



California Budget
& Policy Center

The 2018-19 May Revision and This Year's Budget Debate

*BRIEFING AT MAKING ENDS MEET: POLICY
PROSPECTS THIS YEAR AND BEYOND FOR
PROMOTING ECONOMIC SECURITY IN
CALIFORNIA*

MAY 22, 2018

calbudgetcenter.org



The **Policy Perspective Speakers Series** features in-person and online events that provide expert analysis and insights on key policy questions facing California.



Part I

The Governor's 2018-19 May Revision: Context and Top Lines



From the Budget Center's *First Look*, released last week:

May Revision “**makes several improvements** over the January proposal. But, especially in light of the significant discretionary funds available, it “**leaves much room for additional investments** in individuals, families, and communities across California.”



Putting the Governor's 2018-19 May Revision in Context

Several major issues/considerations:

- State revenues coming in even stronger than had been projected in January
- A range of vital services and supports still operating at diminished levels due to cuts made during and after the Great Recession
- California State University (CSU) and University of California (UC) still feeling impact of many years of state disinvestment
- Economic hardship high in many parts of the state



Putting the Governor's 2018-19 May Revision in Context (cont.)

Other considerations:

- Uncertainty of long-term impact of the federal tax law enacted last December
- Continued prospect of cuts and other changes at the federal level (though perhaps unlikely before November election)
- Anticipated statewide ballot measures with potentially significant implications (housing bond, gas tax repeal, realtors' Proposition 13 initiative, e.g.)



The Governor's May Revision: Top Lines

- Forecasts revenues that are about \$8 billion higher (over three-year period) than had been projected in January
- Places a heavy emphasis on building up reserves, including a sizeable *discretionary* deposit in the state's rainy day fund
- Also prioritizes some *one-time* spending, such as infrastructure, addressing homelessness, and mental health services
- Makes no new investments in some critical public supports (CalWORKs, SSI/SSP, subsidized child care, affordable housing)



Part II

Key Components of the Governor's May Revision



May Revision reflects an improved fiscal outlook

General Fund revenues are expected to be considerably higher than projected in January.



The state's strong revenues mean that there is more than \$10 billion in discretionary resources available for 2018-19.



May Revision maintains Governor's proposal to bring state rainy day fund to its maximum level.

The Governor proposes depositing \$4.4 billion in the rainy day fund. Of this amount, \$1.75 billion is constitutionally required, while \$2.6 billion is discretionary (beyond what Prop. 2 requires).



Under the May Revision, total reserves would reach \$17 billion by the end of 2018-19.

This includes \$13.8 billion in the rainy day fund and another \$3.2 billion that the Governor proposes to leave in the state's discretionary reserve fund.



Governor's May Revision proposes to strengthen the California Earned Income Tax Credit (CalEITC).

**The CalEITC is a refundable state tax credit
that helps families who earn very little from
their jobs to better afford basic necessities.**



May Revision Would Strengthen CalEITC

The Governor's revised budget:

- Raises the income limit to qualify for the CalEITC
- Changes the credit's age requirements so that young adults and seniors who are currently ineligible for the credit can qualify for it
- Does not extend the CalEITC to immigrant workers who are currently excluded
- Does not provide additional funds to promote the credit or to expand free tax preparation services to low-income families and individuals



Governor's May Revision calls for \$2 billion in one-time infrastructure investments to address deferred maintenance.



The Governor Prioritizes One-Time Infrastructure Investments

Among the \$2 billion in infrastructure spending are:

- \$630 million for improvements to state office buildings
- \$343.5 million for higher education systems (CSU, UC, California Community Colleges)
- \$174 million for state corrections facilities
- \$100 million each for: flood control and levee improvements; courts; state hospitals; state park facilities



May Revision proposes new funding to address homelessness.

California has an estimated 135,000 homeless residents (January 2017), accounting for nearly one-quarter of the total US homeless population.



One-Time Investments as Well as Ongoing Spending Aim to Address Homelessness

The Governor's May Revision includes:

- \$250 million for one-time Emergency Homeless Aid Block Grants
- Increased funding for two CalWORKs programs that assist homeless families: the Housing Support Program and the Homeless Assistance Program
- One-time funding for: a pilot program to prevent/address homelessness among seniors (\$15 million over three years); \$10 million for domestic violence shelter services; \$1 million for homeless youth shelters.



Proposals to Address Homelessness (cont.)

The Governor's May Revision also:

- Makes a one-time \$50 million allocation for counties to provide services to homeless individuals with mental illness
- Proposes that the No Place Like Home program (funding for which currently faces a legal challenge) be placed on the November 2018 statewide ballot for voter validation



While it boosts spending to address homelessness, the May Revision overall falls short of Legislature's housing proposals.



May Revision proposes no new funding to address needs of immigrants.

California has the largest share of immigrants of any state. In addition, immigrants account for one-third of our state's workforce.



May Revision differs from some key Legislative proposals on supporting immigrants.

Governor does not extend CalEITC to immigrant workers who file taxes with ITINs (as noted earlier) nor does he expand Medi-Cal eligibility to undocumented adults.



Increased revenues boost the minimum funding level for K-12 schools and community colleges.

May Revision assumes a 2018-19 Prop. 98 funding level of \$78.4 billion. This is \$68 million above the January proposal and \$2.8 billion above what is now assumed for the *current* (2017-18) budget year.



Like the January proposal, the May Revision provides funding to support full implementation of state's K-12 funding formula – the Local Control Funding Formula (LCFF).



Proposals regarding California Community Colleges (CCCs) are key component of May Revision.

Governor calls for adjustments to proposed new funding formula for CCCs and offers details on online community college proposal.



May Revision Makes Adjustments to Proposed CCC Funding Formula

In January, the Governor proposed a new formula for allocating CCC “general-apportionment” funding. The May Revision adjusts this formula by providing each district with:

- **A 60% base grant** (was 50%) based on three-year rolling average of per-Full-Time-Equivalent Student (FTES) funding rate.
- **A 20% supplemental grant** (was 25%) based on the number of: College Promise Grant fee-waiver recipients over age 25; certain undocumented students qualifying for resident tuition; and Pell grant recipients.
- **A 20% student success incentive grant** (was 25%) based on outcomes for disadvantaged students; transfers to four-year institutions; and other factors.



Governor's revised budget maintains modest increases for CSU and UC.

The Administration's proposed funding levels are less than what CSU and UC had requested. Also, should either system opt to increase tuition, the Governor calls for reducing their allocations in proportion with any resulting increases in state aid.



May Revision maintains proposed CalWORKs home visiting pilot, but does not expand eligibility.

Proposed initiative would serve first-time CalWORKs parents under the age of 25. Some advocates had sought changing this age cap; the average CalWORKs household is headed by a 34-year-old.



Nearly \$160 Million Would Go Toward the Home Visiting Pilot

- Revised budget continues proposal to provide \$158.5 in one-time TANF funds for three-year pilot initiative.
- The voluntary program would provide up to 24 months of home visiting for first-time CalWORKs parents who are pregnant or have a child under age 2.
- A substantial base of research shows that home visiting programs are an effective investment in improving outcomes for families and children.



May Revision includes no funding to increase subsidized child care slots.

Despite recent incremental increases in the state's child care and development system, California still provides about 67,000 fewer subsidized slots than prior to the Great Recession.



Revised budget does not reflect child care funding included in recent federal spending legislation.

California is expected to receive more than \$230 million in federal child care funds, but the Administration does not allocate any of this in the 2018-19 state budget.



May Revision makes no new investments in CalWORKs or in basic income support for seniors and people with disabilities (SSI/SSP).



Governor makes no major changes on state health policy, instead maintaining existing commitments.

May Revision does not reflect legislative proposals to expand coverage options for undocumented immigrants and boost affordability of coverage.



Revised budget reflects modest decline in incarceration.

Governor projects the number of incarcerated adults will drop by 2.5% in 2018-19 due to recent reforms. Administration expects to be able to end use of out-of-state prison facilities by early 2019.



Part III

Issues to Watch



Key Questions Likely to Shape the Final Weeks of the Budget Debate

- Where will the final budget agreement land with regard to projected revenues, given the differing estimates from the Administration and the Legislative Analyst's Office?
- How will the Legislature seek to further strengthen the California Earned Income Tax Credit (CalEITC)?
- Will the Legislature advance a budget package that includes significant funds to promote housing affordability?
- Will the Legislature agree to the Governor's proposed change to the annual "certification" process for the final Prop. 98 (K-14) funding level?



Key Questions Likely to Shape the Final Weeks of the Budget Debate (cont.)

- Will the Legislature's budget proposal include increased state dollars for subsidized child care? And will the Legislature push to include significant new *federal* child care funds as part of state budget package?
- Will Legislature seek increased funding and other steps to boost support for CalWORKs and SSI/SSP?
- Will the Legislature advance the proposal — from the Assembly — to add \$1 billion in health care spending to expand Medi-Cal coverage to undocumented young adult immigrants and offer premium subsidies for middle-income households?



Part IV

Questions and Discussion





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INTERMISSION

Thank you for joining our live webcast of “Making Ends Meet: Policy Prospects This Year and Beyond for Promoting Economic Security in California.” Part II of the event will start shortly.



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Independent Analysis. Shared Prosperity.



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Making Ends Meet: How Public Policies Can Help Promote Economic Security

SARA KIMBERLIN, SENIOR POLICY ANALYST

MAKING ENDS MEET: POLICY PROSPECTS THIS
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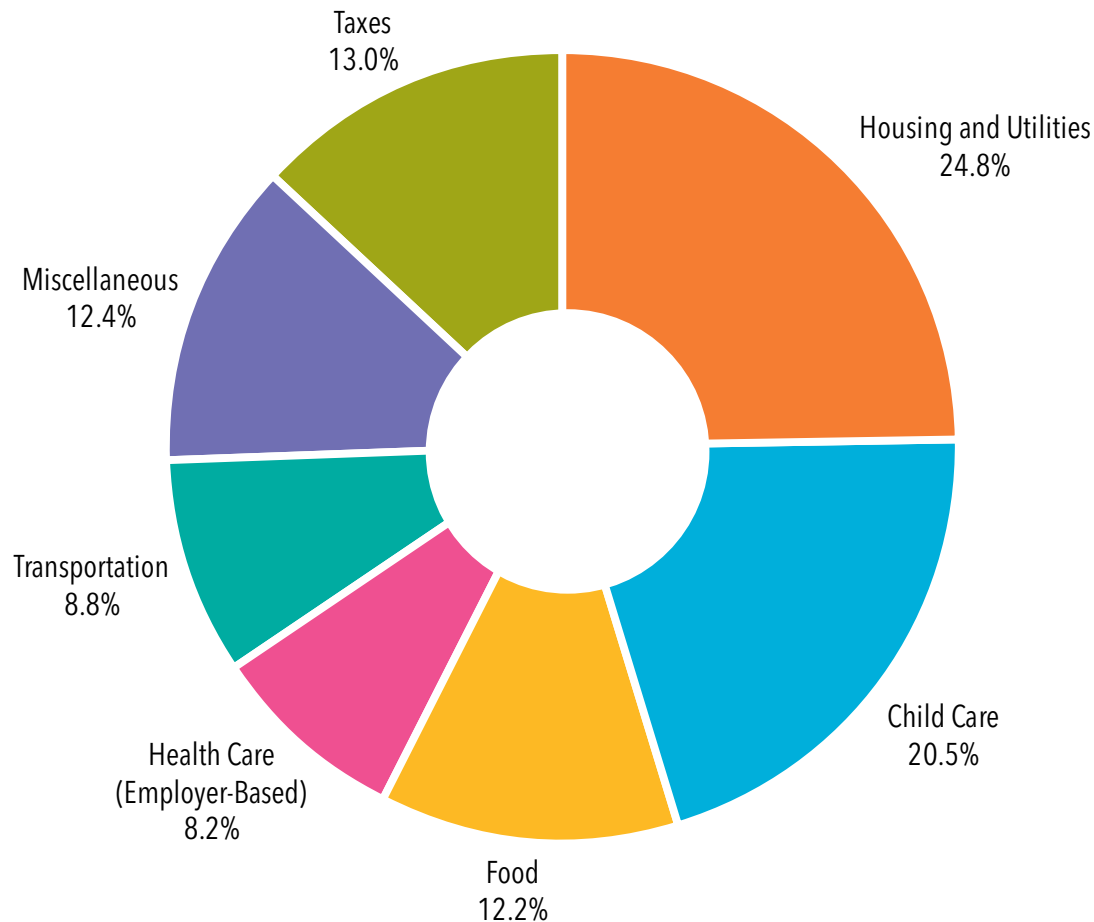
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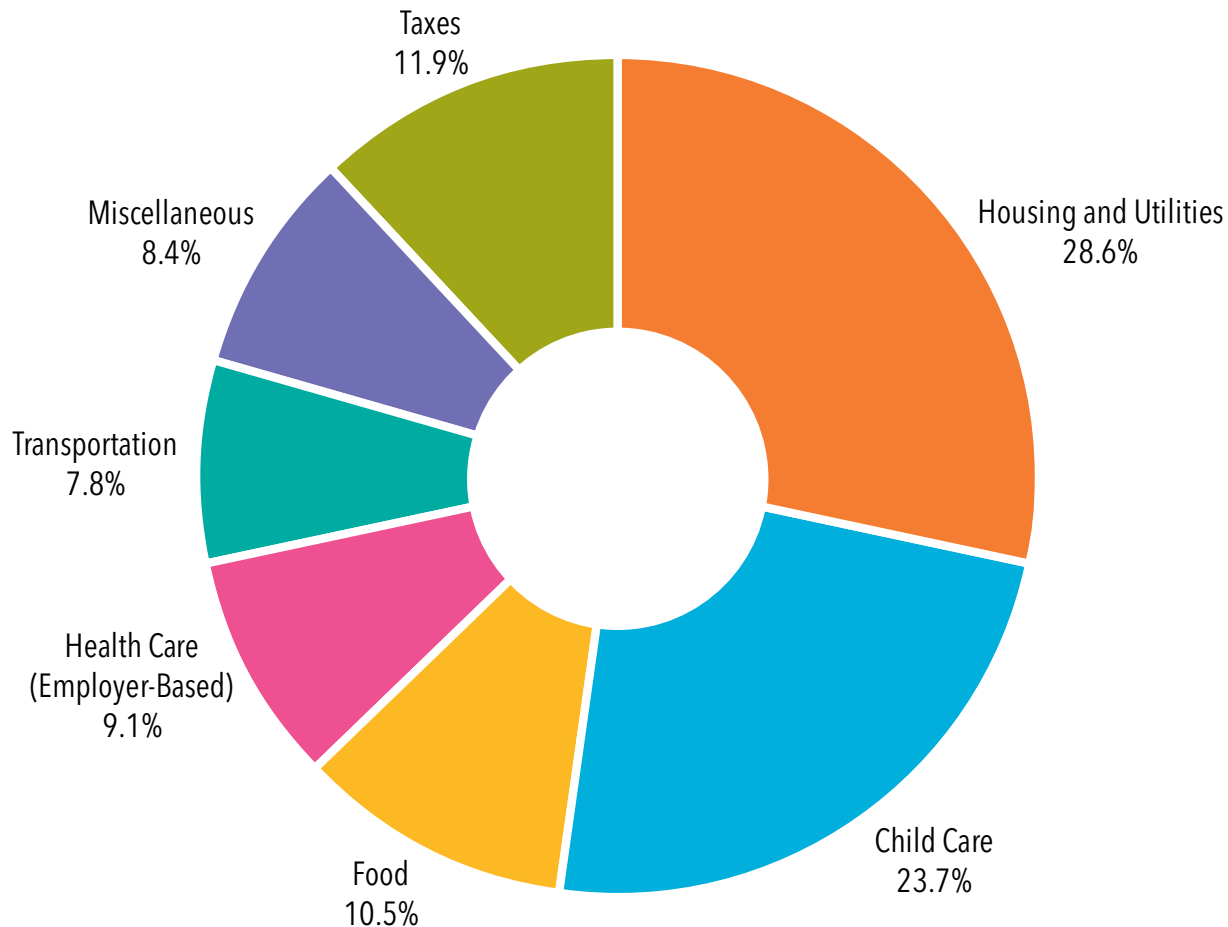
Note: Statewide average family budget calculated by averaging all county family budgets, weighted by county population.

Source: Budget Center *Making Ends Meet* 2017 analysis



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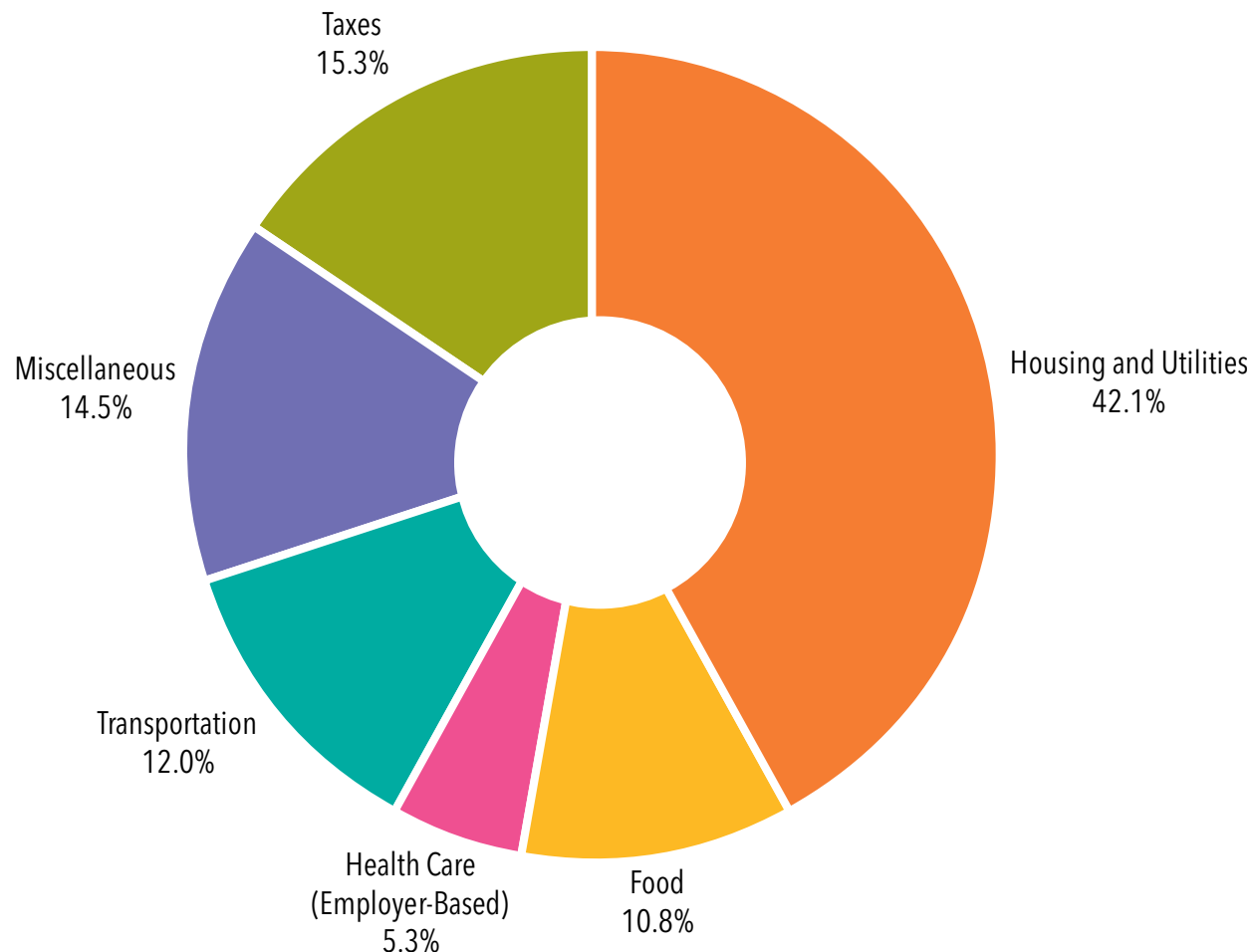
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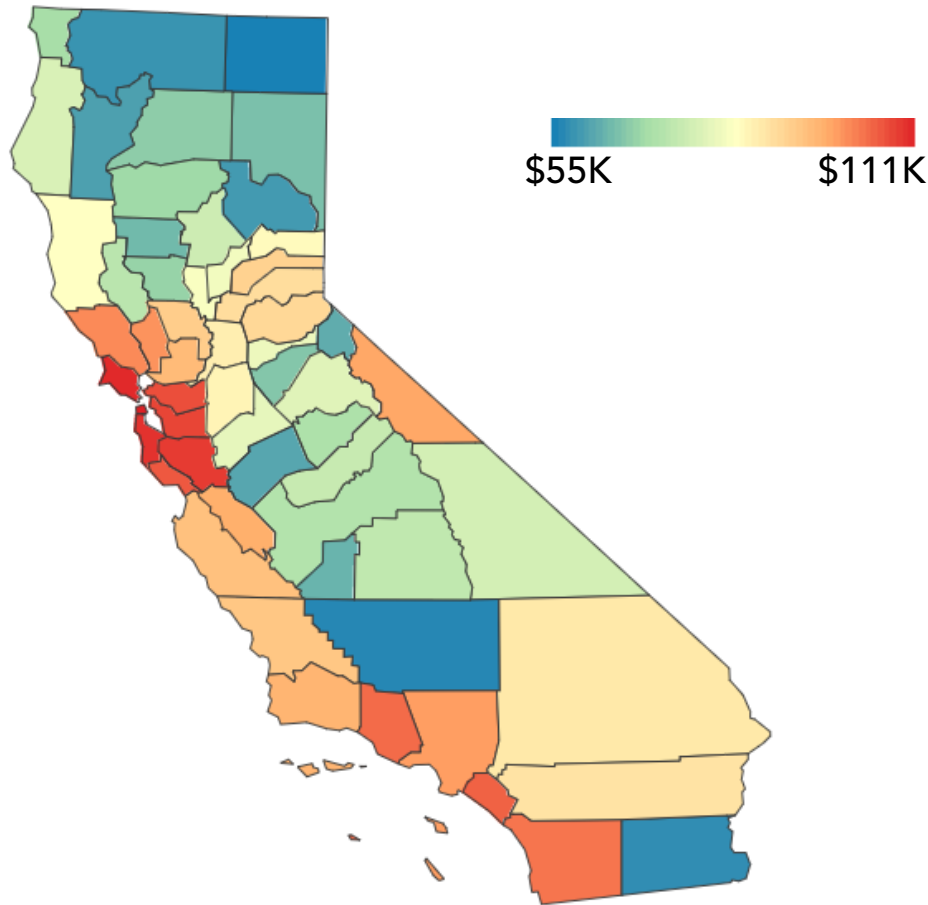
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The Basic Cost to Support a Family Varies Across California

Annual Basic Family Budget for a Two-Working-Parent Family With Two Children, 2017



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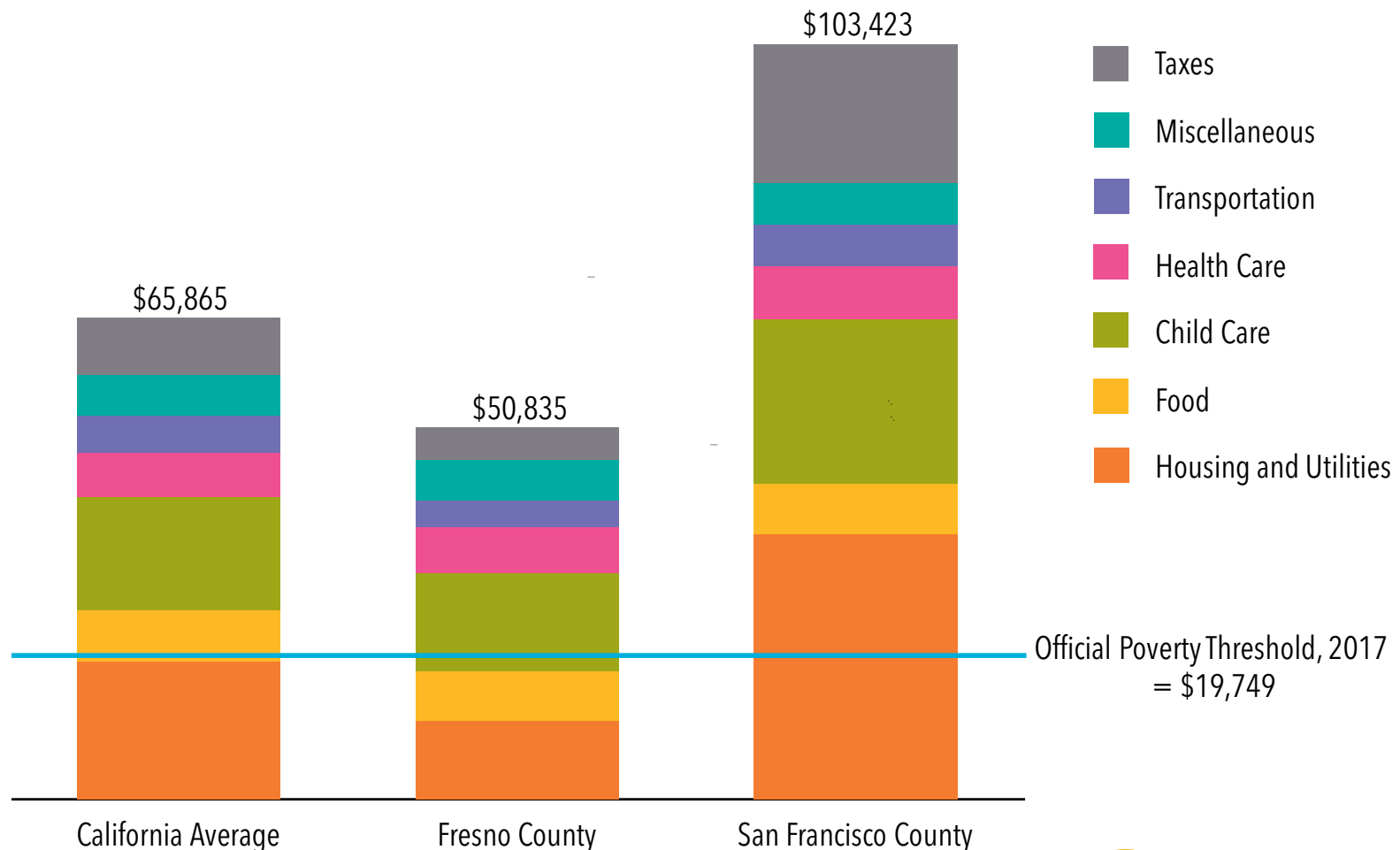
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Note: Assumes one preschool-age and one school-age child and a single parent working full-time.
Source: Budget Center *Making Ends Meet* 2017 analysis and US Census Bureau

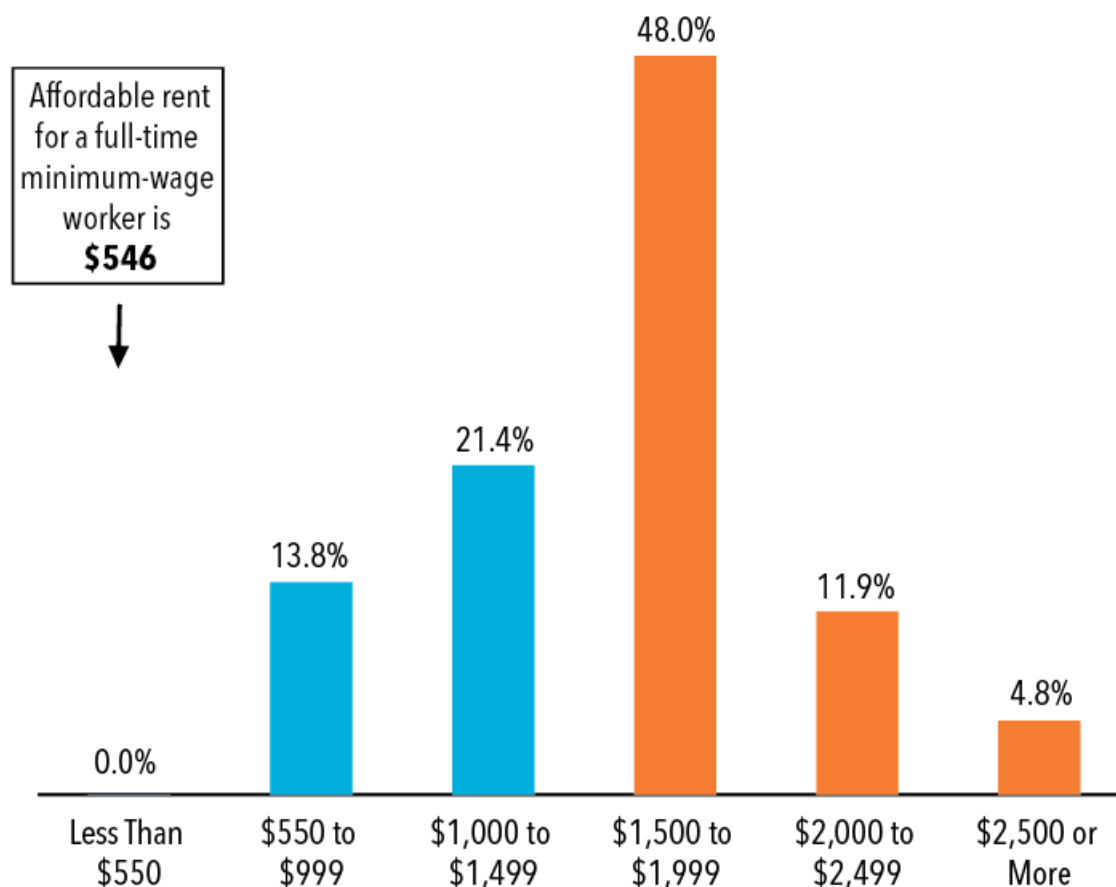


Why Are Families Struggling to Make Ends Meet?



Nearly Two-Thirds of Californians Face Two-Bedroom Apartment Rents of \$1,500 or More Per Month

Percentage of State Population by Fair Market Rent for a Two-Bedroom Apartment, 2017



Source: Budget Center analysis of data from Department of Finance and US Department of Housing and Urban Development

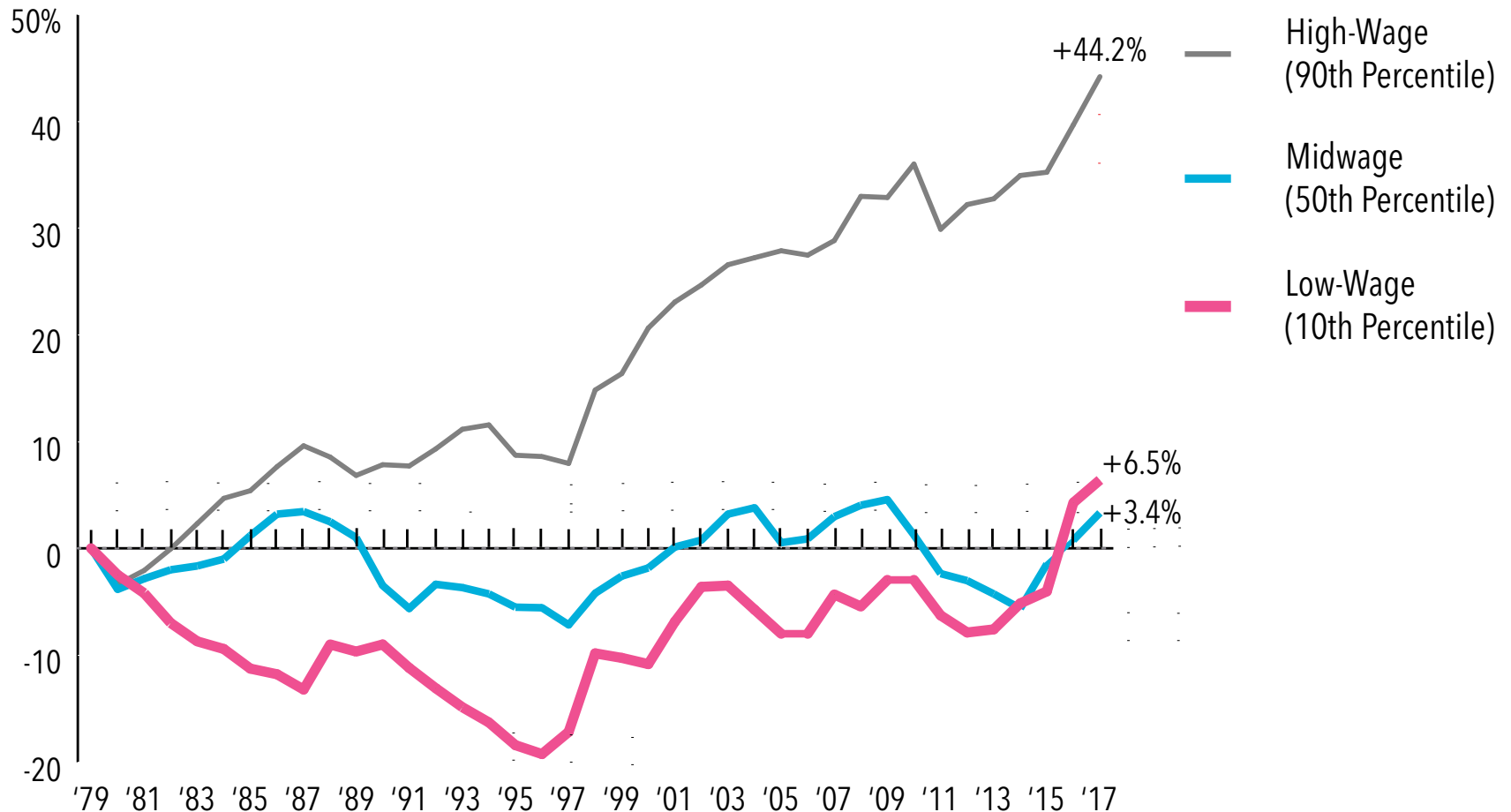


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California's Low- and Midwage Workers Have Seen Only Modest Gains Since 1979

Percent Change in Inflation-Adjusted Hourly Wages for Workers Ages 18-64



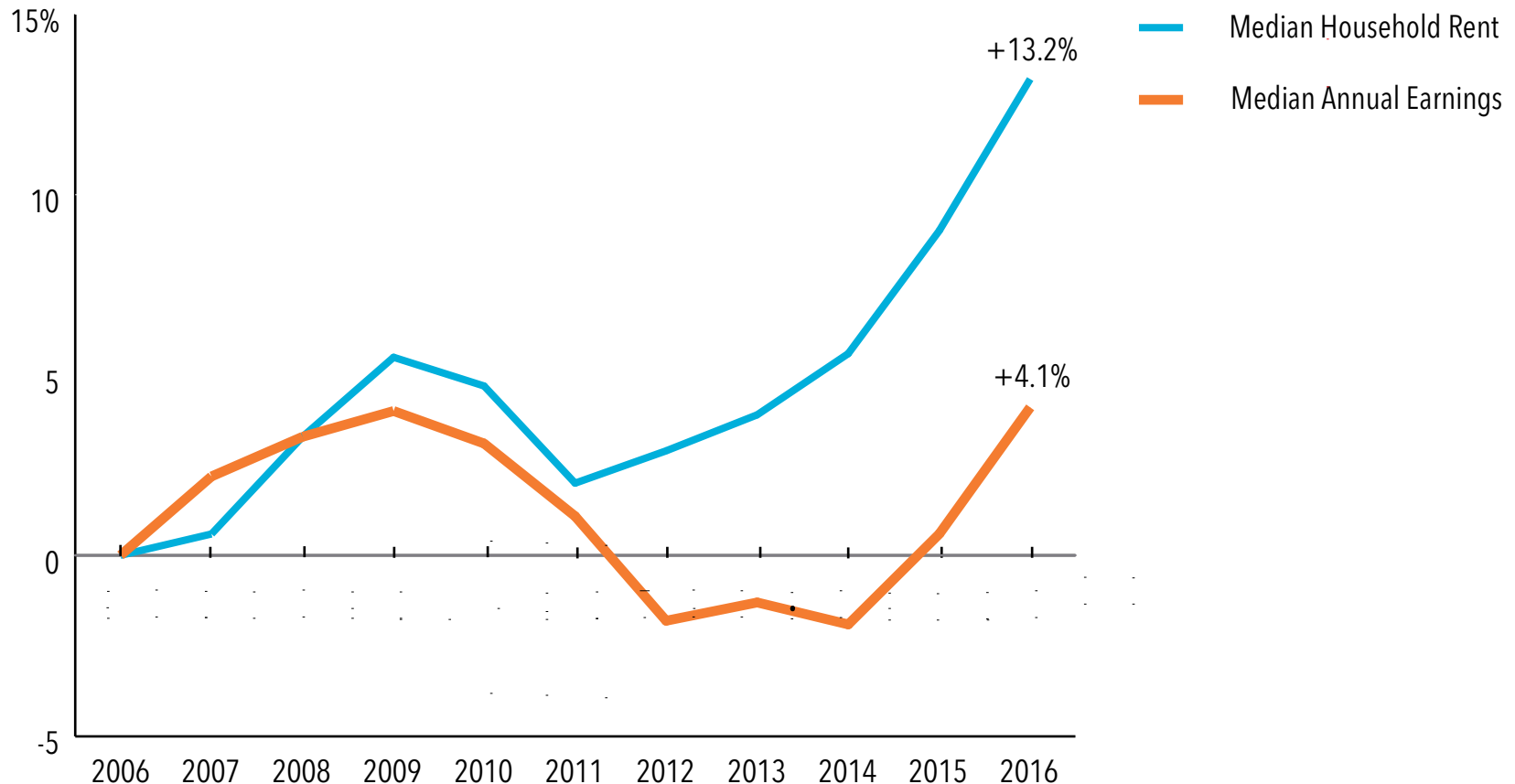
Note: Figures reflect 2017 dollars.

Source: Economic Policy Institute analysis of US Census Bureau, Current Population Survey data



Workers' Earnings Have Not Kept Pace With Rents in California

Percent Change in Inflation-Adjusted Median Rent and Median Annual Earnings Since 2006



Note: Median annual earnings for individuals working at least 35 hours per week and 50 weeks per year. Excludes workers with \$0 or negative total earnings.

Source: Budget Center analysis of US Census Bureau, American Community Survey data



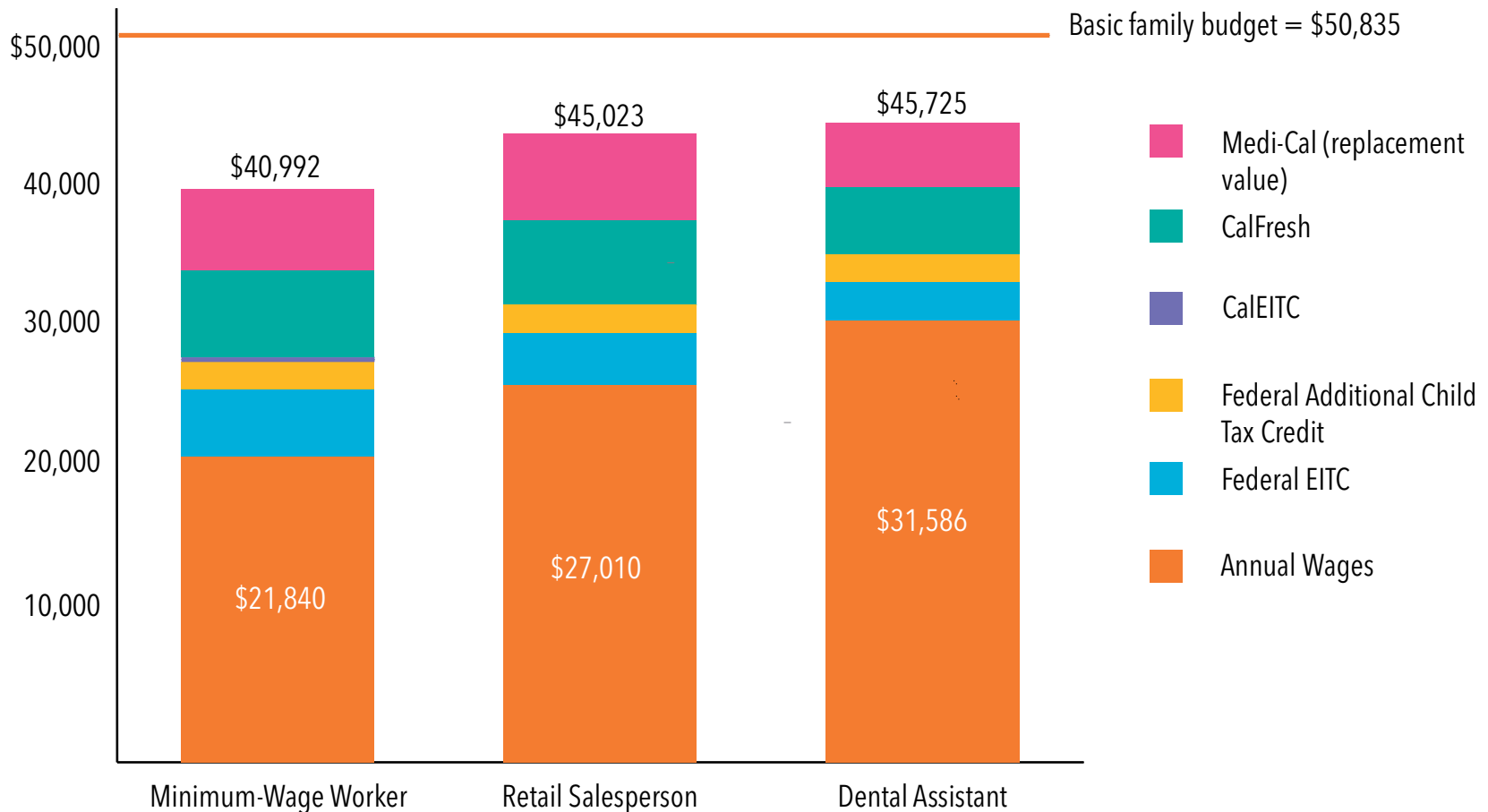
Public Supports Help Families Meet Basic Needs

But they don't go as far in high-cost areas.



Where Cost of Living Is Low, Public Supports Substantially Help Single-Parent Families Meet Basic Needs

Single-Parent Family Income With Addition of Key Public Supports, Fresno County



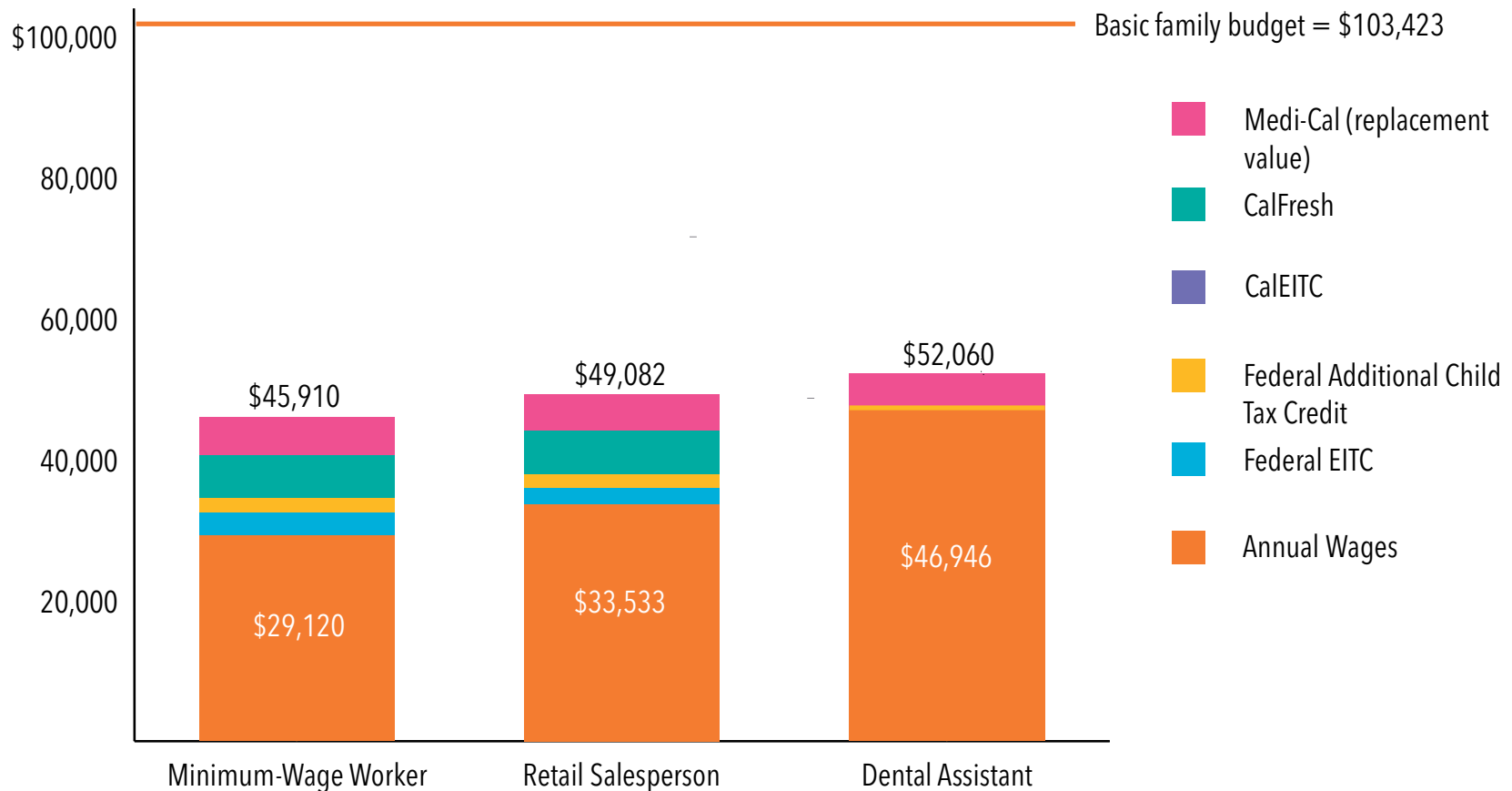
Note: No bar indicates ineligibility for that public support. Medi-Cal is free or reduced-cost health insurance. Medi-Cal value represented as employee cost for employer-based health insurance and out-of-pocket medical expenses.

Source: Budget Center *Making Ends Meet* 2017 analysis



Where Cost of Living Is High, Single-Parent Families Face Inadequate Income Even With Public Supports

Single-Parent Family Income With Addition of Key Public Supports, San Francisco County



Note: No bar indicates ineligibility for that public support. Medi-Cal is free or reduced-cost health insurance. Medi-Cal value represented as employee cost for employer-based health insurance and out-of-pocket medical expenses.

Source: Budget Center *Making Ends Meet* 2017 analysis



Policy Choices Can Make a Difference

There are opportunities this year and beyond to address housing affordability, child care costs, and the needs of immigrants.



Policies to Help Families Make Ends Meet

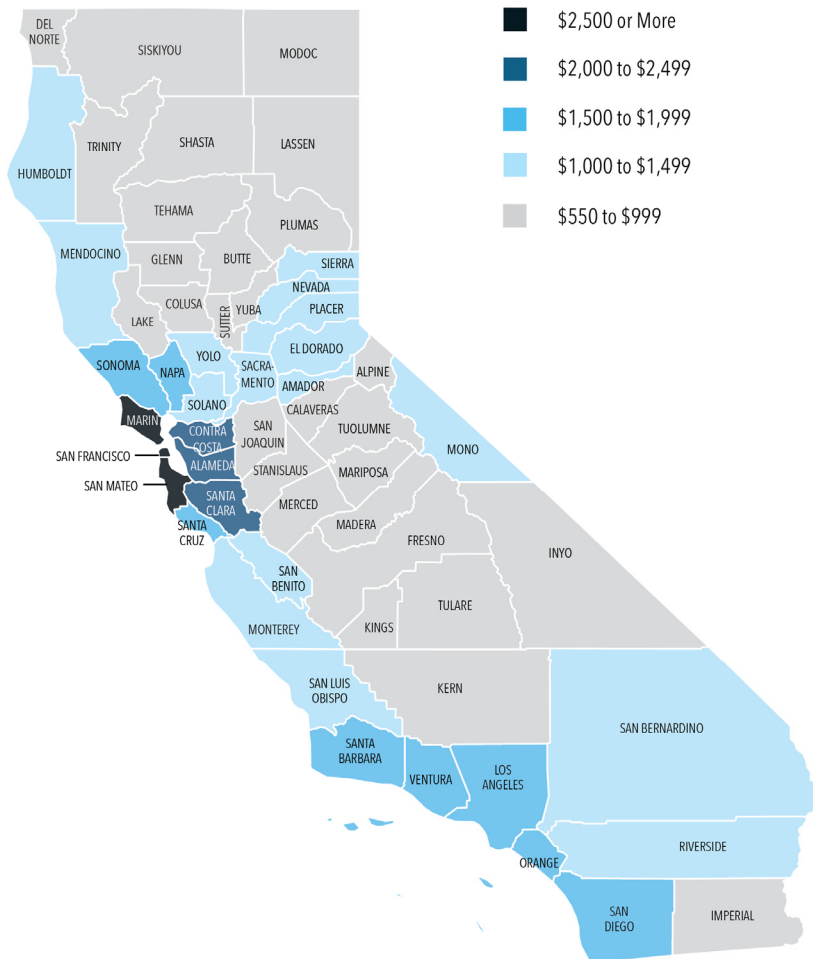
- **Reduce the cost of basic needs** – increase access to affordable housing, food assistance, child care subsidies, public health insurance.
- **Increase families' incomes** – increase the minimum wage, increase the size and coverage of the CalEITC, increase access to effective workforce development, reduce fines and fees.
- **Account for the cost of living** when identifying which families need support and how much support they need.





Rents Are Highest in California's Coastal Urban Areas

Fair Market Rent for a Two-Bedroom Apartment, 2017

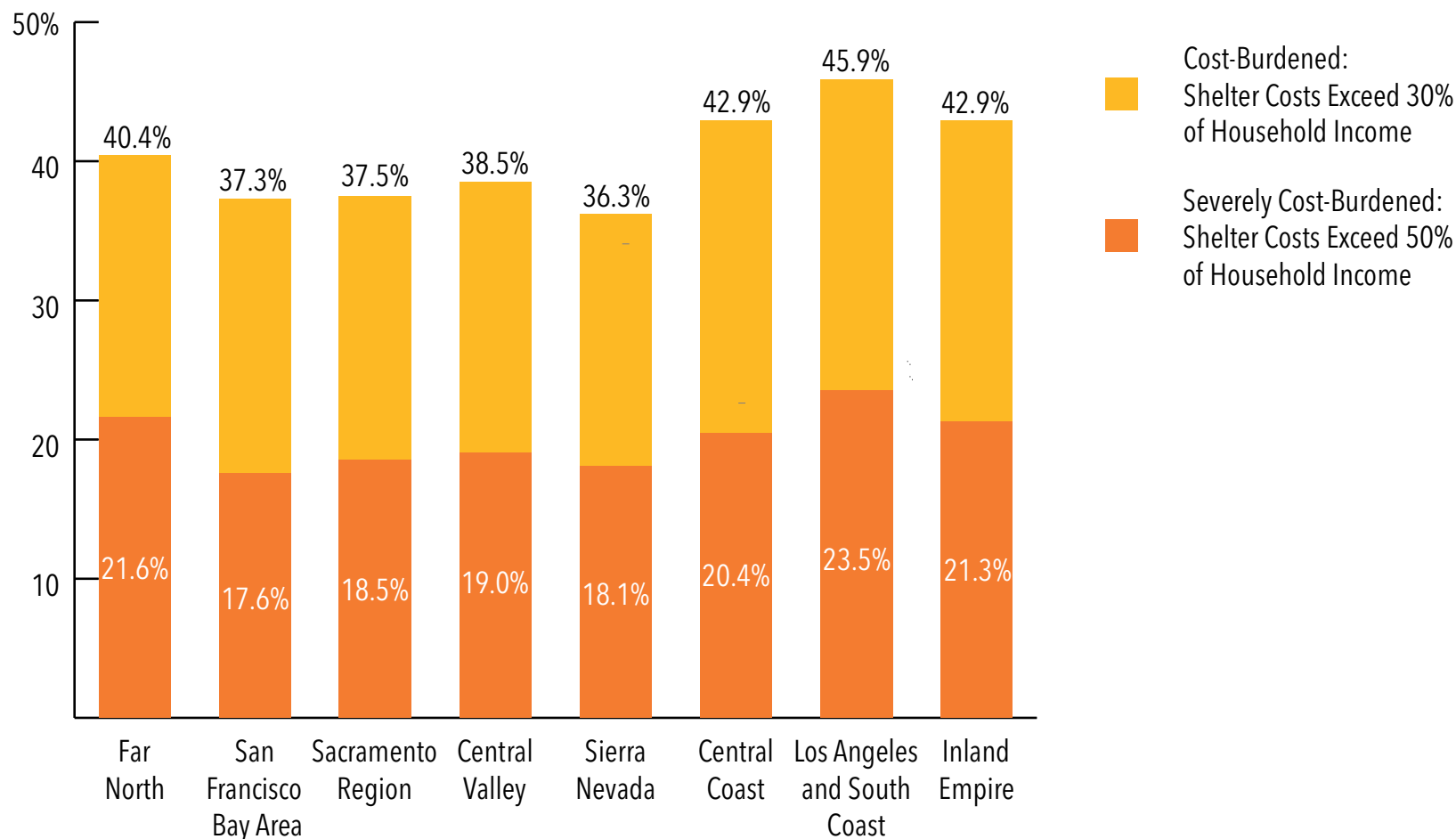


Source: US Department of Housing and Urban Development



Housing Costs Are Unaffordable Throughout California

Percentage of Households With Housing Cost Burden or Severe Housing Cost Burden, 2016

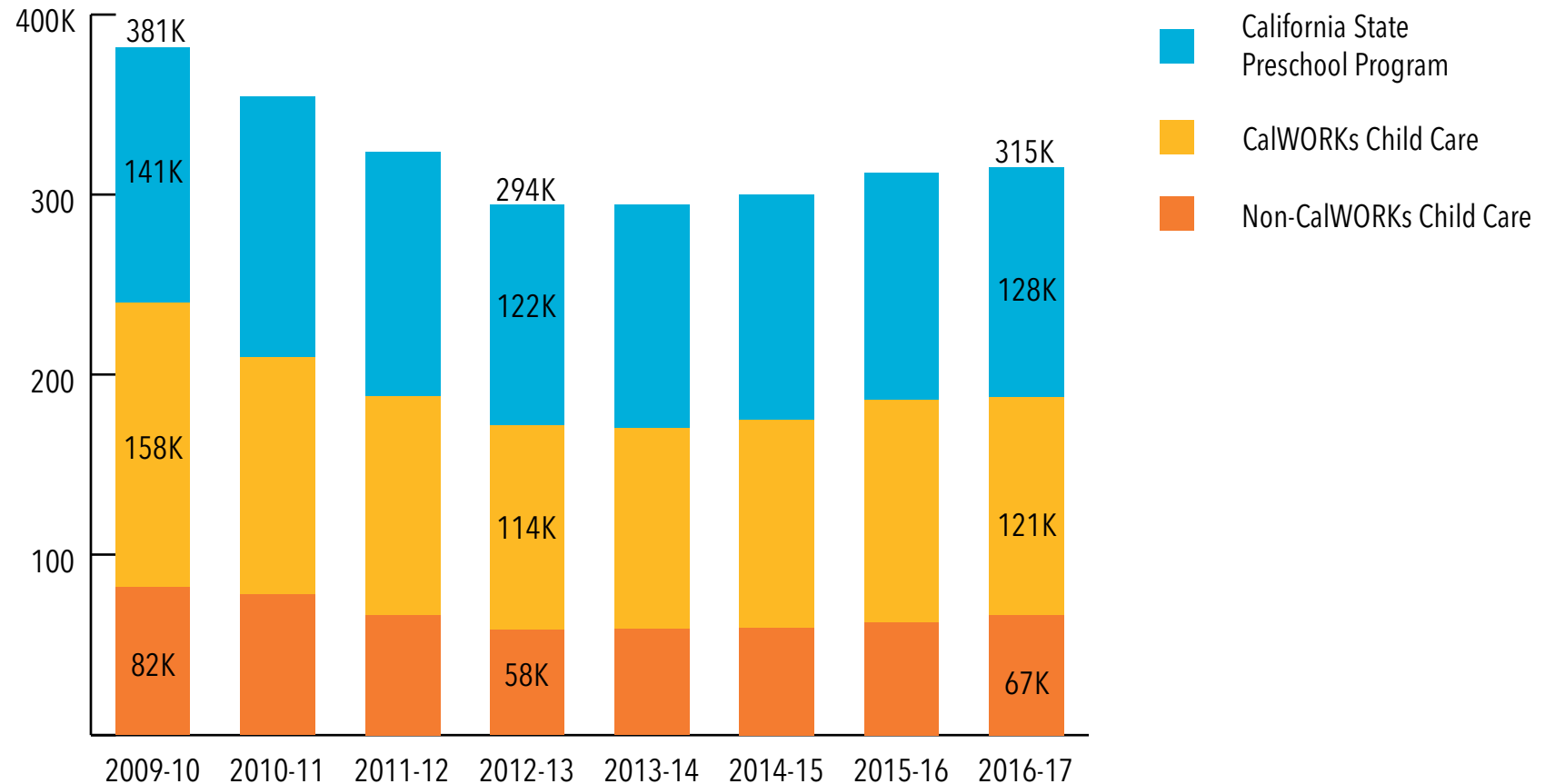


Note: Definitions of housing cost burden are from the US Department of Housing and Urban Development.
Source: Budget Center analysis of US Census Bureau, American Community Survey data



Enrollment in Subsidized Child Care and Preschool Has Not Recovered From Recession-Era Cuts

Average Monthly Number of Children Enrolled



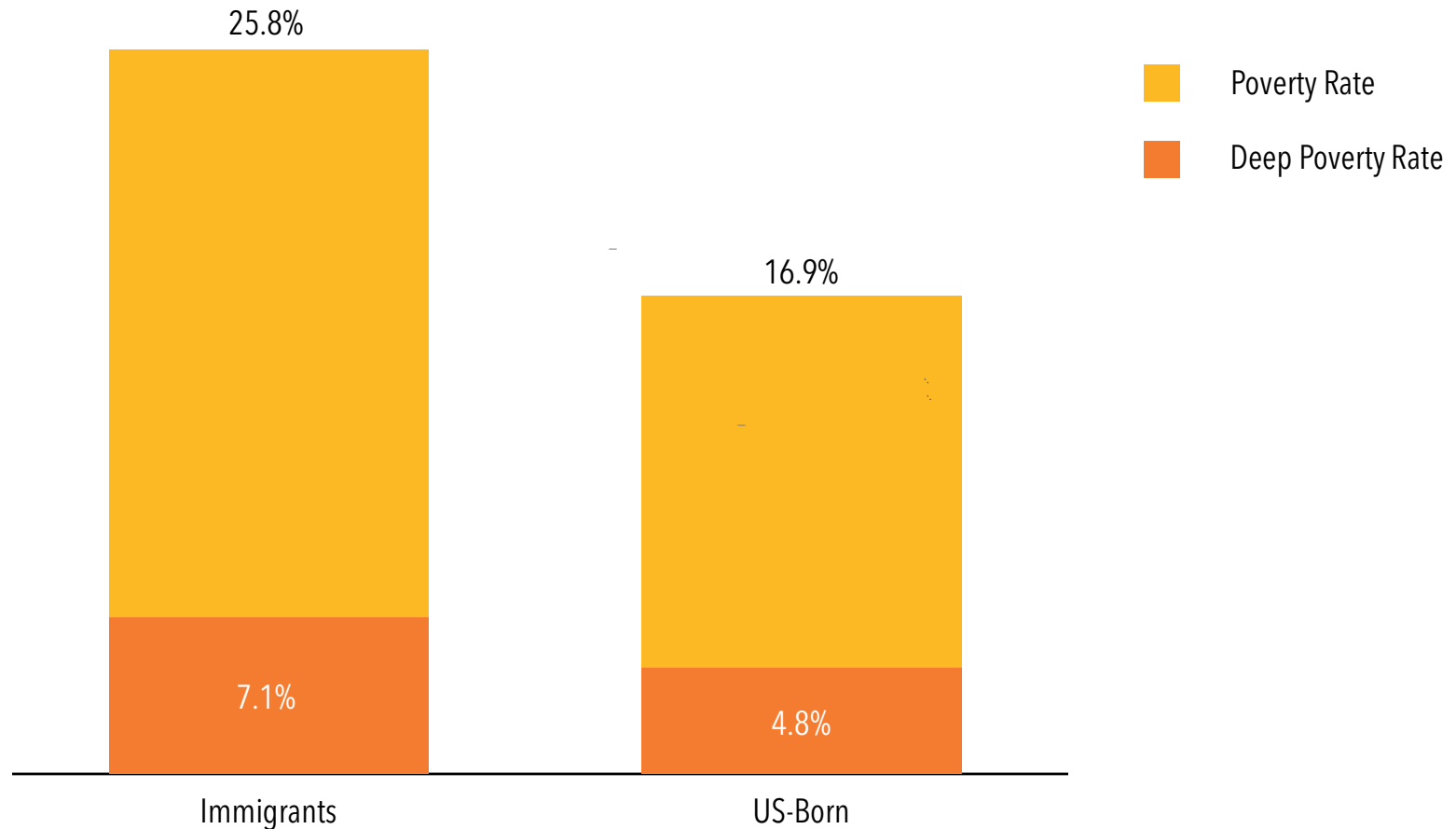
Note: Figures are rounded to the nearest thousand. California Community Colleges CalWORKs Stage 2 data for 2016-17 reflect estimates, not actuals.

Source: California Community Colleges Chancellor's Office, California Department of Education, and Department of Social Services



Immigrants in California Are More Likely to Live in Poverty

Poverty Rate and Deep Poverty Rate Under the California Poverty Measure, 2015

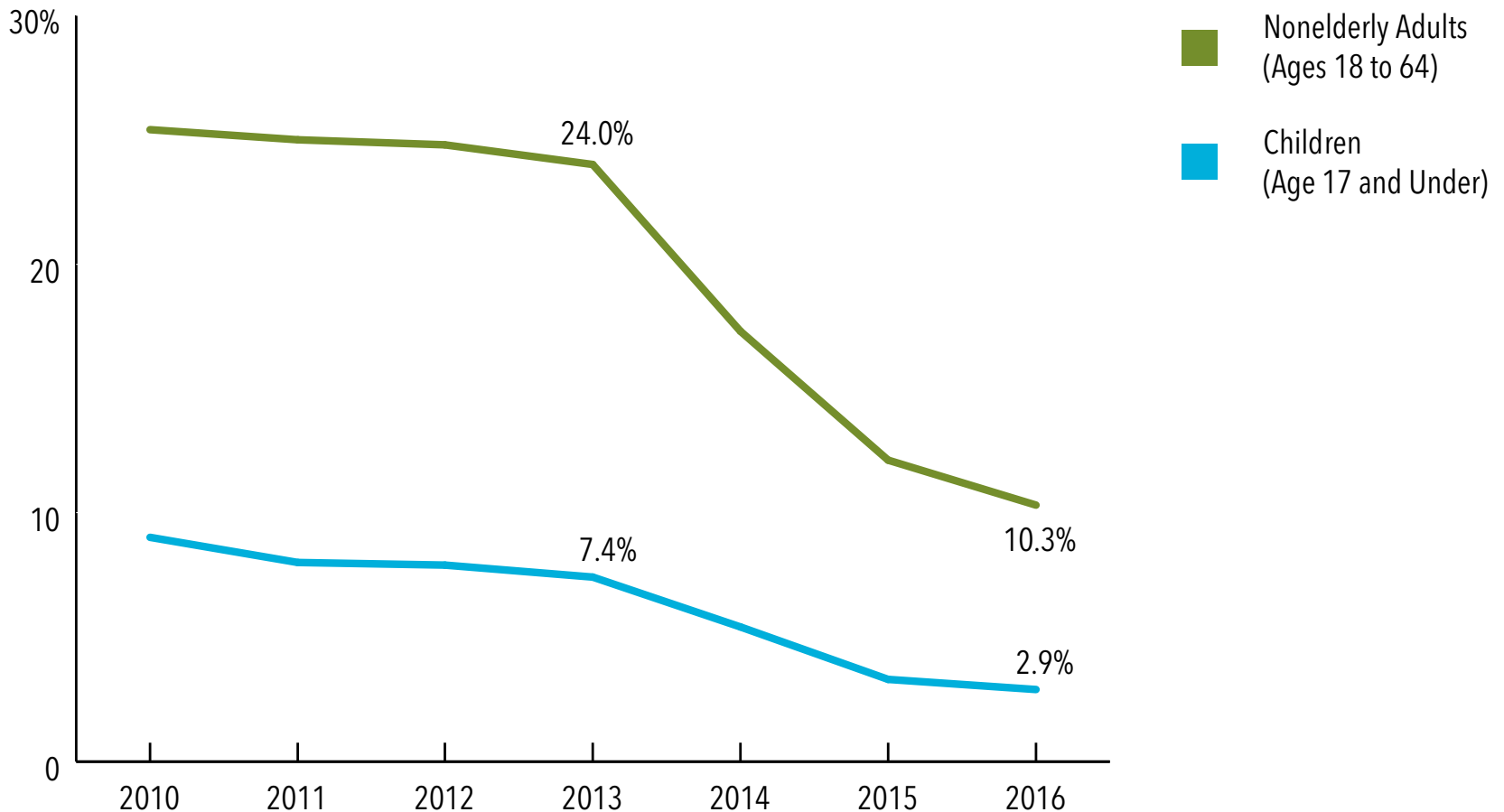


Note: Deep poverty is defined as family resources equal to less than half of the poverty threshold.
Source: Budget Center analysis of California Poverty Measure data produced by the Stanford Center on Poverty and Inequality and Public Policy Institute of California, based on US Census Bureau, American Community Survey data



Uninsured Rates for Children and Nonelderly Adults Have Dropped by More Than Half Since 2013

California Fully Implemented Federal Health Care Reform in January 2014

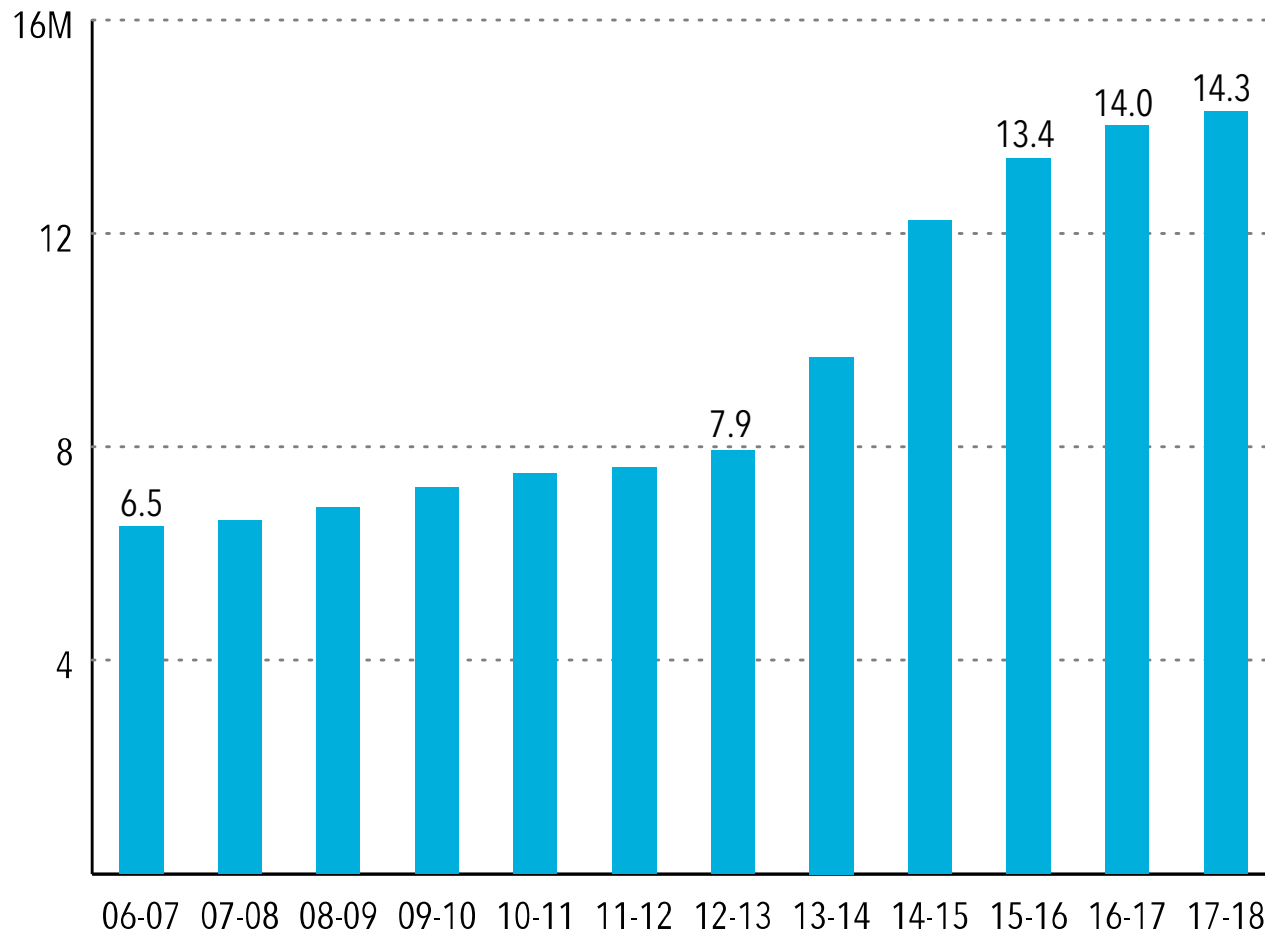


Note: Estimates are based on survey respondents' coverage status at the time of the interview.
Source: US Census Bureau, American Community Survey



Medi-Cal Enrollment Growth Is Slowing, Following Substantial Increases in Recent Years

Enrollment Gains in Prior Years Were Largely Due to Implementation of Health Care Reform

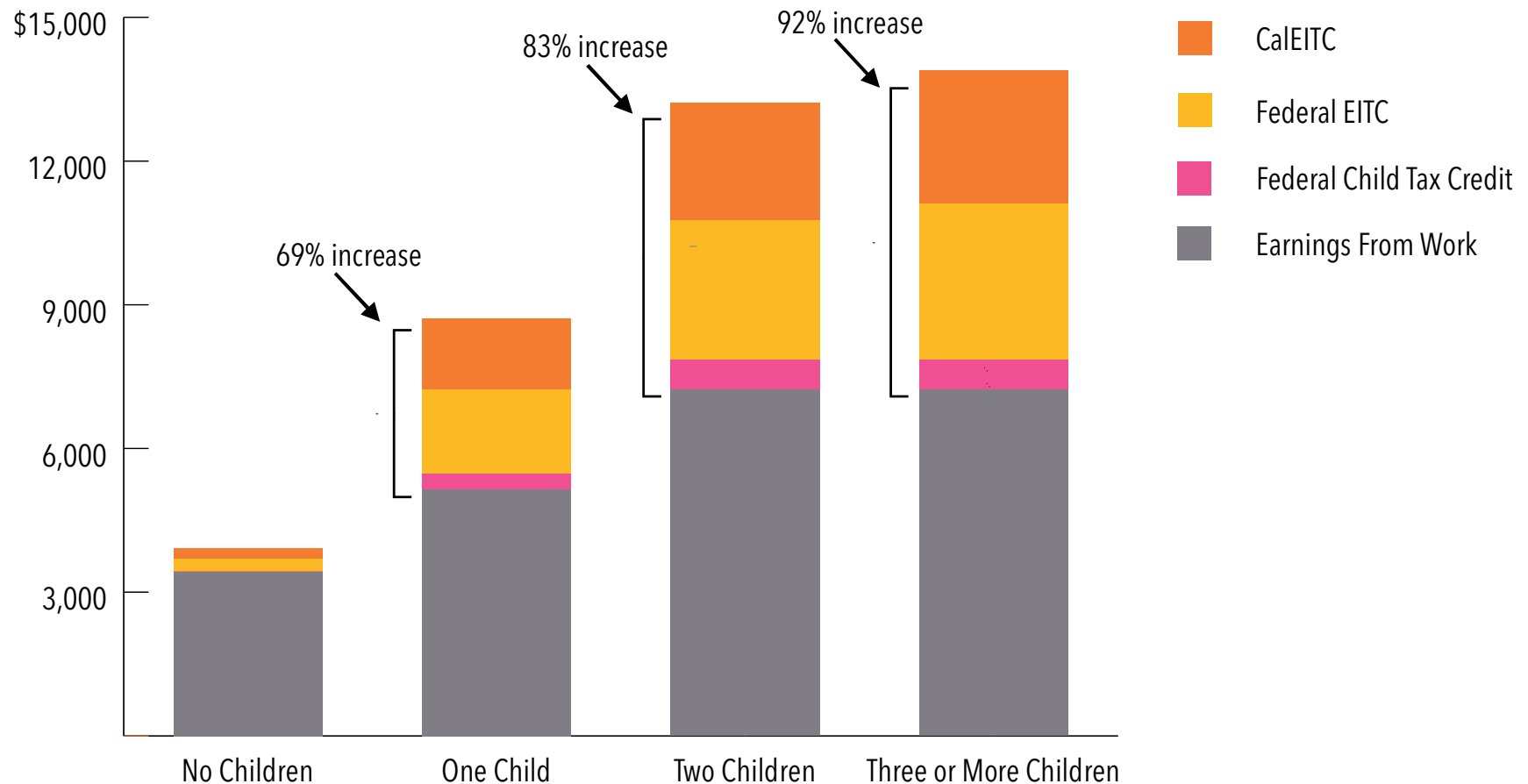


Note: Data for 2012-13 and later years are estimates. Figures reflect average monthly enrollment.
Source: Department of Health Care Services



The CalEITC, Together With Federal Credits, Significantly Boosts the Incomes of Working Families With Children

Increase in Income From Tax Credits for Workers Qualifying for the Maximum CalEITC, 2017



Source: Budget Center analysis of the California and federal Earned Income Tax Credits (EITCs) and the federal Child Tax Credit



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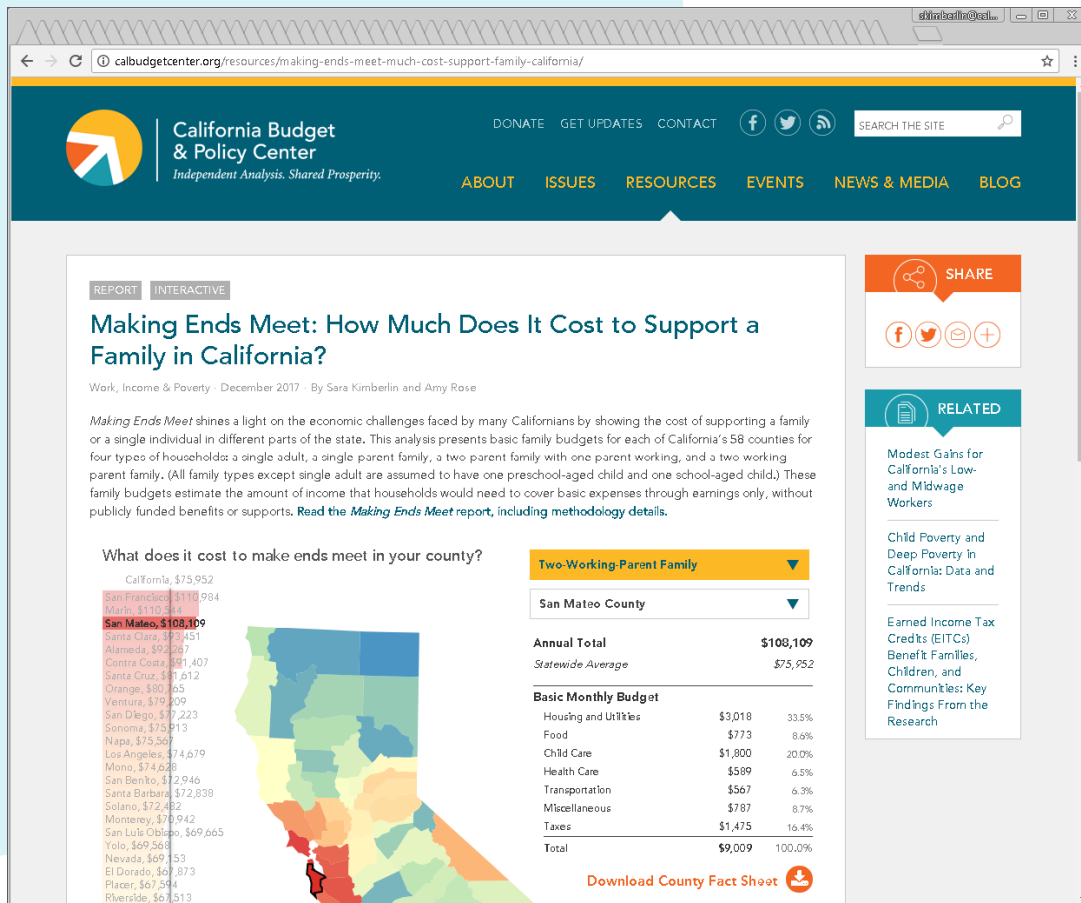
The Bottom Line

- Families and individuals in California face high costs to meet their basic needs.
- While housing costs have been rising, earnings have not kept pace for many workers.
- Public policy choices help determine whether families and individuals have the resources and support they need to make ends meet.





<http://calbudgetcenter.org/resources/making-ends-meet-much-cost-support-family-california/>





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Sources for Family Budget Estimates

Basic needs at modest quality, accounting for local cost of living wherever feasible:

- **Housing** – Fair Market Rents from US Department of Housing and Urban Development.
- **Food** – Low Cost Food Plan from US Department of Agriculture.
- **Child Care** – Licensed Family Child Care Home rates from California Department of Education.



Sources for Family Budget Estimates

- **Health Care** – Average employee contribution for employer-offered health insurance premiums for California employers paying modest wages, plus median other out-of-pocket medical expenses, from Medical Expenditures Panel Survey.
- **Transportation** – Average car maintenance, license and fees, and gas expenses from national Consumer Expenditure Survey, adjusted for local commute times.



Sources for Family Budget Estimates

- **Miscellaneous** – Average expenses for clothing, housekeeping supplies, personal care items, education, and phone services from national Consumer Expenditure Survey, plus allowance for basic DSL internet and minor other expenses.
- **Taxes** – Federal and state payroll taxes, and federal and state income taxes (excluding refundable tax credits), calculated based on totals of other budget items.





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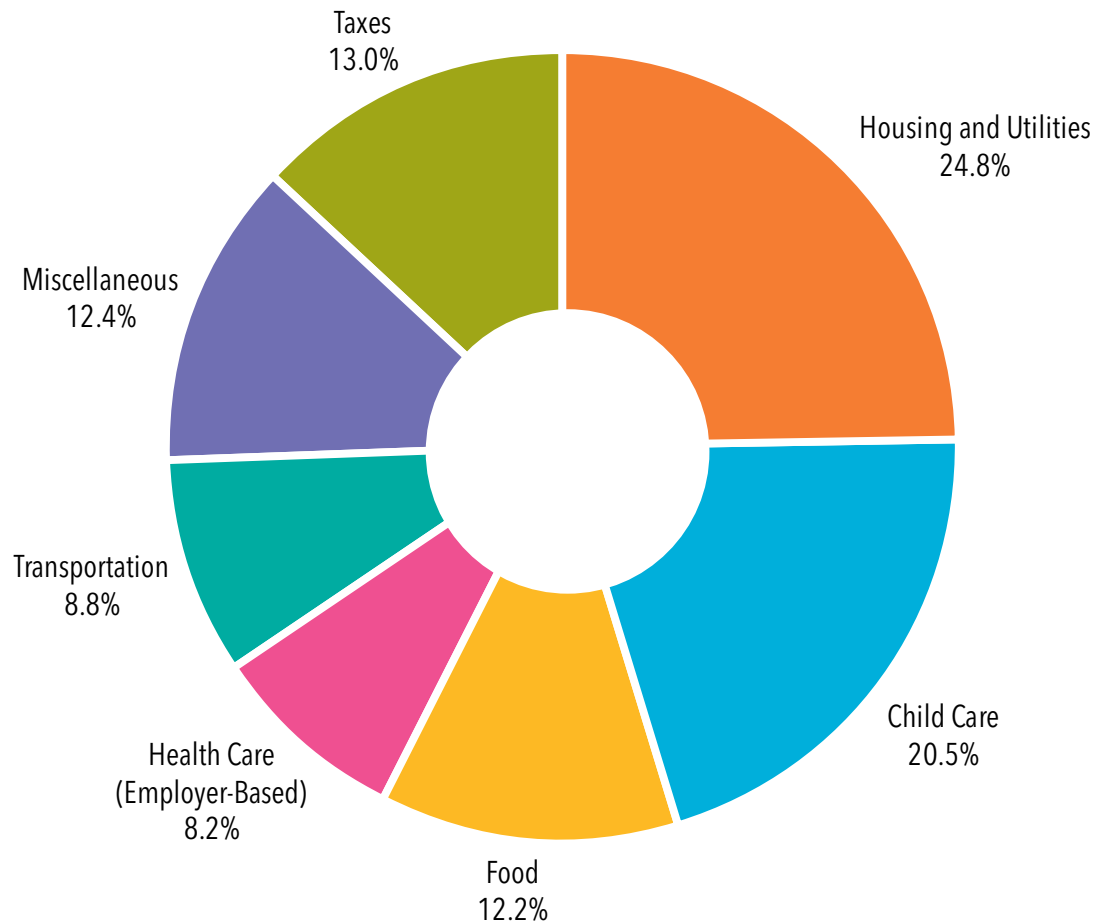
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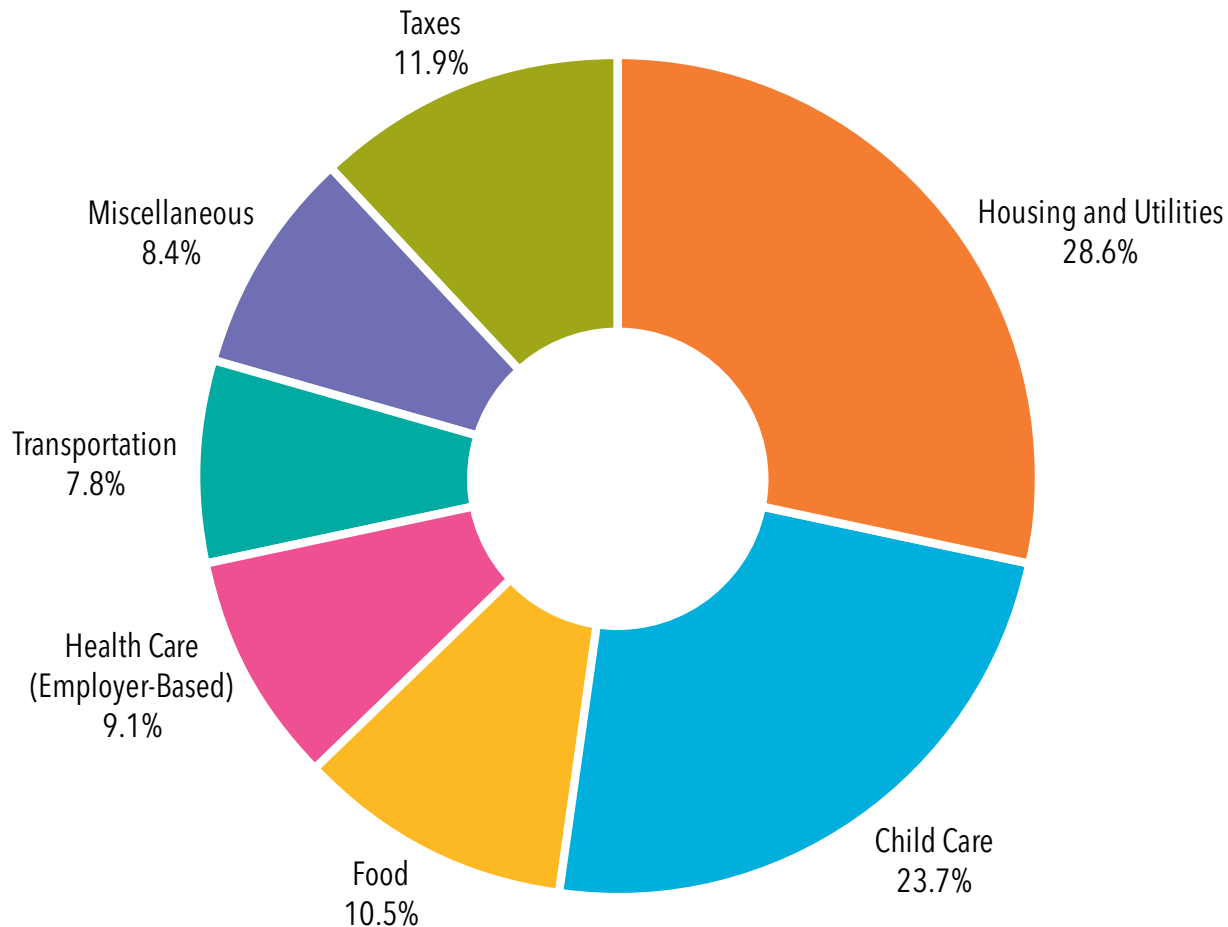
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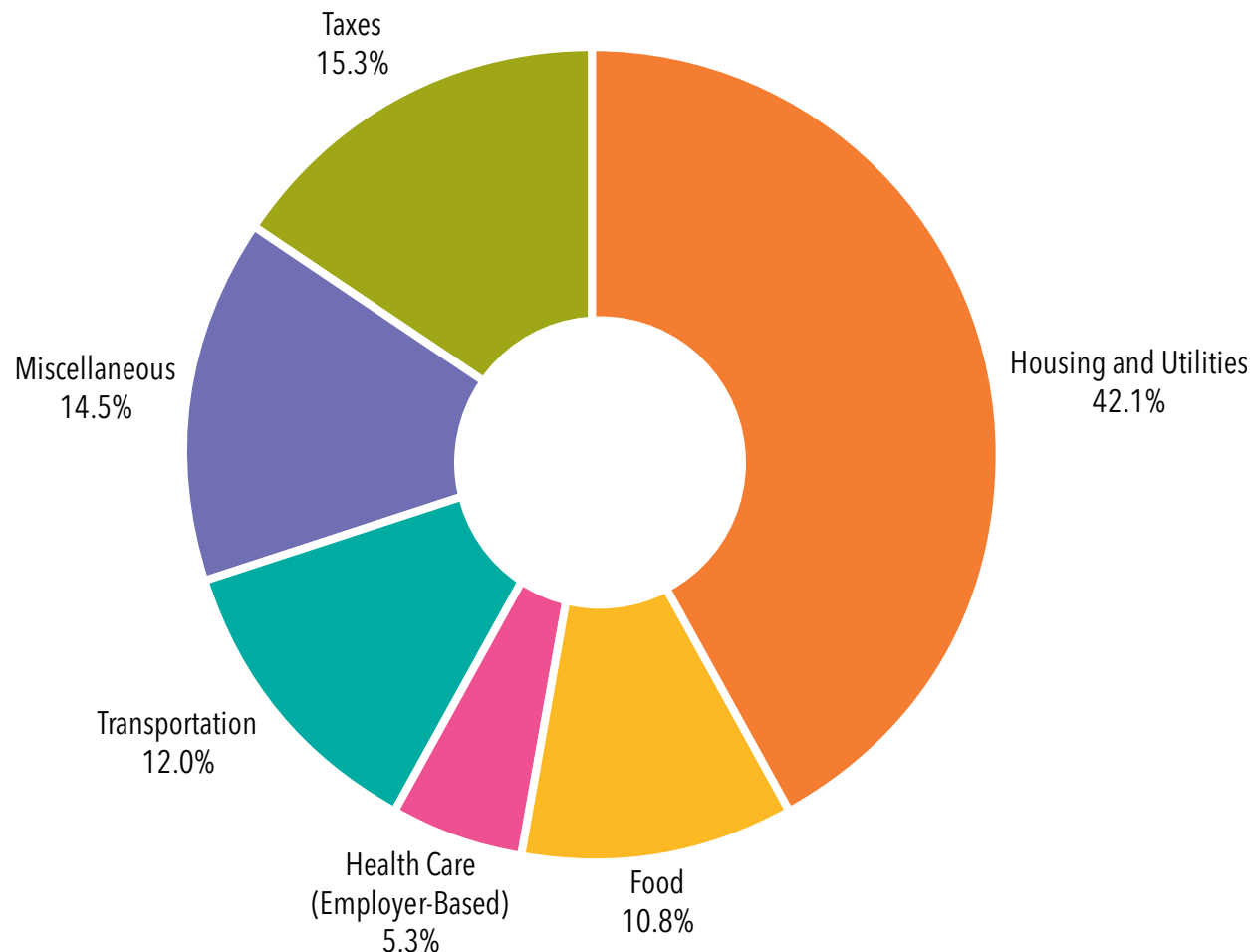
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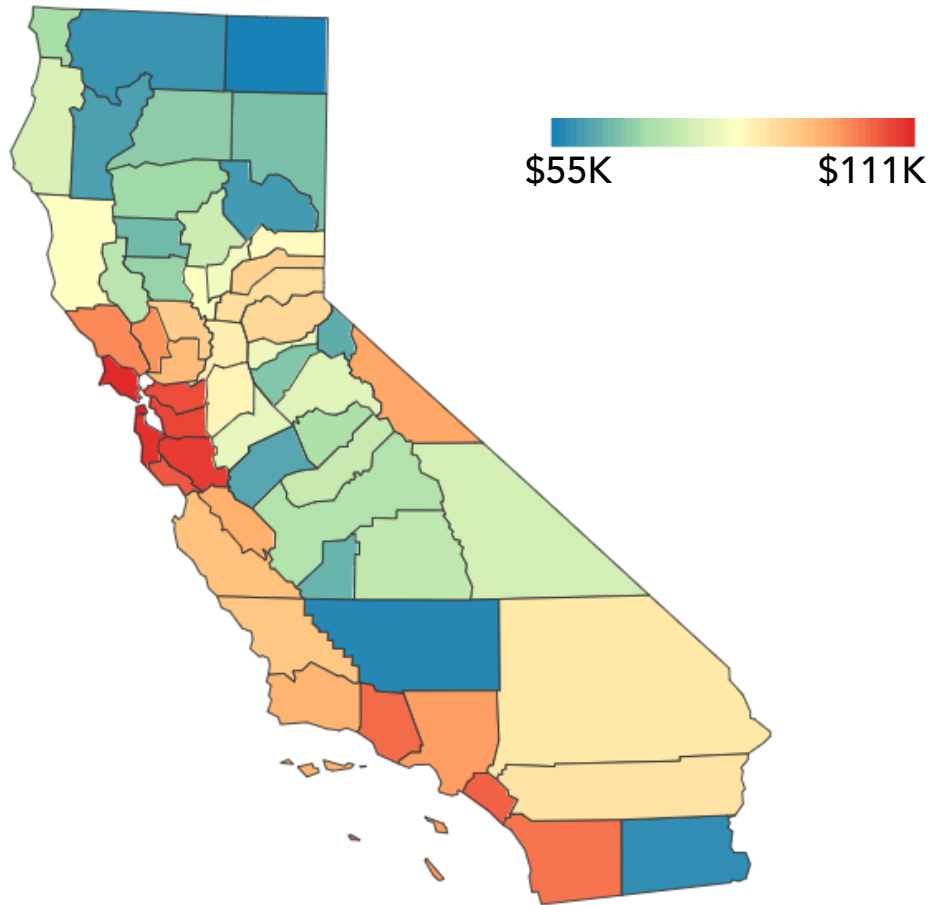
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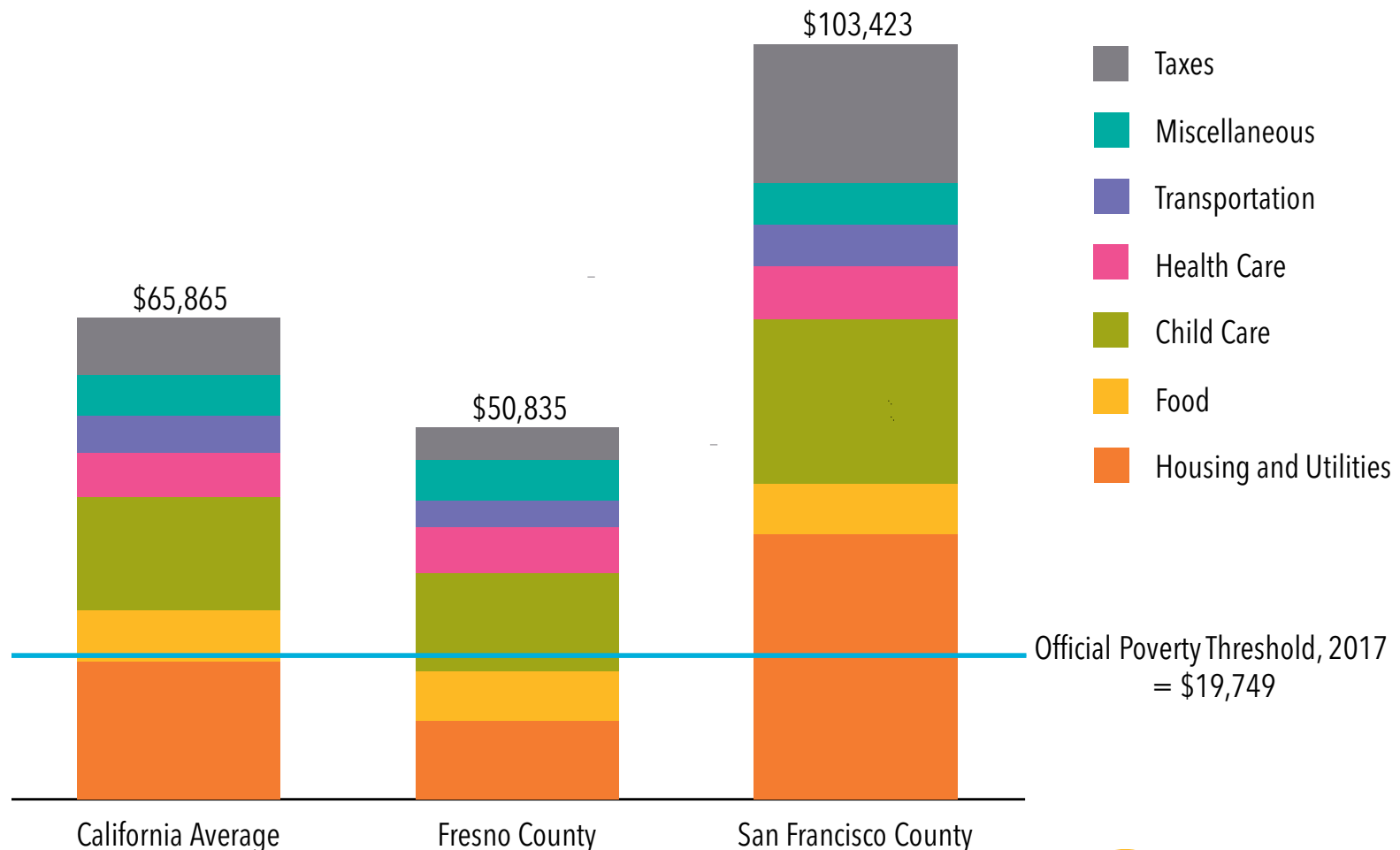
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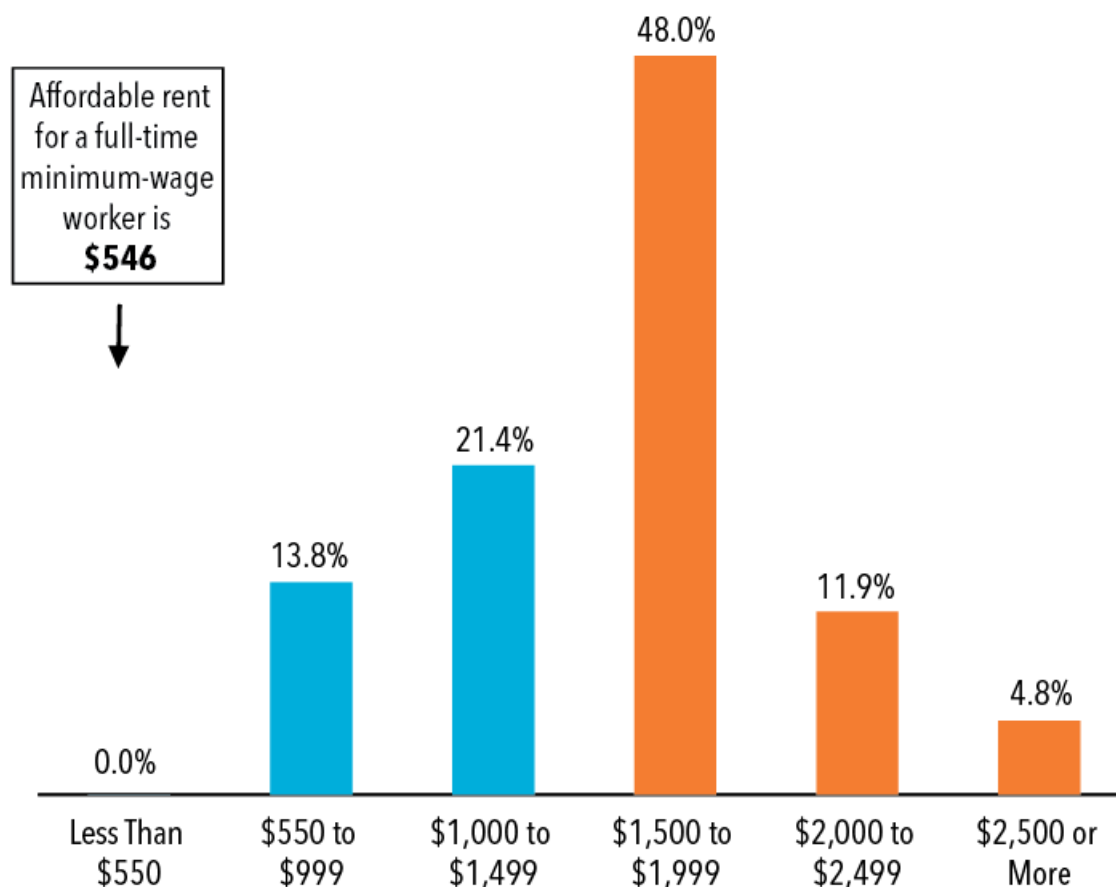


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Nearly Two-Thirds of Californians Face Two-Bedroom Apartment Rents of \$1,500 or More Per Month

Percentage of State Population by Fair Market Rent for a Two-Bedroom Apartment, 2017



Source: Budget Center analysis of data from Department of Finance and US Department of Housing and Urban Development

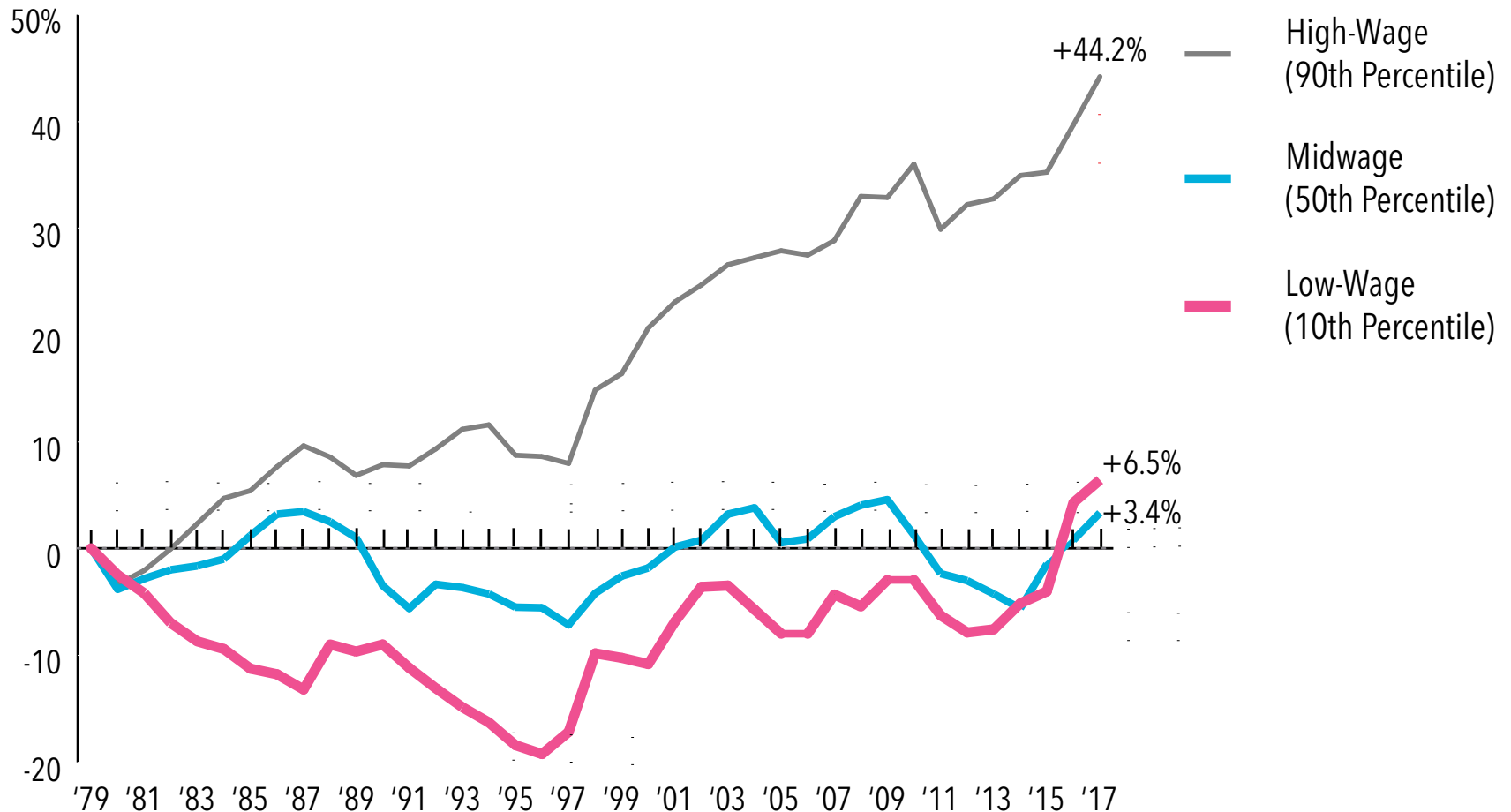


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Independent Analysis. Shared Prosperity.

California's Low- and Midwage Workers Have Seen Only Modest Gains Since 1979

Percent Change in Inflation-Adjusted Hourly Wages for Workers Ages 18-64



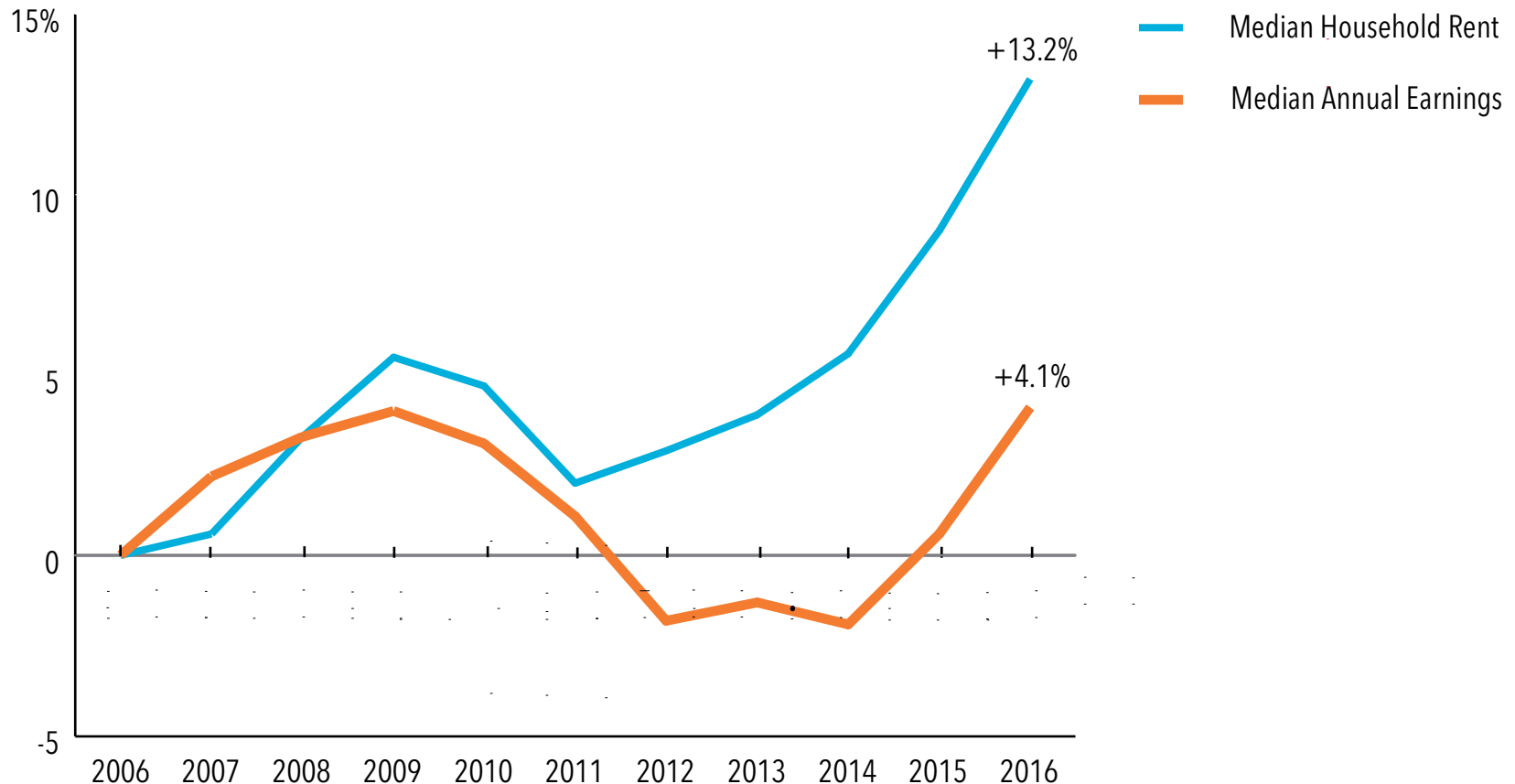
Note: Figures reflect 2017 dollars.

Source: Economic Policy Institute analysis of US Census Bureau, Current Population Survey data



Workers' Earnings Have Not Kept Pace With Rents in California

Percent Change in Inflation-Adjusted Median Rent and Median Annual Earnings Since 2006



Note: Median annual earnings for individuals working at least 35 hours per week and 50 weeks per year. Excludes workers with \$0 or negative total earnings.

Source: Budget Center analysis of US Census Bureau, American Community Survey data



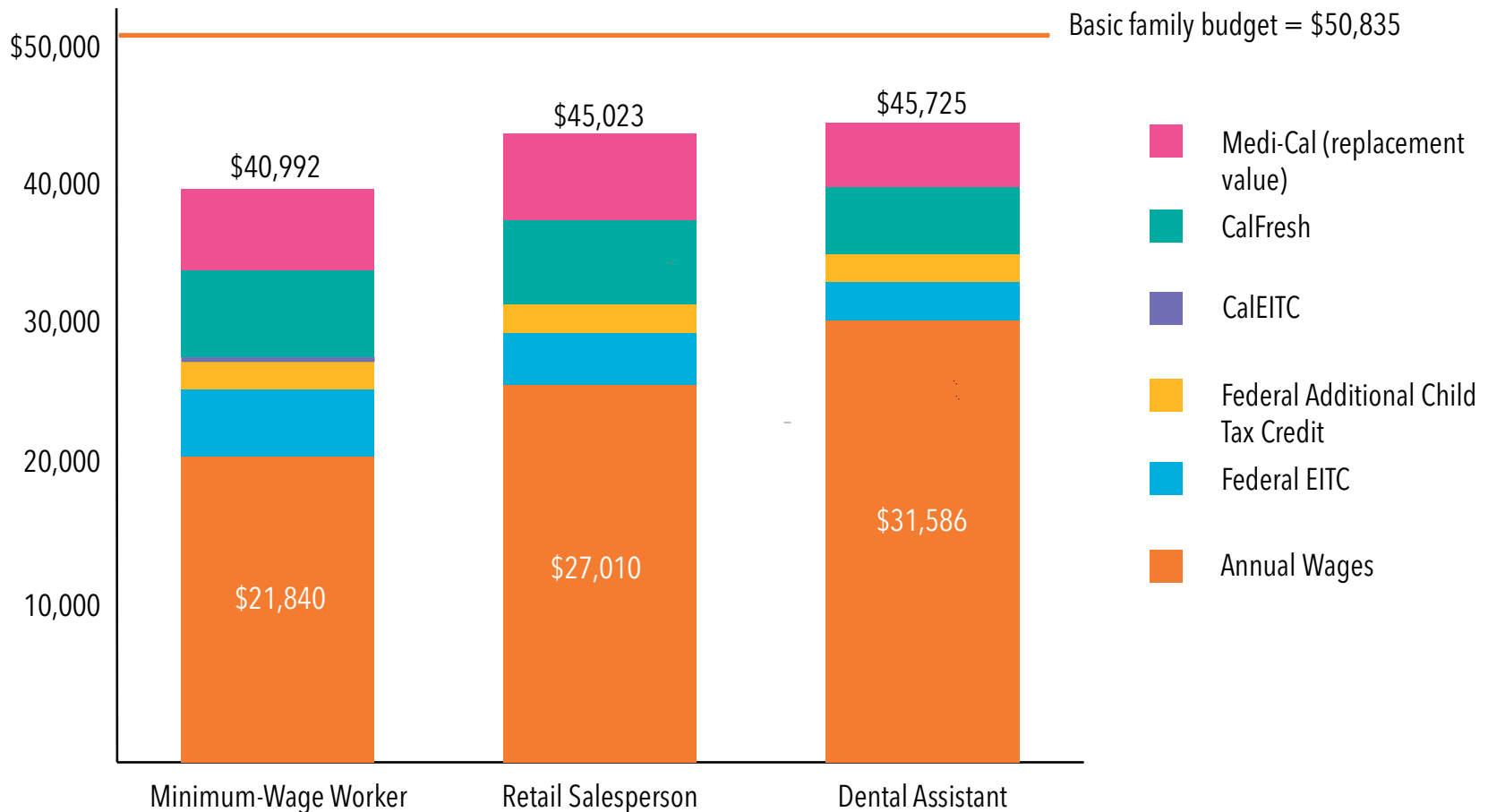
Public Supports Help Families Meet Basic Needs

But they don't go as far in high-cost areas.



Where Cost of Living Is Low, Public Supports Substantially Help Single-Parent Families Meet Basic Needs

Single-Parent Family Income With Addition of Key Public Supports, Fresno County



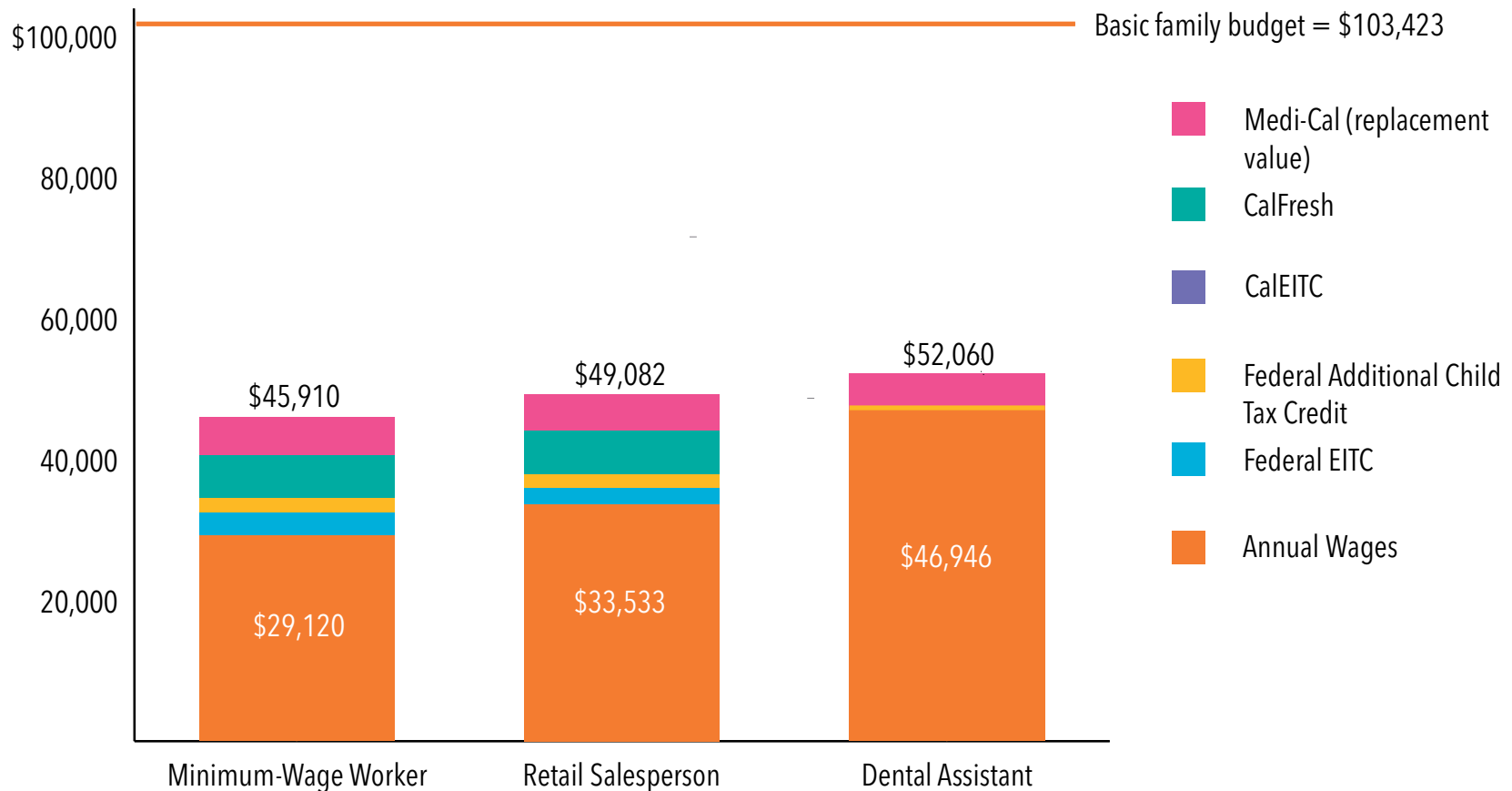
Note: No bar indicates ineligibility for that public support. Medi-Cal is free or reduced-cost health insurance. Medi-Cal value represented as employee cost for employer-based health insurance and out-of-pocket medical expenses.

Source: Budget Center *Making Ends Meet* 2017 analysis



Where Cost of Living Is High, Single-Parent Families Face Inadequate Income Even With Public Supports

Single-Parent Family Income With Addition of Key Public Supports, San Francisco County



Note: No bar indicates ineligibility for that public support. Medi-Cal is free or reduced-cost health insurance. Medi-Cal value represented as employee cost for employer-based health insurance and out-of-pocket medical expenses.

Source: Budget Center *Making Ends Meet* 2017 analysis



Policy Choices Can Make a Difference

There are opportunities this year and beyond to address housing affordability, child care costs, and the needs of immigrants.



Policies to Help Families Make Ends Meet

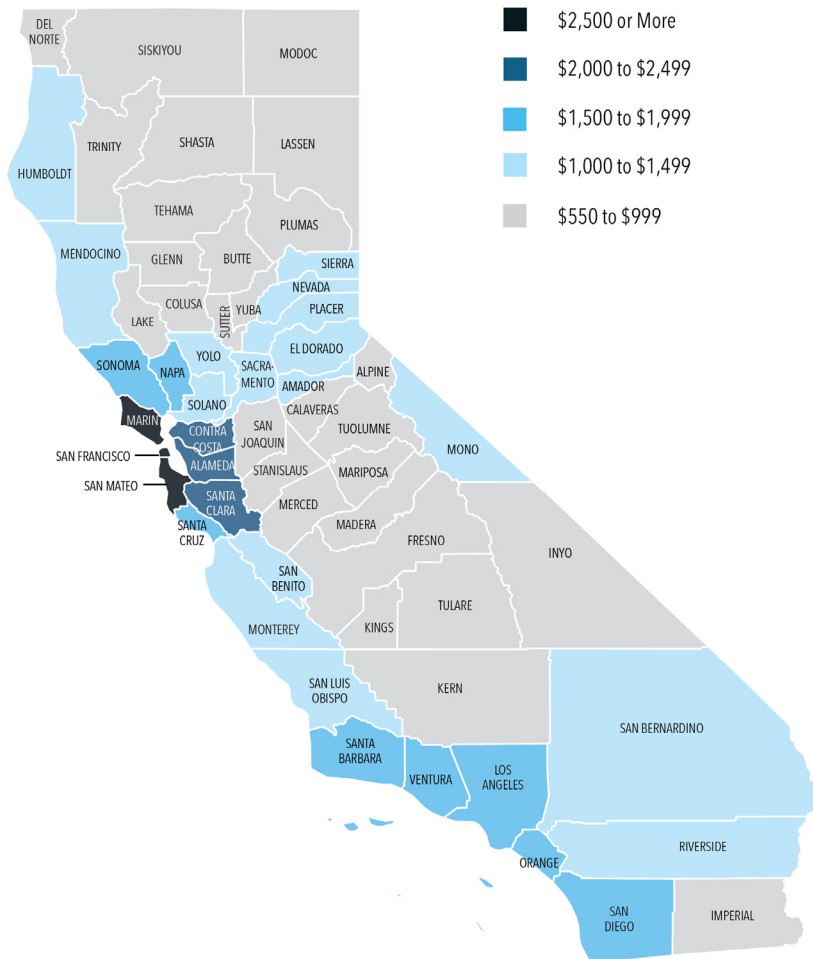
- **Reduce the cost of basic needs** – increase access to affordable housing, food assistance, child care subsidies, public health insurance.
- **Increase families' incomes** – increase the minimum wage, increase the size and coverage of the CalEITC, increase access to effective workforce development, reduce fines and fees.
- **Account for the cost of living** when identifying which families need support and how much support they need.





Rents Are Highest in California's Coastal Urban Areas

Fair Market Rent for a Two-Bedroom Apartment, 2017

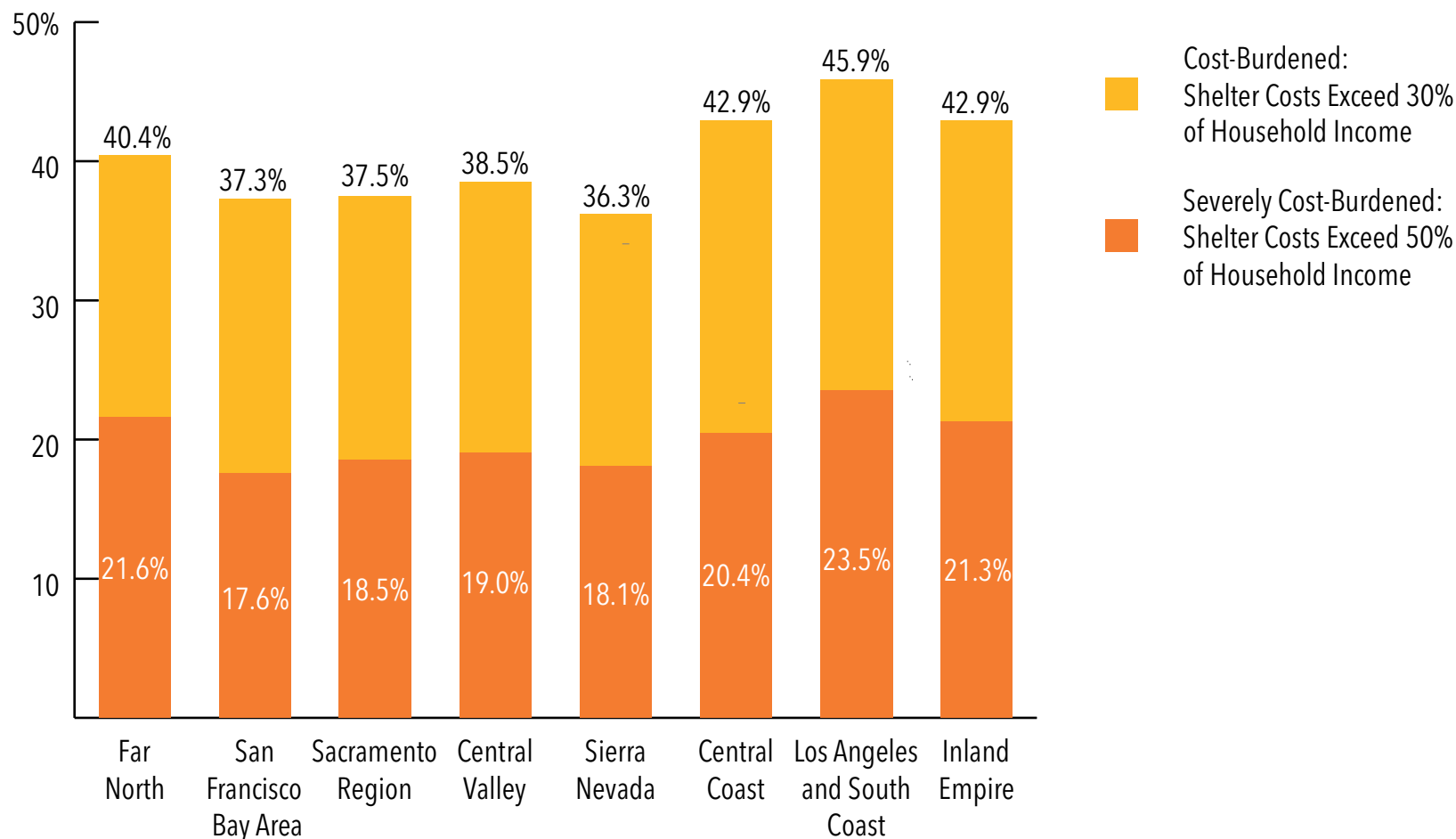


Source: US Department of Housing and Urban Development



Housing Costs Are Unaffordable Throughout California

Percentage of Households With Housing Cost Burden or Severe Housing Cost Burden, 2016

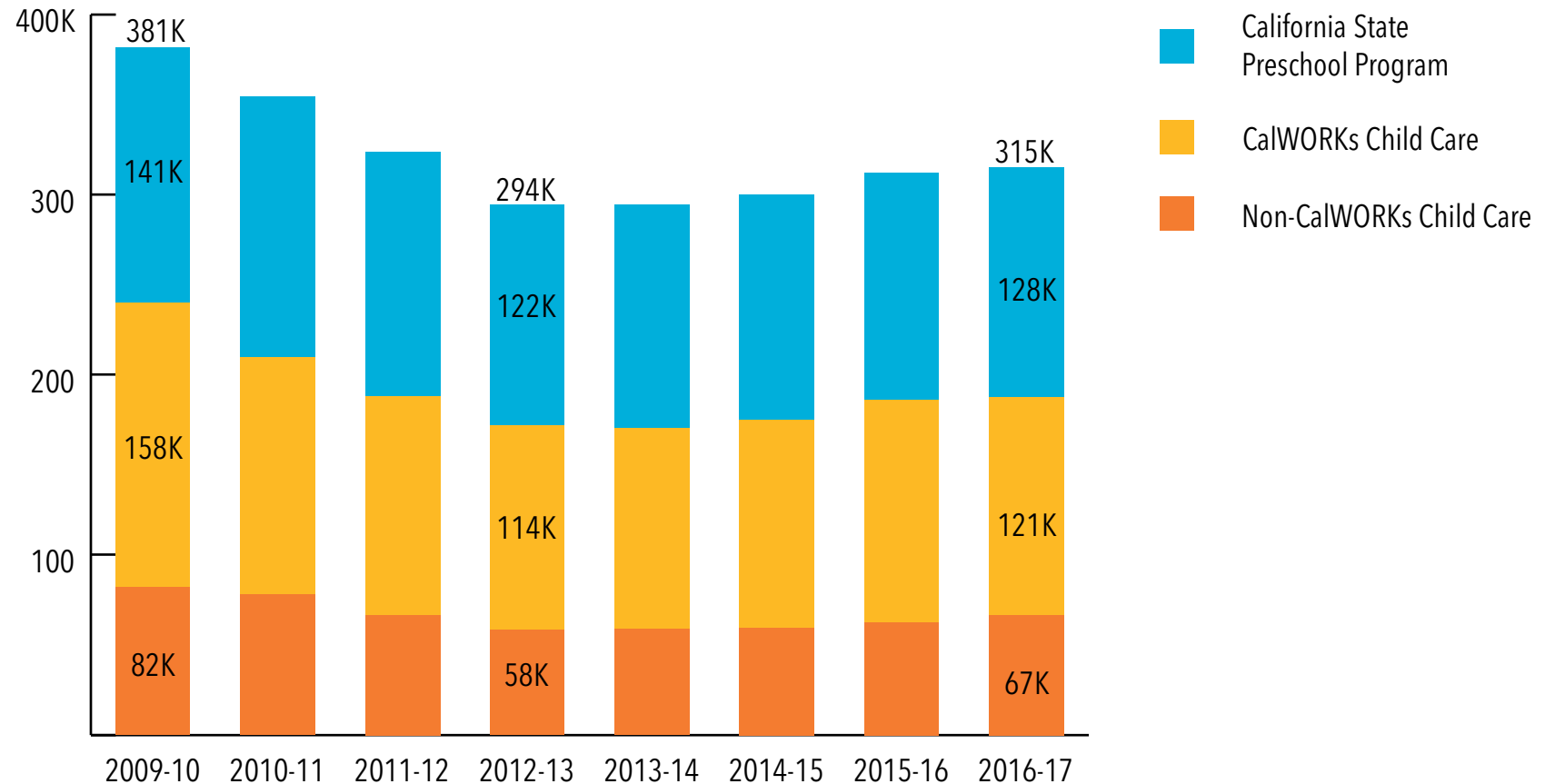


Note: Definitions of housing cost burden are from the US Department of Housing and Urban Development.
Source: Budget Center analysis of US Census Bureau, American Community Survey data



Enrollment in Subsidized Child Care and Preschool Has Not Recovered From Recession-Era Cuts

Average Monthly Number of Children Enrolled



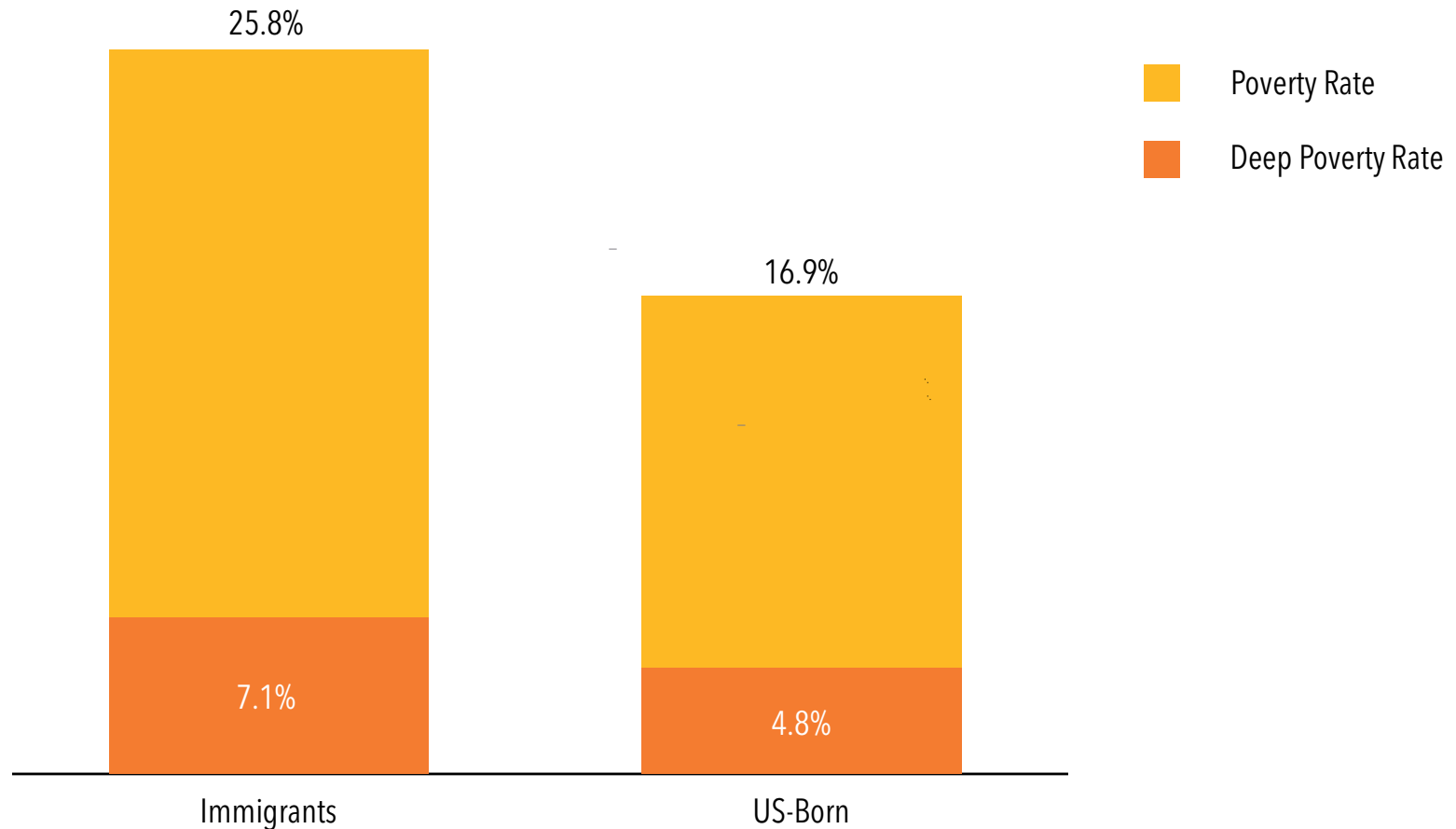
Note: Figures are rounded to the nearest thousand. California Community Colleges CalWORKs Stage 2 data for 2016-17 reflect estimates, not actuals.

Source: California Community Colleges Chancellor's Office, California Department of Education, and Department of Social Services



Immigrants in California Are More Likely to Live in Poverty

Poverty Rate and Deep Poverty Rate Under the California Poverty Measure, 2015

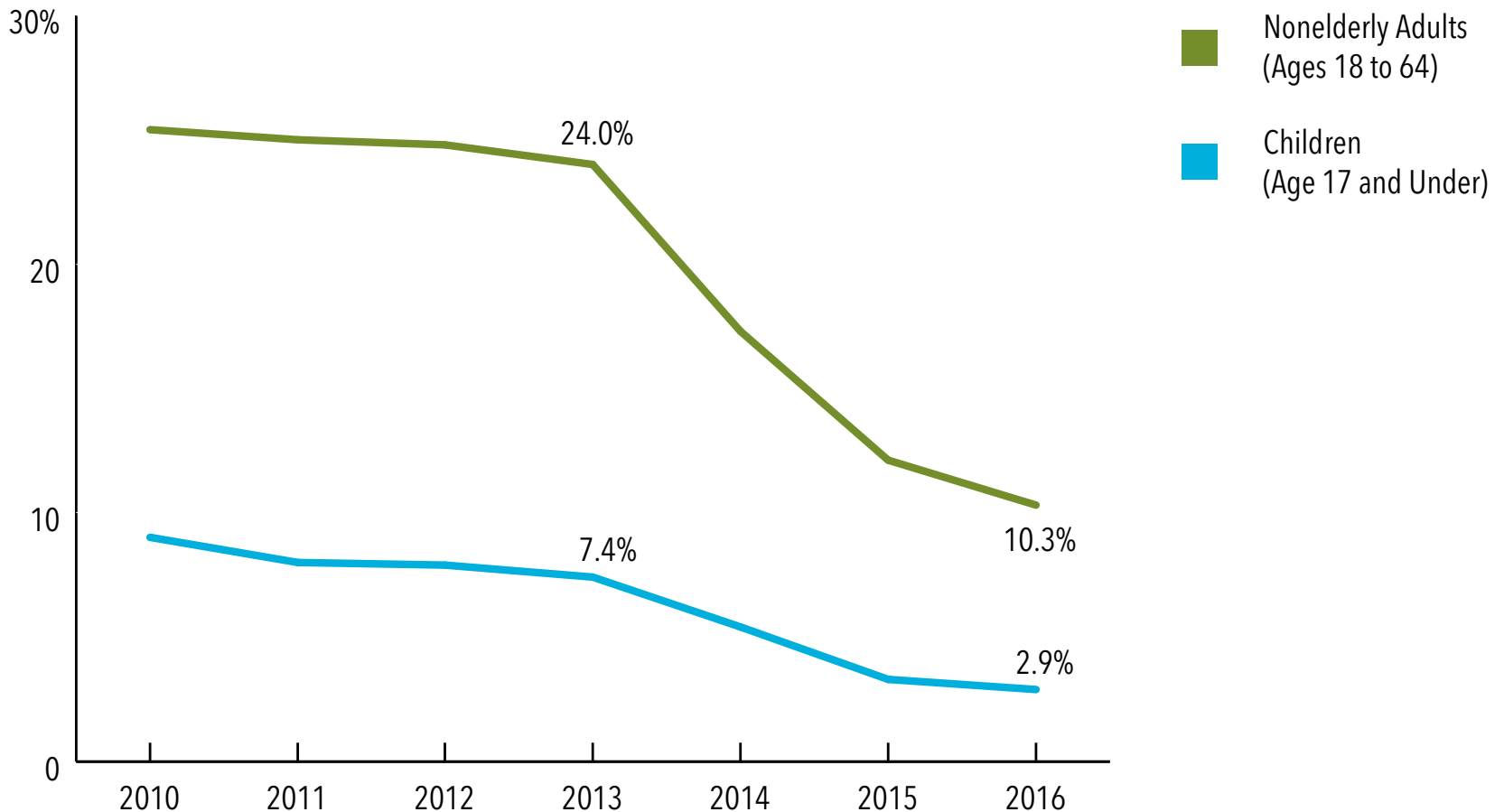


Note: Deep poverty is defined as family resources equal to less than half of the poverty threshold.
Source: Budget Center analysis of California Poverty Measure data produced by the Stanford Center on Poverty and Inequality and Public Policy Institute of California, based on US Census Bureau, American Community Survey data



Uninsured Rates for Children and Nonelderly Adults Have Dropped by More Than Half Since 2013

California Fully Implemented Federal Health Care Reform in January 2014

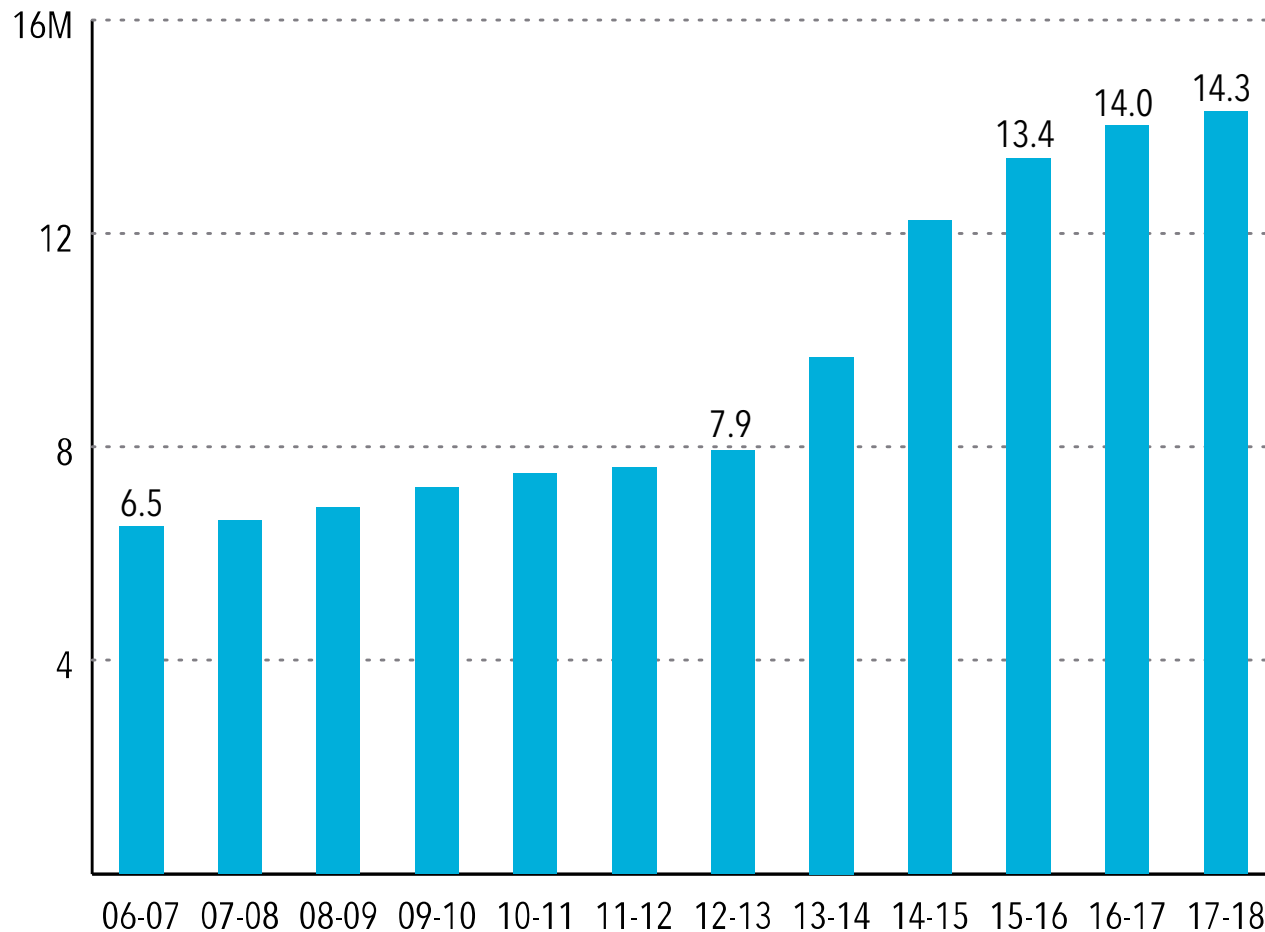


Note: Estimates are based on survey respondents' coverage status at the time of the interview.
Source: US Census Bureau, American Community Survey



Medi-Cal Enrollment Growth Is Slowing, Following Substantial Increases in Recent Years

Enrollment Gains in Prior Years Were Largely Due to Implementation of Health Care Reform

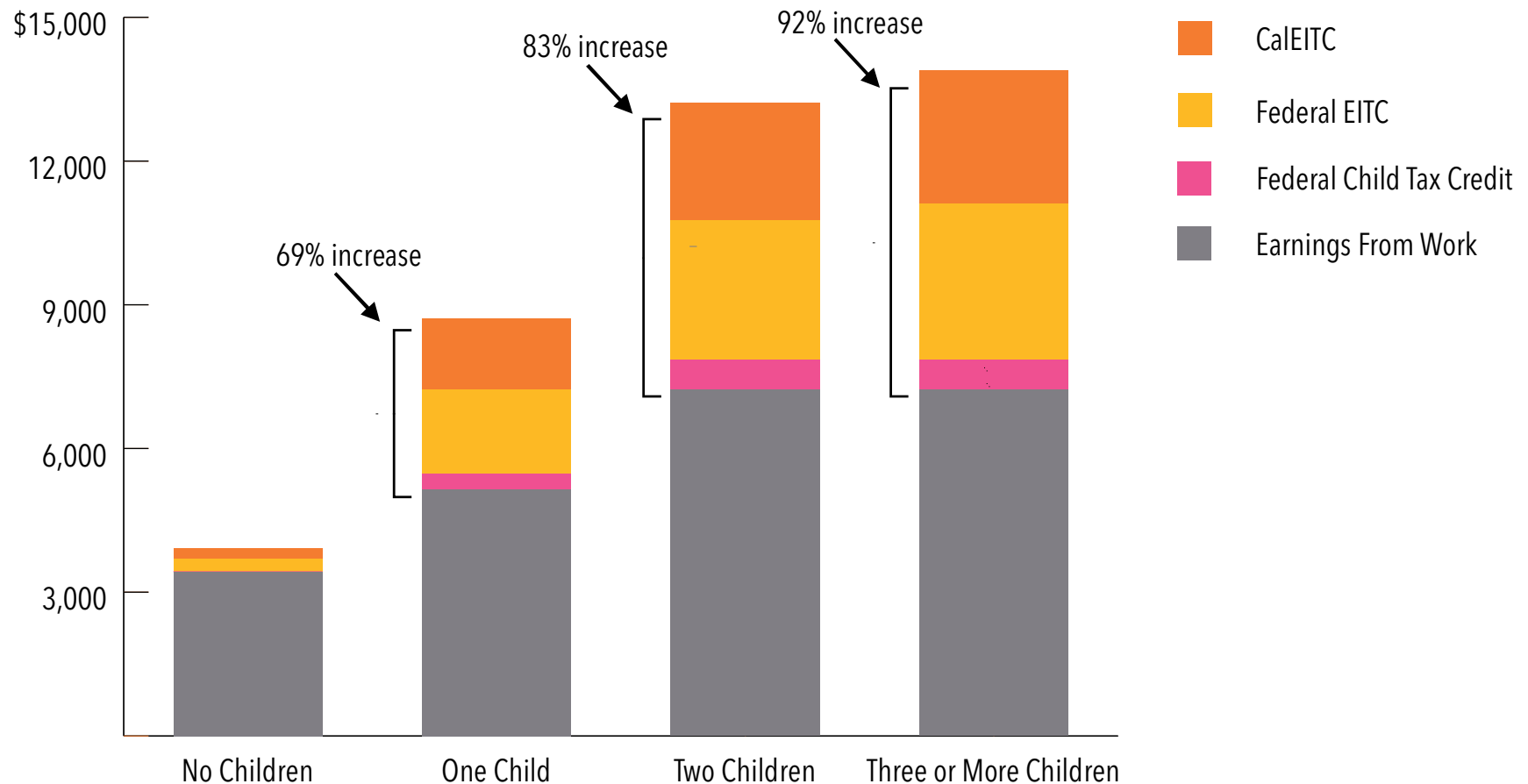


Note: Data for 2012-13 and later years are estimates. Figures reflect average monthly enrollment.
Source: Department of Health Care Services



The CalEITC, Together With Federal Credits, Significantly Boosts the Incomes of Working Families With Children

Increase in Income From Tax Credits for Workers Qualifying for the Maximum CalEITC, 2017



Source: Budget Center analysis of the California and federal Earned Income Tax Credits (EITCs) and the federal Child Tax Credit



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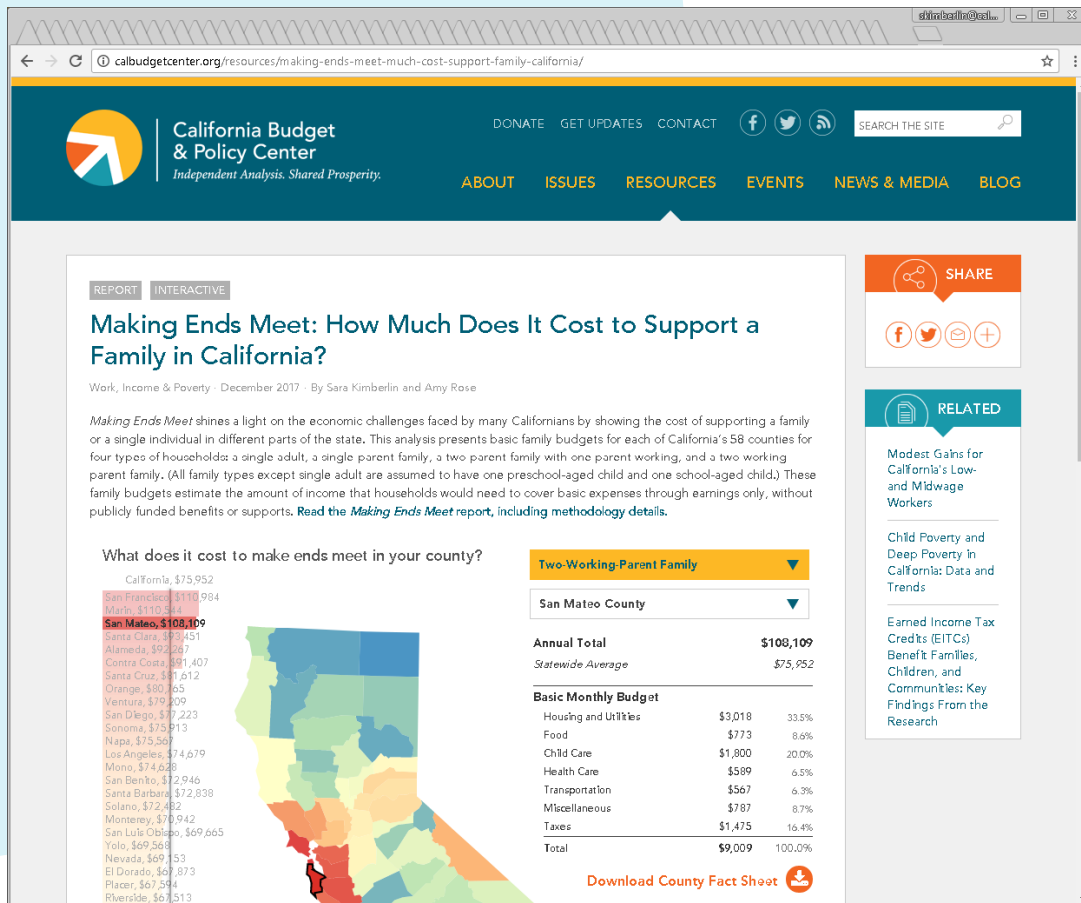
The Bottom Line

- Families and individuals in California face high costs to meet their basic needs.
- While housing costs have been rising, earnings have not kept pace for many workers.
- Public policy choices help determine whether families and individuals have the resources and support they need to make ends meet.





<http://calbudgetcenter.org/resources/making-ends-meet-much-cost-support-family-california/>





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Sources for Family Budget Estimates

Basic needs at modest quality, accounting for local cost of living wherever feasible:

- **Housing** – Fair Market Rents from US Department of Housing and Urban Development.
- **Food** – Low Cost Food Plan from US Department of Agriculture.
- **Child Care** – Licensed Family Child Care Home rates from California Department of Education.



Sources for Family Budget Estimates

- **Health Care** – Average employee contribution for employer-offered health insurance premiums for California employers paying modest wages, plus median other out-of-pocket medical expenses, from Medical Expenditures Panel Survey.
- **Transportation** – Average car maintenance, license and fees, and gas expenses from national Consumer Expenditure Survey, adjusted for local commute times.



Sources for Family Budget Estimates

- **Miscellaneous** – Average expenses for clothing, housekeeping supplies, personal care items, education, and phone services from national Consumer Expenditure Survey, plus allowance for basic DSL internet and minor other expenses.
- **Taxes** – Federal and state payroll taxes, and federal and state income taxes (excluding refundable tax credits), calculated based on totals of other budget items.

