the Governor’s proposed budget, members of the public can submit letters of support/opposition to budget subcommittees, meet with budget subcommittee staff and legislative leadership staff, and get involved with coalitions.

As the Governor’s proposed budget for the next fiscal year is being developed, members of the public can meet with officials from the Governor’s administration to share budget priorities and discuss areas of concern.

Summer to fall is also a good time for members of the public to get to know key legislative staff, educate them on particular issues, and suggest ideas that deserve a hearing in the year ahead.

Budget goes to Governor:
Governor signs budget package and may issue vetoes.

Late May:
Governor signs budget package and may issue vetoes.

Mid-May to early June:
Legislative leaders and Governor meet to address outstanding issues.

Budget goes to Governor:
Governor signs budget package and may issue vetoes.

Early June:
Legislative leaders and Governor meet to address outstanding issues.

Mid-May to early June:
State Assembly and Senate review the May Revision and move toward finalizing their versions of the budget in subcommittee hearings. A legislative conference committee may meet to resolve differences.

January to mid-May:
Full budget committees along with subcommittees in the state Assembly and Senate review the Governor’s proposed budget and begin to craft their versions of the annual spending plan.

By May 14:
Governor releases revised budget proposal (“May Revision”).

By June 15:
Legislature must pass a balanced budget.
Building Budget Resilience To Survive Revenue Cuts
Strategies To Build Resilience

• Create and support a rainy day fund, for capacity to deal with cuts thoughtfully.

• Diversify revenue sources, to minimize impact of decline in any single source.

• Build unrestricted/general funds, to maximize budgeting flexibility.
ENDING BALANCES AS A PERCENTAGE OF GENERAL FUND EXPENDITURES

Budgeted Ending Balance (%)  Actual Ending Balance (%)

Note: Reflects ending balance of general fund for a national sample of municipalities. Source: National League of Cities
Resilience is important for addressing other budget challenges, too.

Cuts from above are only one kind of budget stress.
GENERAL FUND REVENUE RECOVERY DURING RECENT RECESSIONS

Note: Reflects general fund revenues for a national sample of municipalities.
Source: National League of Cities
Raising Revenues From Those Who Can Most Afford To Contribute
Income Gains Widely Shared in Early Postwar Decades — But Not Since Then

Real family income between 1947 and 2015, as a percentage of 1973 level

Note: In 2014 Census split its sample of survey respondents into two groups to test a set of redesigned income questions. In 2015 (reporting on 2014 income using the new questions), Census released two estimates of 2013 incomes, one based on the old questions and one on the new. The chart uses the estimate based on the old questions, based on CBPP’s judgment that, due in part to sample size, it is likely more accurate for 2013.
Source: CBPP calculations based on U.S. Census Bureau Data
Only the Highest-Income California Households Have Seen Their Incomes Rebound From the Great Recession

Percent Change in Average Inflation-Adjusted Household Income, 2007 to 2015

- Bottom Fifth: -13.0%
- Second Fifth: -8.2%
- Middle Fifth: -5.3%
- Fourth Fifth: -2.4%
- Top Fifth: +0.9%

Source: Budget Center analysis of US Census Bureau, American Community Survey data
Wealth Is Even More Concentrated Than Income

Distribution of before-tax income, 2013

- Bottom 90 percent: 53%
- Top 3 percent: 31%
- Next 7 percent: 17%

Distribution of wealth, 2013

- Bottom 90 percent: 25%
- Top 3 percent: 54%
- Next 7 percent: 21%

Note: Percentages may not add to 100 percent due to rounding.
Source: Survey of Consumer Finances 2014
Progressive taxes have a track record of boosting shared prosperity.

Tax cuts at the top do not.
It's a New Day

Don't Give Up
On Kansas

Contact your legislator and tell them to override Brownback's veto

#OverrideTheVeto
What’s the Matter With Kansas? 2012 - 2017

- **Massive Income Tax Cut**
  - $700 million revenue loss
  - Bonds Downgraded

- **Job growth lags the nation**
  - Reserves Drained
  - School Funding Cuts

- **$900 million budget gap**
  - Tax cut reversed
“KANSAS’ FIVE-YEAR EXPERIMENT SHOWS US WHAT HAPPENS WHEN WE TRY TO TAX-CUT OUR WAY TO PROSPERITY, BUT THE LEGISLATURE’S ACTION REMINDS US THAT WE HAVE OTHER OPTIONS.”

— NICK JOHNSON, SENIOR VP FOR STATE FISCAL POLICY

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California Dreaming: 2012 - 2017

- Income Tax Rate Increases
- $6-9 Billion in Annual Revenues
- Bonds upgraded
- Job growth leads the nation
- Increased Reserves
- School funding increased
- $ for EITC, Min. Wage, Child Care...
- Income Tax Rate Increases Extended
Targeting Expenditures To Those Left Out Or Left Behind
Headwinds are strong...
But opportunity policies can be tailwinds
Twenty-nine States and DC Have Enacted EITCs, 2017

- States with refundable* EITCs (24)
- States with non-refundable EITCs (6)

*Refundable EITCs give working households the full value of the credit they earn even if it exceeds their income tax liability.
Source: CBPP analysis
Data are important for effective targeting.

Consider different ways of identifying needs and opportunities.
California Has the Highest Poverty Rate of the 50 States Under the Supplemental Poverty Measure (SPM)
State Poverty Rate Under the SPM, 2013-2015

California 20.6%

US 15.1%

Source: US Census Bureau
Enrollment in California’s Subsidized Child Care and Full-Day State Preschool Varies by Race and Ethnicity

Estimated Average Annual Number of Children Eligible for Subsidized Care = 1,589,000*

- **Latino**: 960K
  - 11.0% of Eligible
  - 119K
  - 9K

- **Non-Latino Asian**: 103K
  - 7.8% of Eligible

- **Non-Latino Black**: 41K
  - 31.8% of Eligible
  - 87K

- **Non-Latino White**: 38K
  - 18.2% of Eligible
  - 169K

*Average Annual Number of Children Enrolled in a State Program, 2013-2015

*Average Annual Number of Children Eligible for But Not Enrolled in a State Program, 2013-2015

*Estimate is an annual average of data for 2013 to 2015.
Note: Includes children enrolled in the full-day California State Preschool Program (CSPP).
Excludes children enrolled in the part-day CSPP. Data are not available for California Community Colleges CalWORKs Stage 2. Race and ethnicity data for CalWORKs Stage 1 are estimated.
Source: California Department of Education, Department of Social Services, and Budget Center analysis of US Census Bureau, Current Population 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

Cost-Burdened: Shelter Costs Exceed 30% of Household Income
Severely Cost-Burdened: Shelter Costs Exceed 50% of Household Income

- Renters: 54.2%
  - Cost-Burdened: 28.8%
  - Severely Cost-Burdened: 8.0%
- Homeowners With Mortgages: 38.8%
  - Cost-Burdened: 16.8%
- Homeowners Without Mortgages: 15.8%
  - Cost-Burdened: 8.0%

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
The Bottom Line

- Budgets are about **more than dollars and cents**.

- Protecting and **shaping budgets to reflect progressive values and priorities** involves:
  - Engaging to protect **revenues from higher levels of government**.
  - Building budget **resilience**.
  - Raising revenues from **those who can most afford to contribute**.
  - Targeting expenditures to **those left out or left behind**.
Budgets are statements about our values and priorities.
Progressive Budgeting Resources

cbpp.org

statepriorities.org