



California Budget
& Policy Center

Independent Analysis. Shared Prosperity.

California Budget Perspective 2015-16

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CALIFORNIA BUDGET & POLICY CENTER
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California Budget and 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.



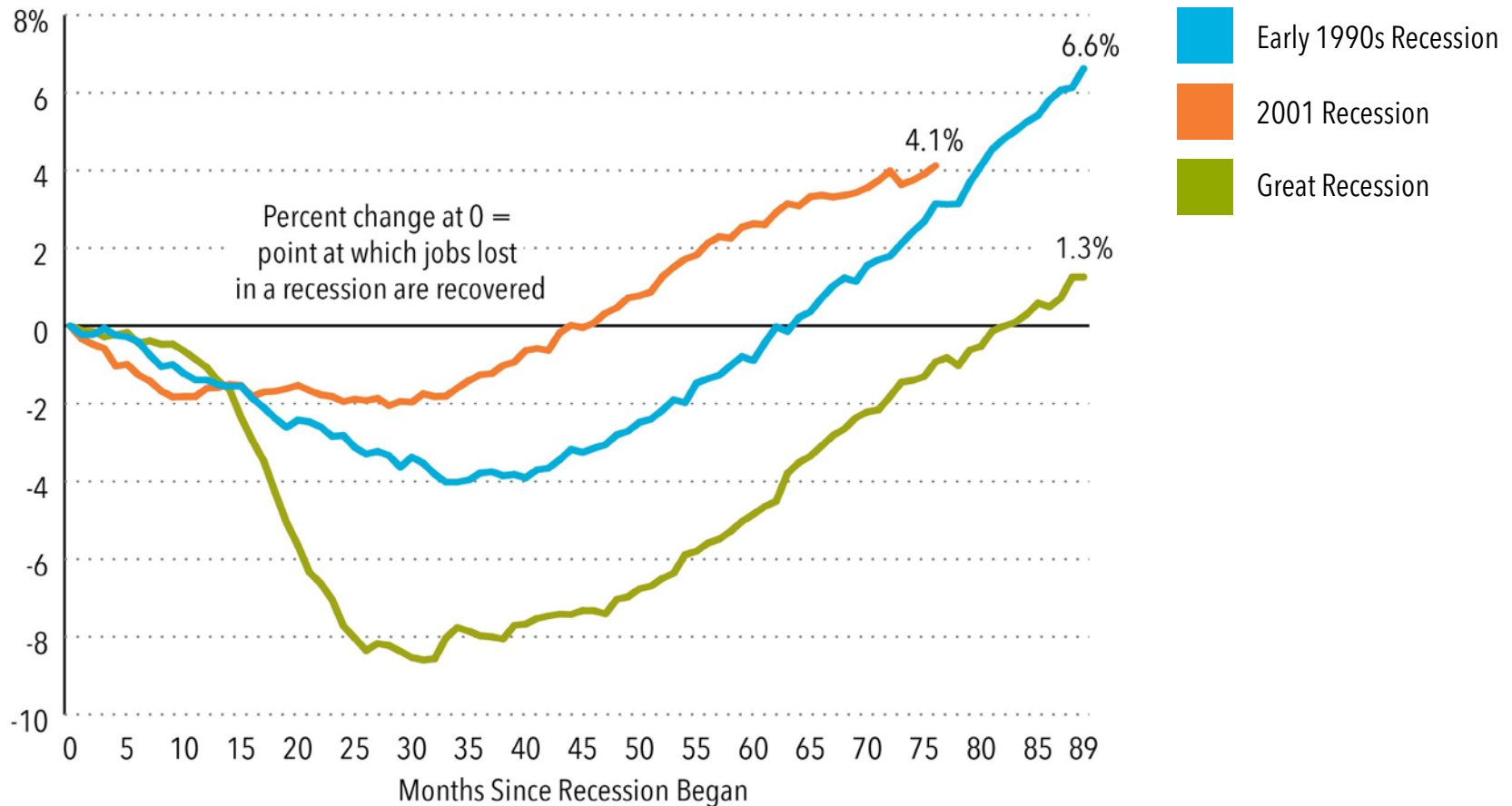
The state budget is a statement about our state's values and priorities.

In recent years, budget cuts have weakened key services and supports that help ensure that economic prosperity is broadly shared.



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



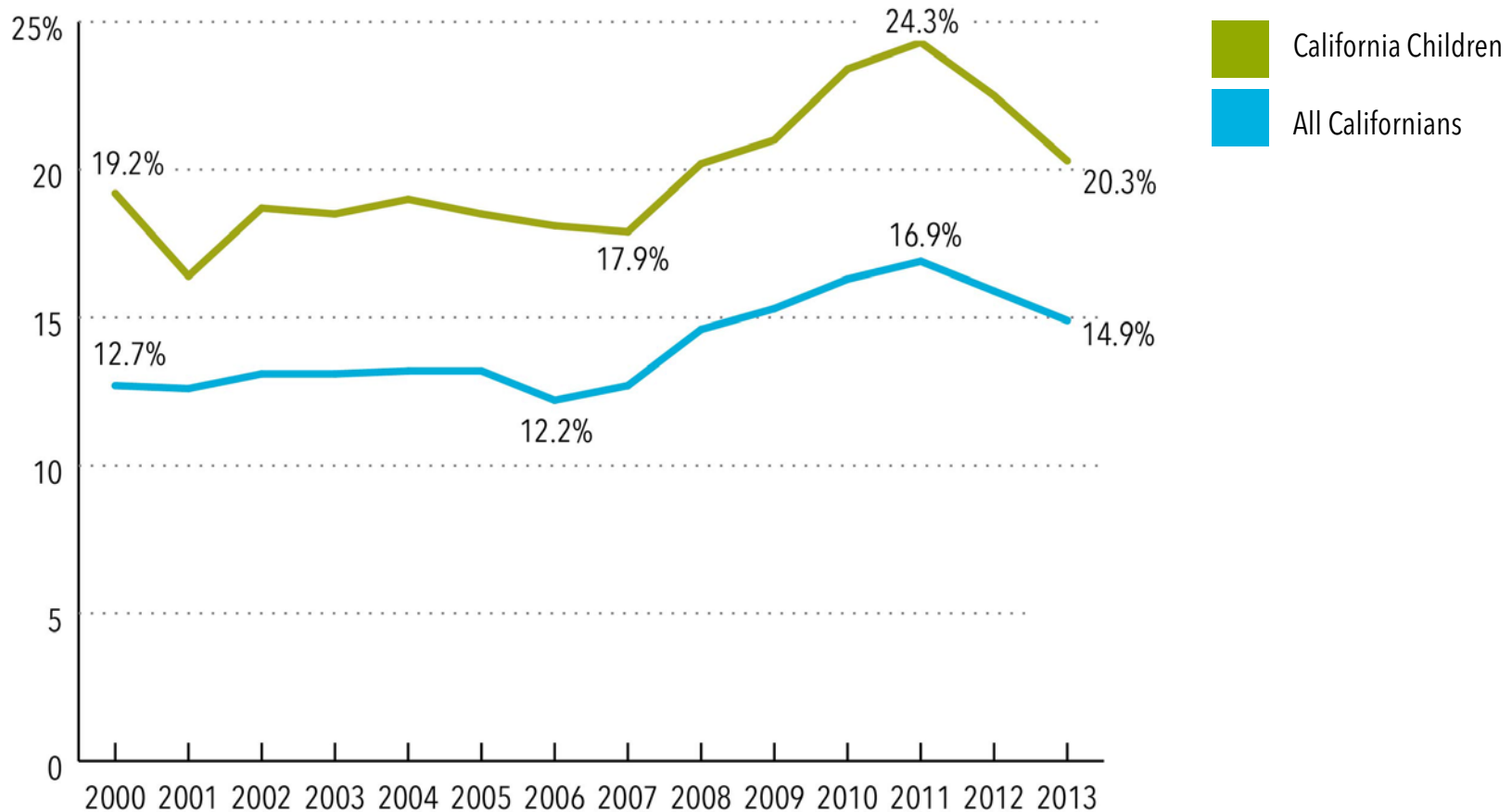
Note: The 2001 recession includes data up to July 2007, the month the Great Recession began in California.

Source: US Bureau of Labor Statistics



One in Seven Californians and One in Five California Children Lived in Poverty in 2013

Percentage of Californians With Incomes Below the Federal Poverty Line



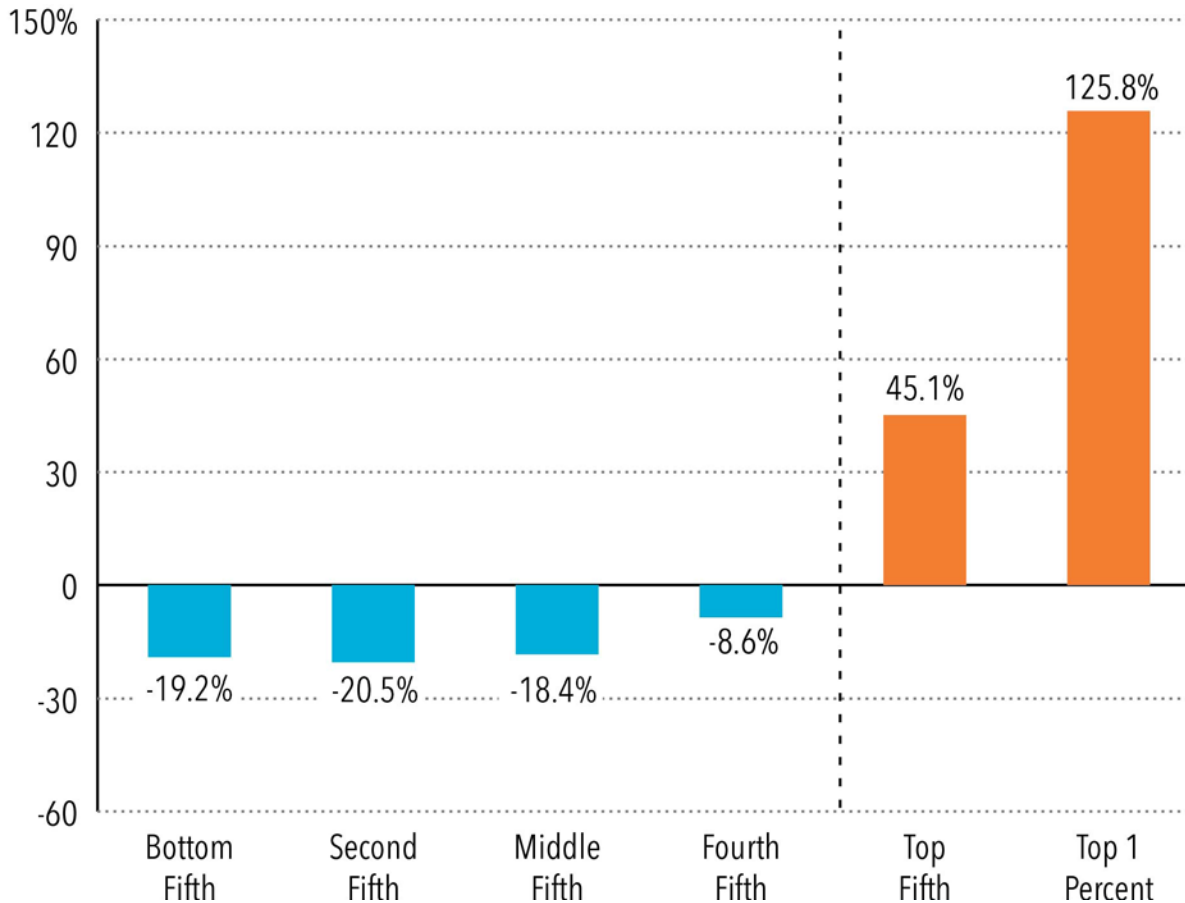
Source: US Census Bureau



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Only California's Wealthiest Saw Increases in Average Income Over the Last Generation

Percent Change in Average Adjusted Gross Income (AGI), 1987-2012, Inflation-Adjusted



Source: Franchise Tax Board



The Governor's Proposed 2015-16 Budget

New revenues would result in increased spending on education, paying down budgetary debt, and saving for a rainy day.



Latest Revenue Projections

- \$115.3 billion in General Fund revenues for 2015-16 (up from Jan. estimate of \$114.6 billion).
- \$6.7 billion in additional revenues across the “budget window” (2013-14, 2014-15, 2015-16).
- The Legislative Analyst’s Office (LAO) projects revenues could exceed projections by as much as \$3 billion more in 2015-16.



Where does the money go?: Proposition 2 and Proposition 98

Constitutional requirements approved by voters – Proposition 2 (2014) and Proposition 98 (1988) – obligate most of the revenues.



Proposition 2

- Voter approval of Proposition 2 (2014) requires setting aside:
 - 1.5% of annual General Fund revenues;
 - Capital gains revenues when they exceed 8% of General Fund revenues;
 - ½ of the funds go to the state's rainy day fund and ½ to the paying down "budgetary debt" (through 2030).
- For 2015-16, Proposition 2 would require setting aside \$3.7 billion:
 - \$1.85 billion to the rainy day fund;
 - \$1.85 billion to budgetary debt.



Proposition 98

- Voter approval of Proposition 98 (1988) requires that the state meet a minimum funding level for K-14 schools and community colleges.
- The May Revision assumes a Proposition minimum funding level of:
 - \$58.9 billion in 2013-14;
 - \$66.3 billion in 2014-15; and,
 - \$68.4 billion in 2015-16.
- In total, this funding level is \$6.1 billion higher than anticipated in the Governor's January proposal.



New Proposal: A State EITC for California

**May Revision includes a refundable tax credit
for low-income Californians.**



The Governor's EITC Proposal

- A state add-on to the successful federal Earned Income Tax Credit (EITC).
- A “refundable” credit – households receive the credit even if they do not qualify to pay income taxes.
- The Governor’s proposal would provide an EITC at 85% of the federal credit to very low income levels:
 - Incomes up to \$6,580 (no dependents); and,
 - Incomes up to \$13,870 (3 or more dependents).
- Projected “lost revenues” from this tax credit = \$380 million for 2015; no guarantee of funding after 2015.



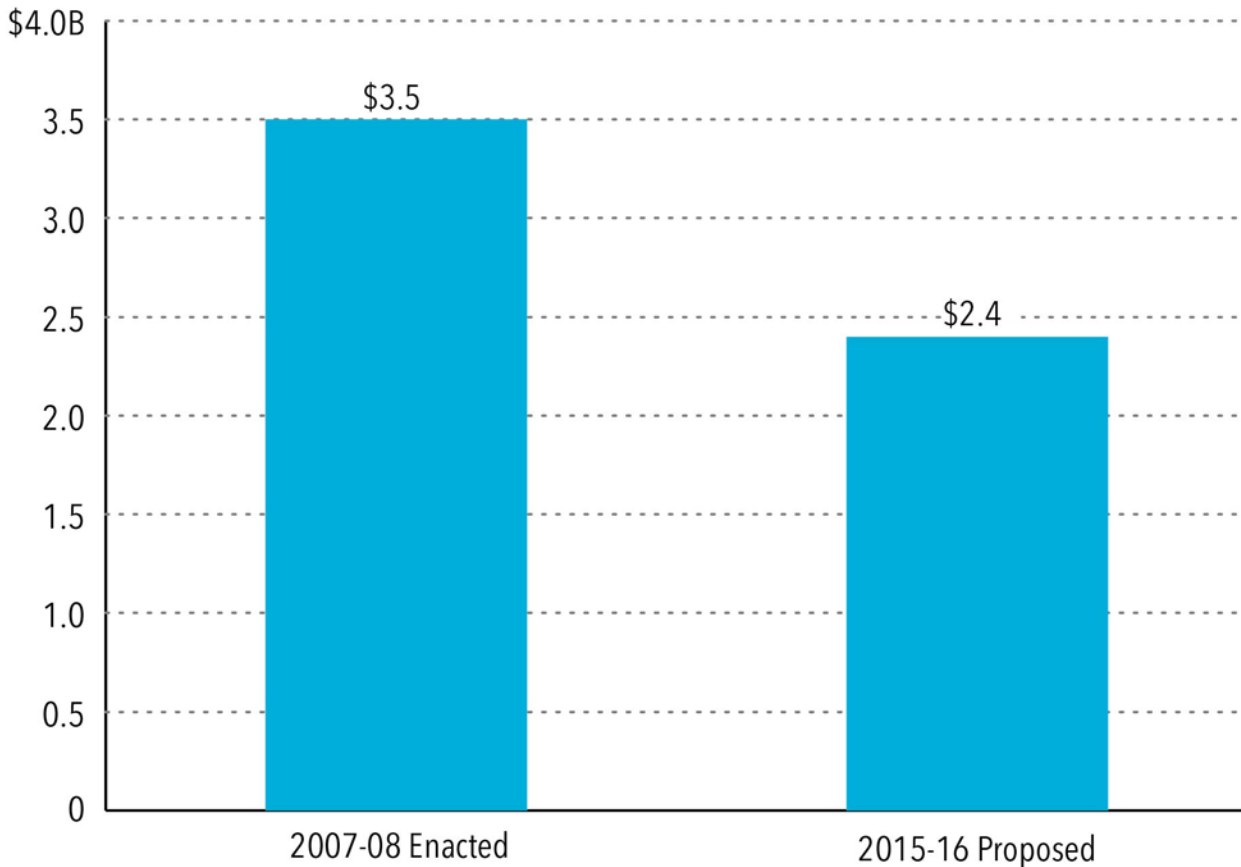
Early Education: Child Care and Preschool

Proposed spending and the number of slots remain below pre-recession levels.



Support for Child Care and Preschool Is \$1.1 Billion Below 2007-08, Even With the Recent Increase in Funding

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

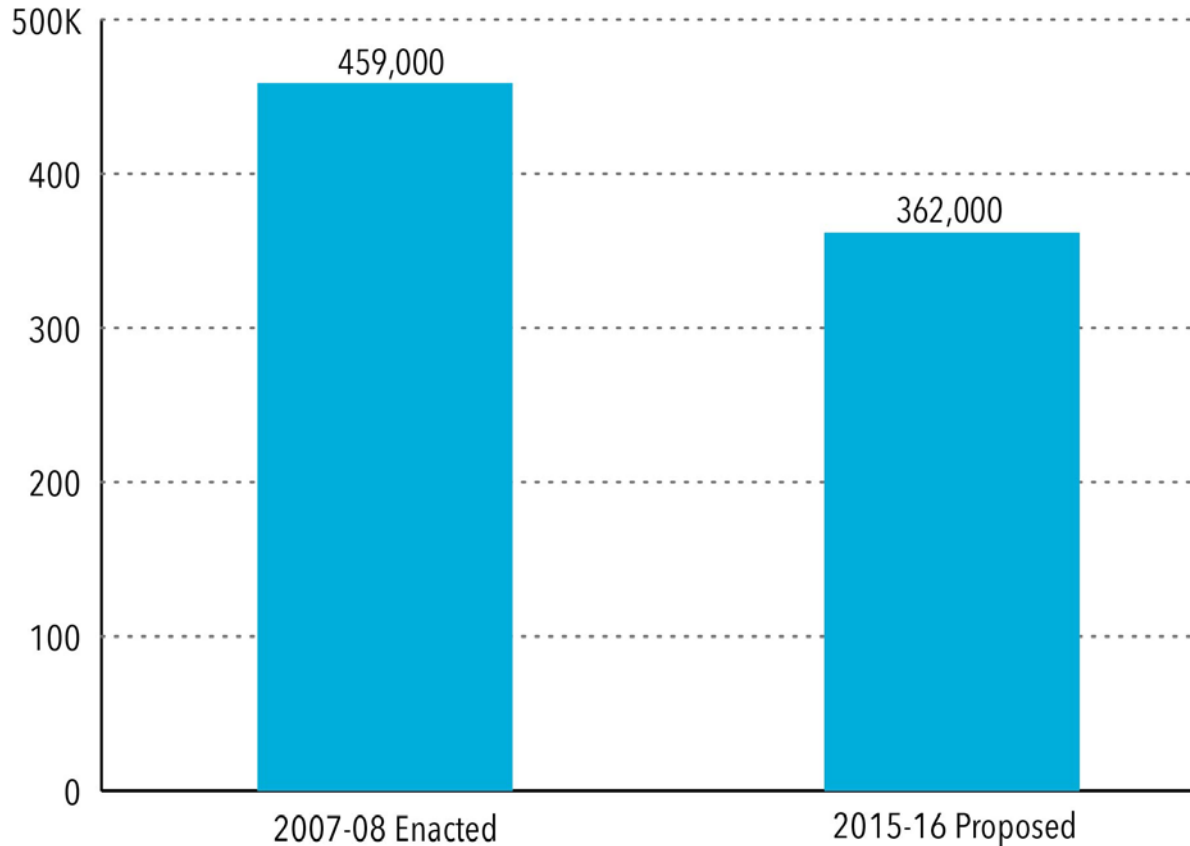


Note: Figures are in 2015-16 dollars and include federal and state funds. Child care includes CalWORKs and non-CalWORKs programs.
Source: Department of Finance



State Budget Cuts Have Reduced Child Care and Preschool Slots by More Than One-Fifth Since 2007-08

Slots in California Funded With Federal and/or State Dollars



Note: Child care includes CalWORKs and non-CalWORKs programs. A portion of the drop since 2007-08, roughly 3,000 slots, is due to a new methodology for calculating funded slots in several small child care programs.

Source: Department of Finance



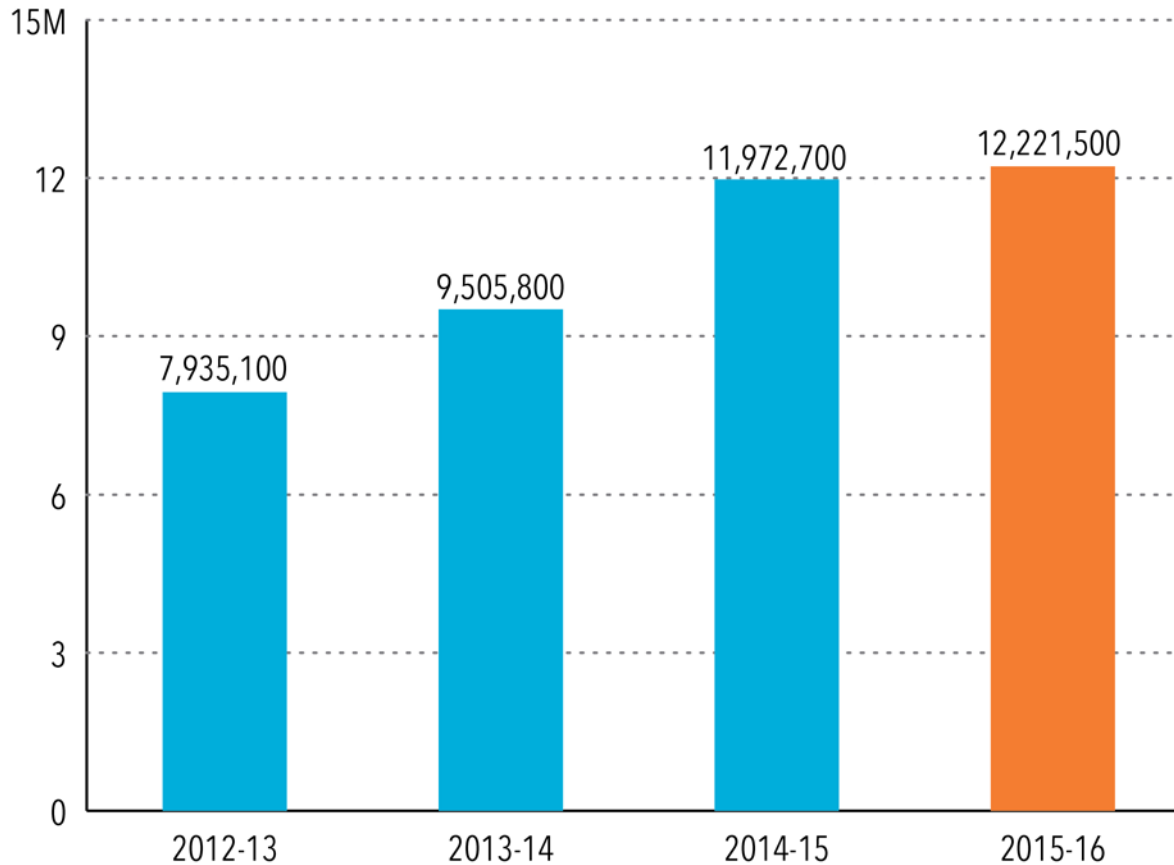
Health Care

The proposed budget reflects the ongoing implementation of federal health care reform, and includes funding for undocumented immigrants that may qualify for state services.



Medi-Cal Enrollment Is Projected to Rise by Just 2 Percent in 2015-16, Following Two Years of Double-Digit Increases

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



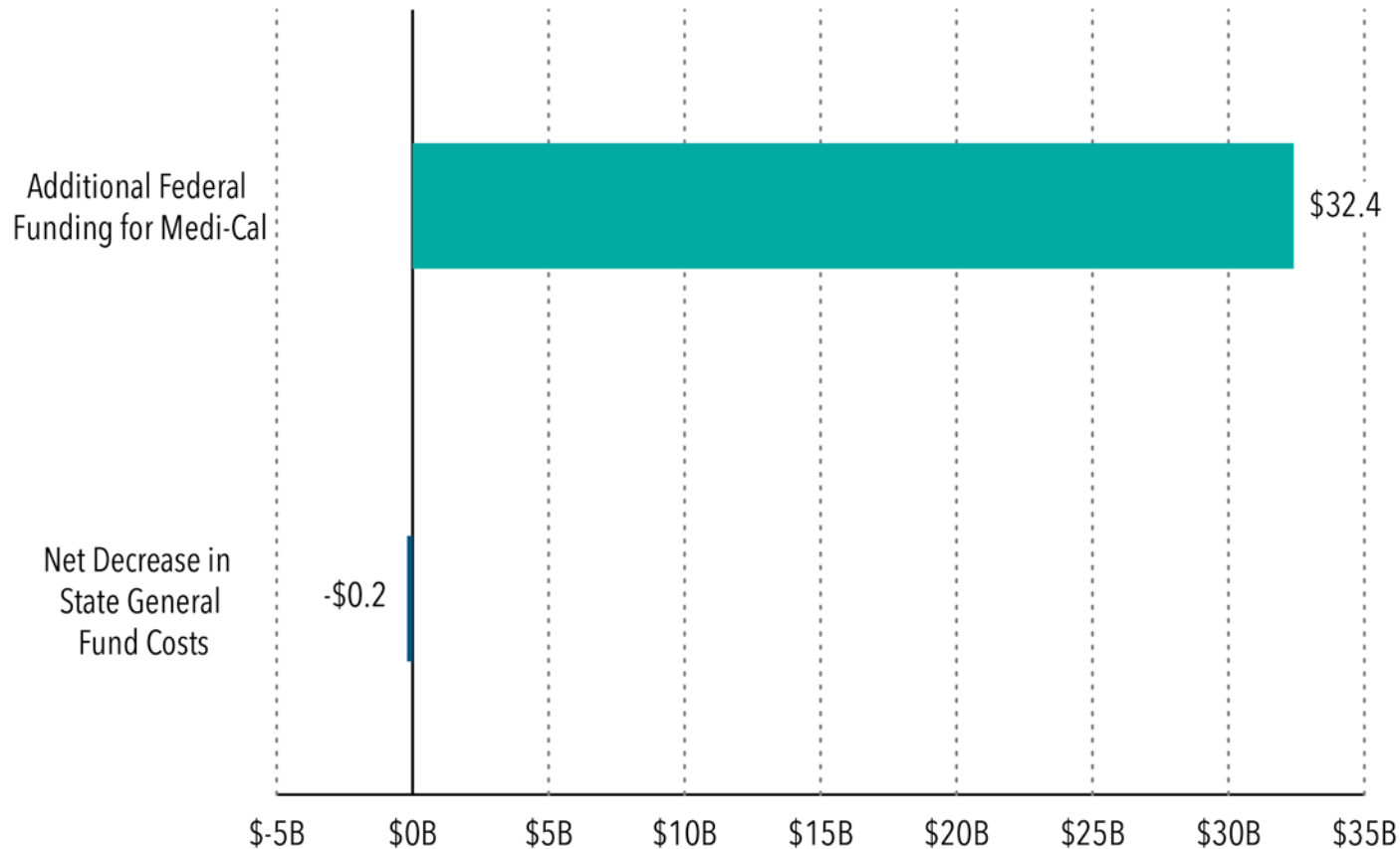
Note: 2012-13 to 2014-15 are estimated, and 2015-16 is projected. Figures reflect average monthly enrollment.

Source: Department of Health Care Services



Federal Funding Is Up, State Costs Are Down, as Medi-Cal Enrollment Rises Due to Health Care Reform

Fiscal Effects of Increased Medi-Cal Enrollment, 2014-15 and 2015-16 Combined, in Billions



Note: 2014-15 is estimated and 2015-16 is proposed. The net decrease in state costs is due to two factors: (1) a shift – back to the state – of certain dollars previously provided to counties for indigent health care and (2) the use of some proceeds from a tax on Medi-Cal managed care plans to offset state spending.

Source: Department of Finance and Department of Health Care Services



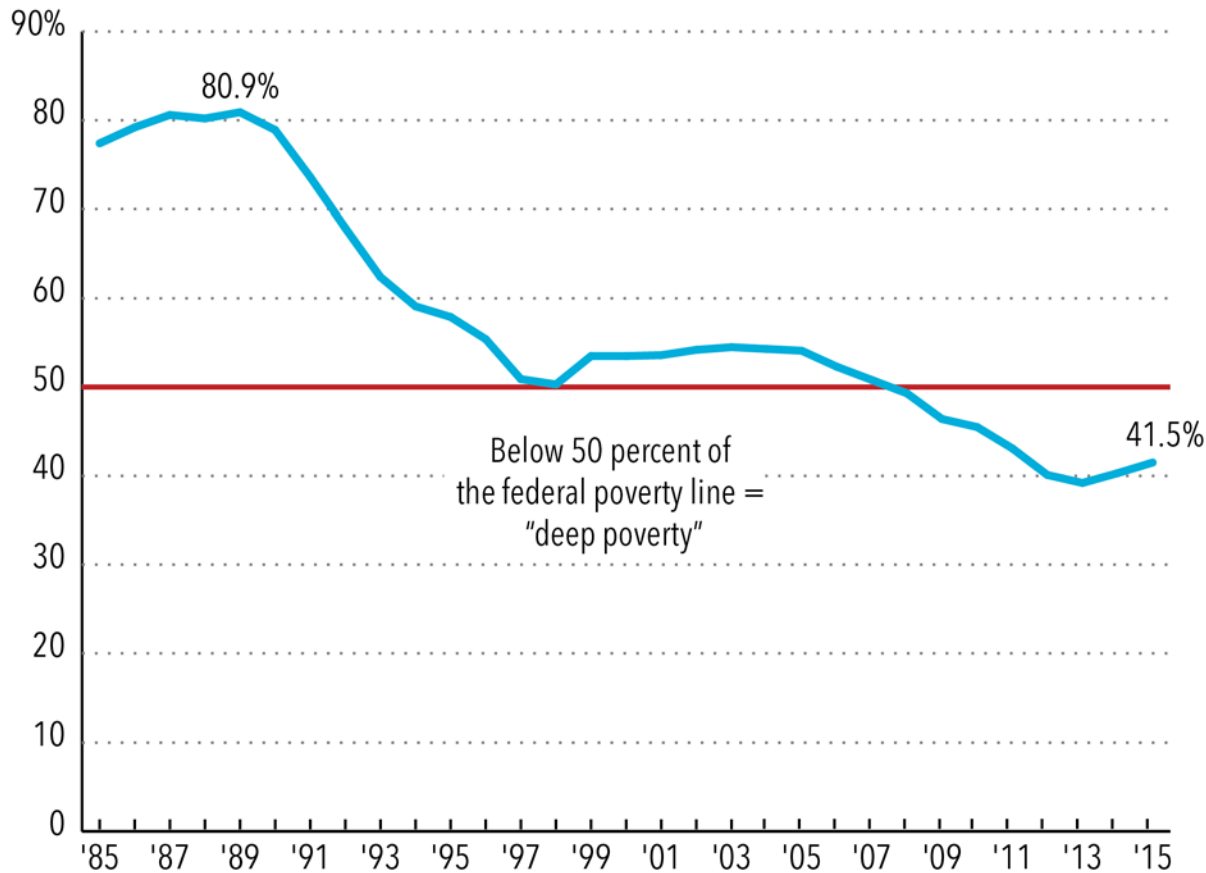
Human Services

A lack of reinvestment leaves the state's safety net severely weakened by years of funding cuts.



Under the Governor's Proposal, CalWORKs Grants Would Remain Far Below the Deep-Poverty Threshold

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

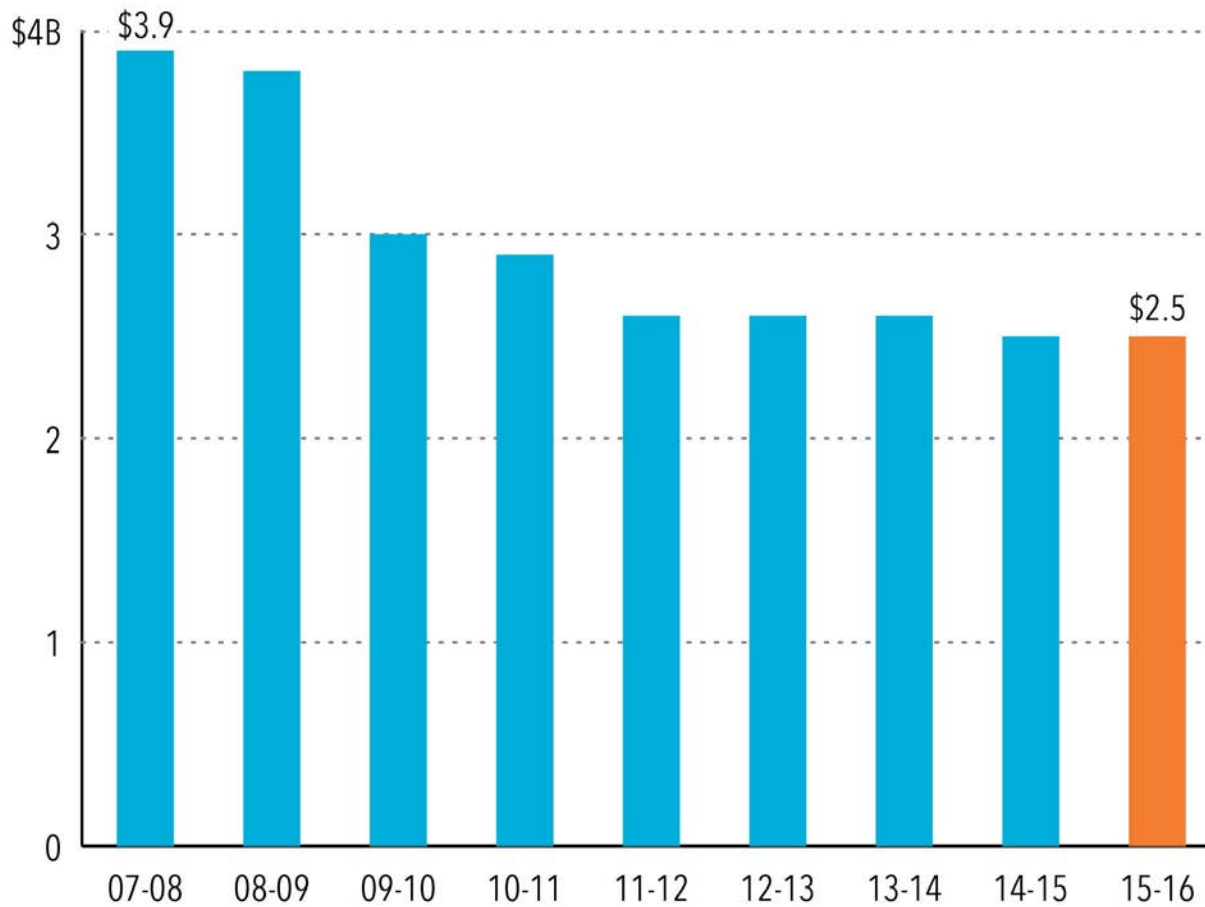


Note: Grants are for high-cost counties beginning in 1996. Prior to 1998, grants were provided through the Aid to Families with Dependent Children Program. The 2015 grant reflects a 5% increase scheduled for April 2015.
Source: CBP analysis of Department of Social Services, US Department of Health and Human Services, and US Social Security Administration data



Due to Budget Cuts, State Spending for SSI/SSP Grants Is More Than One-Third Below the 2007-08 Level

General Fund Expenditures in Billions, Inflation-Adjusted



Note: Figures are in 2015-16 dollars. All figures are estimates except for 2015-16, which is proposed.

Source: Department of Social Services

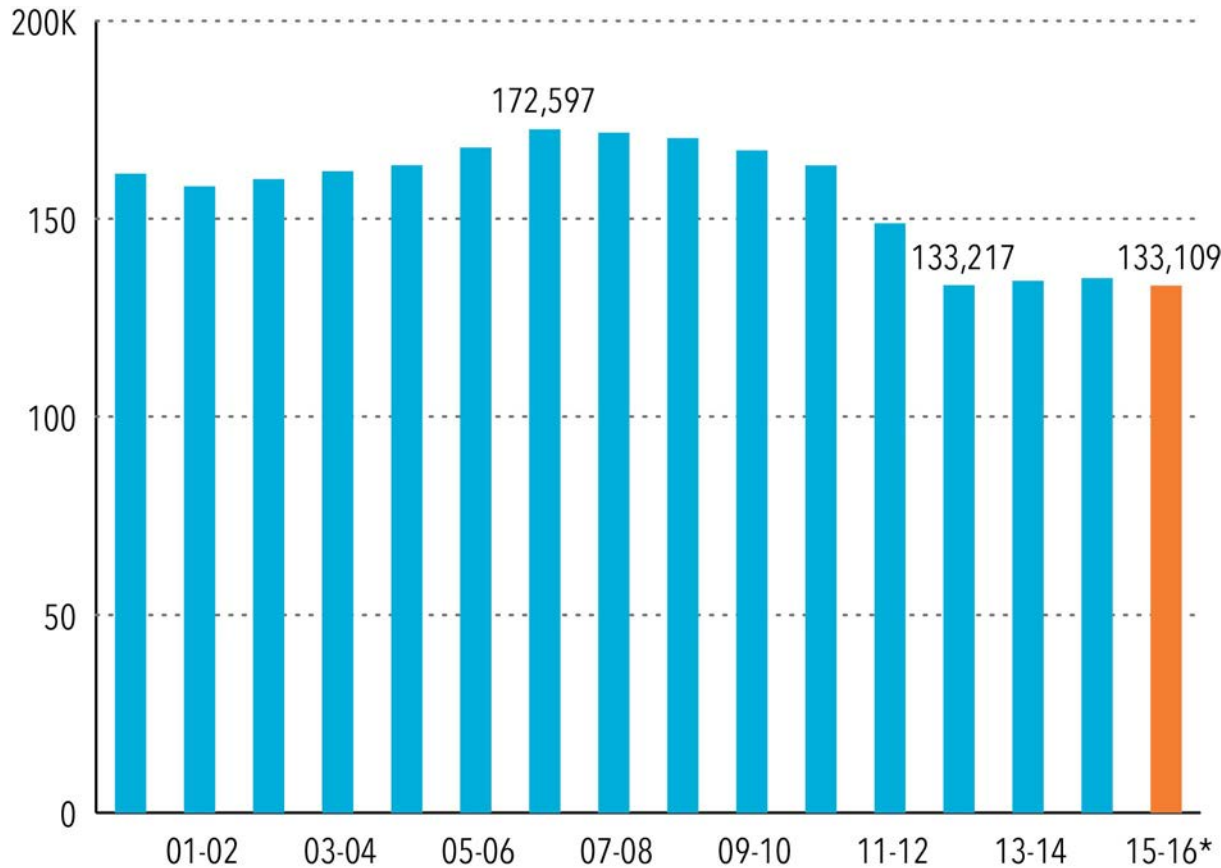


Corrections

Spending on state corrections is maintained as efforts to comply with a federal court order continue and implementation of Proposition 47 (2014) begins.



The Number of People Incarcerated by the State Is Projected to Decline Slightly in 2015-16



* 2014-15 estimated and 2015-16 projected.

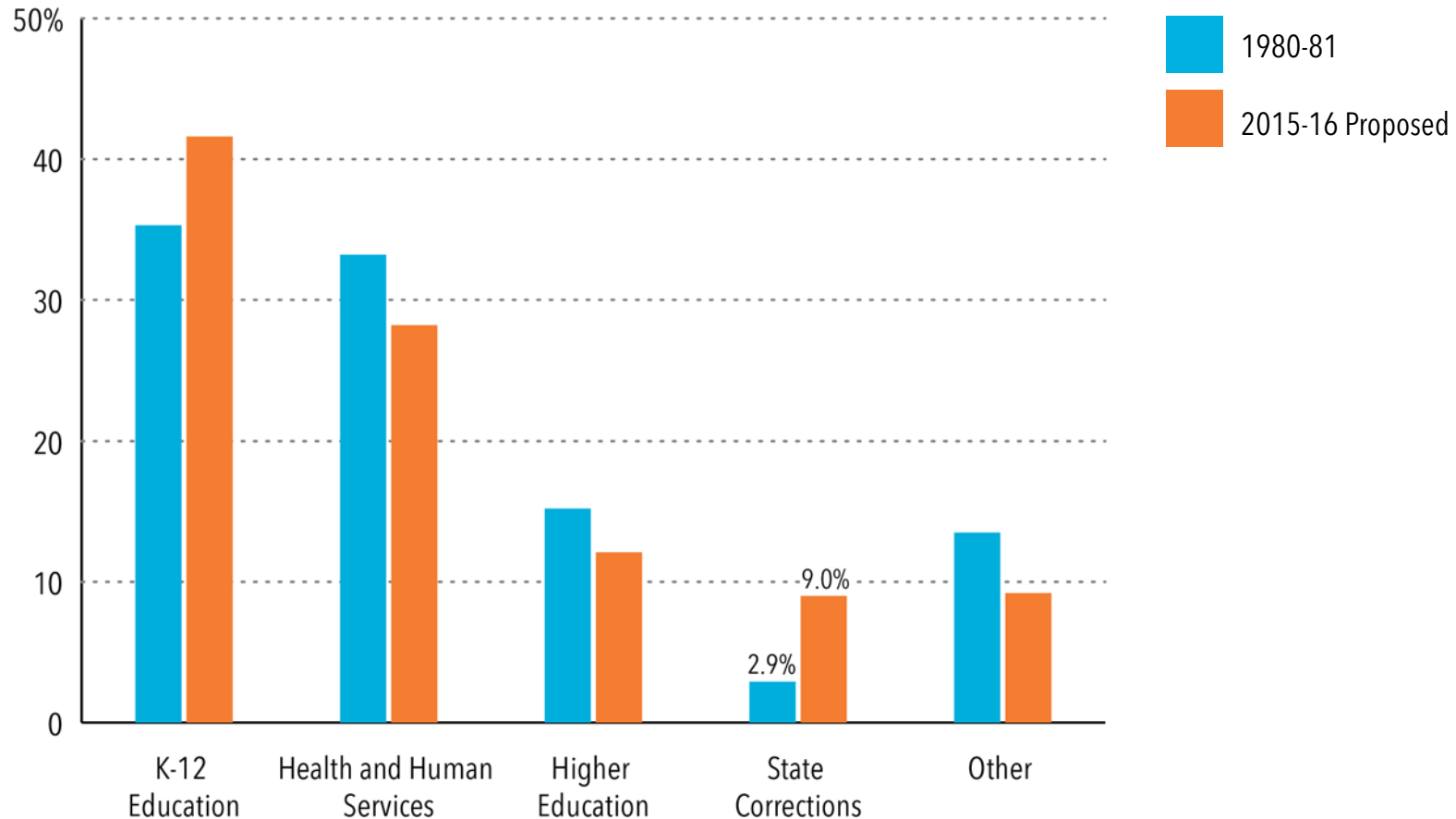
Note: Reflects average daily population housed in state prisons and other facilities in and outside of California.

Source: California Department of Corrections and Rehabilitation



Spending on Corrections Is Three Times Larger as a Share of Total State General Fund Spending Than in 1980-81

Percentage of General Fund Expenditures



Note: General Obligation bond repayments are removed from "higher education" and added to "other" for 2015-16 in order to make data comparable to 1980-81.

Source: Department of Finance





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