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# CALIFORNIA

# 2015-16

# State Budget



Edmund G. Brown Jr. Governor, State of California

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## INTRODUCTION

The 2015 Budget Act pays down debt and saves for a rainy day as it implements the first year of Proposition 2. In addition, it increases spending on education, health care, In-Home Supportive Services, workforce development, drought assistance and the judiciary. It establishes the state's first Earned Income Tax Credit to help the state's poorest working families and an amnesty program that will help many Californians pay past due court-ordered debt and regain their drivers' licenses.

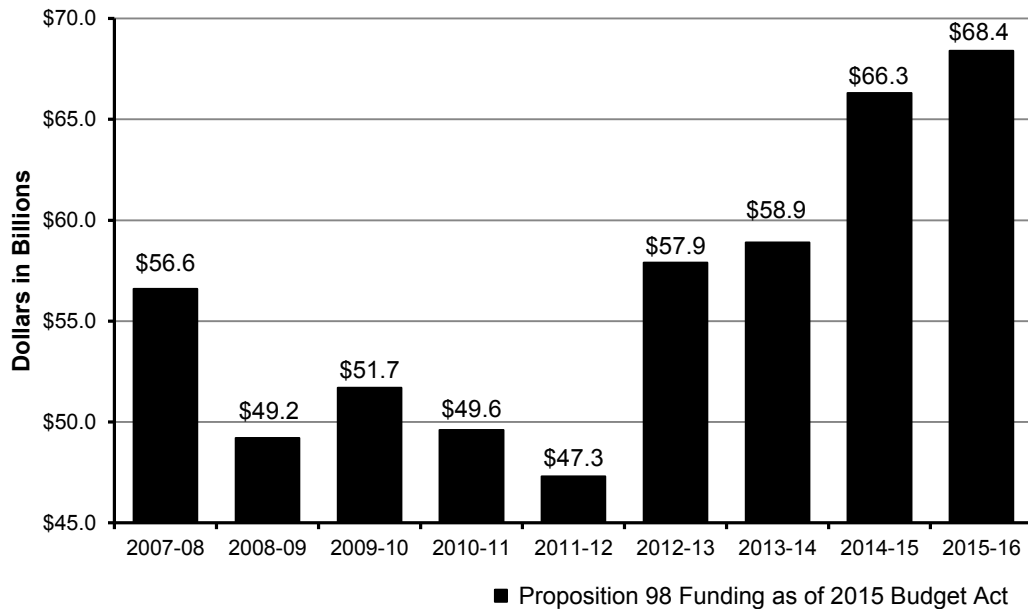
Despite stronger revenues compared to a year ago, the budget remains precariously balanced. The state also continues to have hundreds of billions of dollars in liabilities for deferred maintenance on its aging infrastructure and for retiree health care benefits for state employees and various pension benefits. In response, the Budget includes \$125 million to address the most critical deferred maintenance and establishes a trust fund for the prefunding of retiree health benefits.

The Governor has called special sessions to continue work on two key fiscal issues—how to fund (1) improved maintenance of roads, highways and other infrastructure, and (2) the state's health care delivery system. In addition, an expenditure plan for Cap and Trade revenues to reduce greenhouse gas emissions that contribute to climate change will also be completed later in the legislative session.

## MORE MONEY FOR SCHOOLS

As shown in Figure INT-01, the constitutional guarantee of funding for K-14 schools was \$56.6 billion in 2007-08 and sank to \$47.3 billion in 2011-12. From this recent low, funding has been at all-time highs since 2012-13 and will grow to \$68.4 billion in 2015-16. The Proposition 98 maintenance factor—an indicator of the past cuts made to schools and community colleges—totaled nearly \$11 billion as recently as 2011-12. In the 2015 Budget, this amount is reduced to \$772 million.

Figure INT-01  
**Proposition 98 Funding  
2007-08 to 2015-16**



## K-12 EDUCATION

For K-12 schools, funding levels will increase by more than \$3,000 per student in 2015-16 over 2011-12 levels. This reinvestment provides the opportunity to correct historical inequities in school district funding with continued implementation of the Local Control Funding Formula well ahead of schedule. When the formula was adopted in 2013-14, funding was expected to be \$47 billion in 2015-16. The Budget provides \$6 billion more—with the formula instead allocating \$53 billion this coming year.

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## HIGHER EDUCATION

The Budget also invests in quality, affordability and increased access at the state's higher education system. University tuition almost doubled during the recession, creating a hardship for many students and their families. To maintain affordability, the Budget holds tuition for California undergraduate students flat through 2016-17. The Budget includes \$217 million in new ongoing funding for the California State University (CSU). It provides \$120 million in new ongoing funding for the University of California (UC), as well as temporary funding from Proposition 2 to assist in paying down UC's unfunded pension liability—as UC implements a pension cap consistent with the state's 2012 pension reform law.

The community colleges and the university systems must collaborate to develop innovative approaches so students can successfully complete their degrees in a timely manner. The Budget provides new funding for CSU and community colleges to coordinate the provision of basic skills and remedial education. Over the past few years, CSU and the community colleges have greatly simplified and improved the transfer process in implementing statewide associate degrees for transfer under Chapter 428, Statutes of 2010 (SB 1440). Over the next two academic years, UC will identify specific pathways for transfer in its 20 most popular majors. These pathways will be closely aligned to the SB 1440 transfer degrees.

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## COUNTERACTING THE EFFECTS OF POVERTY

California has an extensive safety net for its neediest residents who live in poverty. The Budget, combined with actions from the past few years, expands the state's efforts to assist the state's neediest residents. These efforts are assisting millions of Californians.

- The implementation of health care reform has extended coverage under Medi-Cal to an additional four million Californians in just three years and added new services such as treatment for substance abuse and mental health. The expansion has already increased General Fund costs by more than \$1 billion annually, and that amount will rise to more than \$2 billion by 2017-18 as the federal government begins to reduce its share of costs beginning in 2017. The 2015 Budget also provides coverage to immigrants who gain Permanent Residence Under Color of Law status under the President's recent executive actions and for all children regardless of immigration status.

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- The Local Control Funding Formula is concentrating the greatest school funding, \$6 billion more this year alone, on those students who face the greatest challenges—English learners, those from low low-income households, and youth in foster care.
- The state increased the minimum wage by 25 percent, to \$10 per hour, and guaranteed that 6.5 million workers are eligible for sick leave. General Fund costs to implement these measures will be nearly \$250 million by 2016-17.
- The state’s first Earned Income Tax Credit will help the poorest working families in California. This targeted credit provides a refundable tax credit totaling \$380 million for wages and focuses on the lowest-income Californians—households with incomes less than \$6,580 if there are no dependents or \$13,870 if there are three or more dependents. The credit matches 85 percent of the federal credit at the lowest income levels, with a maximum benefit of \$2,653.
- The Budget provides \$1.4 billion in funding to support a coordinated and expanded framework for adult education, career technical education, workforce investment and apprenticeships.
- An amnesty program for those Californians with past due court-ordered debt from traffic infractions will allow participating individuals to reduce their debts up to 80 percent, reduce the administrative fees they pay from \$300 to \$50, and have their drivers’ licenses reinstated.
- A \$265 million (\$165 million General Fund) expansion of the child care system, through higher rates and more slots, will assist lower-income families by providing child care so that parents may work.

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## EMERGENCY DROUGHT RESPONSE

The State of California has experienced four consecutive years of below-average rain and snow, and is currently facing severe drought conditions in all 58 counties. Since the Governor first declared a state of emergency in January 2014, the Administration has worked to assist drought-impacted communities and fund critical water infrastructure projects that will make the state more resilient if the drought continues. The 2015 Budget includes an additional \$1.8 billion of one-time resources to continue the state’s response to drought impacts. The funds will protect and expand local water supplies, conserve water and respond to emergency conditions.

## PAYING DOWN DEBTS AND LIABILITIES

Proposition 2 was designed to help the state save when times are good, such as now. Higher revenues from capital gains will both be saved and used to pay down debts. By the end of the year, the state's Rainy Day Fund will have a total balance of \$3.5 billion. As shown in Figure INT-02, the Budget also pays down a total of \$1.9 billion in debts from Proposition 2 funds.

Figure INT-02

### Debts and Liabilities Eligible for Accelerated Payments Under Proposition 2 (Dollars in Millions)

	<b>Outstanding Amount at Start of 2015-16</b>	<b>2015 Budget Act Pay Down</b>
<b>Budgetary Borrowing</b>		
Loans from Special Funds	\$3,112	\$1,502
Underfunding of Proposition 98—Settle-Up	1,512	256
Unpaid Mandate Claims for Local Governments (prior to 2004-05) <sup>1/</sup>	0	0
<b>State Retirement Liabilities</b>		
State Retiree Health	71,773	0
State Employee Pensions	43,303	0
Teacher Pensions <sup>2/</sup>	72,718	0
Judges' Pensions	3,358	0
Deferred payments to CalPERS	530	0
<b>University of California Retirement Liabilities</b>		
University of California Employee Pensions	7,633	96
University of California Retiree Health	14,519	0
<b>Total</b>	<b>\$218,458</b>	<b>\$1,854</b>

1/ Entire liability paid off under the 2014 Budget Act revenue trigger.

2/ The state portion of the unfunded liability for teacher pensions is \$14.916 billion.

The state will also:

- Repay the remaining \$1 billion in deferrals to schools and community colleges (which once peaked at \$10 billion).
- Make the last payment on the \$15 billion in Economic Recovery Bonds that were used to cover budget deficits from as far back as 2002.

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- Repay local governments the final mandate reimbursements for activities completed in 2004 or earlier (totaling \$765 million) and reduce outstanding mandate liabilities owed to schools and community colleges by \$3.8 billion.

The elimination of these budgetary debts and a healthier Rainy Day Fund balance will give the state much greater fiscal capacity when the next recession begins.