


California State Budget 2016-17

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INTRODUCTION

The economy has finished its seventh year of expansion, two years longer than the average recovery. The 2016 Budget Act prepares the state for the next recession by increasing the Rainy Day Fund to a total balance of \$6.7 billion and limiting new ongoing spending obligations.

The Budget focuses new spending on one-time activities, such as repairing and replacing aged infrastructure, building affordable housing, and addressing the effects of the drought. It begins implementation of raising the state minimum wage to \$15 per hour by providing funding for an increase to \$10.50 per hour. It implements the managed care financing package passed earlier this year, including rate adjustments for community-based providers serving individuals with developmental disabilities.

PLANNING FOR THE NEXT RECESSION

The passage of Proposition 2 in 2014 gives the state an opportunity to mitigate the boom-and-bust budget cycles of the past two decades. Recent budget shortfalls have been driven by making ongoing commitments based upon temporary spikes in revenues, primarily from capital gains. Under Proposition 2, these spikes in capital gains will instead be used to save money for the next recession and to pay down the state's debts

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and liabilities. Proposition 2 establishes a constitutional goal of having 10 percent of tax revenues in the Rainy Day Fund.

The Budget funds the constitutionally required deposit into the Rainy Day Fund (\$1.3 billion) and supplements this with an additional \$2 billion deposit—bringing the fund’s balance to \$6.7 billion next year, or 54 percent of its goal.

In addition, the Budget pays down debts and liabilities by a total of \$1.3 billion from Proposition 2 funds. As shown in Figure INT-01, the state has \$232 billion in long-term costs, debts, and liabilities. The vast majority of these liabilities—\$228 billion—are related to retirement costs of state and University of California employees.

Figure INT-01
**Debts and Liabilities Eligible for Accelerated Payments Under
 Proposition 2**
 (Dollars in Millions)

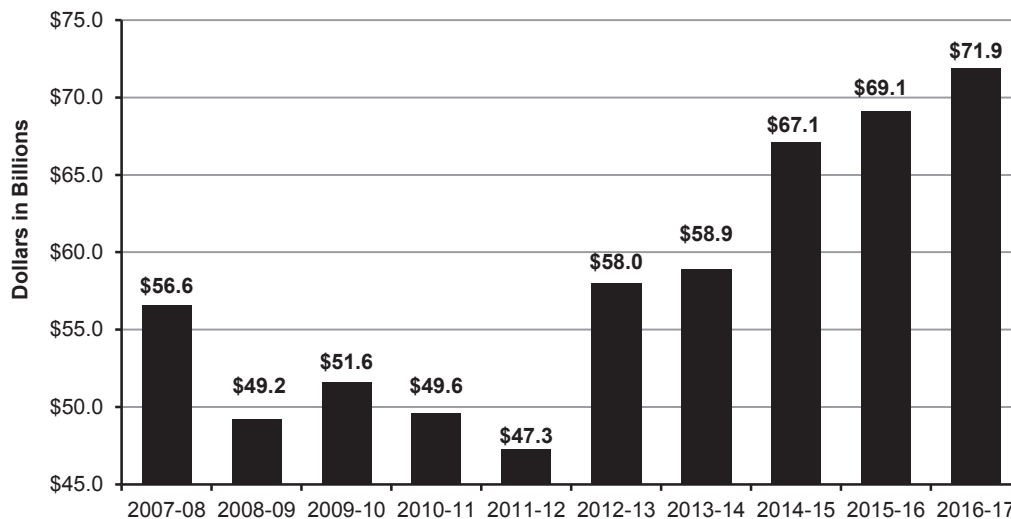
| | Outstanding Amount at Start of 2016-17 | 2016 Budget Act Pay Down |
|--|---|---|
| Budgetary Borrowing | | |
| Loans from Special Funds | \$1,822 | \$454 |
| Underfunding of Proposition 98—Settle-Up | 1,232 | 218 |
| Repayment of pre-Proposition 42 Transportation Loans | 879 | 173 |
| State Retirement Liabilities | | |
| State Retiree Health | 74,103 | 278 |
| State Employee Pensions | 49,592 | 0 |
| Teacher Pensions ^{1/} | 72,626 | 0 |
| Judges' Pensions | 3,279 | 0 |
| Deferred payments to CalPERS | 570 | 0 |
| University of California Retirement Liabilities | | |
| University of California Employee Pensions | 10,786 | 171 |
| University of California Retiree Health | 17,270 | 0 |
| Total | \$232,159 | \$1,294 |

^{1/} The state portion of the unfunded liability for teacher pensions is \$13.939 billion.

INVESTING IN EDUCATION

As shown in Figure INT-02, the minimum guarantee of funding for K-14 schools was \$56.6 billion in 2007-08 and sank to \$47.3 billion in 2011-12. From this recent low, funding has been at all-time highs since 2012-13 and is expected to grow to \$71.9 billion in 2016-17, an increase of \$24.6 billion in five years (52 percent).

Figure INT-02
Proposition 98 Funding
2007-08 to 2016-17



For K-12 schools, funding levels will increase by over \$3,600 per student in 2016-17 over 2011-12 levels. This reinvestment provides the opportunity to correct historical inequities in school district funding with continued implementation of the Local Control Funding Formula. The Budget provides \$2.9 billion in new funding, bringing the formula's implementation to 96 percent complete.

The Budget also invests in the state's higher education system to maintain the quality and affordability of one of California's greatest strengths. The Budget keeps tuition at 2011-12 levels. It also provides significant new one-time and ongoing funds for the University of California and the California State University.

COUNTERACTING THE EFFECTS OF POVERTY

California has an extensive safety net for the state’s neediest residents who live in poverty. Since 2012, the General Fund has incurred new poverty-focused obligations totaling about \$20 billion (\$10.8 billion of which will be paid for through Proposition 98 funds). These costs are summarized in Figure INT-03. The Budget includes the following new state efforts:

- The implementation of a \$10.50 per hour minimum wage beginning on January 1, 2017.
- The first state cost-of-living increase for Supplemental Security Income/State Supplementary Payment (SSI/SSP) recipients since 2005.
- The repeal of the maximum family grant rule in CalWORKs, which denied aid to children who were born while their parents were receiving aid.
- Limiting asset recovery from the estates of deceased Medi-Cal recipients to the extent federally required.

STRENGTHENING INFRASTRUCTURE

The construction and maintenance of key physical infrastructure is one of the core functions of state government. Infrastructure and capital assets allow for the delivery of public services and the movement of goods across the state—both essential components in fostering the state’s long-term economic growth.

The Budget includes over \$2 billion in funds for various infrastructure improvements, including \$1.3 billion General Fund for improving Sacramento office buildings including the State Capitol Annex. The Budget also includes \$688 million (\$485 million General Fund) for critical deferred maintenance at levees, state parks, universities, community colleges, prisons, state hospitals, and other state facilities, as well as \$270 million in lease-revenue bond authority for local jail facilities.

REDUCING THE COST OF HOUSING

The Budget reflects \$3.6 billion in state and federal funding and award authority for various affordable housing and homelessness programs, including increased funding for CalWORKs rapid rehousing and emergency homeless shelters.

Figure INT-03
Major Poverty-Focused Budget Actions Since 2012

| | Total Budget Impact |
|---|--|
| Minimum Wage | |
| • Increase from \$8/hour to \$10/hour | \$208 million |
| • Increase from \$10/hour to \$15/hour and extend paid sick leave | \$4 billion |
| Medi-Cal | |
| • Optional expansion under Affordable Care Act | \$2.1 billion |
| • Exemptions from provider cuts | \$387 million |
| • Adult Dental restoration | \$170 million |
| • Full Scope Services for Undocumented Children | \$229 million |
| • Estate Recovery limitations | \$29 million |
| CalWORKs | |
| • 11.4 percent in cost-of-living increases ^{1/} | \$362 million |
| • Repeal Maximum Family Grant rule ^{1/} | \$224 million |
| • Enhanced employment and early engagement services | \$288 million |
| • Creation of designated housing assistance | \$47 million |
| CalFresh | |
| • Work Incentive Nutritional Supplement | \$33 million |
| • State Utility Assistance Subsidy | \$15 million |
| In-Home Supportive Services | |
| • Overtime | \$468 million |
| • Restoration of 7 percent of hours | \$266 million |
| Earned Income Tax Credit | |
| • Creation of California credit | \$295 million |
| Child Care | |
| • Various increases to rates and slots | \$284 million |
| Cal Grants | |
| • Various augmentations and restorations | \$176 million |
| SSI/SSP | |
| • 2.76 percent cost-of-living increase | \$75 million |
| Proposition 98 | |
| • Local Control Funding Formula—Supplemental and concentration grants for low-income and English Learner students | \$10.2 billion |
| • State Preschool—various increases to rates and slots | \$432 million |
| • Community Colleges Student Equity funding increases | \$155 million |
| • Community College Full-Time Student Success Grants | \$41 million |
| Total: | \$20.5 billion |
| | (\$10.8 billion Proposition 98, |
| | \$9.1 billion General Fund, |
| | \$0.6 billion Local Realignment Fund) |

Note: Fiscal estimates reflect fully implemented costs.

^{1/} Funded by 1991-92 State-Local Realignment Revenues.

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Of this amount, the Budget sets aside \$400 million General Fund for allocation later in the legislative session for affordable housing programs. The funding will be coupled with the Administration's proposed legislation requiring ministerial "by right" land use entitlements for multifamily infill housing developments that include affordable housing. This would help constrain development costs, improve the pace of housing production, and encourage an increase in housing supply. In addition, legislation will authorize a \$2 billion bond from a portion of future Proposition 63 mental health revenues to develop and administer homelessness and affordable housing programs for the mentally ill.

ADDRESSING CLIMATE CHANGE

The California Global Warming Solutions Act of 2006 (AB 32) set California's initial greenhouse gas emission reduction goals, and directed the state to maintain and continue reductions beyond 2020. Last year, California adopted several ambitious policies that will further advance clean energy and significantly reduce greenhouse gas emissions. Over multiple years, the Cap and Trade program gives the state the chance to transform its communities—particularly those disadvantaged ones—into innovative, sustainable economic centers. An expenditure plan for Cap and Trade revenues to reduce greenhouse gas emissions will be completed later in the legislative session.