

## California's State Budget: The Governor's Proposal

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### ► **The governor's spending plan is based on a projection of lower revenues.**

On January 10, Governor Jerry Brown submitted his proposed 2017–18 budget to the legislature. The \$179.5 billion spending plan includes \$122.5 billion from the state's General Fund, \$54.6 billion from special funds, and \$2.4 billion in bond funds. The governor proposes to make up for a projected slow-down in revenues by reducing spending. The proposed budget lowers Proposition 98 spending minimums by \$1.7 billion; in part, this adjustment is being applied retroactively to the two previous budget years. Also, the plan cancels \$0.9 billion in one-time spending that was in the 2016–17 budget, and it would save \$0.6 billion by limiting spending growth in other areas.

### ► **K–12 schools and higher education budgets will see modest growth in 2017–18.**

The Local Control Funding Formula would receive an additional \$744 million in the coming fiscal year. The K–12 budget also includes \$200 million to cover the final installment for the Career Technical Education Incentive Grant Program. Community colleges would receive \$150 million to develop and implement “guided pathways” programs to improve student outcomes, \$94 million for a cost-of-living increase, and \$79 million to boost enrollment. The University of California and California State University systems would receive base funding augmentations of \$131.2 million and \$161.2 million, respectively. The budget assumes that tuition will not increase but signals that probable tuition increases should be aimed at increasing graduation rates and improving overall cost efficiencies. The spending plan calls for phasing out the Middle Class Scholarship, which would save \$36 million in 2017–18.

### ► **Support continues for Medi-Cal and state Earned Income Tax Credit (EITC).**

General Fund spending on Medi-Cal will increase 7% (\$1.3 billion) in 2017–18. The spending plan continues the state EITC program and underwrites salary increases for state and local workers covered by California's upcoming minimum wage increases. The governor plans to eliminate the Coordinated Care Initiative because it is not cost effective; this would shift some health care costs to the counties and save the General Fund \$626.2 million. The budget also delays increases to reimbursement rates for child care providers, puts off planned cost-of-living adjustments for these providers, and pushes back a planned expansion of preschool slots, to save almost \$227 million.

### ► **The plan includes new spending on transportation infrastructure and carbon reduction.**

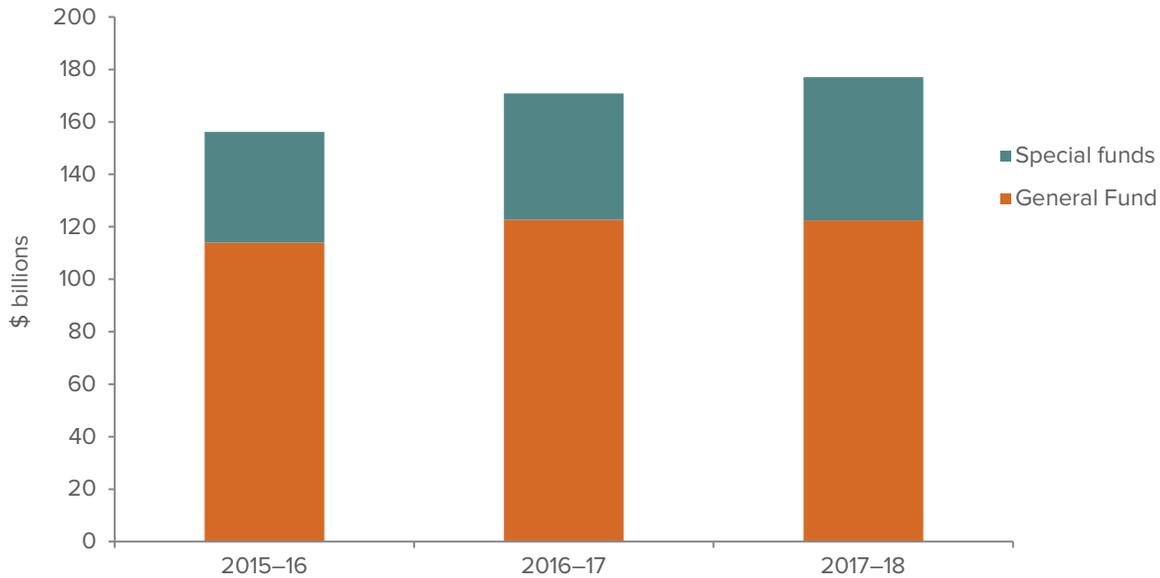
The budget provides \$1.8 billion for the first installment of a 10-year, \$43 billion transportation infrastructure package. New funding comes from several sources, including a \$65 fee on all vehicles, increased diesel and gasoline excise taxes, cap-and-trade proceeds, and operational efficiencies within Caltrans. The governor is also asking the legislature to extend authorization for the cap-and-trade program beyond 2020 with a two-thirds vote of both houses. If the extension is approved, the budget proposes spending \$2.2 billion in carbon-reduction-fee revenues.

### ► **Amid economic and policy uncertainty, the budget augments state reserves.**

The governor's budget assumes continued economic expansion but its projection of lower revenues is more pessimistic than the estimate generated by the Legislative Analyst's Office. The spending plan assumes no change in federal policies. However, Affordable Care Act changes that are currently under discussion could have major budget ramifications for Medi-Cal, which covers more than a third of the state's residents. The Rainy Day Fund will receive a constitutionally mandated payment of almost \$1.2 billion, bringing it to \$7.9 billion by the end of 2017–18. This, in addition to a planned \$1.5 billion balance in the state's discretionary budget reserve, would bring total reserves to \$9.4 billion.



**General Fund spending would remain flat while special funds would increase**



**Source:** Schedule 1 (General Budget Summary), Governor's 2017-18 Proposed Budget, California Department of Finance, January 10, 2017.

**Major General Fund adjustments in the proposed spending plan**

	\$ millions
Medi-Cal shortfall for 2016-17	1,800
Medi-Cal increase for 2017-18	1,300
K-12 Local Control Funding Formula	744
Cancellation of state office building fund transfer	-300
Elimination of affordable housing set-aside	-400
Cancellation of Coordinated Care Initiative	-626
Proposition 98 minimum spending adjustments	-1,700

**Source:** Governor's 2017-18 Proposed Budget, California Department of Finance, January 10, 2017. The 2017-18 Budget: Overview of the Governor's Budget, Legislative Analyst Office, January 13, 2017.

**Notes:** The Proposition 98 adjustments are spread across multiple budget years.

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