



California Budget
& Policy Center

California Budget Perspective 2017-18

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The Governor's Proposed 2017-18 Budget:

Key Timelines and Federal Context



Federal Proposals That Could Impact This Year's Budget Debates

- Repealing the Affordable Care Act (ACA), including Medicaid (Medi-Cal), with no real replacement
- Dismantling the current safety net through block grants and caps on Medicaid and SNAP (food assistance)
- Deep federal budget cuts to discretionary program and entitlements
- Major tax cuts for the wealthy and corporations that would force deeper cuts



Federal Timelines and Uncertainty for the Governor's Proposed 2017-18 Budget

- February – March
 - President releases budget “preview”
 - House acts on FY 2017 reconciliation bill to repeal ACA
 - Treasury’s ability to issue debt expires 3/16.
 - Congress starts work on final FY 2017 appropriations.
- April – June
 - Senate may act on ACA repeal
 - House may begin tax cut bill
 - Congress finishes FY 2017 appropriations – 4/28
 - Congress adopts FY 2018 budget resolution, with reconciliation instructions for tax and spending cuts.



The Governor's Proposed 2017-18 Budget: Timeline

- February – April: Legislative budget committees and subcommittees conduct hearings and advance budget proposals.
- Governor releases May Revision to proposed 2017-18 budget.
- Legislature adopts spending plan and sends to the Governor by June 15th.
- Governor signs and enacts 2017-18 budget by June 30th.



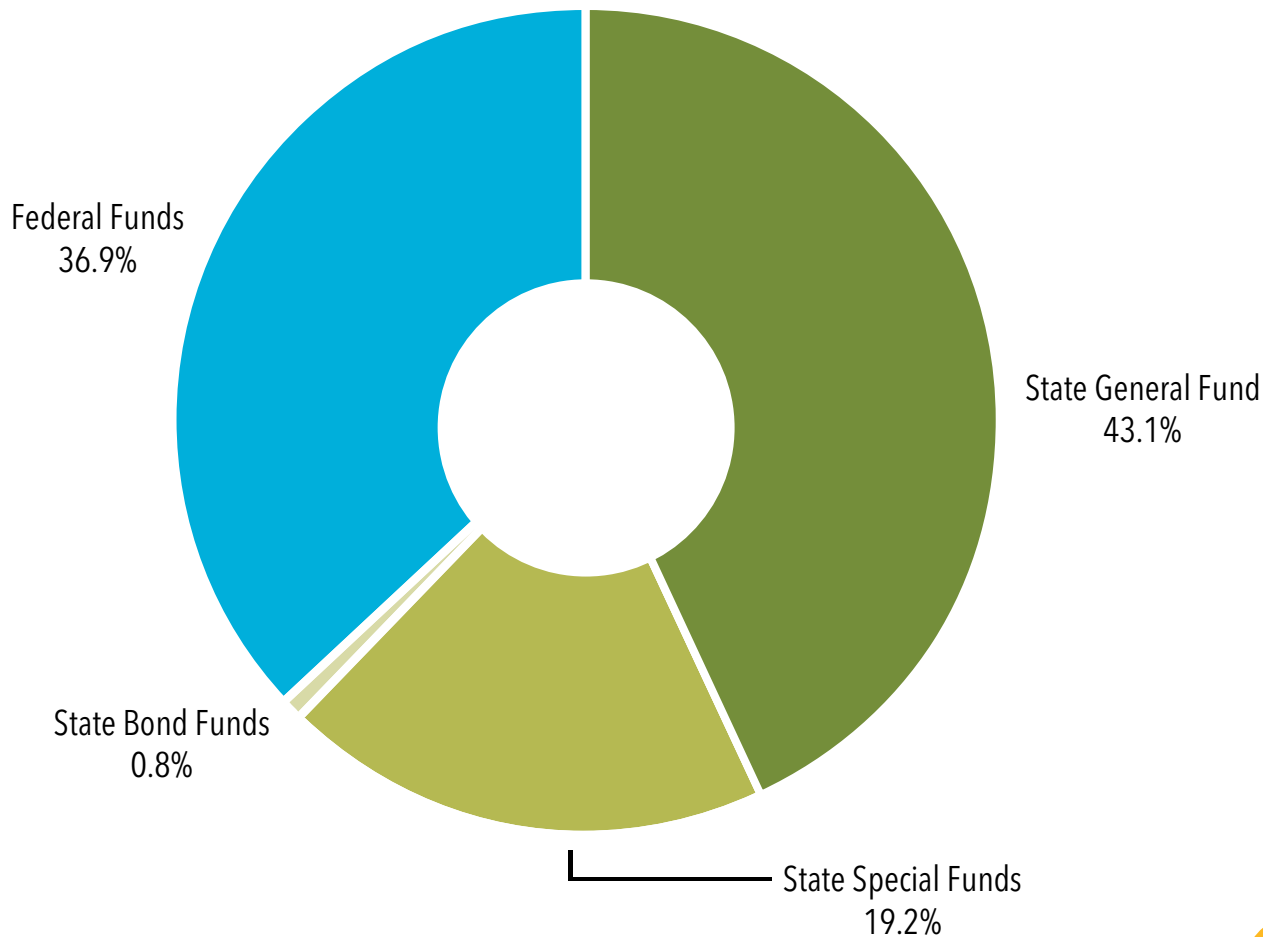
The Federal Backdrop to the State Budget

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 2017-18 Expenditures = \$284.5 Billion

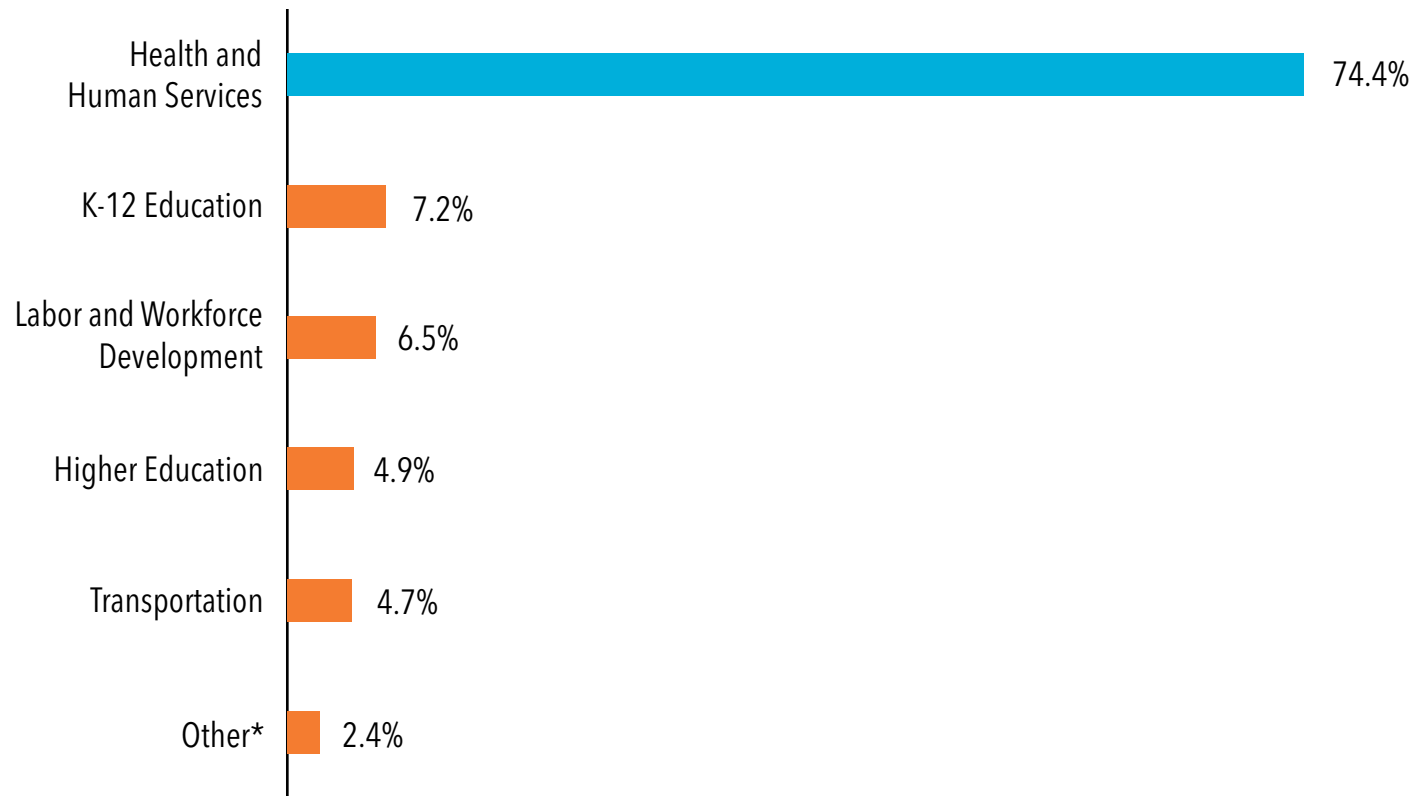


Source: Department of Finance



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

Federal Funds Projected to Be Spent Through the State Budget in 2017-18 = \$105.0 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.

Note: Percentages do not sum to 100 due to rounding.

Source: Department of Finance



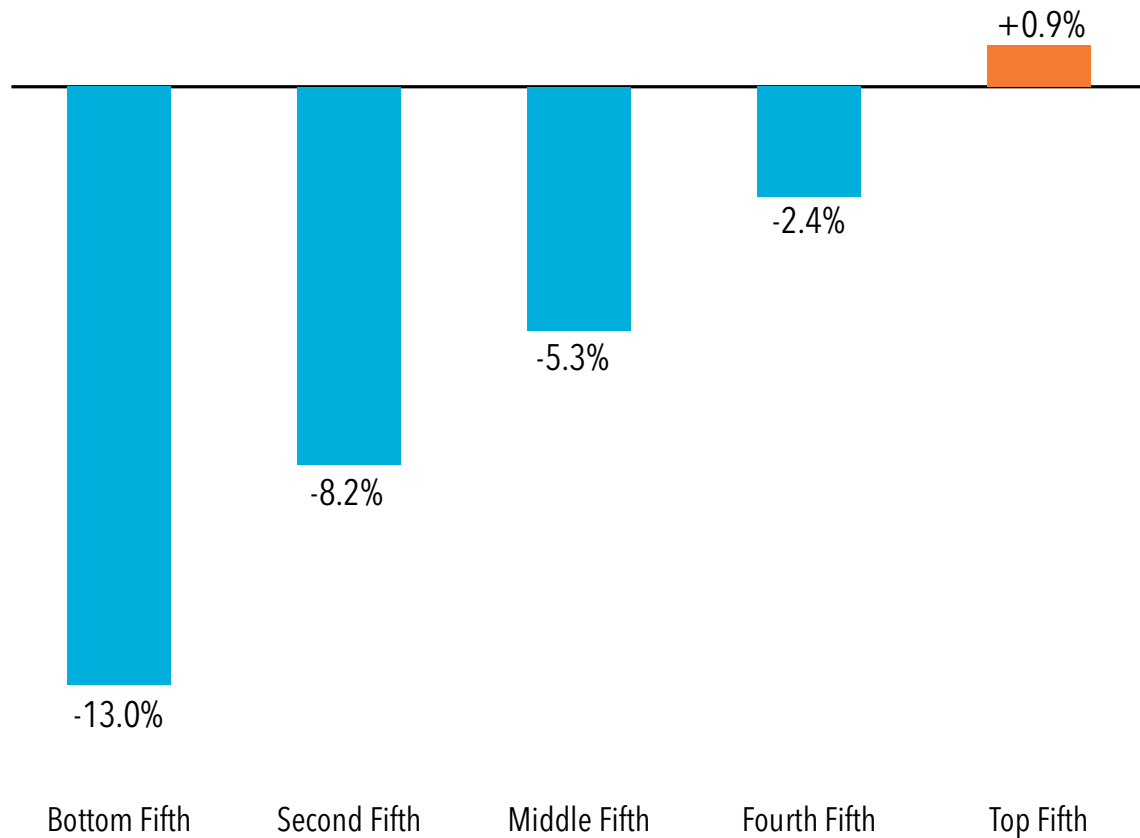
The Social and Economic Context of the State Budget

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



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

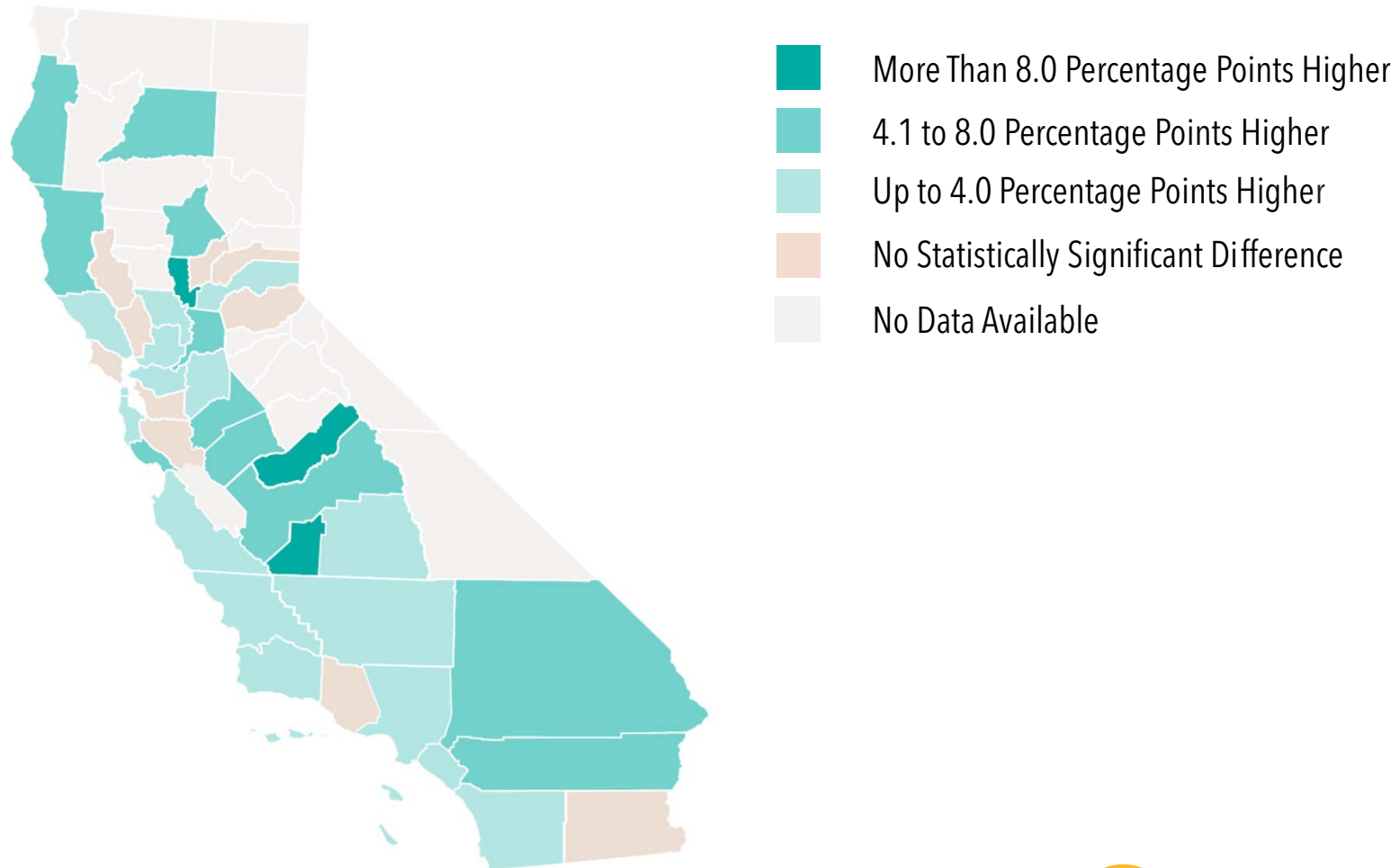


Source: Budget Center analysis of US Census Bureau, American Community Survey data



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

Percentage-Point Difference in Official Federal Poverty Rate Between 2007 and 2015

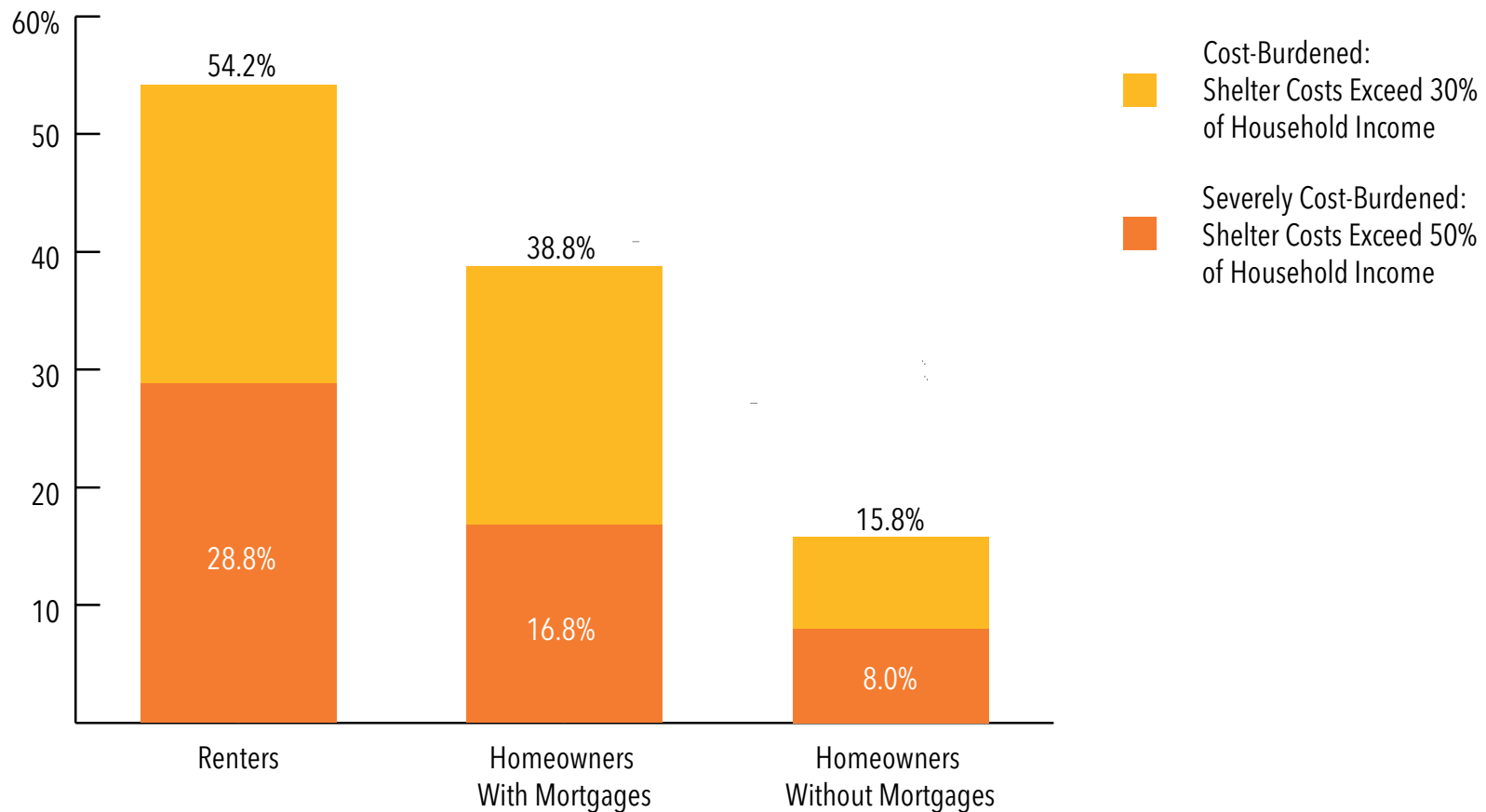


Source: Budget Center analysis of US Census Bureau, American Community Survey data



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



The Governor's Proposed 2017-18 Budget: Top Lines

- Assumes current federal policies and funding levels
- Forecasts \$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 emphasis on building up reserves and paying down state budgetary debt



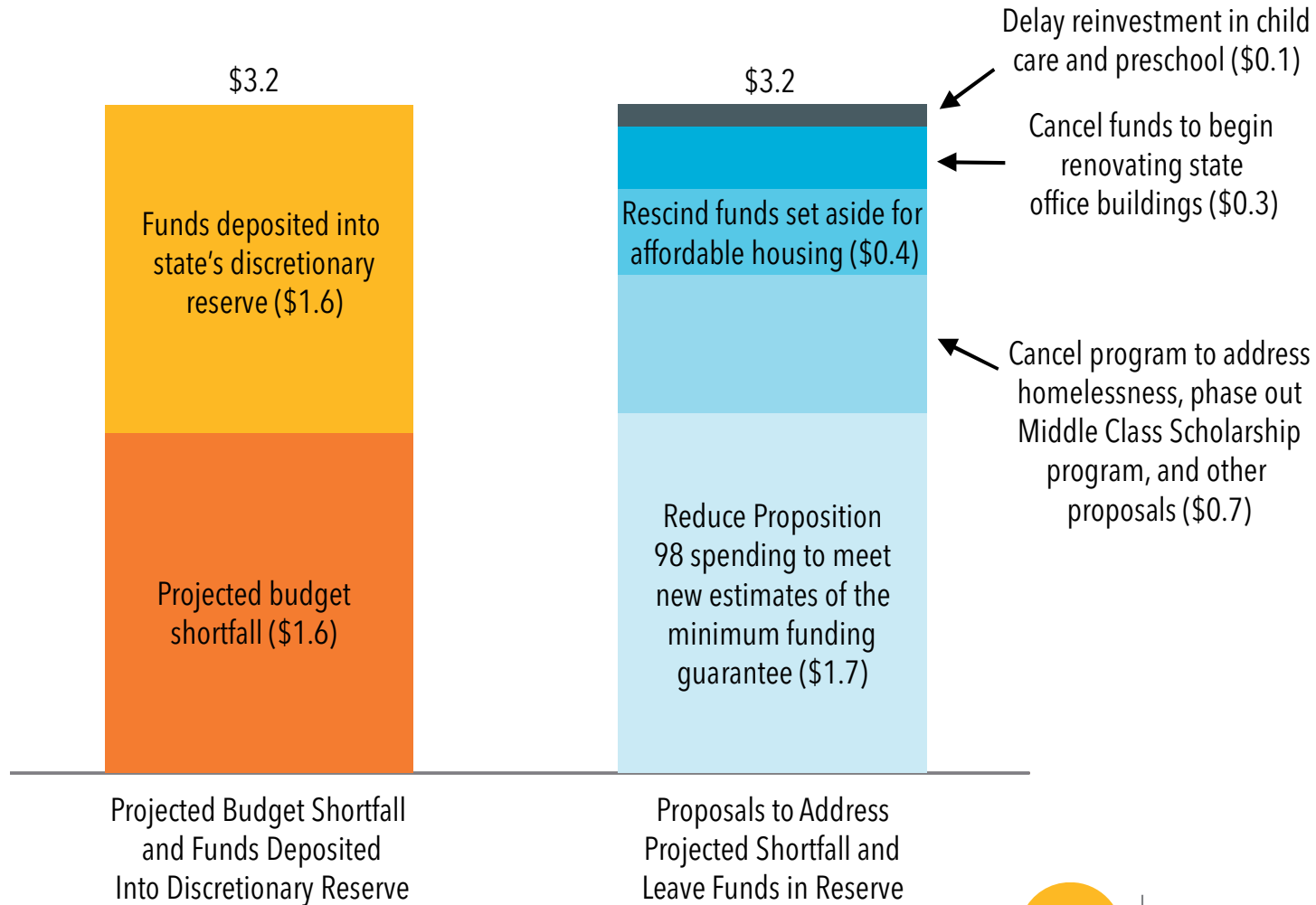
Closing the Gap: The Governor's Plan for Balancing the 2017-18 Budget

- Rescinding one-year spending commitments that had been included in the 2016-17 budget:
 - \$400 million set aside for affordable housing
 - \$300 million intended for renovation of state buildings
 - \$45 million for a new housing and disability program.
- Delaying a multiyear plan adopted in 2016 to reinvest in the state's child care and development system.
- Reflecting slower growth of K-14 funding and beginning to phase out the Middle Class Scholarship Program by not providing any new grants.



Governor's Proposal Would Close Projected \$1.6 Billion Budget Gap in 2017-18 With \$3.2 Billion in "Solutions"

State General Fund, Dollars in Billions



Source: Legislative Analyst's Office



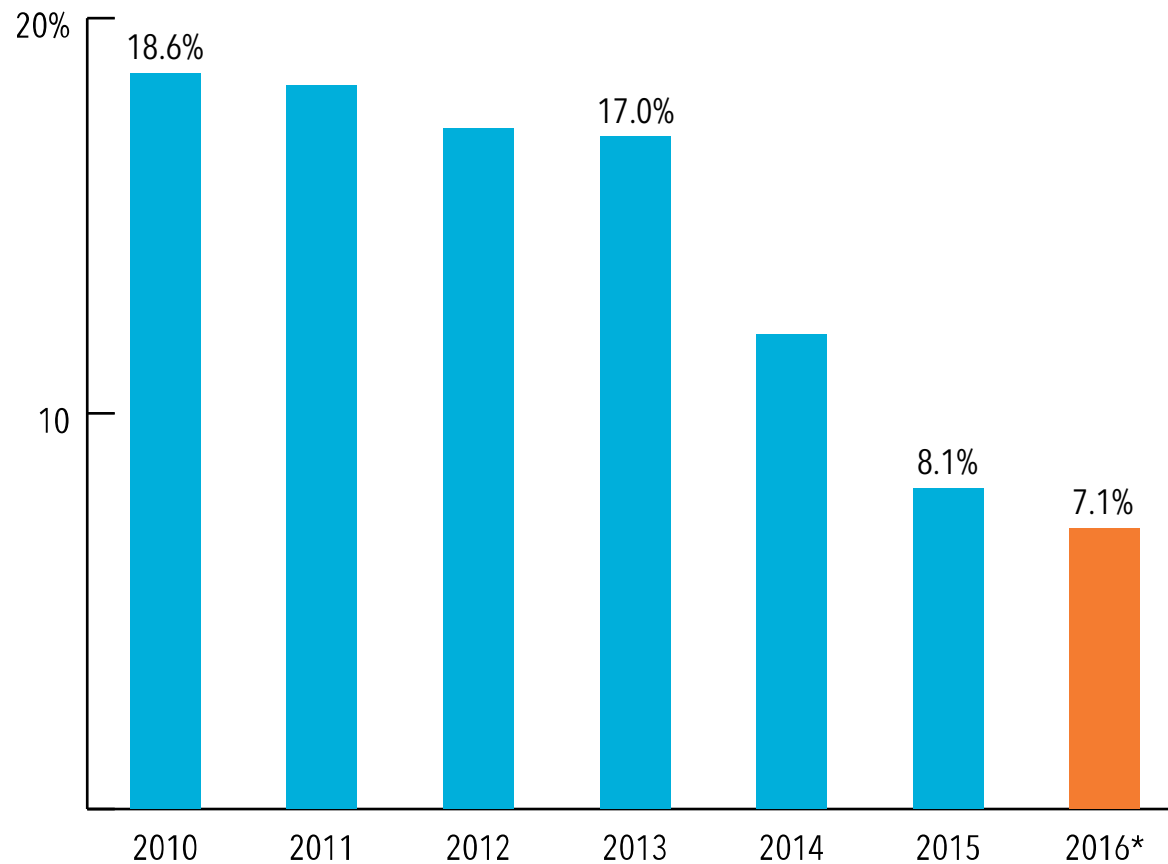
Proposed budget emphasizes uncertainty as to fate of the federal Affordable Care Act.

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).



The Share of Californians Without Health Care Coverage Continued to Decline Into 2016

California Fully Implemented Federal Health Care Reform in January 2014



* January to September.

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

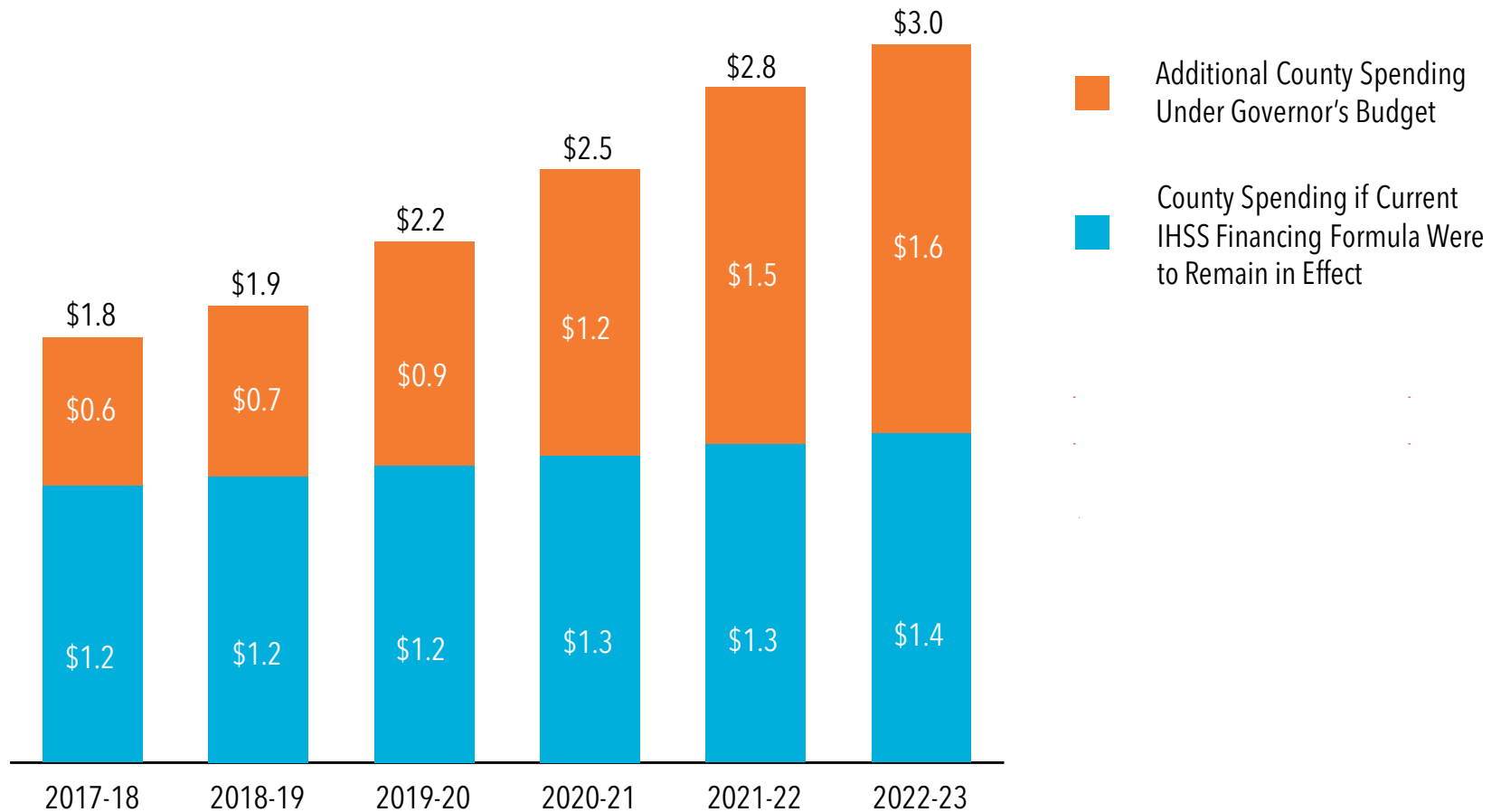


Governor proposes to shift additional In-Home Supportive Services (IHSS) costs to counties.



Counties' Share of Costs for In-Home Supportive Services Would Rise Substantially Under the Governor's Budget

Projected Annual County IHSS Expenditures, Dollars in Billions



Note: Counties and the state share the nonfederal costs of the IHSS Program. Subtotals may not sum to totals due to rounding.

Source: County Welfare Directors Association of California

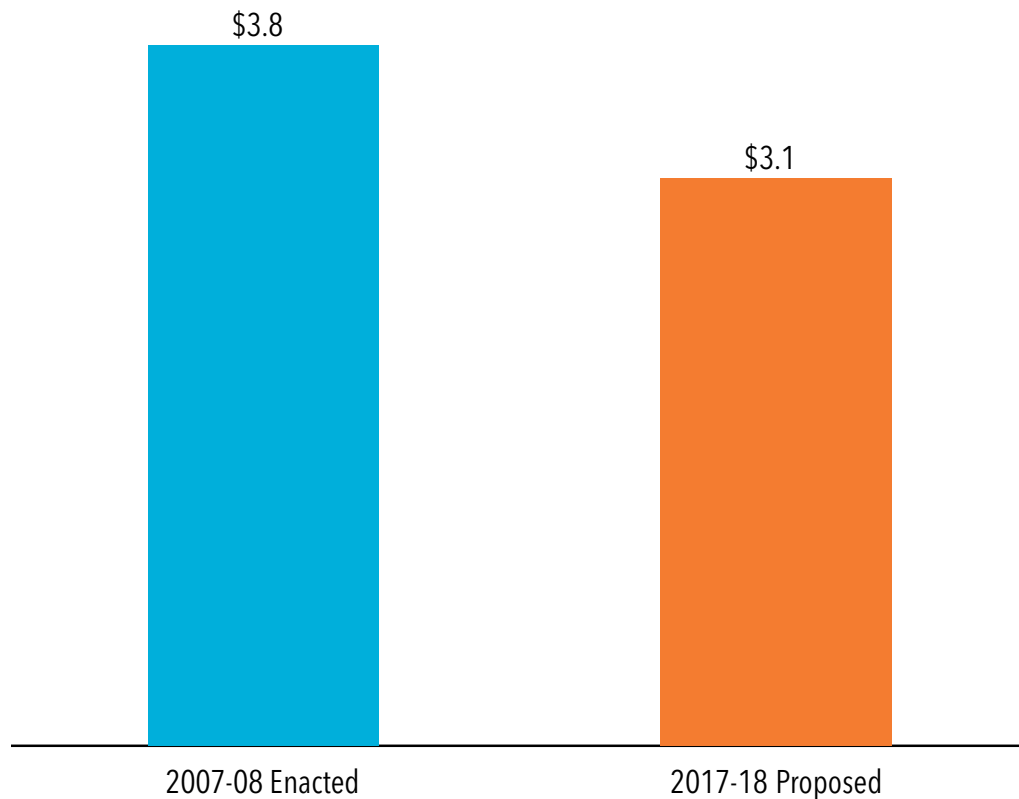


**Proposed budget “pauses,”
until next year, plan approved
in 2016 to reinvest in early
care and education.**



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

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



Note: Figures are in 2017-18 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 budget includes no new investment in key public supports for Californians with low incomes.

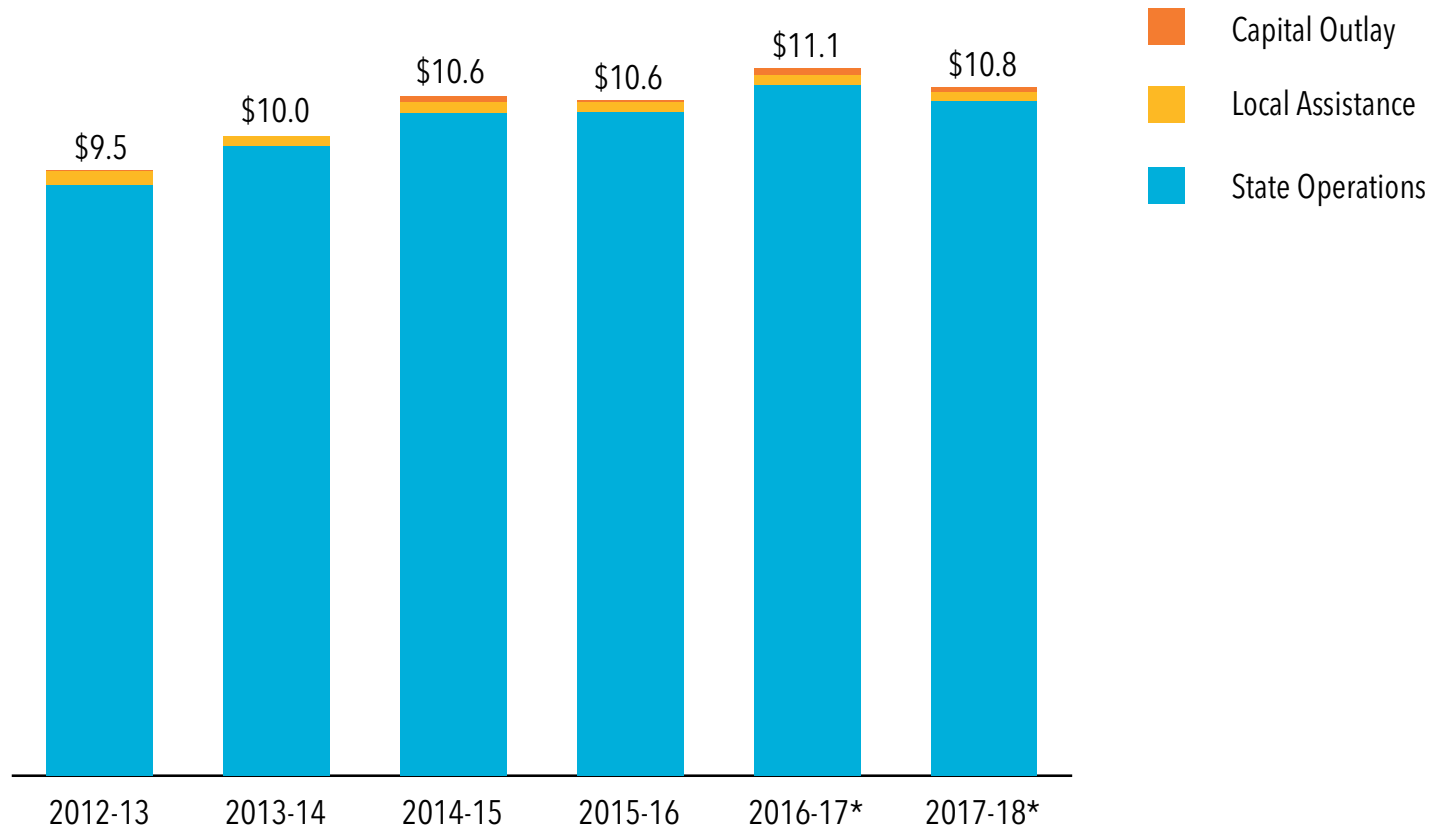


State corrections spending remains high despite the major criminal justice reforms adopted in recent years.



General Fund Support for the Department of Corrections and Rehabilitation Is Up by \$1.3 Billion Since 2012-13

Inflation-Adjusted Dollars in Billions



* 2016-17 estimated and 2017-18 proposed.

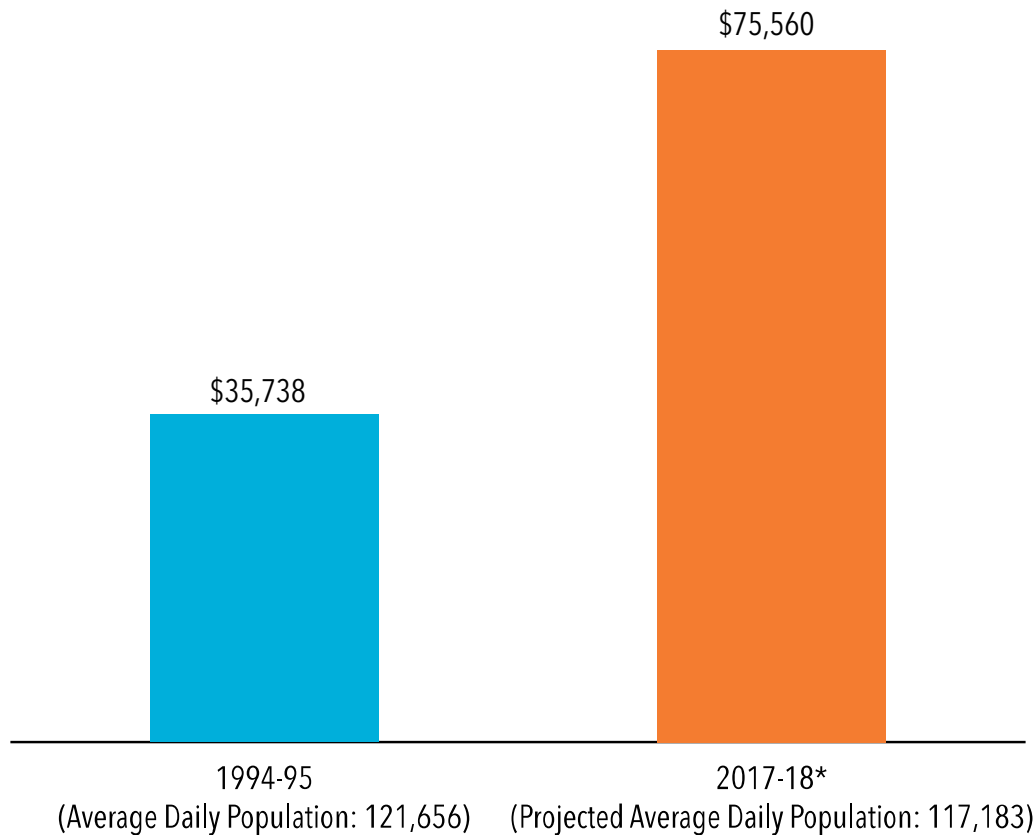
Note: 2017-18 excludes \$250.4 million for psychiatric services that the Governor proposes to transfer from the Department of State Hospitals to the Department of Corrections and Rehabilitation effective July 2017. Figures reflect 2017-18 dollars.

Source: Department of Finance



Spending Per Incarcerated Adult Would Be More Than Twice the 1994-95 Level Under the Governor's Proposal

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



* Proposed.
Note: 1994-95 per capita cost reflects 2017-18 dollars.
Source: Department of Finance

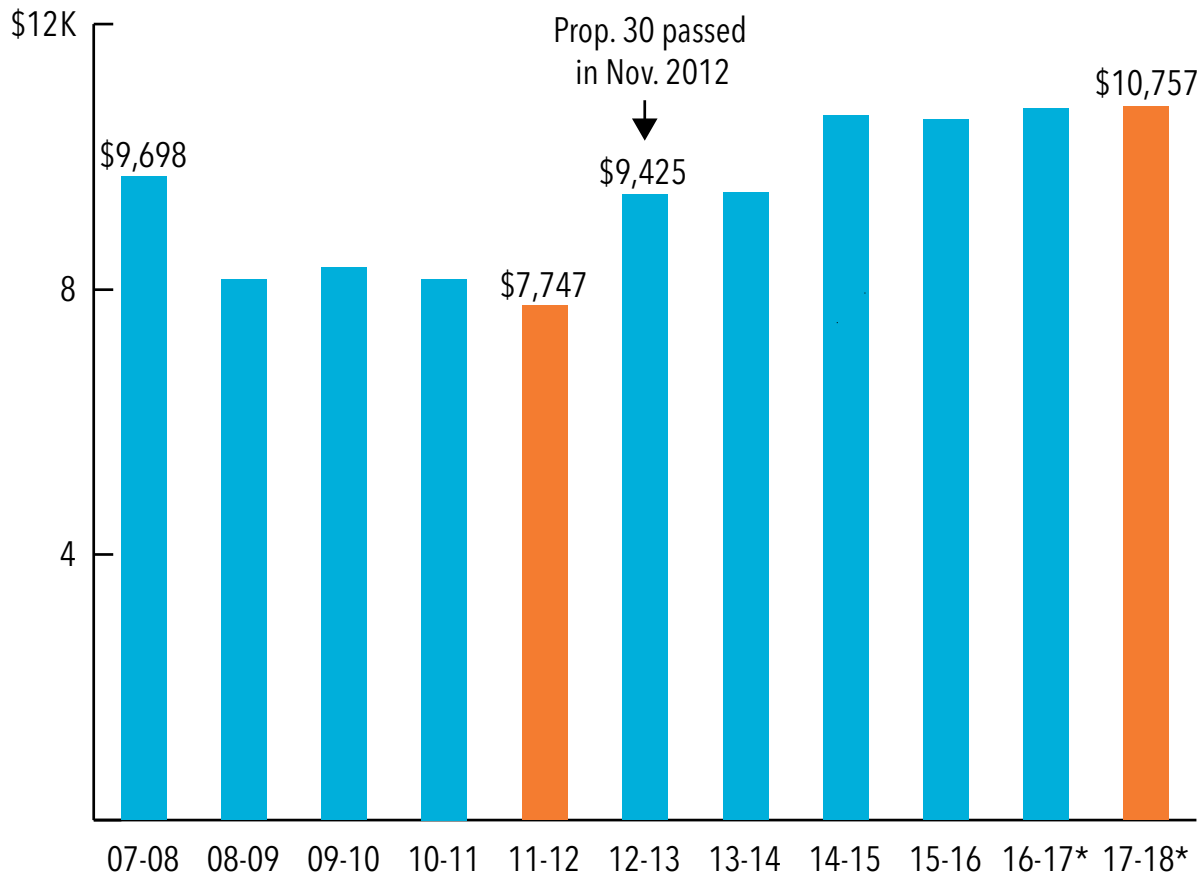


Proposed budget continues recent trend of reinvesting in K-14 and higher education.



The Governor's Proposed Budget Reflects K-12 Spending Per Student That Is \$3,000 Above the 2011-12 Level

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



* 2016-17 estimated and 2017-18 proposed.

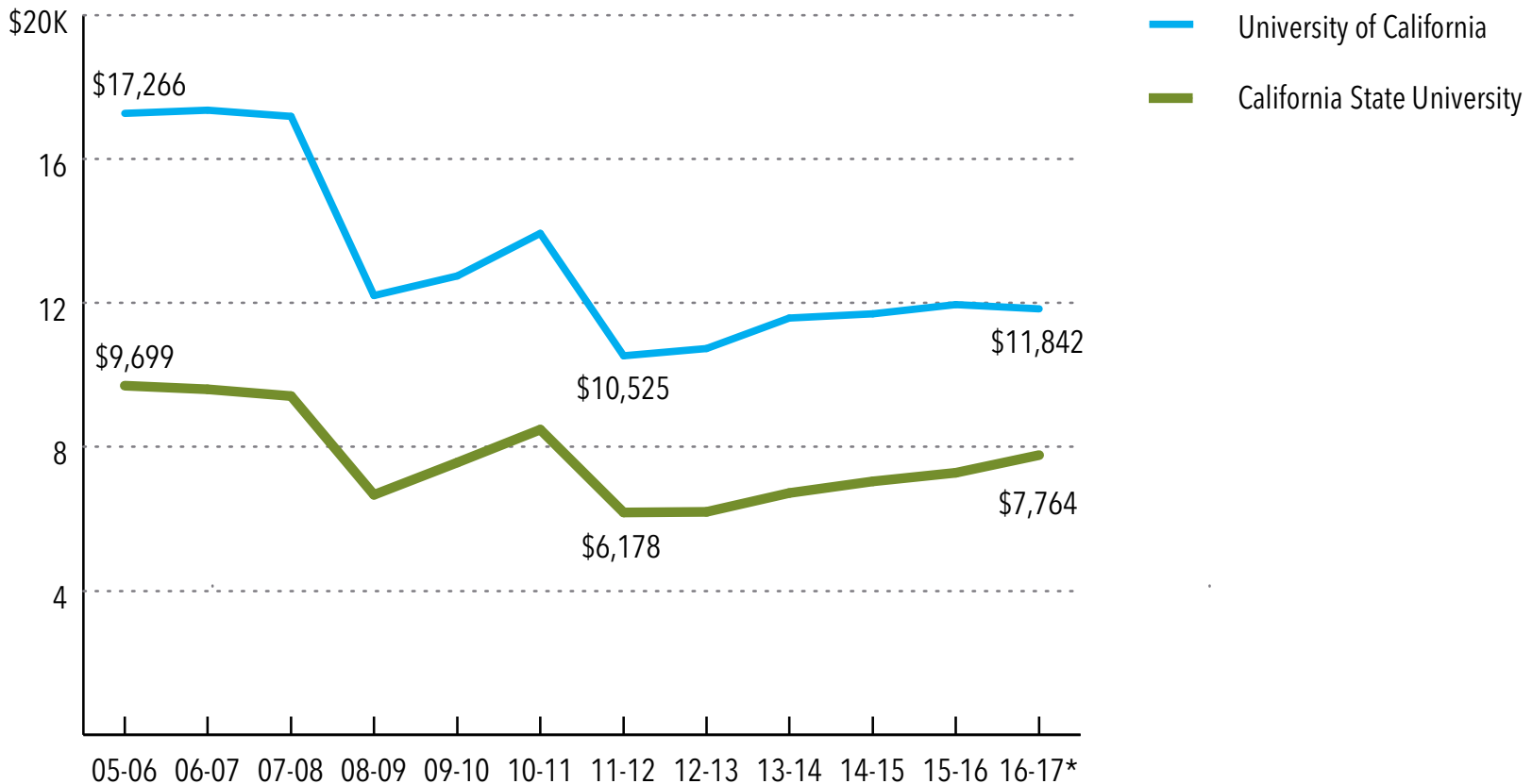
Note: Figures reflect 2017-18 dollars and exclude spending for adult education, preschool, and child care. Prop. 98 spending reflects both state General Fund and local property tax dollars.

Source: Legislative Analyst's Office



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



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

- Continues to support, but proposes no changes to, California Earned Income Tax Credit (CalEITC)
- Asks Legislature to approve 10-year transportation funding package and to affirm “cap and trade” program
- Reflects changes to state-run retirement systems
 - Additional state contributions for CalPERS and CalSTRS, which have lowered their discount rates (expected return on investment)
 - \$15 million loan from General Fund for start-up implementation of Secure Choice program



What Happens Next? Key Issues to Watch



Some Key Issues and Questions to Watch Going Forward

- **Federal actions:** To what extent do the Trump Administration and Republican leaders follow through on ACA repeal and other threatened cuts?
- **Legislature's response:** Does the Legislature push for greater investment in supports for Californians still struggling in the wake of the Great Recession?
- **Revenue forecast:** Does Administration's revenue outlook improve by the release of its revised budget in May?
- **Future and longer-term budget, policy, and revenue responses?**



**Budgets are statements about
our values and priorities.**





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