

California's State Budget: The Governor's Proposal

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Paul Warren and Brandon Martin

➤ The governor's spending plan anticipates continuing revenue growth.

On January 7, Governor Jerry Brown submitted his proposed 2016–17 budget to the legislature. The \$170.7 billion spending plan includes \$122.6 billion from the state's General Fund, \$45 billion from special funds, and \$3.1 billion in bond funds. The proposed General Fund appropriation is \$7.2 billion (6.2%) higher than the amount appropriated in the 2015–16 Budget Act.

➤ K–12 schools and community colleges are slated to receive significant increases.

The Local Control Funding Formula would receive a \$2.8 billion boost, which translates into a 6% per pupil increase for K–12 schools. The budget would also consolidate \$1.7 billion in existing preschool funding into a block grant, to give districts more flexibility to serve needy students. Community colleges are slated to receive \$144 million to pay for a 2% increase in enrollment and a cost-of-living adjustment. The colleges would also get \$200 million to improve the alignment of workforce training programs with the needs of employers. The University of California and California State University systems would receive 5% increases in base funding. In addition, each system would receive \$35 million for deferred facility maintenance. The budget assumes there will be no increases in tuition at the state's universities and colleges in 2016–17.

➤ Medi-Cal leads funding increases in health and social services.

The budget includes an additional \$1.4 billion for Medi-Cal, including \$740.2 million to cover 5% of the cost of optional Medi-Cal expansion under the Affordable Care Act. It also provides \$145 million to enroll 170,000 undocumented children in Medi-Cal. The budget includes a \$113 million increase to In-Home Supportive Services to cover overtime pay to caregivers if federal courts uphold the requirement. Additionally, \$127.2 million would go to the Department of Developmental Services to help cover the cost of finding new placements for residents from developmental centers that are scheduled to close this fiscal year.

➤ A new road plan is at the forefront of a renewed emphasis on maintenance.

Funding for the new \$1.7 billion plan for road maintenance would come from several sources, including a \$65 fee on all vehicles, higher diesel excise taxes, and \$500 million in fees on carbon emissions (also known as cap-and-trade fees). In addition, future gasoline excise taxes would be increased to compensate for inflation. Starting in 2017–18, revenues generated by the plan would increase to \$3.5 billion. The budget also includes General Fund requests of \$500 million to pay for deferred maintenance of state facilities, \$283 million for community college facilities, and \$250 million for the construction of new county jails.

➤ Cap-and-trade expenditures continue to rise.

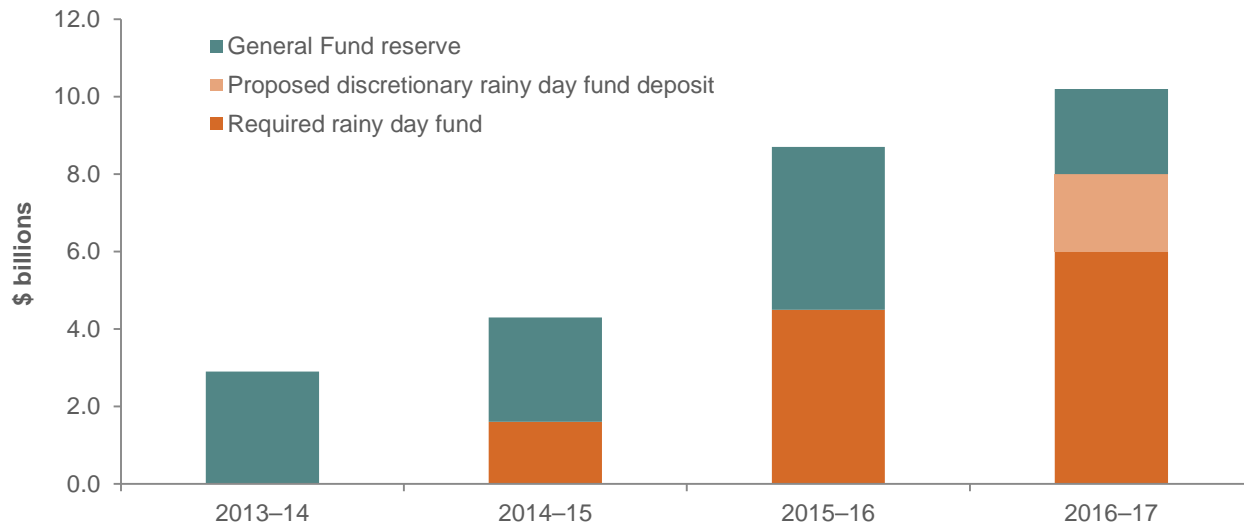
Planned spending of cap-and-trade revenue in 2016–17 totals \$3.1 billion, an increase of almost 40% from 2015–16. Local transit and intercity rail would receive \$600 million, more than double the amount allocated last year. The budget also includes increases of \$150 million for low-carbon transportation (for a total of \$500 million) and \$100 million for the low-carbon road program, which would support low-carbon transportation options such as walking or bicycling. Another \$100 million increase is earmarked for the Transformational Climate Communities Program, which aims to reduce carbon emissions by improving transportation and land use and reducing waste in disadvantaged communities.

➤ A discretionary “rainy day” fund deposit would bring its balance to \$8 billion.

The constitution requires annual deposits to a “rainy day” fund (officially known as the Budget Stabilization Account) until the balance reaches 10% of General Fund revenues. The governor's budget includes a \$2 billion discretionary deposit that would bring next year's contribution to \$3.6 billion. The discretionary deposit may be intended to reserve funds in the event that the legislature fails to extend the Managed Care Organization tax, which would generate \$1.1 billion to support various health and human service programs. The current tax expires at the end of the 2015–16 fiscal year. If the revised tax is not enacted, the state could redirect the discretionary rainy day fund deposit to avoid making cuts in other programs.



The governor proposes large state budget reserves



Sources: Schedule 1 (General Budget Summary), Governor’s Budget Summary, 2016–17, California Department of Finance, January 7, 2016. Summary Chart 1 (General Fund Budget Summary), 2014–15 Enacted State Budget, California Department of Finance.

Notes: “General Fund reserve” refers to the Special Fund for Economic Uncertainties, which allows the state to respond to revenue fluctuations or emergencies such as floods or earthquakes. “Rainy day fund” refers to the Budget Stabilization Account.

Major spending increases in the proposed 2016–17 budget

	In billions
K–12 Local Control Funding Formula	\$2.8
K–12 and community college mandate reimbursements*	1.5
Medi-Cal	1.4
Carbon reduction programs	0.9
Deferred maintenance of state facilities	0.5
In-Home Supportive Services	0.3

Source: Governor’s Budget Summary, 2016–17, California Department of Finance, January 6, 2016.

* Local government must be reimbursed for the cost of state-mandated programs. These funds represent payment for these costs from past years.

Contact: warren@ppic.org

