

California's State Budget: The Enacted 2015–16 Budget

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➤ **The new budget includes significant new spending despite a cautious revenue forecast.**

On June 25, 2015, Governor Brown signed the 2015–16 Budget Act, spending \$167.6 billion from the General Fund and other state funds. General Fund appropriations total \$115.4 billion, only \$900 million more than the revised 2014–15 spending level. However, that small increase should be put in context. Surging state revenues boosted 2014–15 spending far above the levels approved by the Legislature in June 2014. The 2015–16 budget represents a \$7.4 billion increase, or 6.9%, over that pre-revision 2014–15 spending plan.

➤ **Capital gains income and taxable sales limit the growth in revenues.**

The relatively modest revenue expectations in the 2015–16 budget reflect two factors. First, taxable sales have recovered slowly from the recent recession. The budget sees this trend continuing, forecasting only a 0.3% increase in 2015–16. Second, the budget assumes capital gains income growth will be negligible. Capital gains income comes from the profits made from the sale of stock and other assets, and is notoriously volatile. This income is estimated to have increased 52% from 2013 to 2014, generating \$4 billion to \$5 billion in new state revenue. Because capital gains were so strong in 2014, the budget assumes this income will stay constant in 2015 and fall somewhat in 2016.

➤ **K–12, preschool, and higher education see the biggest increases.**

Public K–12 schools and community colleges receive a total of \$68.4 billion in state funds and local property taxes in 2015–16. This includes a \$6 billion increase, or 12.8%, for the Local Control Funding Formula (LCFF). The LCFF, approved in 2013, supplies K–12 schools with base grants plus extra funds for targeted student groups. State community colleges get about \$800 million to cover 3% growth in student attendance, higher base funding, and additional student support services. Schools and community colleges also share another \$5.4 billion in one-time funds, primarily for retiring past obligations for mandated local programs. Preschool and child care spending rises \$220 million with the goal of creating 16,000 new slots and boosting the per-pupil funding levels. The University of California budget rises 8%, including an additional \$119.5 million, or 4%, for general expenses and \$122 million for one-time retirement and facility costs. The California State University system also gets an 8% increase, including \$225 million for base costs and enrollment growth, and \$25 million for one-time facility costs. The budget assumes no general tuition or fee increases.

➤ **New health and welfare programs assist working poor and undocumented immigrants.**

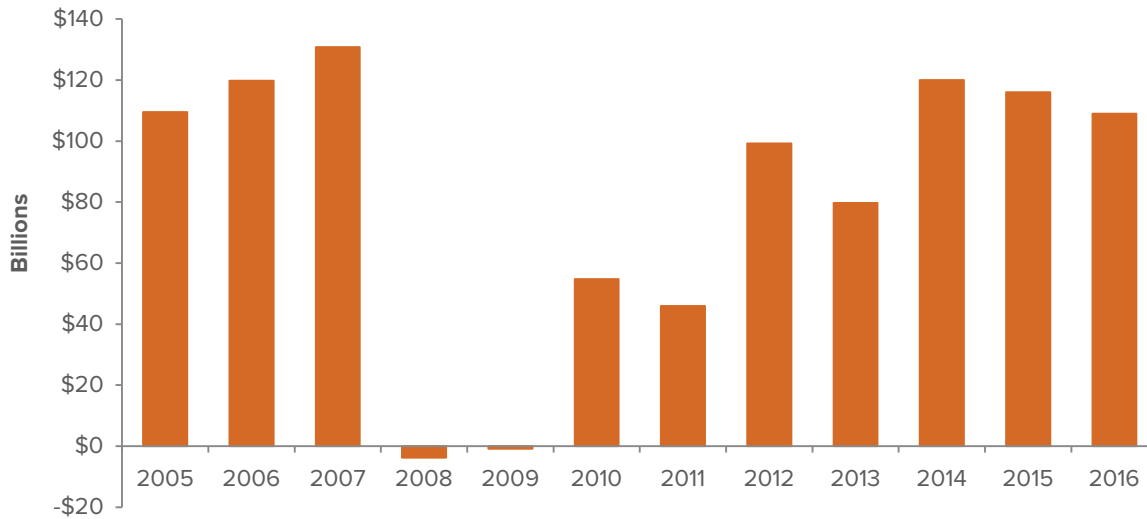
The budget includes a new state Earned Income Tax Credit, costing \$380 million, that raises the after-tax income of the poorest working Californians. For instance, a family of four must earn less than \$13,380 a year to be eligible for a credit, up to a maximum of \$2,650. California's spending plan also includes three new programs for undocumented immigrants. Starting May 2015, low-income children age 18 or younger can receive Medi-Cal health benefits regardless of their immigration status, at a projected cost of \$40 million for the first two months. An additional \$16.8 million in state funds is set aside for undocumented adults who register for deportation relief, provided that the courts uphold President Obama's recent immigration executive order. The budget also includes \$15 million in legal assistance for those covered by the president's order.

➤ **The budget also builds the rainy day reserve.**

Proposition 2, passed in 2014, requires the state to divert at least 1.5% of its revenue each year to pay down debts and build its rainy day reserves. The 2015–16 budget allocates \$1.9 billion to the reserve, while another \$1.9 billion goes to retire debt and other state liabilities. This adds to the \$1.6 billion already in the reserve, bringing the total to \$3.5 billion. In addition, the budget sets aside another \$1.1 billion in its short-term reserve protecting the state in case of unforeseen costs, bringing total reserves to \$4.6 billion by the end of the fiscal year.



Net capital gains income fluctuates greatly



Source: California Franchise Tax Board Revenue Exhibits, May 2015, 2015–16 May Revision, California Department of Finance, May 2015.

Note: Net gains are calculated as gross gains less gross losses. Figures for 2014 through 2016 are estimated by the Department of Finance.

Major spending increases in the 2015–16 budget act

	In billions
K–12 Local Control Funding Formula	\$6.0
K–12 and community college mandate repayments	3.1
Adult education block grant	0.5
K–12 teacher block grant	0.5
Community college enrollment and funding increase	0.4
Earned Income Tax Credit	0.4
California State University	0.3
University of California	0.2

Source: 2015–16 May Revision, California Department of Finance, May 2015, The 2015–16 Budget: Major Features of the Adopted Plan, California Legislative Analyst’s Office, June 2015.

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