

To: Jaymie Bradford, San Diego Regional Chamber of Commerce
From: Tony Gonzalez, London & Gonzalez Advocacy
Re: Summary of Governor Brown's proposed FY 17-18 State Budget
Date: January 11, 2017

Yesterday, January 10, Governor Brown released his proposed FY 17-18 budget, commonly referred to as the January Budget. The full detail of the January Budget can be found at this link: <http://www.ebudget.ca.gov/2017-18/pdf/BudgetSummary/FullBudgetSummary.pdf>.

The budget process now turns to the Legislative Analyst's Office, which will review the governor's budget in detail and report back to the Legislature in early February with recommendations on each spending proposal and implementing policy change. Once the LAO completes its review and makes its recommendations, budget subcommittees will begin their review of the proposed budget in late February.

Budget subcommittees in each house will hold off on final action until after Governor Brown issues his "May Revise", which is a re-evaluation of the Governor's January Budget in light of tax collections in April. The two houses convene a conference committee in early June to consider the May Revise and will reach agreement on the budget with Governor Brown no later than June 15, the constitutional deadline for the approval of the budget bill package. The 17-18 fiscal year begins on July 1, 2017.

The May Revise is expected to deviate greatly from the January Budget due to expected changes in federal law relating to the Affordable Care Act and Medicaid, trade immigration policy and tax reform legislation. It's impossible right now to foresee exactly what those changes in federal law will be.

Governor Brown projects the state's population to grow 355,000 residents annually over the next five years, mostly in the older age cohorts. The January Budget takes into account the increase in the minimum wage (SB 3, Leno). But above all the January Budget believes that a recession, and thus a corresponding decline in the growth of or even an actual decline in General Fund revenue, is overdue. The downgraded revenue forecast for personal income tax is driven by lower wage growth. The sales tax revenue forecast has been reduced to reflect slower growth in consumer spending and business investment. The reduced corporation tax forecast reflects weak performance for corporate tax receipts as well as lower profits due to growing labor costs.

Overview of Governor Brown's Proposed FY 17-18 State Budget

Governor Brown relies heavily on the belief that General Fund revenue growth will slow, leading to a possible deficit of \$1.6 billion by the end of FY 17-18, absent several reductions in the growth of state spending and in some cases elimination of spending on previously committed appropriations. The January Budget proposes a total of \$122.5 in General Fund spending. Governor Brown proposes a constitutional "Rainy Day" reserve of \$7.9 billion.

Governor Brown proposes several "corrective actions" to ensure that the state budget does not end in a fiscal year deficit.

Governor Jerry Brown:

Compared to the 2016 Budget Act signed last June, the two main factors causing this deficit are a revenue forecast that is \$5.8 billion lower than expected and a current-year shortfall in the Medi-Cal program. The deficit would be billions worse if not for the passage of a number of ballot measures at the November election, including Proposition 52 (hospital fee), Proposition 56 (tobacco tax), and Proposition 57 (prison reform). Proposition 55's extension of temporary income tax rates on the wealthiest Californians will begin to help balance the budget in 2018-19.

Key actions to bring the budget back into balance -- \$3.2 billion in "budget solutions"

To close the budget deficit and rebuild the state's operating reserve, the Governor's Budget proposes \$3.2 billion in budget solutions, with highlights as follows:

Adjust Proposition 98. The proposed 17-18 budget proposes reducing the growth K-12 spending (Proposition 98 guarantee) by \$1.7 billion that would otherwise have been the case.

Recapture several FY 16-17 allocations. The proposed 16-17 budget contained a large package of one-time spending. Much of that spending remains uncommitted at this point in time, and the Budget proposes to eliminate that carryover authorization. (\$0.9 billion)

Affordable housing. Most significantly, the proposed 17-18 budget proposes eliminating the \$400 million that was set aside for affordable housing in the FY 16-17 budget but never allocated.

The proposed 17-18 budget \$300 million transfer to modernize state office buildings planned for 2017-18, which was never allocated, is set for elimination in the proposed FY 17-18 budget. The proposed 17-18 budget also proposes pausing increases in child care spending, not providing Middle Class Scholarships to any new students and a wide variety of smaller new appropriations that would have otherwise been included in the proposed FY 17-18 budget.

Key Issues in the January Budget

K-12 Education. K-12 public schools would receive a total of \$73.5 billion under the Proposition 98 guarantee, roughly a 3% from FY 16-17. Per Pupil spending would be \$15,216, an increase of \$394 from FY 16-17.

Higher education. UC/CSU and community colleges would receive \$14.6 in General Fund spending. UC would receive an increase of \$83 million from FY 16-17, CSU an increase of \$185 million, and community colleges would receive an increase of \$121 million. Student tuition and fee increases will be discussed as the budget process unfolds in the spring. Governor Brown proposes to phase out the Middle Class Scholarship.

Transportation. The FY 17-18 proposes total spending of \$18.1 billion on the maintenance of California's roughly 354,000 miles of roads and highways, 180 transit agencies and 6 state offices. The budget anticipates approval of a transportation funding package that would generate \$1.8 billion in additional revenues in the first year, ultimately rising to \$4.2 billion annually.

Environmental Protection. The FY 17-17 budget would appropriate \$178 million for drought relief, firefighting and the removal of dead trees in the Sierra Nevada. It also proposes spending \$2.2 billion from cap/trade auctions on high-speed rail, light rail systems and various programs designed to reduce greenhouse gas emissions.

Health and Human Services. The FY 17-18 budget proposes \$154.6 from all sources for all human services, including health services. The proposed budget appropriates \$800 million more to cover the loss of some federal funding for the projected 4.1 million people added to Medi-Cal since 2014 as a result of the Affordable Care Act. The FY 17-18 budget does not take into account the possibility of the repeal of the Affordable Care Act.

Reaction to the Governor's Budget by the Democratic Leadership in the Legislature

Senate Pro Tem Kevin De Leon

The Senate will remain committed to expanding access to education, protecting our investments in childcare, and building out sustainable infrastructure across our state for the middle class. We must work to pass a balanced and fiscally prudent budget that still invests in human capital and I look forward to productive negotiations with the Assembly Speaker and Governor in the coming months.

Assembly Speaker Anthony Rendon

It's good to see modest funding increases for K-12 schools, as well as for higher education. We must work to keep college affordable for California students, and I will not support burdening them with higher fees and greater student debt—whether that's done by raising tuition or phasing out the Middle Class Scholarship. Ending the Middle Class Scholarship would increase the cost of a student's four year education by up to \$9,000 at CSU and up to \$20,000 at UC.

Senate Republican Leader Jean Fuller

Senate Republicans will continue to be laser-focused on championing solutions that promote jobs and make California more affordable. Californians expect their government to spend responsibly and we are facing a deficit of \$2 billion if we don't live within our means.

Our state also cannot lose sight of the significant role the federal government plays in our budget and the lives of all Californians. The federal government contributes nearly \$60 billion to our healthcare system. As state leaders, we should be there to improve our healthcare system. I will work with House Majority Leader McCarthy and the new administration to ensure California gets what California deserves.

Assembly Republican Leader Chad Mayes

No statement.