

ITUP Summary of the Governor's Proposed State Budget for FY 2016-17

Age Demographics of California

California is growing about 0.9% a year with its population expected to reach 40 million by 2018. California is younger than the nation; there are a lower percentage of those over age 65, a higher percentage of those in prime working ages and a slightly higher percentage of children. The over 65 population is expected to grow from 14% to 21% of the population over the next 25 years due to longer life expectancy and lower birth rates. Women are having their children at older ages and are having fewer children; without immigration, our state's population would essentially shrink and grey.

California Economy

The expectation is that the California economy will continue to grow at about 3% for the next two years; however at some point after those two years a recession will return as the period of economic growth has far exceeded the normal growth and recession cycle. Unemployment will continue to fall, and as it approaches 5%, wages will increase. Construction jobs are expected to show the largest growth and government jobs will continue to decline as a percent of the workforce from 16.7% of all jobs in 2011 to 14.9% in 2017, reflecting the job growth seen in the private sector. Personal incomes are expected to grow at 5% a year for the next two years then slow to 4.5%. Inflation is expected to stay low at 2% or less. China, Europe and a volatile stock market are the major risks to our economic growth.

California General Funds

State General Fund Revenues come from the personal income tax (69%), sales tax (21%), and corporate taxes (9%). These revenues are expected to grow by 3.3% annually from 2014-14 through

2019-20, even with the expiration of the Prop 30 temporary tax increases. Sales and corporate tax revenues are expected to grow faster than the personal income tax revenues. State revenues from the personal income tax grow robustly due to capital gains taxes and the progressive income tax on the highest income earners, but the surcharges on top earners expire in 2018 slowing the growth in these revenues. The revenues from the capital gains income tax are highly volatile and those revenues are likely to decline sharply in the next recession as they did in the past two. Of the nearly \$37 billion in sales tax revenues next year, \$10.5 billion is shifted to the counties under realignment. The gross premiums tax of 2.35% on insurers generates about \$2.5 billion in revenues. Revenues from the alcoholic beverage tax are quite low – \$373 million – due to the low rates at which alcohol is taxed. Cigarette taxes are projected to continue to decline to \$790 million, of which \$255 million is dedicated to Prop 99 (primarily indigent health), \$430 million to First Five, and \$15 million to the Breast Cancer Fund; California has very low tobacco taxes and a steady decline in tobacco use. Property tax revenues are expected to increase at 5.6% over the next few years – \$18 billion will go to schools (K-14). State taxes per \$100 of income are continuing to decline to \$5.74 from a high of \$6.81 in 1999.

There is a projected \$3 billion budget surplus for next year and \$5 billion for the current year.

California's Rainy Day Funds

The Governor proposes to add to the state's Rainy Day fund in anticipation of the next recession. He would increase the contribution from 37% to 65% of the \$10 billion constitutional target. He proposes to pay down \$1.5 billion of the state's \$4 billion debt. There are roughly \$220 billion in unfunded liabilities for teachers, UC employees and state employees and he proposes to begin to address unfunded retiree health benefits on a 50/50 sharing ratio with employees.

Funding to California Schools

Schools would receive \$2.8 billion in new General Fund funding. This would increase to spending of \$14,550 in 2016-17 per student – increasing the funding levels by \$3600 per student from the 2011-12 funding levels. The K-12 budget from the General Fund would increase by 2.7% to \$51.2 billion. The total General Fund increase in funding for K-14 is \$5.4 billion for a total Prop 98 guarantee of \$71.6 billion. School funding is 61% state, 25% local, 9% federal and 5% local miscellaneous for a total school budget of \$87 billion. School's daily attendance has been declining over the past five years due to the declining birth rates of California's families. The Higher Education budget from the General Fund would increase by 1.7% to \$14.6 billion.

Corrections

The Corrections budget from the state General Fund would increase by 3.3% to \$10.6 billion.

Transportation

Total state spending encompasses both the General Fund and Special Fund. For example, the gas tax is a special fund tax dedicated to roads and the total funding for transportation is \$11.6 billion of which \$10 billion is special funds.

Health and Human Services

The Health and Human Services portion of the General Fund would increase by 6.6% to \$33.7 billion. The Health and Human Services Agency proposed budget is \$136 billion of which \$33.7 billion is state General Fund, \$18.8 billion is special funds, and the remainder is federal matching funds.

Medi-Cal will cost \$85 billion; Developmental Services \$6.4 billion; 1991-2 realignment to counties \$5.3 billion; 2011 realignment to counties \$4.9 billion, and IHSS (In Home Support Services) \$10.4 billion. Medi-Cal's General Fund costs are projected to grow 8% from \$17.7 billion in the current year to \$19.1 billion in the coming year. Enrollment in many of these programs (other than

Medi-Cal) has been flat, modest increases or declining. By contrast, enrollment growth in Medi-Cal has been explosive; it now covers 1/3rd of Californians; enrollment is expected to level off in the coming year.

Medi-Cal

The Medi-Cal caseload for 2016-17 is projected to be 13.5 million. It will have grown 8% in the current fiscal year and is expected to grow by 1.5% (62,000) persons in the coming year. Prior to the ACA, Medi-Cal was at 7.9 million enrollees. Covered California is projected to cover 1.5 million subscribers, for a total of 15 million Californians now covered between the two programs.

California's cost per Medi-Cal case is \$6,108, ranking California 28th in the nation. Massachusetts has the highest cost per case at \$11,091, and the national average is \$6,502.

The costs of the "mandatory" expansion (primarily families) would be \$4 billion, of which \$1.8 billion is General Fund. The costs of the "optional" expansion, primarily for parents and the medically indigent adults, would be \$14.1 billion, of which \$0.74 billion is General Fund, for 3.4 million new eligibles.

County indigent health savings for 2013-14 were \$151 million less than expected and that amount will be rebated to the counties. County indigent health savings from the expansion are projected to be \$742 million in 2015-16 and these savings are dedicated to increasing CalWorks grants.

The budget includes \$182 million to cover 170,000 low income undocumented children.

The budget includes \$91 million (\$32 million General Fund) for residential treatment services for substance use disorders.

The MCO tax of \$1 billion is still in negotiations to make it "cost neutral" and would need approval by the state legislature. The revenues are linked to needed improvements in the IHSS (In Home Support Services) and Developmental Disabilities programs. It is also linked to the fiscal viability of Coordinated Care Initiative where the beneficiary

opt-out rates are 69%. The administration seeks to improve participation rates and meet the target of cost neutrality.

The 2011 realignment (sales tax and vehicle license fees) is \$7.5 billion, of which \$1.12 billion is for the mental health account and \$1.3 billion is for the behavioral health subaccount. Local law enforcement receives \$2.4 billion of the realignment funds.

Department of Social Services

Social Services includes: IHSS, CalWorks (TANF), SSI/SSP and CalFresh (Food Stamps). Its budget is \$23.8 billion of which \$8 billion is state General Fund. CalWorks (temporary cash assistance) is projected to be 497,000 families, a steady decline since 2010 due to the improving economy. IHSS (In Home Support Services to prevent institutionalization) caseload is 490,000, a 5% increase since last year and its budget is \$9.2 billion of which \$3 billion is General Fund. SSI/SSA provides cash assistance to seniors and the disabled. The General Fund cost is \$2.8 billion. This year the state grant portion is proposed to increase by 2.8%, the first increase in state grant levels since 2006.

Developmental Services

The Department of Developmental Services cares for over 300,000 individuals with developmental disabilities at a cost of \$6.4 billion (\$3.8 billion General Fund). The Department is closing all the state operated facilities, except for Porterville and moving all care to the Regional Centers.

Public Health

The Department of Public Health has a budget of \$3 billion (\$134 million state General Fund) to serve the public health needs of all 39 million Californians.