

CALIFORNIA BUDGET **CHALLENGE**

Produced by Next 10



About Next 10

- Independent, nonpartisan nonprofit founded in 2003
- Commissions expert research to educate, engage, and empower Californians
- Focus areas: green economy, budget, quality of life & governance
- View reports online at www.next10.org
- Take the full California Budget Challenge at www.budgetchallenge.org



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California Budget in Context

Early 2000s:

- Dot Com Bust
- Enron Energy Scandal
- Budget Deficits Begin

November 2004

Prop 58 establishes
balanced budget
requirement

2007-2009

Great Recession
leads to \$42 billion
deficit at peak

2004-05 Budget Year

Estimated deficit of
\$15 billion

2005

Next 10 creates
California Budget
Challenge

November 2010

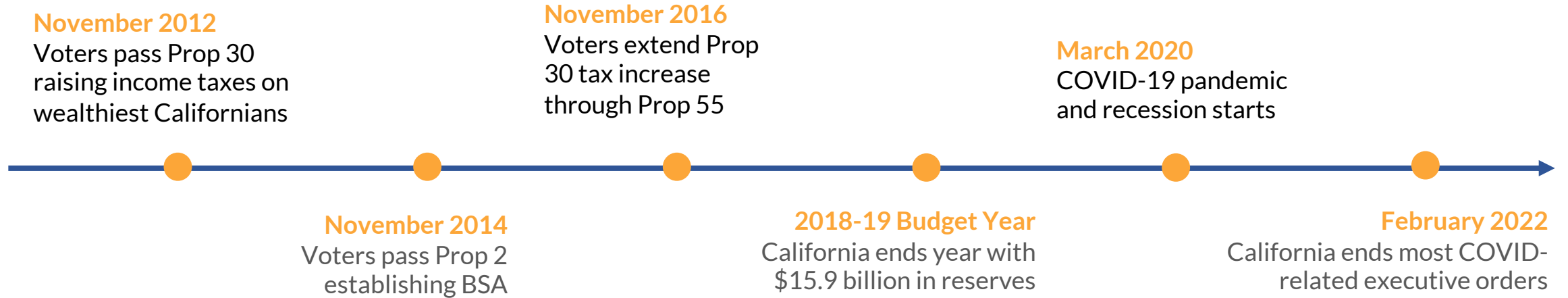
Voters pass Prop 25
requiring simple majority
and strengthened deadline



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California Budget in Context



Key Policies Impacting Budget & Fiscal Situation

PRE-GREAT RECESSION:

- **Prop 13 (1978):** Capped property taxes at 1% of assessed value at time of sale, can increase by 2% per year to keep up with inflation
 - Reduced property taxes on homes, businesses, and farms by 57%
- **Prop 4 (1979):** The State Appropriations Limit (SAL), also called the Gann Limit, is a constitutional spending cap that ties state spending to the 1978-79 spending level, adjusted for changes in population and per-capita personal income
- **Prop 98 (1988):** Set minimum funding guarantee for K-14 education; direct result of Prop 13 capping property taxes (traditionally source of education funding)
- **Prop 58 (2004):** Established balanced budget requirement in California Constitution

POST-GREAT RECESSION:

- **Prop 25 (2010):** Amended California Constitution to require simple majority to pass budget instead of two-thirds & requires legislators to forfeit pay if miss budget deadline of June 15th
- **Prop 30 (2012):** Increased sales tax by $\frac{1}{4}$ of a %; increased personal income taxes on wealthiest Californians
 - Personal income tax increase extended by Prop 55 in 2016; sales tax increase expired at end of 2016
- **Prop 2 (2014):** Requires set-aside of 1.5% of General Fund revenues into a Rainy Day Fund



Current Situation

JANUARY 2023

DEFICIT: \$25 billion

GENERAL FUND REVENUES: \$209.1 billion

UNEMPLOYMENT RATE: 4.4%

2020 & 2021 UNEMPLOYMENT PAYOUT: \$182 billion

RESERVES: \$900 million deposit into Rainy Day Fund



MAY 2023

DEFICIT: \$32.5 billion

GENERAL FUND REVENUES: \$205.1 billion

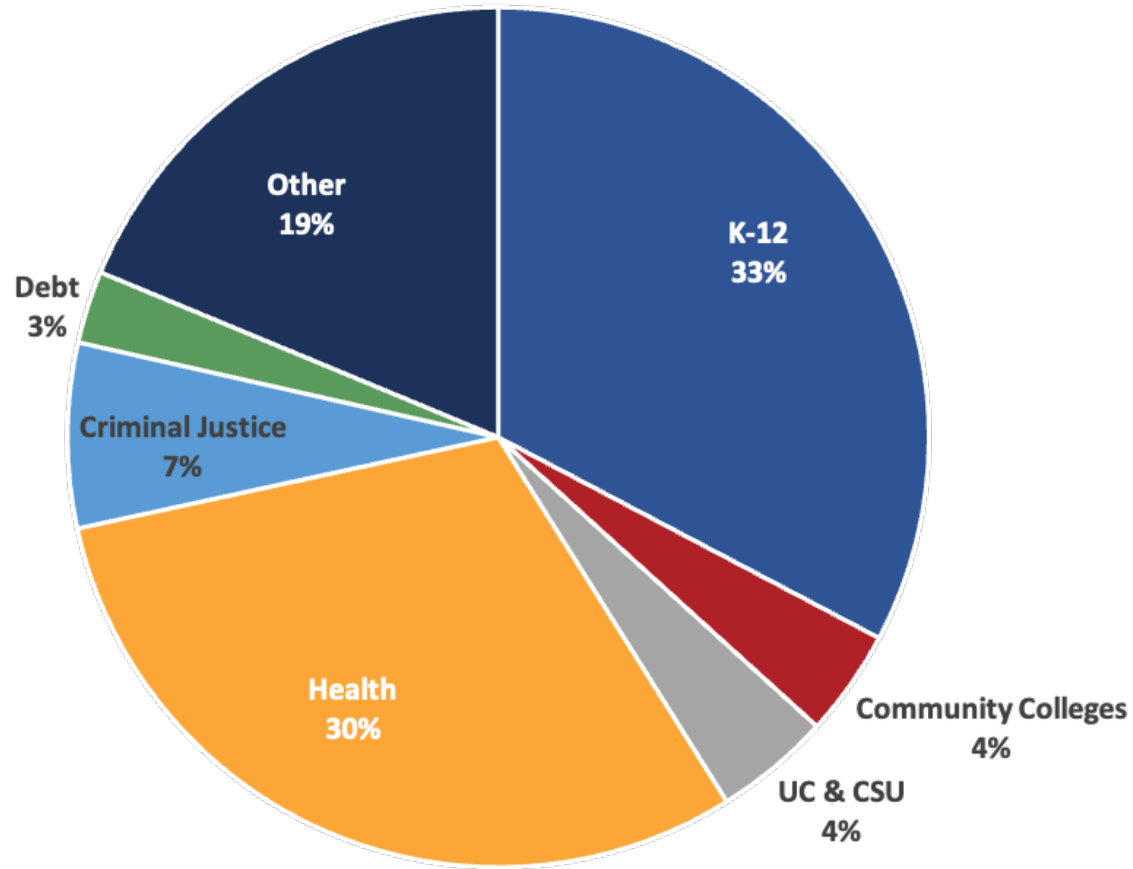
UNEMPLOYMENT RATE: 4.5%

2020 & 2021 UNEMPLOYMENT PAYOUT: \$182 billion

RESERVES: No deposit into Rainy Day Fund

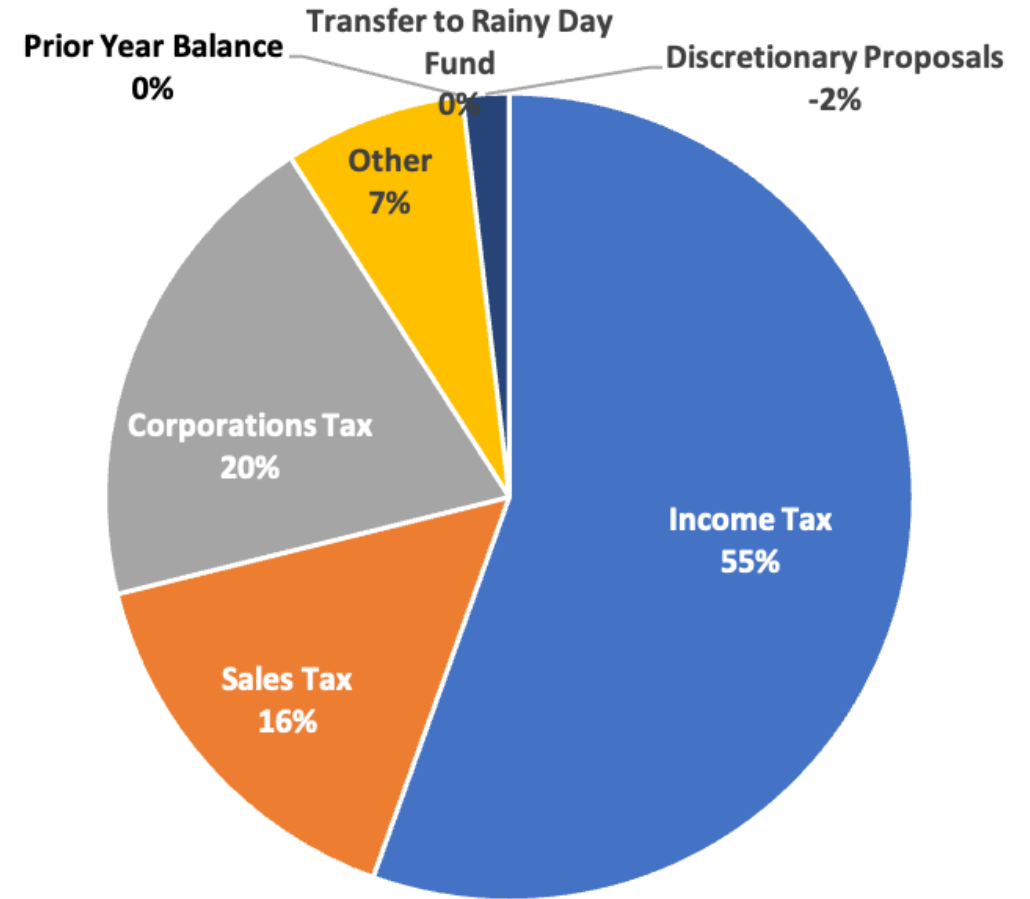
Baseline Expenditures and Revenue in 2023-24

GENERAL FUND EXPENDITURES

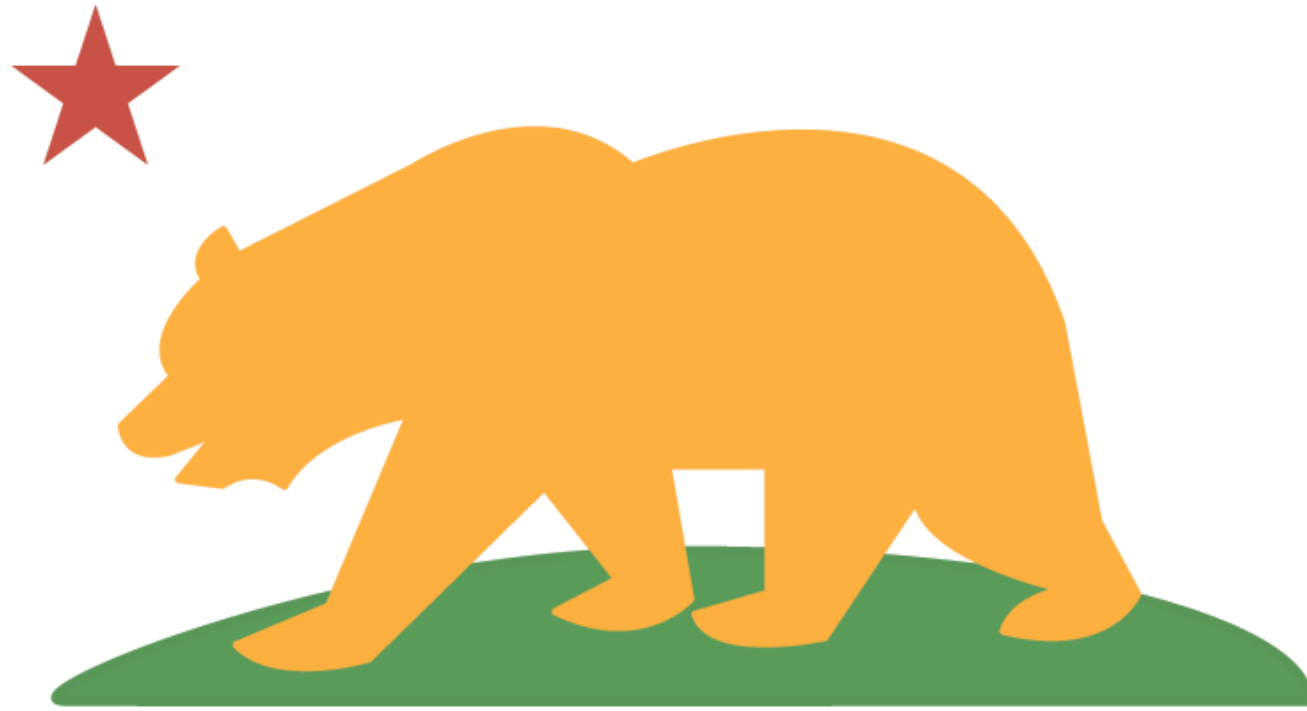


TOTAL = \$237.6 billion

GENERAL FUND REVENUE



TOTAL = \$205.1 billion



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K-12 Education

1. Status Quo: Spend \$120.9 billion from all funding sources on K-12 as mandated under Prop. 98, unchanged from the 2022-23 level of \$120.9 billion. This would put total K-12 per-pupil spending about 34% above the projected national average in 2022-23 before accounting for geographical cost-of-living differences, which are higher in California than the national average.
2. No Budget Change: Cut \$2.5 billion one-time Prop 98 funds from the Learning Recovery Emergency Block Grant reducing funding from \$7.9 billion as established in the 2022-23 budget to \$5.4 billion.
3. No Budget Change: Cut \$1.8 billion one-time Prop 98 funds from the Arts, Music, and Instructional Materials Discretionary Block Grant, bringing it down to a total of \$1.8 billion from \$3.6 billion.
4. No Budget Change: Spend \$154 million of Prop 98 funds for school nutrition programs to continue to fully fund Universal Meals Program in 2022-23 and 2023-24.
5. No Budget Change: Spend \$300 million ongoing Prop 98 General Fund to establish an equity multiplier as an add-on to the Local Control Funding Formula (LCFF).

Early Childhood Education

1. Status Quo: Spend a total of \$5.7 billion for child care, \$2.9 billion for State Preschool, and \$3 billion for transitional kindergarten from all funding sources, including Prop. 98 and federal funds.
2. Cut \$0.55 billion: Delay the planned investment of \$550 million to build new kindergarten or preschool classrooms from 2023-24 to 2024-25.
3. Spend \$0.357 billion: Spend \$357 million to implement the second year of transitional kindergarten (TK) expansion in order to provide access to all 4 year-olds by 2025. This is a reduction from the January proposal that reflects reduced TK enrollment projections..
4. Spend \$0.035 billion: Spend \$35.3 million General Fund (\$95 million total) to support an 8.22% cost of living adjustment (COLA) for providers in the State Preschool Program.
5. Cut \$0.052 billion: Spend \$51.8 million General Fund (\$116.3 million total) to increase payment rates for children with disabilities, dual language learners, and 3 year-olds enrolled in state preschool.

Community Colleges

1. Status Quo: California Community Colleges (CCC) would receive about \$17.5 billion, or \$15,848 per student, from all funding sources in 2023-24, unchanged from the prior year.
2. No Budget Change: Cut \$345 million one-time Prop 98 funds from the COVID-19 Recovery Block Grant.
3. No Budget Change: Cut \$452 million one-time Prop 98 General Fund for deferred maintenance needs.
4. No Budget Change: Spend \$100 million one-time Prop 98 General Fund to continue to support community college efforts and strategies to increase student retention rates and enrollment.

UC & CSU

1. Status Quo: Funding would be \$10.2 billion for UC and CSU from the General Fund, not including proposed increases in base funding.
2. Spend \$0.443 billion: Spend \$443 million ongoing to provide a 5% increase in base funding for CSU (\$227 million) and UC (\$216 million).
3. Cut \$1.092 billion: Cut \$1.092 billion General Fund of current and planned support for affordable student housing, shifting the funding source to UC and CSU-issued bonds.
4. Cut \$0.498 billion: Cut \$498 million General Fund in planned support for the UC Berkeley clean energy campus project, and UC Merced and UC Riverside campus expansion projects, in order to shift the funding to UC-issued bonds.
5. Cut \$0.9 billion: Delay \$900 million General Fund for the student housing revolving loan program to build more student housing to 2025-26.

Health & Human Services

1. Status Quo: Do not make any reductions or increases in funding for Medi-Cal, CalWORKs, or other HHS programs. Total General Fund spending would be \$73.6 billion for all HHS programs.
2. Spend \$0.635 billion: Spend \$635 million General Fund (\$844.5 million total) to maintain the expansion of Medi-Cal eligibility to all low-income Californians regardless of immigration status starting January 1, 2024.
3. No Budget Change: Spend \$230.3 million from the Opioid Settlements Fund over the next four years for opioid and fentanyl response.
4. Spend \$0.3 billion: Spend \$300 million ongoing General Fund to strengthen public health infrastructure at the state and local level.
5. Spend \$0.5 billion: Spend \$500 million to make permanent a temporary 10% increase in welfare benefits for recipients of CalWORKs.



Criminal Justice

1. Status Quo: Spend \$16.4 billion General Fund for corrections, rehabilitation, and the state courts.
2. Spend \$0.02 billion: Spend \$20 million General Fund to begin the transformation of San Quentin, the only prison for male death row inmates, from a maximum security prison into one focused on rehabilitation and education.
3. No Budget Change: Continue with the planned closure of the California Correctional Center (CCC) in 2023 and nonrenewal of the lease for the California City Correctional Facility in 2024 as the adult inmate population continues to decline.

- ▼ Spending
- 🍏 K-12 Education
- 👶 Early Childhood Education
- 📎 Community Colleges
- 🎓 UC & CSU
- ♿ Health & Human Services
- ⚖️ Criminal Justice
- 🏠 Housing & Homelessness
- 🌱 Climate Change & Resilience
- 🏢 Jobs & Economy

Housing & Homelessness

1. Status Quo: Do not provide any additional funding for housing or homelessness programs.
2. Cut \$0.2 billion: Cut \$200 million one-time General Fund for the "Dream For All" program, which provides down payment assistance to first-time homebuyers.
3. Spend \$1 billion: Spend \$1 billion General Fund in 2023-24 for a fifth round of Homeless Housing, Assistance, and Prevention (HHAP) Program grants.
4. Cut \$0.25 billion: Shift \$250 million of General Fund spending on the Behavioral Health Bridge Housing Program to the Mental Health Services Fund.
5. Cut \$0.1 billion: Cut \$100 million one-time General Fund for the CalHome program that provides local agencies and nonprofits grants to assist low- and very-low income first-time homebuyers with housing assistance, counseling, and technical assistance.

Climate Change & Resilience

1. Status Quo: Do not allocate any additional funding for climate change response and resilience beyond what is already funded from cap-and-trade revenue through the Greenhouse Gas Reserve Fund (GGRF).
2. Cut \$1.1 billion: Shift \$1.1 billion in spending on various climate resilience programs, including water recycling, sea restoration, resilience programs, and urban greening. Programs would be paid for through issuance of climate bonds under a future program.
3. Cut \$1.11 billion: Cut \$1.11 billion in General Fund spending on Zero Emissions Vehicles (ZEV) investments in 2023-24. Backfill funding from the state's Greenhouse Gas Reduction Fund (GGRF) would restore \$611 million in funding.
4. Cut \$0.175 billion: Cut \$175 million in 2023-24 for various coastal protection and adaptation programs.
5. Cut \$0.27 billion: Cut \$270 million in 2023-24 from the Residential Solar and Storage program.

Jobs & Economy

1. Status Quo: Do not spend any additional money for jobs and the economy.
2. Cut \$0.95 billion: Defer \$550 million for last-mile broadband infrastructure grants and \$400 million for the Loan Loss Reserve Fund that supports local governments in financing broadband infrastructure to 2024-25 and the following two years.
3. Spend \$0.05 billion: Spend \$50 million in 2023-24 for a range of workforce development programs, including apprenticeships, emergency medical technician training, and other skilled trade roles.
4. Cut \$0.48 billion: Cut \$480 million one-time General fund to wind down the Golden State Education and Training Program at the end of 2022-23.
5. Spend \$0.035 billion: Spend \$35 million for the California Nutrition Incentive Program, which helps participants in the state's CalFresh program buy healthy food from farmers' markets.

Income Tax

1. Status Quo: Do not raise or lower state income tax rates.
2. Cut \$5.4 billion: Reduce tax rates by 5% across the board, but maintain the current progressive income tax structure.
3. Cut \$5 billion: Revise the way we treat capital gains income by taxing this income less than other income, such as wages and salaries.
4. Raise \$5 billion: Revise the way we treat capital gains income by taxing this income more than other income, such as wages and salaries.
5. Raise \$22.3 billion: Institute a 1% tax annually on "worldwide net worth" in excess of \$50 million and a 1.5% tax assessed annually on net worth in excess of \$1 billion (AB 2289).

Sales Tax

1. Status Quo: Do not make changes to the statewide sales tax rate of 7.25% (before local add-ons) or base.
2. Raise \$1.9 billion: Reinstate the 1/4 percent sales tax increase imposed by Proposition 30 that expired in 2016, bringing the statewide rate back to 7.5%.
3. No Budget Change: Expand the sales tax base to entertainment, amusement, and personal services and use the approximately \$4.3 billion in revenues raised to reduce the sales tax rate by 1/2 percent to 6.75%, resulting in no change to revenues.
4. Raise \$14.2 billion: Begin collecting sales tax on professional services such as accounting, legal, and real estate while reducing the rate across the board to 5%.
5. Cut \$1.9 billion: Reduce the sales tax rate by 1/4 percent to 7%.

Corporation Tax

1. Status Quo: Keep the corporation tax rate at its current level of 8.84% (flat tax).
2. Raise \$5 billion: Raise \$5 billion annually by reforming the net operating loss deduction, which allows businesses to carry forward their losses to future tax years, whenever there is a budget emergency as defined by law.
3. Raise \$5 billion: Raise \$5 billion by creating an upper bracket of 10.99% for C corporations with taxable corporate income over \$1.5 million, while also reducing the tax rate from 8.84% to 6.63% on the first \$1.5 million of corporate taxable earnings.
4. Cut \$2.3 billion: Reduce the corporation tax rate to 7.5%.
5. Raise \$10 billion: Raise \$10 billion to do options 2 and 3.

Other Taxes

1. Status Quo: Make no changes to other taxes.

2. Cut \$0.7 billion: Cut \$700 million to increase the Renters Tax Credit and to reform the program to benefit taxpayers with children and to make the credit refundable beginning with the 2023 tax year.

3. Cut \$0.6 billion: Cut \$600 million to set a minimum California Earned Income Tax Credit (CalEITC) amount at \$275 beginning with the 2023 tax year.

4. Raise \$1.5 billion: Impose a 9.5% oil severance tax (around the average of other oil-producing states).

Pass Budget?

Would you vote to pass the budget as agreed upon as a group?

1. Yes
2. No
3. Abstain



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at www.budgetchallenge.org

If you would like a personalized presentation for your class or
organization, please email Stephanie at stephanie@next10.org

