

California's State Budget: The Enacted 2017–18 Budget

JULY 2017

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➤ **The spending plan reflects modest economic growth.**

On June 27, 2017, Governor Brown signed the 2017–18 Budget Act, which includes \$183.3 billion in spending. General Fund appropriations total \$125.1 billion, a \$3.7 billion (or 3%) increase over the revised 2016–17 budget. General Fund revenues are estimated at \$127.7 billion for 2017–18, which is \$6.1 billion (5%) more than the revised 2016–17 revenues but \$1 billion less than projected when the 2016 Budget Act was adopted.

➤ **K–12 schools and higher education see continued increases.**

The budget allocates an additional \$1.4 billion to the Local Control Funding Formula (LCFF), which supplies base grants to K–12 schools and extra funding for targeted student groups. The spending plan also includes \$877 million in one-time funding for K–12 schools. Community colleges will receive \$150 million for a “guided pathways” program to improve student outcomes and \$57.8 million to increase enrollment by 1 percent. Funding for California State University increases by \$182.2 million, including \$20 million for enrollment growth. University of California funding increases by \$136.5 million, though \$50 million will be withheld until the university addresses recent audit concerns and makes a number of required reforms. The new budget allocates \$96 million to the Middle Class Scholarship, continuing a program that the governor had proposed phasing out. It also postpones planned cuts to Cal Grants for students at nonprofit private institutions.

➤ **Health care funding and support for working families have been expanded.**

The spending plan uses new revenue from Proposition 56, which increased taxes on tobacco products, to pay for expected growth in Medi-Cal (\$711.2 million) and increase reimbursement rates for health providers (up to \$546 million); these provisions are contingent on federal approvals and the preservation of federal Medi-Cal funding. In addition, counties will receive \$400 million to help cover increased In-Home Supportive Services (IHSS) costs resulting from the elimination of the Coordinated Care Initiative. An expansion of state EITC eligibility to include self-employment income and allow full-time minimum-wage workers to claim small credits will cost \$140 million over the next year. The state is also helping working families by providing an additional \$166.2 million in funding to expand child care eligibility, add full-day state preschool slots, and increase provider reimbursement rates.

➤ **The budget includes significant new spending on transportation infrastructure.**

First-year funding for the Road Repair and Accountability Act of 2017 (SB 1) totals \$2.8 billion, to be split evenly between state and local transportation programs. Estimated revenues from new vehicle fees (including the annual Transportation Improvement Fee and a fee on zero-emission vehicles), increased diesel and gasoline taxes, and operational efficiencies will provide \$54 billion over the next ten years, primarily for state and local road repairs. Future funds will be spent on a wider range of issues and projects, including trade and congested corridors, transit programs, and other areas (such as transportation planning and research grants).

➤ **Funding for short and long-term liabilities has been continued.**

The budget includes \$11.1 billion to pay for retiree benefits in 2017–18, about twice the amount budgeted in 2008–09. In addition, an accelerated payment to the state's public employees' retirement system (CalPERS) to reduce the state's unfunded pension liability is being covered by \$6 billion in borrowed funds. The budget also earmarks \$85 million to continue to address drought legacy issues and \$111 million in Proposition 1 funds to accelerate flood control programs. Finally, the state continues to build budget reserves with a constitutionally mandated payment of \$1.8 billion to the Rainy Day Fund, bringing its total balance to \$8.5 billion, and the state's discretionary reserves will have an estimated \$1.4 billion balance by July 2018.

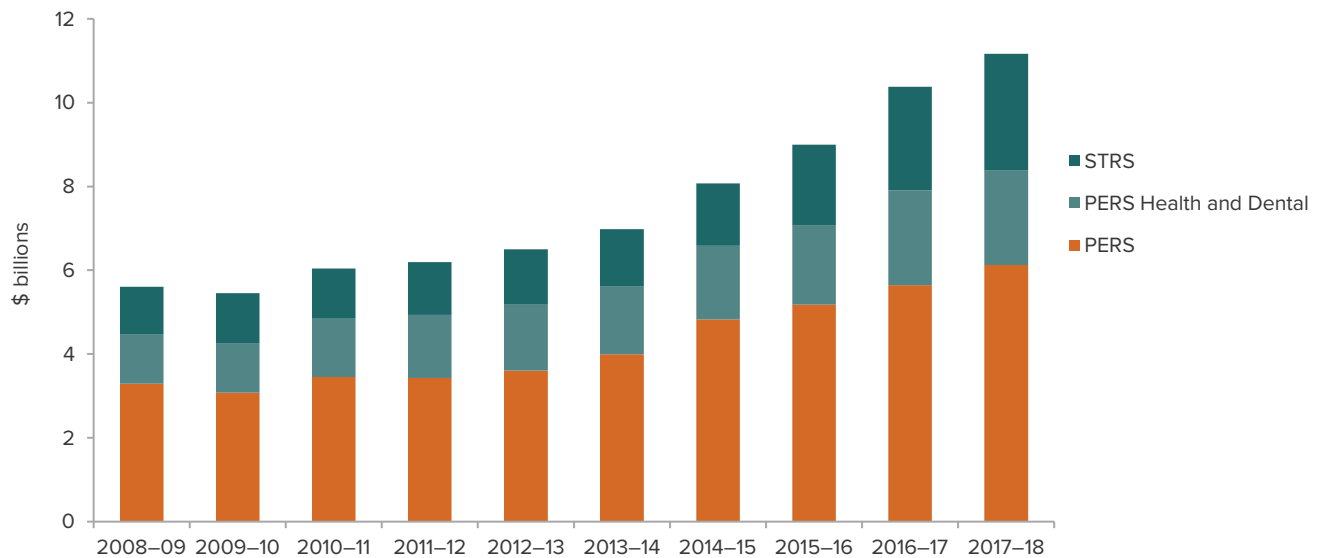


Major funding increases in 2017-18 budget plan

| | \$ millions |
|--|-------------|
| Supplemental payment to CalPERS | 6,000 |
| Transportation infrastructure funding (SB 1) | 2,800 |
| K-12 Local Control Funding Formula | 1,400 |
| K-12 one-time discretionary grants | 877 |
| Prop 56 funding for Medi-Cal growth | 711 |
| Prop 56 funding for provider payments | 546 |
| County IHSS funding relief | 400 |

Source: California State Budget 2017-18, California Department of Finance, June 2017.

Funding for retiree benefits has nearly doubled since 2008



Source: Figure SWE-01, California State Budget 2017-18, California Department of Finance, June 2017.

Notes: The funding total for 2017-18 does not include the additional \$6 billion that is being borrowed from the Surplus Money Investment Fund. STRS = state funding to the California State Teachers' Retirement System. PERS Health and Dental = state funding for retired workers health, dental, and other prefunded benefits to the California Public Employees' Retirement System. PERS = state funding for executive, judicial, and legislative employee retirement benefits to the California Public Employees' Retirement System, including California State University employees, judges, and other elected officials.

Sources: California State Budget 2017-18, California Department of Finance, June 2017; Overview of the 2017 Transportation Funding Package, Legislative Analyst Office, June 2017.

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