



**Edmund G. Brown Jr. Governor**  
*State of California*

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## **INTRODUCTION**

**T**he 2017 Budget Act continues to bolster the state’s Rainy Day Fund and pay down accumulated debts and liabilities to counter the potential fiscal impact of federal policy changes on California and the potential end of an economic expansion that has surpassed historical averages. While maintaining fiscal prudence, the Budget focuses state spending on the Governor’s key priorities—investing in education, counteracting the effects of poverty, and improving the state’s streets, roads and transportation infrastructure.

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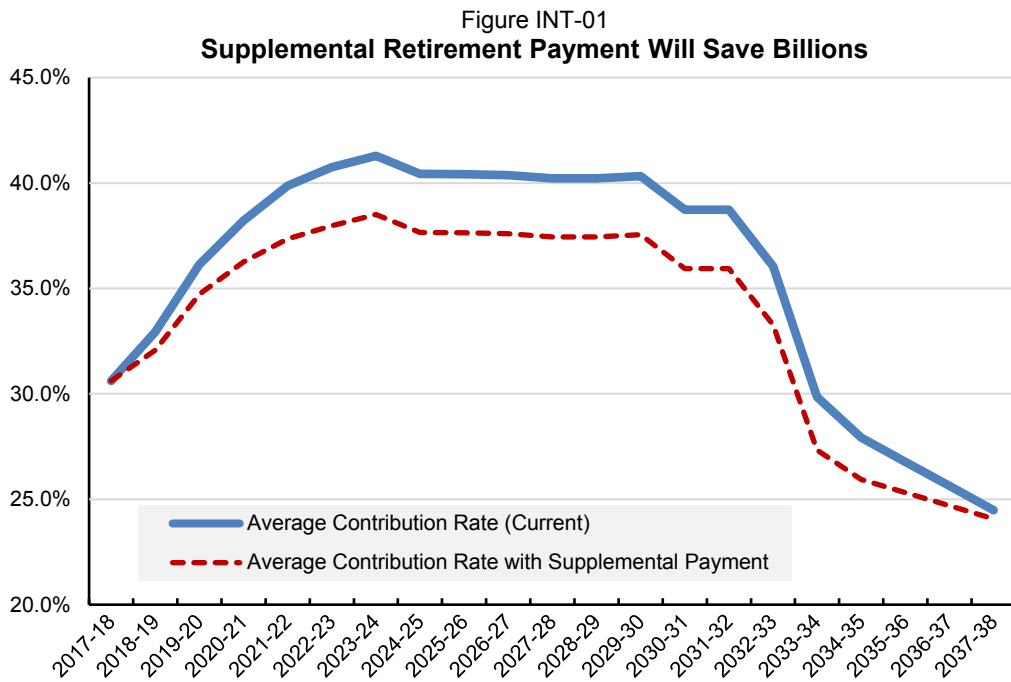
## **MAINTAINING FISCAL PRUDENCE**

In addition to a \$1.4 billion reserve in the Special Fund for Economic Uncertainties, the Budget adds \$1.8 billion to the Proposition 2 Budget Stabilization Account, bringing the balance to \$8.5 billion in 2017-18—or 66 percent of its constitutional target. Additionally, much of the new spending added after the May Revision is one-time in nature, which avoids ongoing commitments that would put pressure on the budget.

## CONTINUING TO PAY DOWN DEBTS AND LIABILITIES

The Budget uses dedicated proceeds from Proposition 2 to pay down nearly \$1.8 billion in past budgetary borrowing and state employee pension liabilities.

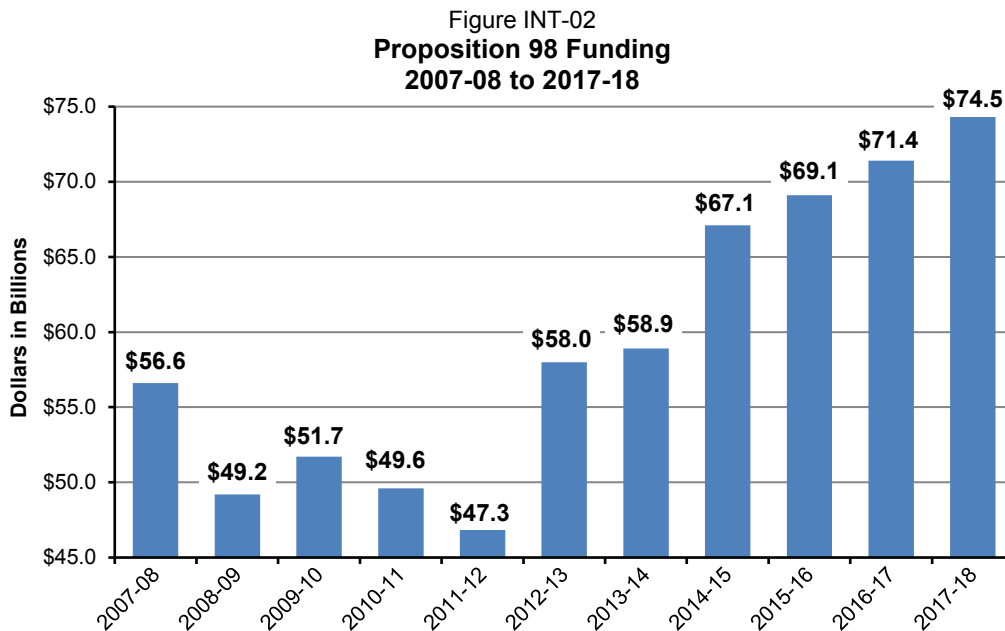
In addition, the Budget reflects a \$6 billion supplemental payment to CalPERS through a loan from the Surplus Money Investment Fund that will reduce unfunded liabilities, stabilize state contribution rates, and save \$11 billion over the next two decades (Figure INT-01). The General Fund share of the repayment will come from Proposition 2’s revenues dedicated to reducing debts and long-term liabilities—without the cost or risk of external borrowing. Absent this supplemental payment, the state’s contribution rate will increase by 93 percent in 2031-32.



## K-12 EDUCATION

The Budget provides K-12 schools and community colleges with \$3.1 billion above the revised 2016-17 funding level, bringing the funding level to \$74.5 billion in 2017-18—an increase of \$1 billion since January. Schools will receive an additional \$1.4 billion next year for the Local Control Funding Formula, which increases the formula’s

implementation to 97 percent funded. As shown in Figure INT-02, the funding guarantee for K-14 schools was \$56.6 billion in 2007-08 and sank to \$47.3 billion in 2011-12. From this low, funding has been at all-time highs since 2012-13 and has grown by \$27.3 billion—or 58 percent—over six years.



## HIGHER EDUCATION

The Budget includes a total of \$13.4 billion General Fund for higher education, with additional funds provided in 2017-18 to expand capacity for California students at the state’s public institutions, create guided pathways for students to earn degrees and credentials and keep the costs of attendance low for students and their families. Additionally, it holds the University of California accountable for implementing needed reforms to its cost structure so that the system remains sustainable over the long term. The Budget also includes \$2.2 billion in financial aid for the state’s neediest students.

## SUPPORTING WORKING FAMILIES

The Budget expands the state’s Earned Income Tax Credit (EITC) to include self-employed individuals, conforming California to the Federal EITC and every other

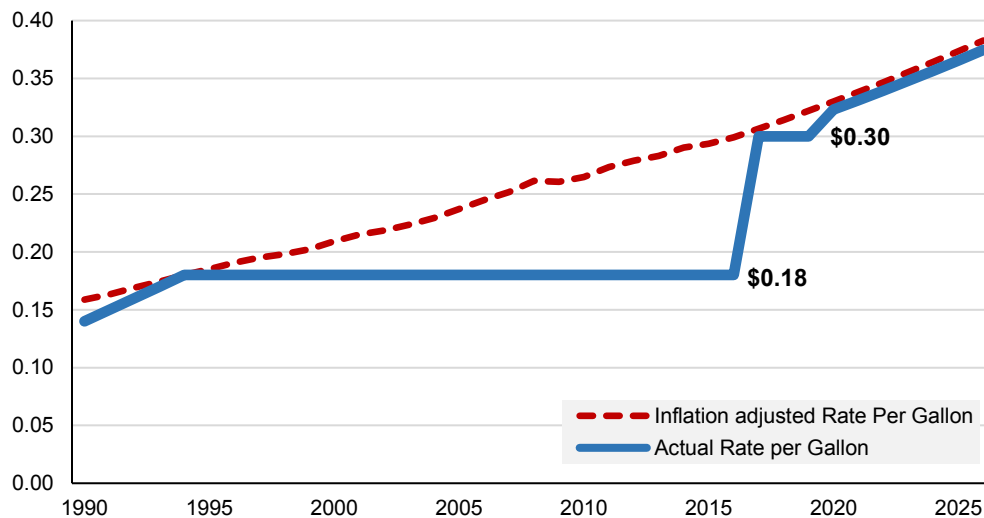
state offering the credit. Additionally, the Budget expands the income ranges for which the EITC is allowed, so more individuals working up to full-time at the newly increased minimum wage will still qualify. These changes will expand the credit to more than 1 million additional households, bringing the total to 1.5 million households.

The Budget continues to fund the multi-year child care and early education increases included in the 2016 Budget Act by raising reimbursement rates and providing additional State Preschool slots. The Budget also increases income eligibility requirements for state-subsidized programs and establishes that an eligible family may remain eligible for the subsidy for 12 months, regardless of change in need or income, so long as their income does not exceeds 85 percent of the current state median income.

### STRENGTHENING TRANSPORTATION INFRASTRUCTURE

The Budget implements the Road Repair and Accountability Act of 2017 (SB 1), which returns the gas tax’s purchasing power to 1994 levels (Figure INT-03) and provides \$54 billion in new funding over the next decade, split evenly between state and local funding. The first \$2.8 billion of new funding will:

Figure INT-03  
**SB 1 Restores Lost Purchasing Power for the Gas Tax**



- Focus on “fix-it-first” investments to repair neighborhood roads and state highways and bridges (\$1.3 billion).
- Make key investments in trade and commute corridors to support continued economic growth and implement a sustainable freight strategy (\$450 million).
- Match locally generated funds for high-priority transportation projects (\$200 million).
- Invest in passenger rail and public transit modernization and improvement (\$635 million).

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