



Friends Committee on Legislation of California

Overview of Gov. Brown's Proposed Budget

By **Jim Lindburg, Legislative Director**

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The Senate Budget Committee, chaired by Sen. Holly Mitchell (D-Los Angeles) took its first look at Governor Brown's proposed budget for the 2017-2018 fiscal year that begins on July 1. The proposed spending plan reflects uncertainty over possible changes at the federal level that could have major repercussions for California and a declining revenue forecast.

According to the Department of Finance (DOF), the governor's fiscal agent, "the tide of revenues is beginning to turn." Revenues are still growing, but not at the level predicted in the current year's budget. Absent corrective measures, the DOF is forecasting a \$1.6 billion shortfall for 2017-2018 and has proposed \$3.2 billion in solutions. While this is a relatively small shortfall compared to those in the wake of the Great Recession, the new budget proposal largely maintains the status quo and makes no new investments in reducing poverty. Though California's economy has recovered, poverty levels remain unacceptably high and spending for important safety net programs remains well below Great Recession levels. DOF revenue forecasts are typically more conservative than those of the Legislative Analyst's Office (LAO), whose forecasts have also been more accurate. The lower revenue estimates have been a source of disagreement between the Legislature and the Brown administration, which makes it more difficult to address the state's critical needs.

The governor's spending plan makes up the shortfall by rescinding some previously approved expenditures, such as \$400 million set aside for affordable housing, and \$300 million for the renovation of state office buildings. It also delays the implementation of a multi-year agreement between the Legislature and the governor to reinvest in childcare. According to the California Budget and Policy Center, funding for childcare in the current fiscal year remains 20 percent below Great Recession levels despite enormous demand.

The Brown administration scores a savings of \$22.4 million due to a projected decline of 2,000 prisoners in the upcoming fiscal year from the passage of Proposition 57 last November. The administration projects that the prison population will drop by 9,500 prisoners by the 2020-2021 fiscal year and will result in a savings of \$140 million per year. Despite these declines, corrections spending would rise by \$199 million in 2017-2018. As the prison population declines, the 4,900 prisoners currently housed in out-of-state prisons will be returned to prisons in California.

A special legislative session last year failed to pass an agreement, and so Gov. Brown renewed his call for a ten-year transportation and infrastructure program funded by a mix of fees, taxes and cap and

trade dollars. The transportation proposal would provide \$1.8 billion in 2017-2018 for highways, roads and public transit. The fee and tax increases are subject to approval of a two-thirds majority of both houses. Since the November 2016 election, Democrats have two-thirds majorities in both houses, though obtaining approval for tax and fee increases is never easy. The governor's budget proposal also calls for renewing the state's cap and trade program, which requires a two-thirds vote.

Brown's budget proposal sets aside \$2.3 billion as required by the State Constitution, with half going to pay down state debt and half deposited into the state's rainy day fund. Reserves, which would total \$9.5 billion, can help cushion the effects of a mild recession.

Legislative leaders have called for more oversight. Given changes to the state's term limits law, legislators may now serve a total of 12 years in either house. The stability and continuity should enable oversight that is more effective. Senator Nancy Skinner (D-Berkeley), who now chairs the budget subcommittee with jurisdiction over prisons, indicated that her subcommittee would take a hard look at corrections spending, which has not decreased despite a significant decline in the prison population.

However, the real elephant in the room is the proposed repeal of the Affordable Care Act (ACA). California enthusiastically embraced the ACA and enrolled 3.5 million residents – mostly childless adults – in the Medi-Cal program. Another 1.3 million Californians receive subsidized care through Covered California. California could stand to lose \$21 billion annually in federal funds.

The January budget proposal is the administration's first expression of its priorities. In the coming months, the Legislature will modify the governor's spending plan to better reflect its own priorities. Also, in May policymakers will have a better sense of what revenues the state will take in as well as program caseloads. Conversely, it remains to be seen how much will be known about the federal government's plans concerning the ACA and other federal safety net programs.

Further Reading

[Gov. Brown's Proposed Budget](#)

[Analysis from the California Budget & Policy Center](#)

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