

California's Fiscal Outlook



Presented to:

**California Association of School
Business Officials, CBO Symposium**

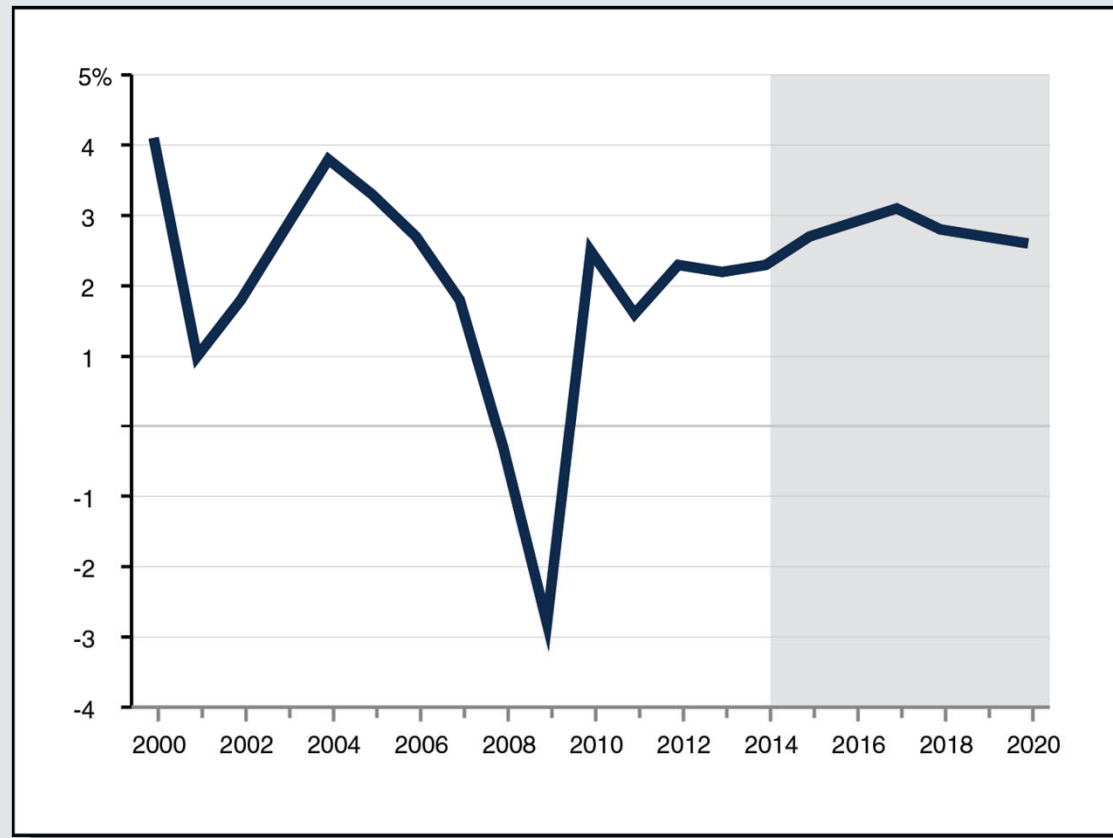
November 20, 2014

Legislative Analyst's Office

National and State Economies

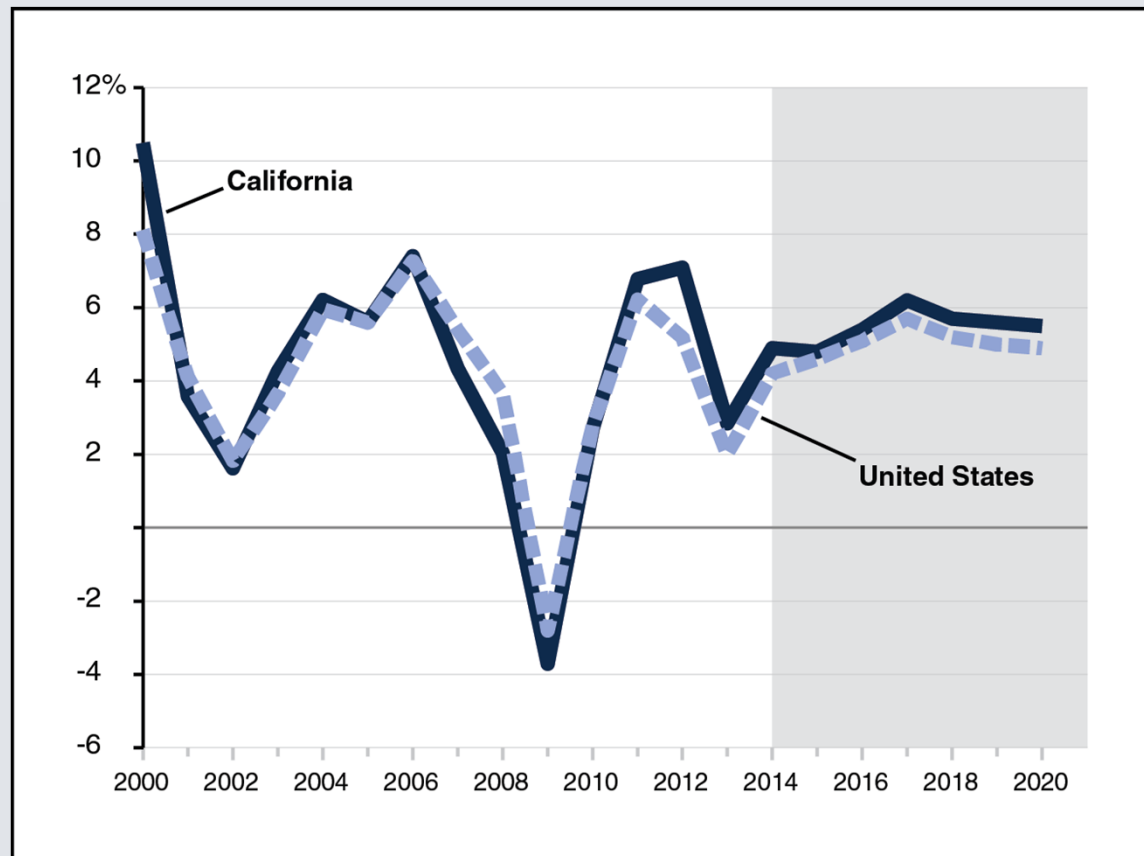
Economic Expansion Well Underway, Assumed to Extend Throughout Forecast Period

Real Gross Domestic Product, Percent Change From Prior Year



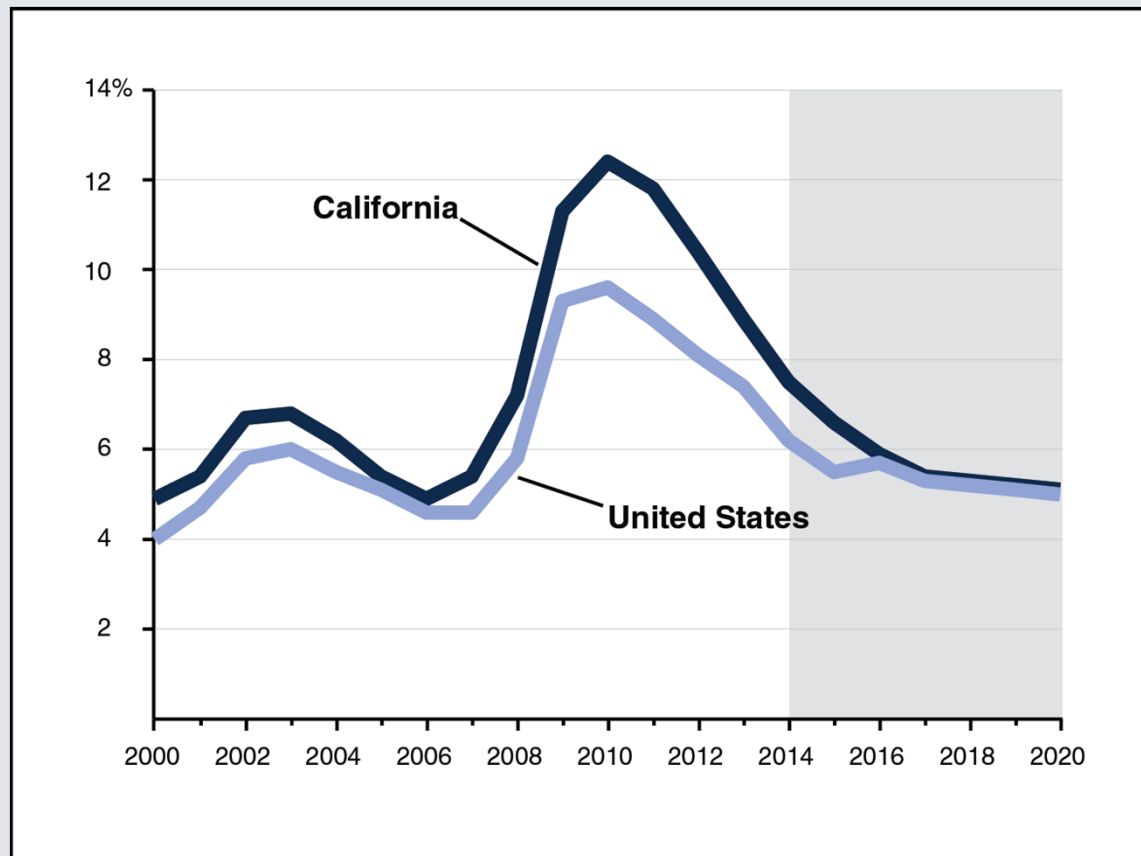
Personal Income Hovering Around 5 Percent Throughout Forecast Period

Percent Change From Prior Year



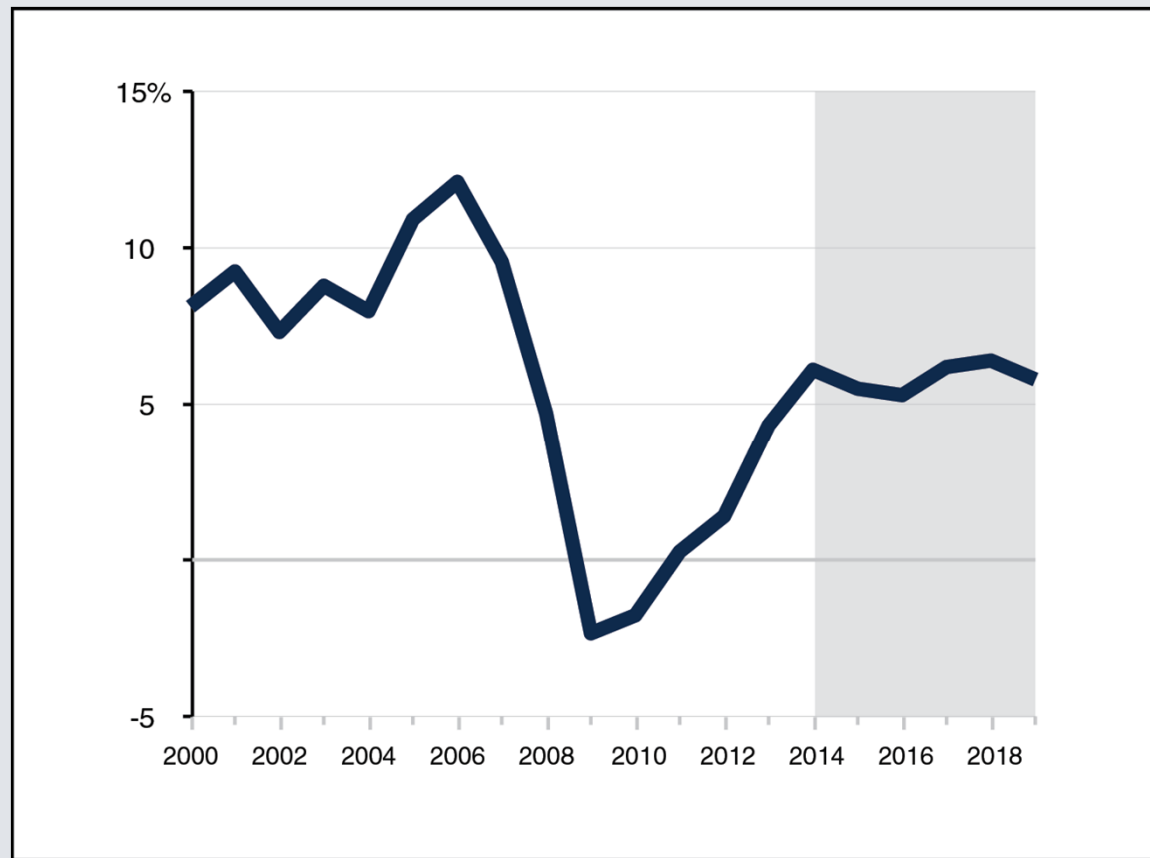
Unemployment Rate Dropping Throughout Forecast Period

Percent Change From Prior Year



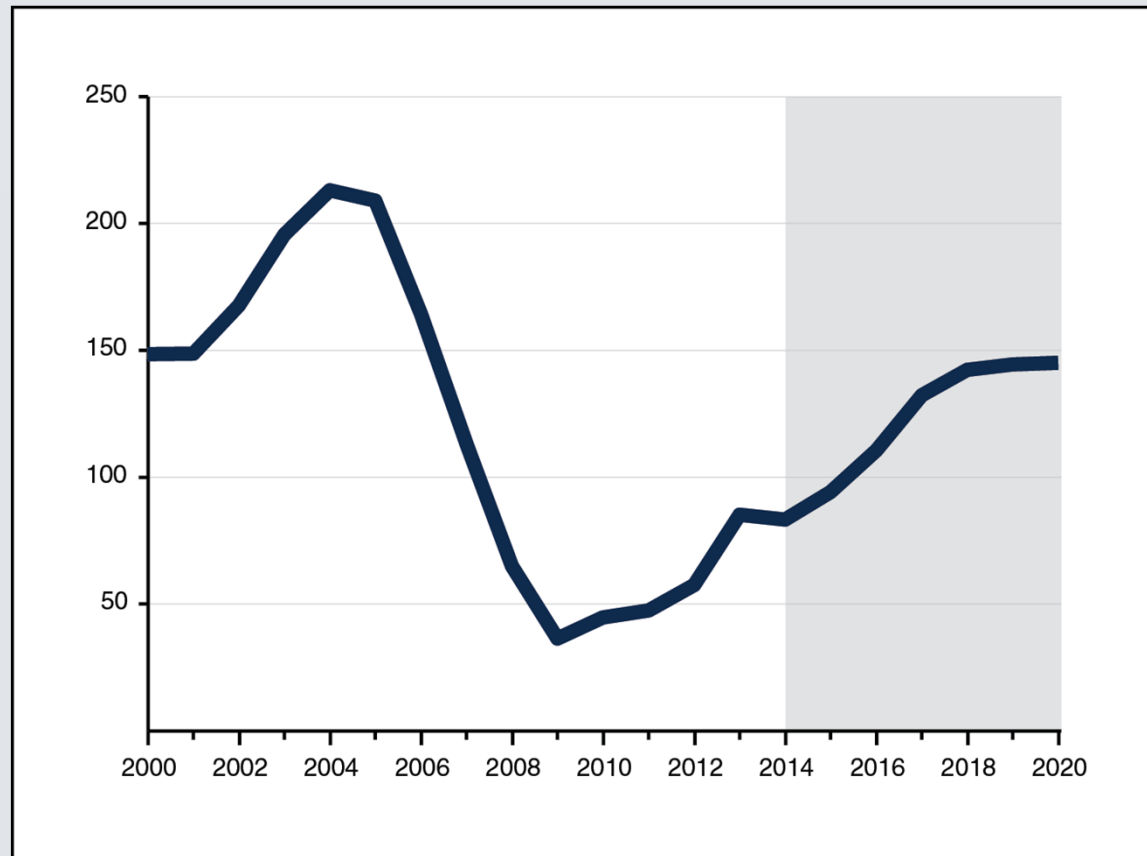
Assessed Property Values Growing Moderately Throughout Forecast Period

Percent Change From Prior Year



California Housing Permits Increasing Throughout Forecast Period

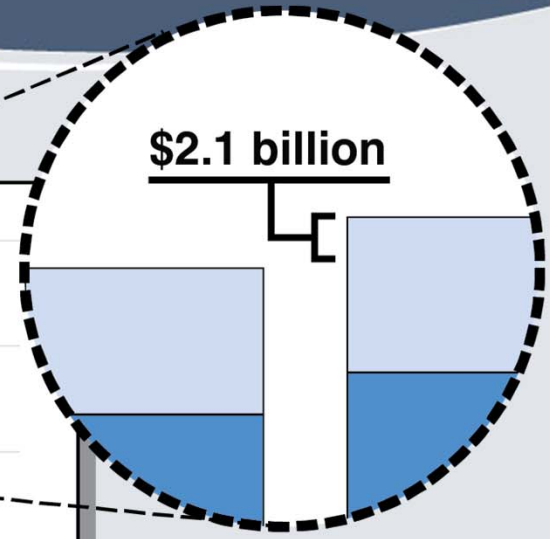
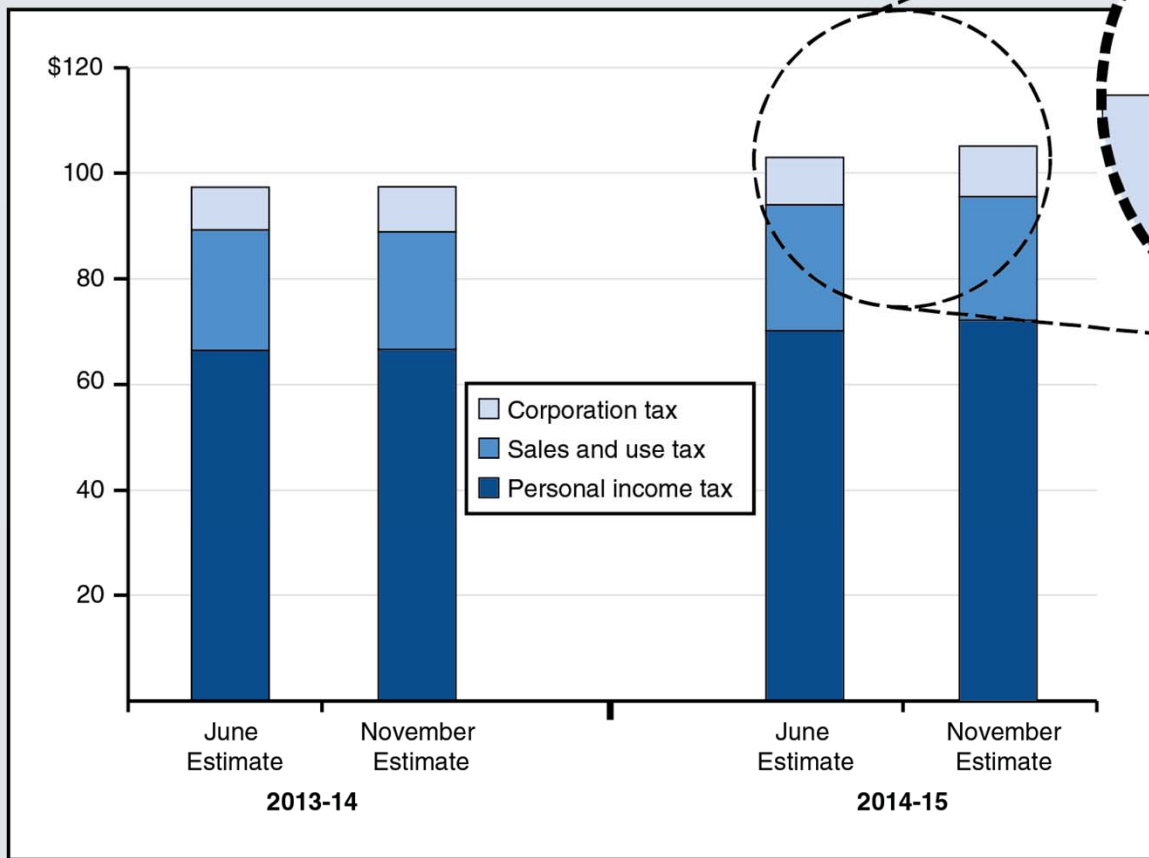
Permits (In Thousands)



State's Fiscal Outlook

Revenue Up Slightly in 2013-14, More Notably in 2014-15

Big Three Revenues (In Billions)



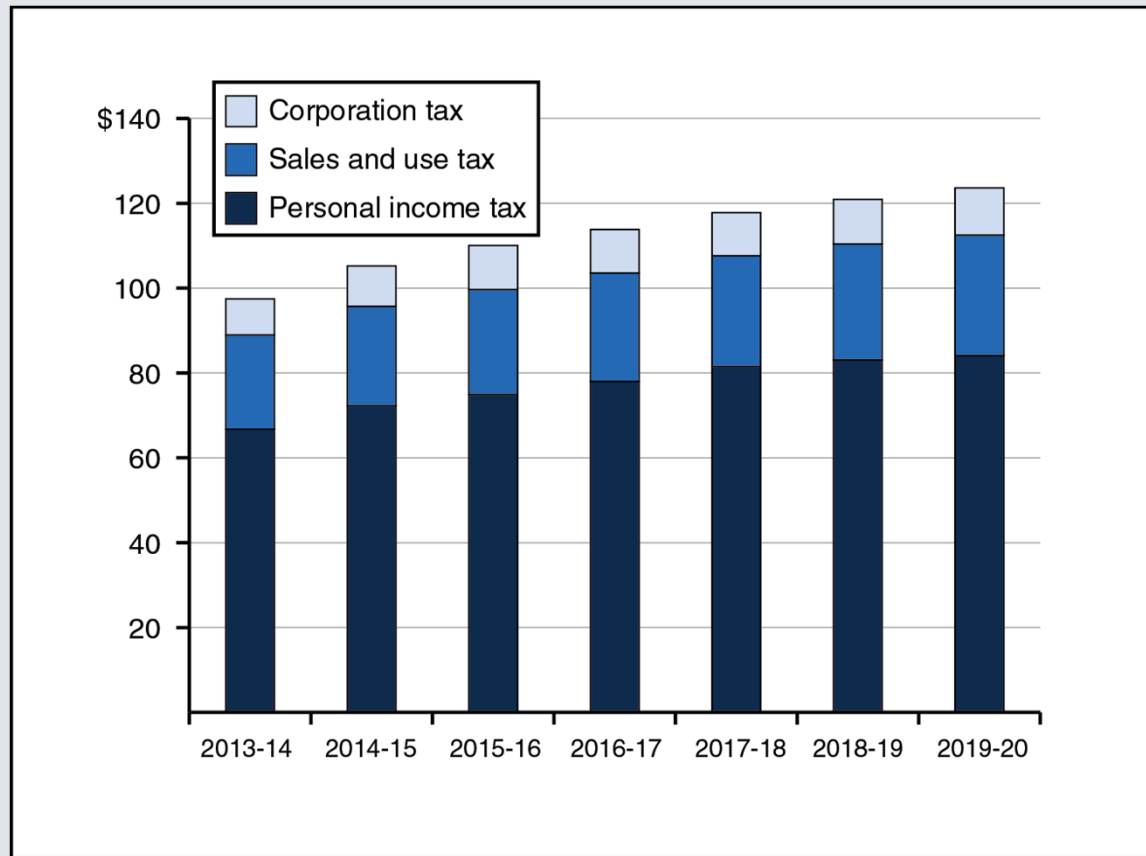
LAO General Fund Condition Under Main Scenario

(In Millions)

	2013-14	2014-15	2015-16
Prior-year fund balance	\$2,186	\$3,680	\$836
Revenues and transfers	102,277	107,442	111,397
Expenditures	100,783	110,286	110,638
Difference between revenues and expenditures	\$1,494	-\$2,843	\$760
Ending fund balance	\$3,680	\$836	\$1,596
Encumbrances	-955	-955	-955
SFEU balance	2,725	-119	641
Reserves SFEU Balance	2,725	-119	641
Pre-Proposition 2 BSA balance	—	1,606	1,606
Proposition 2 BSA balance	—	—	1,974
Total Reserves	\$2,725	\$1,488	\$4,222

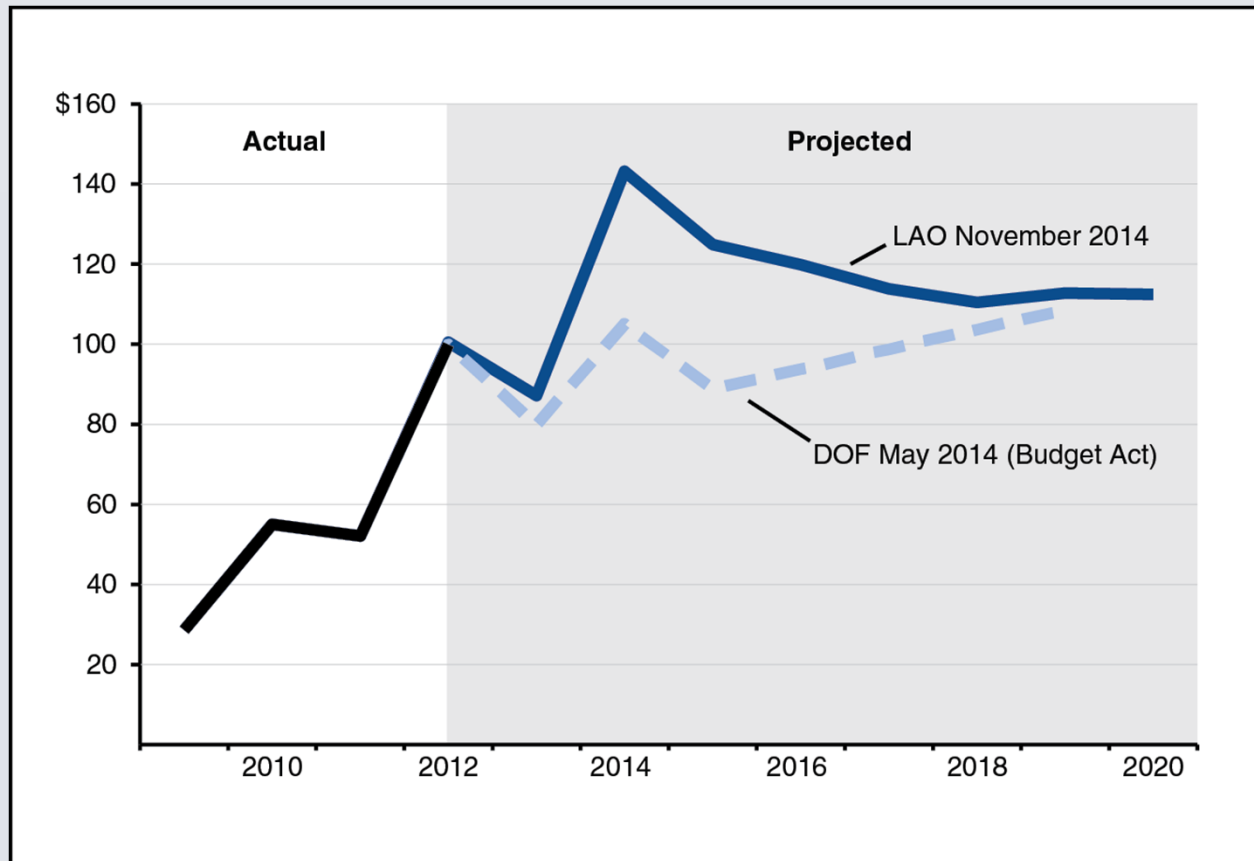
Revenue Outlook

Big Three Revenues Under Main Scenario (In Billions)



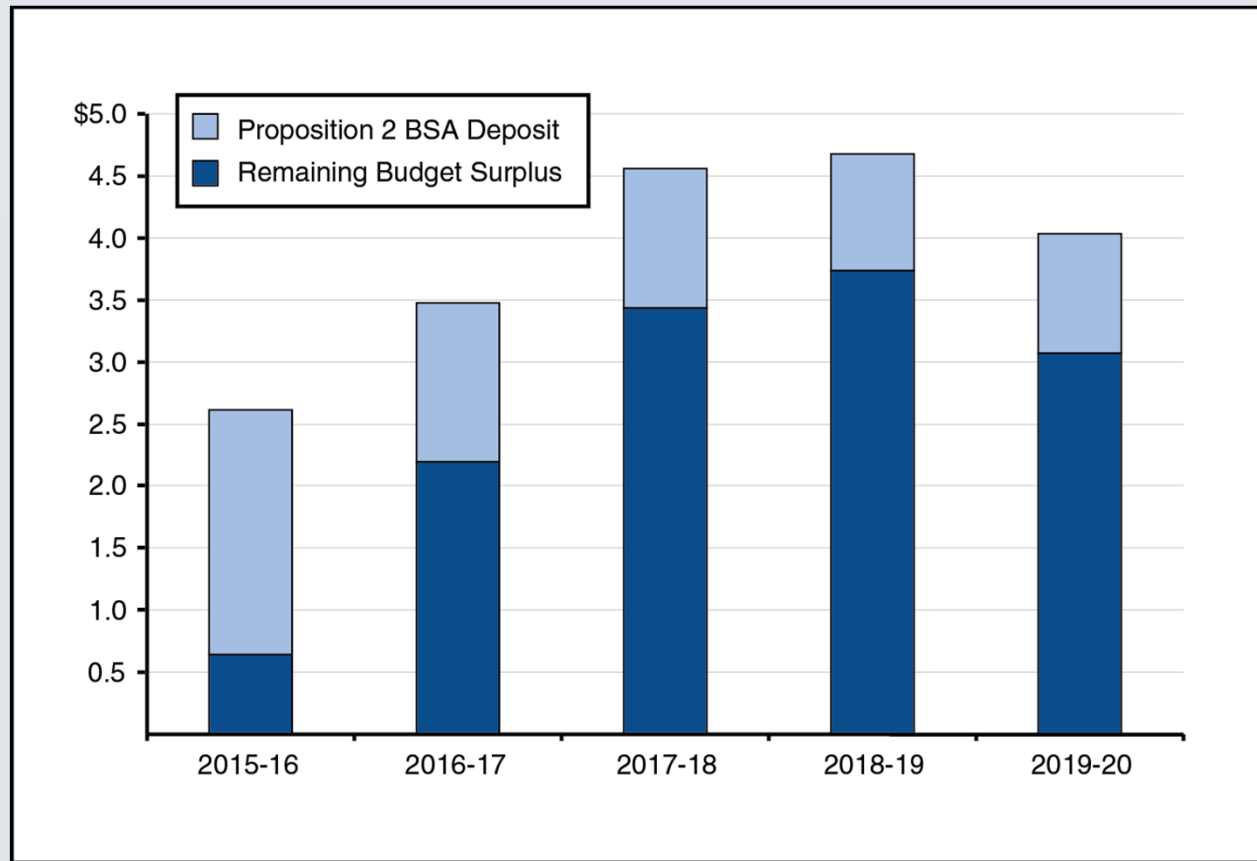
LAO Main Scenario: Lower Capital Gains After 2014

Net Capital Gains on Resident Tax Returns (In Billions)



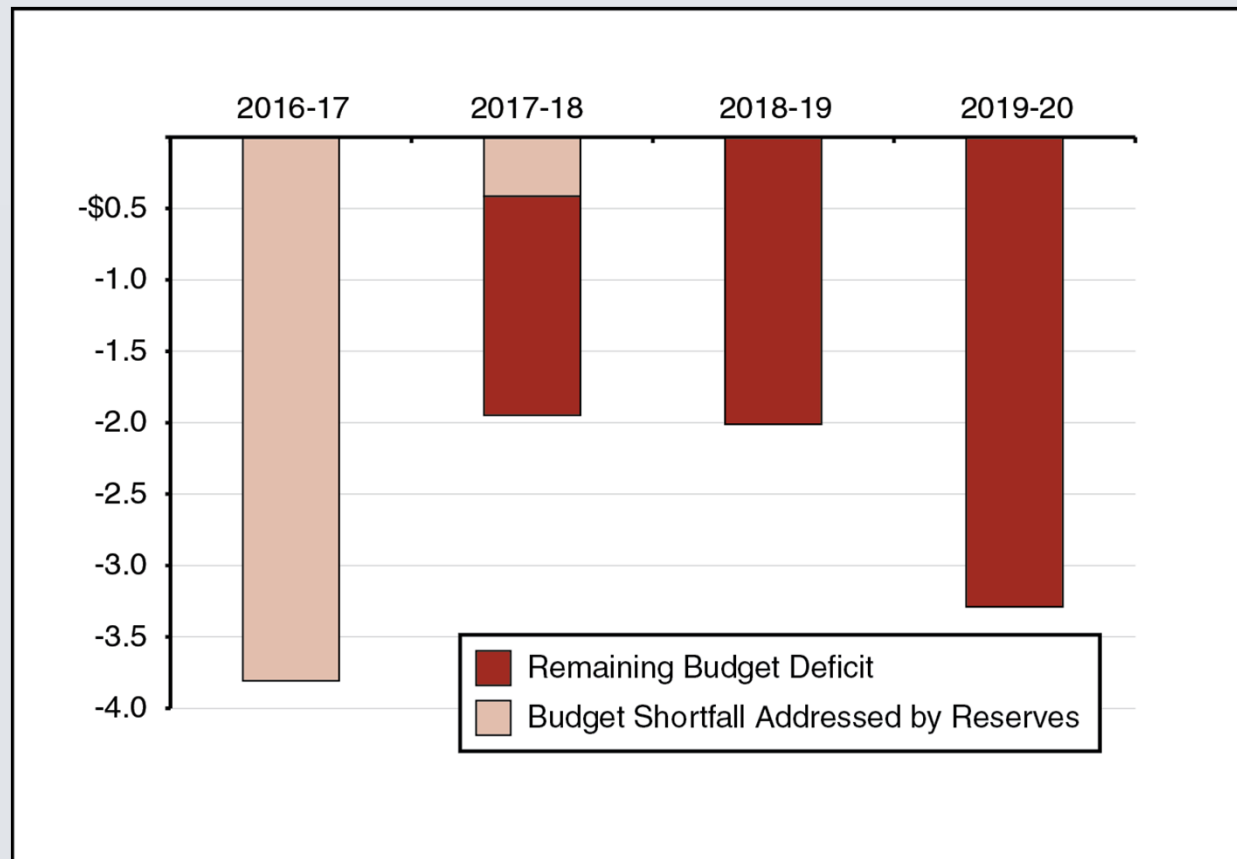
LAO Main Scenario: Reserve Deposits and Future Surpluses

(In Billions)



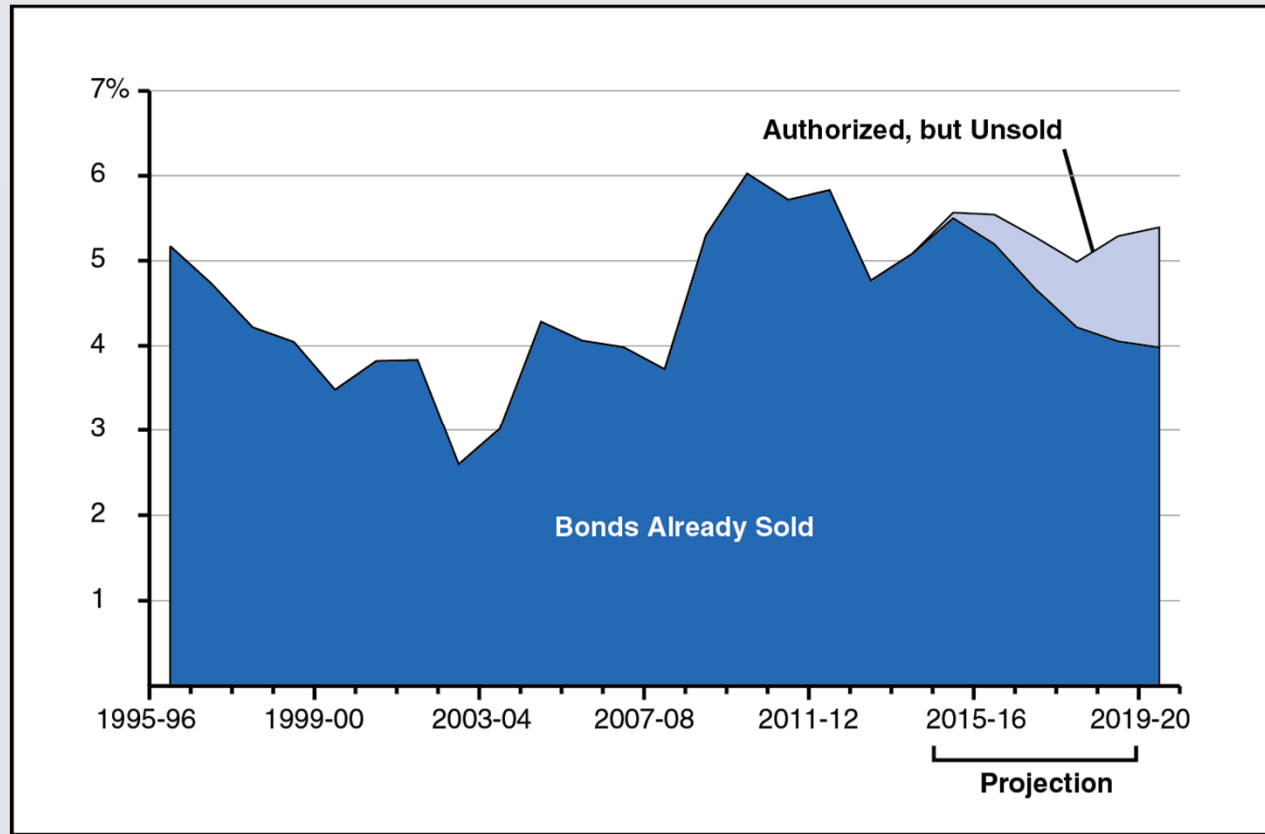
\$4.2 Billion Reserve Could Cover 2016-17 Shortfall in Hypothetical Economic Slowdown

(In Billions)



LAO Main Scenario: Debt-Service Ratio Remains Under 6 Percent

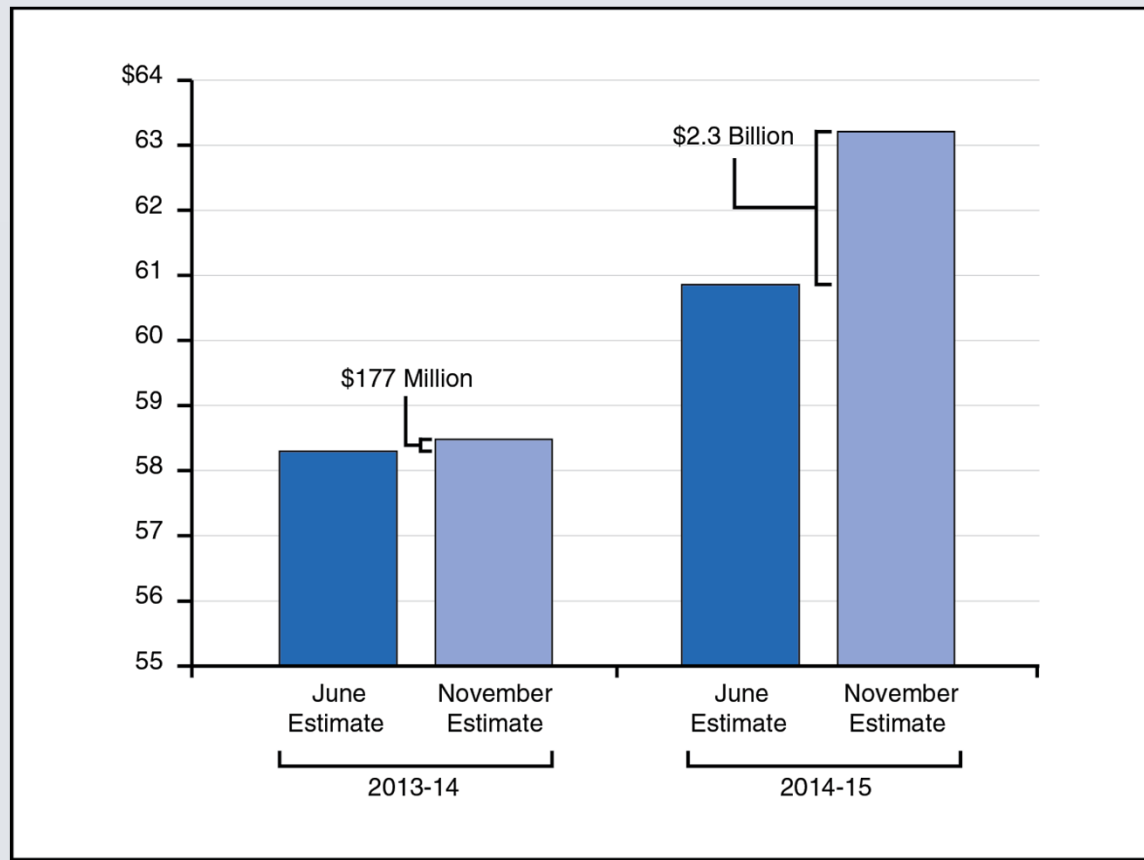
Percent of General Fund Revenues Spent on Debt Service



Education Outlook

2013-14 Minimum Guarantee Up Slightly, 2014-15 Guarantee Up Significantly

Under LAO Scenario (In Billions)



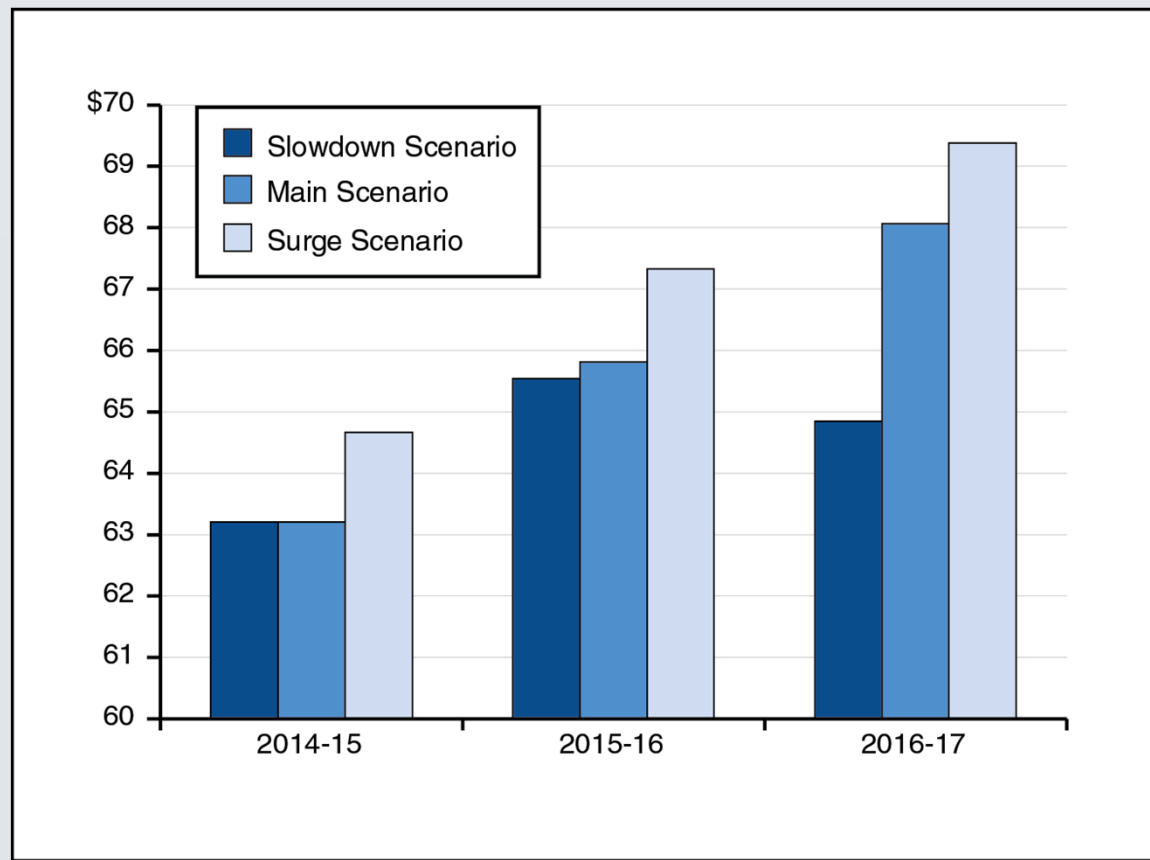
Considerable New Proposition 98 Funding Projected for 2015-16

LAO Main Scenario (In Millions)

2014-15 Budget Act Spending Level	\$60,859
Back out one-time actions:	
K-14 deferral paydowns	-662
K-14 mandate backlog	-337
Career Pathways Trust	-250
CCC maintenance and instructional support	-148
CCC Economic and Workforce Development	-50
Preschool quality activities and facility loans	-35
CCC technology infrastructure	-1
Total one-time actions	<u>-\$1,483</u>
2014-15 Ongoing Spending	\$59,377
Annualize approved preschool slots	\$15
New Funds Available in 2015-16	\$6,419
2015-16 Minimum Guarantee	\$65,810

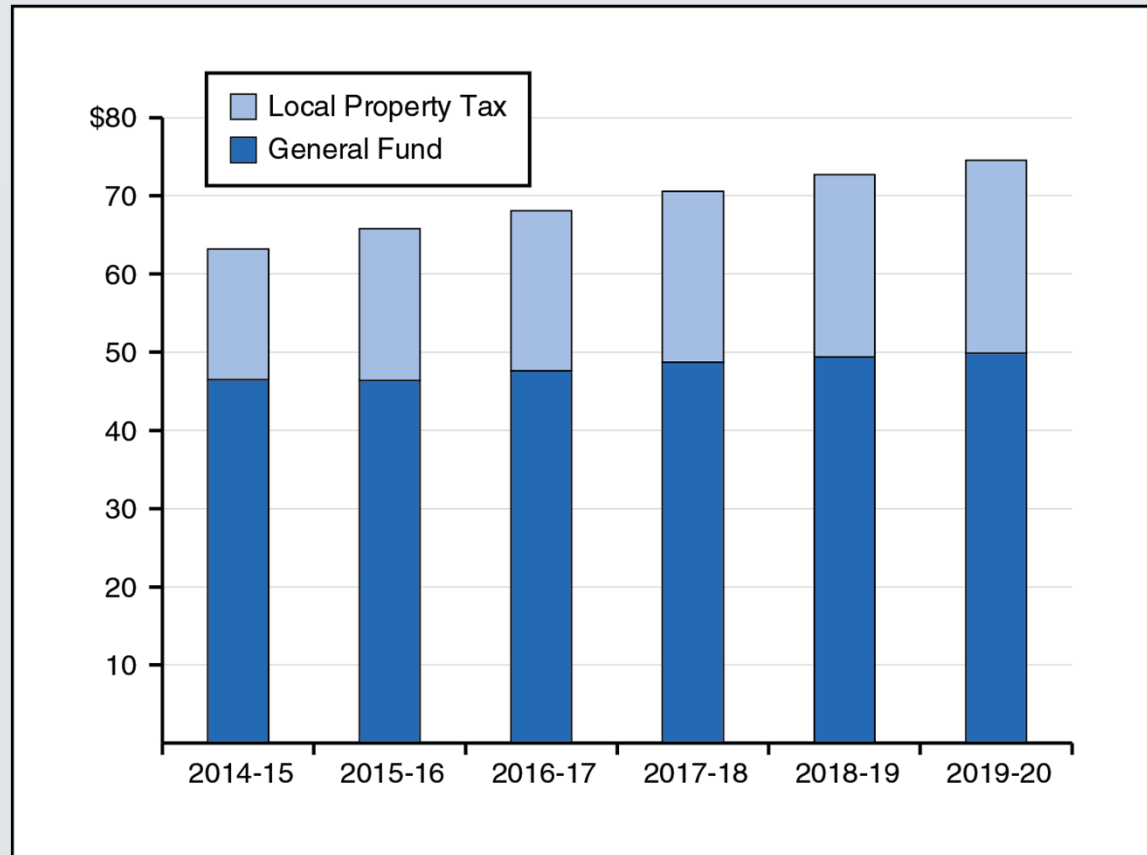
Under Slowdown Scenario, Guarantee Drops Between 2015-16 and 2016-17

(In Billions)



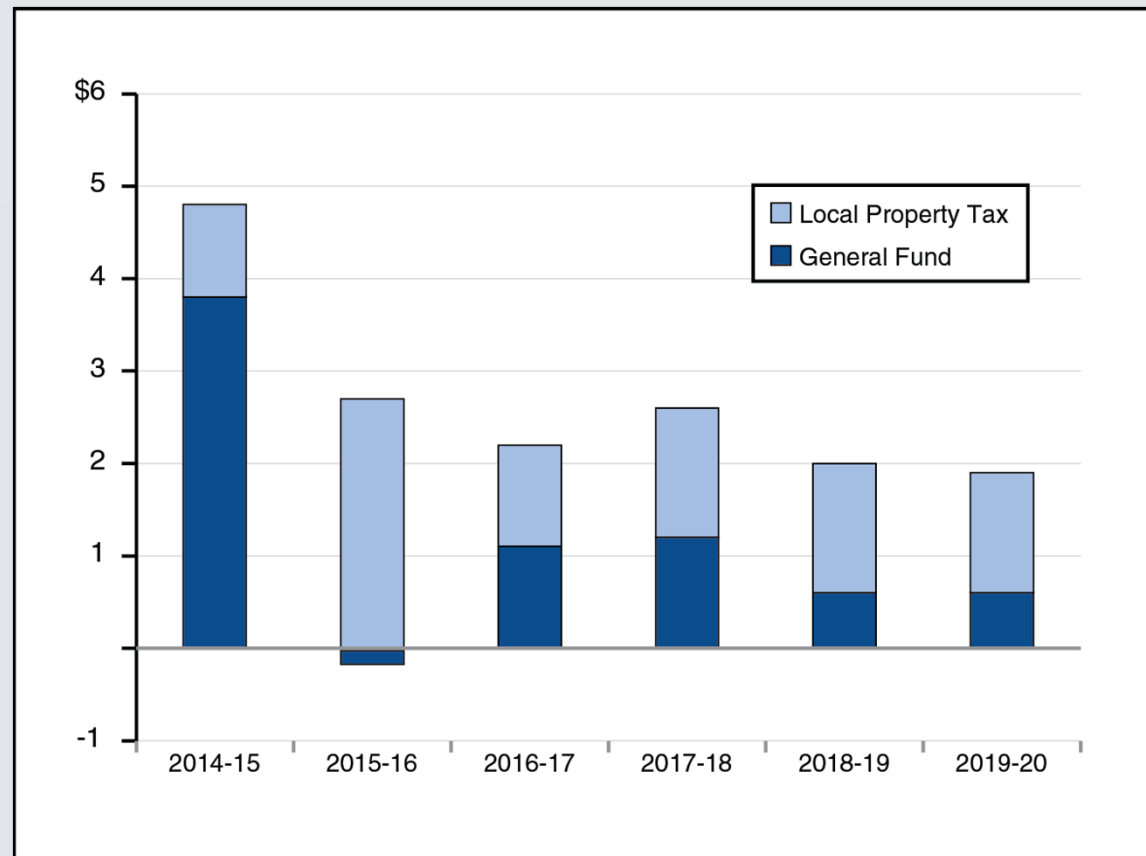
Proposition 98 Outlook

Estimate of Minimum Guarantee Under LAO Main Scenario (In Billions)



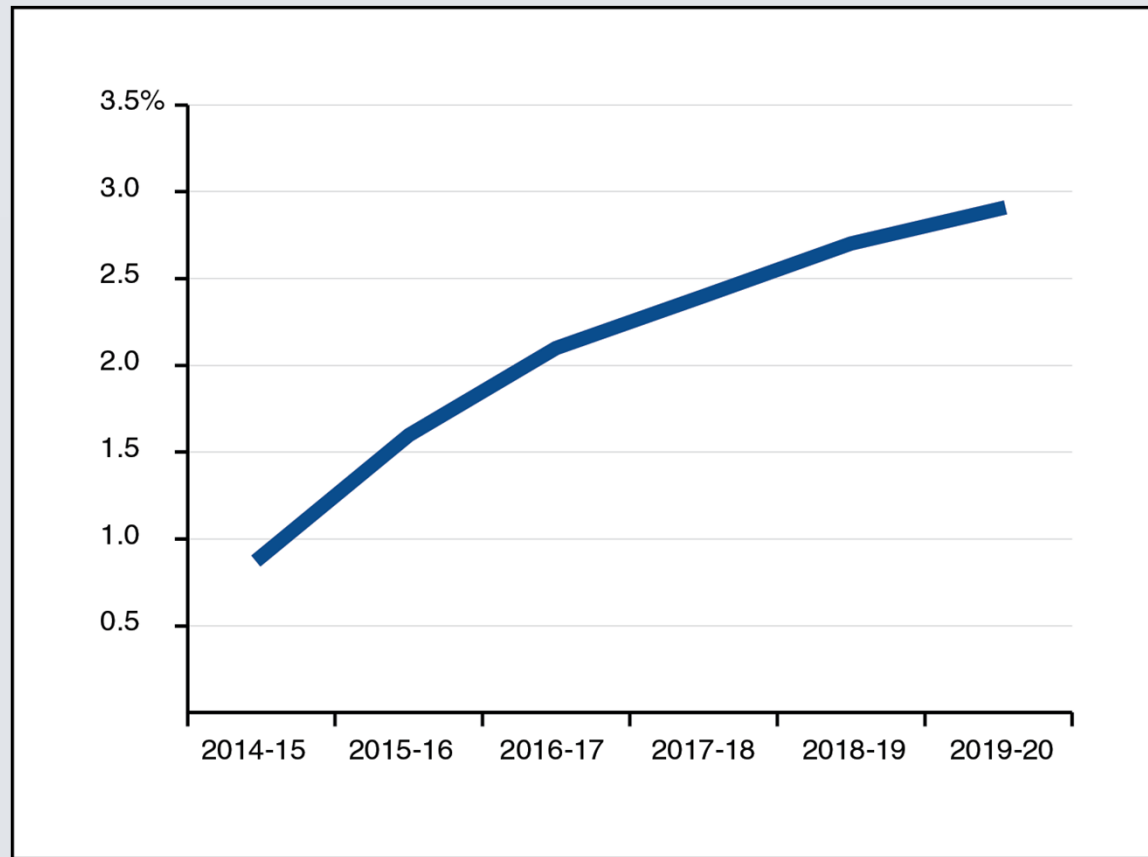
Increase in Guarantee Largely Funded by Growth in Local Property Tax Revenue

Change From Prior Year (In Billions)



K-14 Cost-of-Living Adjustment on the Rise Throughout Forecast Period

Percent Change From Prior Year



Proposition 2

Debts Eligible for Proposition 2 Debt Payments

(In Billions)

Type of Debt	Amount
Budgetary Liabilities	
Special fund loans to the General Fund	\$3.1
Proposition 98 settle-up	1.5
CalPERS quarterly payment deferral	0.6
Pre-2004 mandate reimbursements owed to cities, counties, and special districts	0.6 ^c
Unfunded Retirement Liabilities	
State and CSU retiree health benefits	\$64.6
CalPERS pensions for state and CSU employees	49.9
CalSTRS pensions	20.0
UC retiree health benefits	14.0
UC pensions	12.1
Judges' Retirement System I pensions	3.3
Judges' Retirement System II pensions	0.1

LAO Suggested Approach for Proposition 2 Debt Payments

(In Billions)

Near-Term Plan

- ✓ Pay down large portion of eligible budgetary liabilities.
- ✓ Seriously consider addressing much or all of the Judges' Retirement System I unfunded liability over the next few years.

Longer-Term Plan

- ✓ Invite CalPERS, CalSTRS, UC, and others to respond with proposals for using Proposition 2 funds to address one or more of the state's large retirement-related debts over the next 15 years.
- ✓ Addressing persistent retiree health liabilities merits serious consideration. Setting up retiree health trust fund, however, would involve significant logistical planning that could take a few years.

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