

LAO 
75
YEARS OF
SERVICE

California's Fiscal Outlook



Presented to:

California School Boards Association

December 1, 2016

Legislative Analyst's Office

State's Fiscal Outlook Through 2017-18

2016-17 Reserve Revised Down by \$1 Billion

LAO Estimates

- **Revenues Down \$1.7 Billion**
- **Expenditures Down \$1.2 Billion**
- **Entering Balance Down \$510 Million**

Revenues Down \$1.7 Billion From June 2016 Budget Act Assumptions

State General Fund, LAO Projections (Dollars in Millions)

	2015-16 Change	2016-17 Change	Total Change
Personal income tax	-\$923	\$1,691	\$768
Sales and use tax	-262	-980	-1,242
Corporation tax	-277	-1,100	-1,377
Subtotals, "Big Three Revenues"	<u>(-\$1,462)</u>	<u>(-\$389)</u>	<u>(-\$1,851)</u>
Other revenues and transfers	\$104	\$70	\$174
Totals	<u>-\$1,358</u>	<u>-\$319</u>	<u>-\$1,677</u>

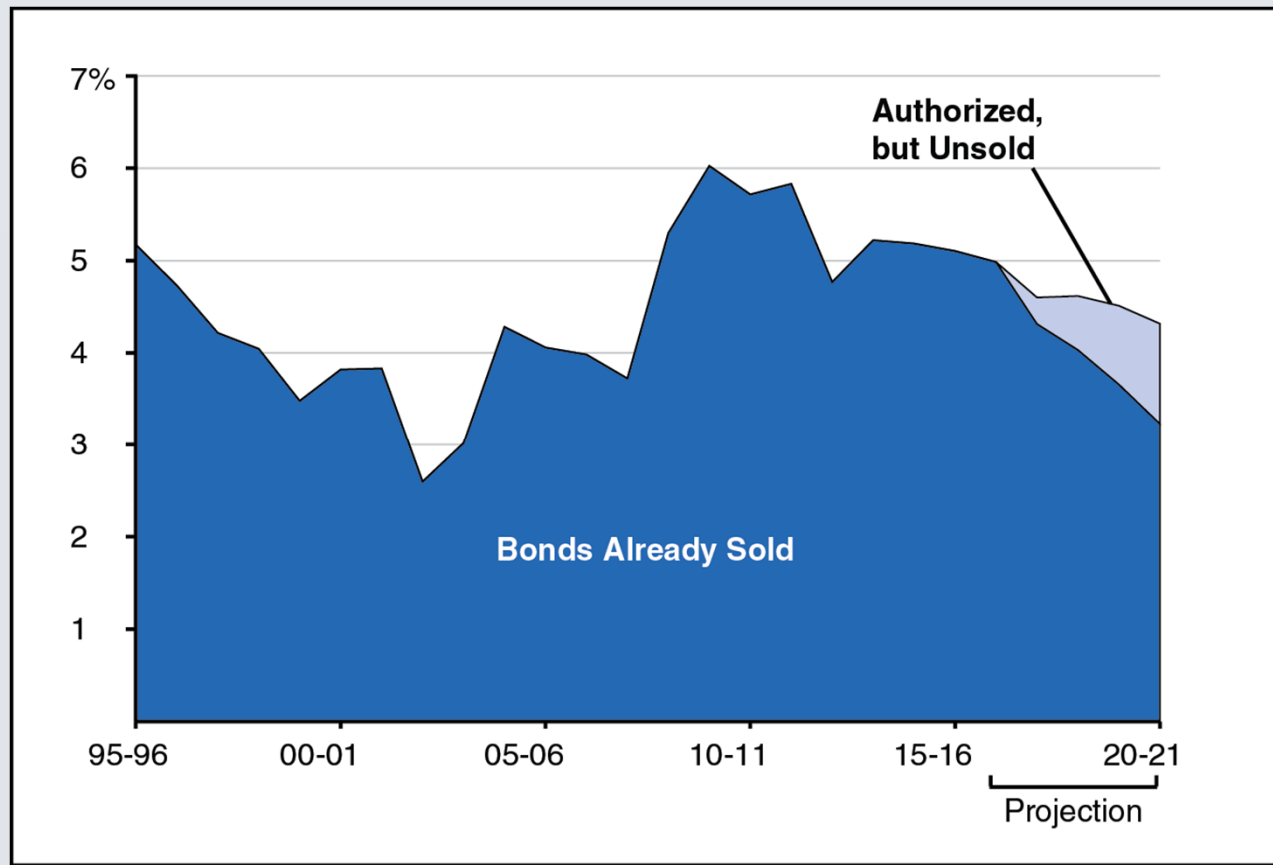
State Projected to End 2017-18 With \$11.5 Billion Reserve

State General Fund Condition, LAO Projections (In Millions)

	2015-16	2016-17	2017-18
Prior-year fund balance	\$2,935	\$3,715	\$1,717
Revenues and transfers	115,643	119,991	128,123
Expenditures	114,863	121,988	126,109
Ending fund balance	\$3,715	\$1,717	\$3,731
Encumbrances	966	966	966
SFEU balance	2,749	751	2,765
Reserves			
SFEU balance	\$2,749	\$751	\$2,765
BSA balance	3,420	6,714	8,694
Total Reserves	\$6,169	\$7,466	\$11,459

Debt-Service Ratio Expected to Decline Somewhat Throughout Forecast Period

Debt-Service Costs as Share of Annual General Fund Revenues, LAO Projections



Education Outlook Through 2017-18

2015-16 Minimum Guarantee Slightly Down From June Budget Act Estimates

(In Millions)

	2015-16		
	June Budget Plan	November LAO Estimate	Change
Minimum Guarantee			
General Fund	\$49,722	\$49,082	-\$640
Local property tax	19,328	19,589	262
Totals	\$69,050	\$68,672	-\$378

2016-17 Minimum Guarantee Virtually Unchanged From June Budget Act Estimates

(In Millions)

	2016-17		
	June Budget Plan	November LAO Estimate	Change
Minimum Guarantee			
General Fund	\$51,050	\$50,973	-\$77
Local property tax	20,824	20,891	67
Totals	\$71,874	\$71,864	-\$10

Proposition 98 Minimum Guarantee Projected to Grow Steadily Through 2017-18

LAO Projections (Dollars in Millions)

	2015-16	2016-17	2017-18
Minimum Guarantee			
General Fund	\$49,082	\$50,973	\$52,354
Local property tax	19,589	20,891	22,132
Totals	\$68,672	\$71,864	\$74,486
Change From Prior Year			
General Fund	-\$948	\$1,891	\$1,380
Percent change	-1.9%	3.9%	2.7%
Local property tax	\$2,474	\$1,301	\$1,241
Percent change	14.5%	6.6%	5.9%
Total guarantee	\$1,526	\$3,193	\$2,621
Percent change	2.3%	4.6%	3.6%

\$2.8 Billion in Additional Funding Available for Proposition 98 Priorities in 2017-18

LAO Projections (In Millions)

2016-17 Budget Act Spending	\$71,874
Back out one-time actions:	
Secondary school career technical education grants (year two)	-\$292
CCC maintenance and instructional equipment	-154
CCC Innovation Awards	-25
CCC intersegmental college partnerships	-15
CCC zero-textbook-cost degree startup funding	-5
Adult education consortia technical assistance	-5
Subtotal	(-\$496)
Fund previously approved commitments:	
Secondary school career technical education grants (year three)	\$200
Preschool rate and slot increases	76
Subtotal	(\$276)
New Funds Available in 2017-18	\$2,833
2017-18 Minimum Guarantee	\$74,486

State's Fiscal Outlook Through 2020-21

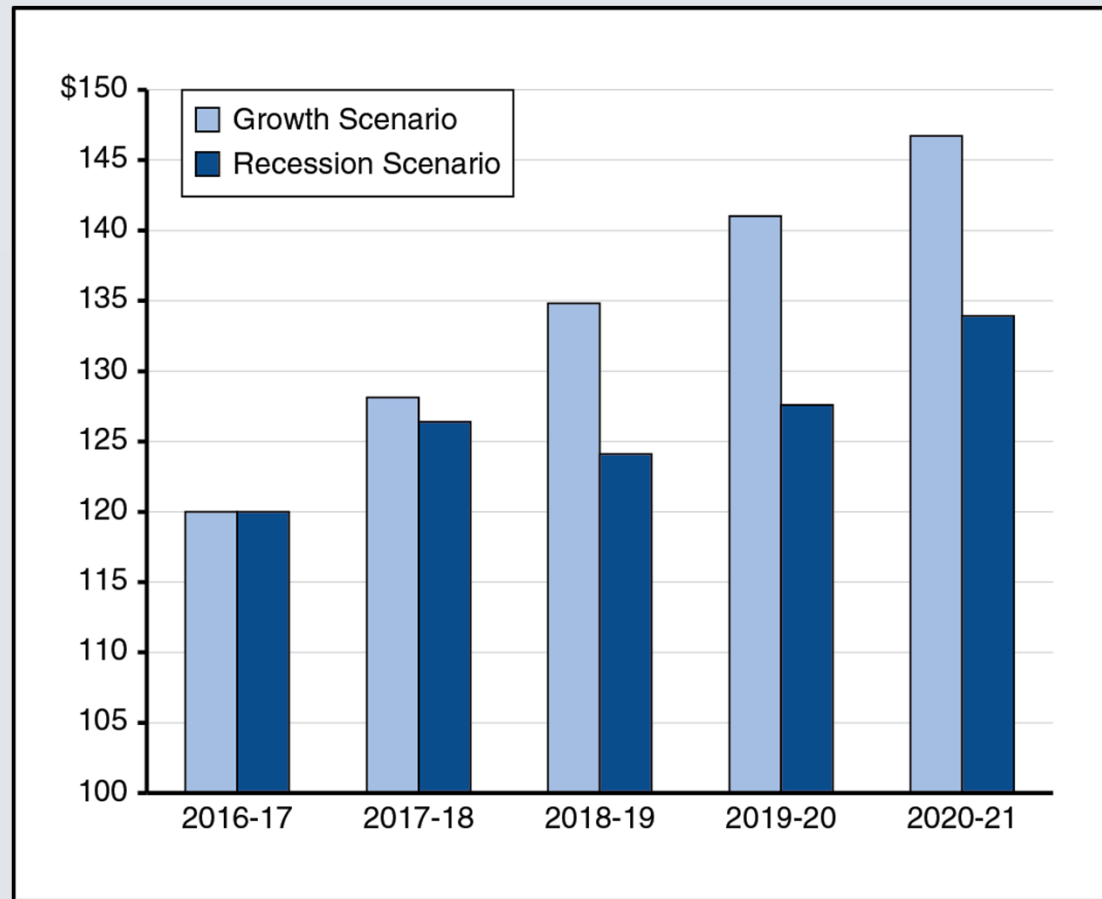
Current Economic Expansion Already Among Longest in U.S. History

<i>Data Since 1854</i>	
Economic Expansion	Number of Months
April 1991 to March 2001	120
March 1961 to December 1969	106
December 1982 to July 1990	92
July 2009 to present	89 (so far)
July 1938 to February 1945	80
December 2001 to December 2007	73
April 1975 to January 1980	58
April 1933 to May 1937	50
Average Economic Expansion, 1945 to 2009	58

Source: National Bureau of Economic Research.

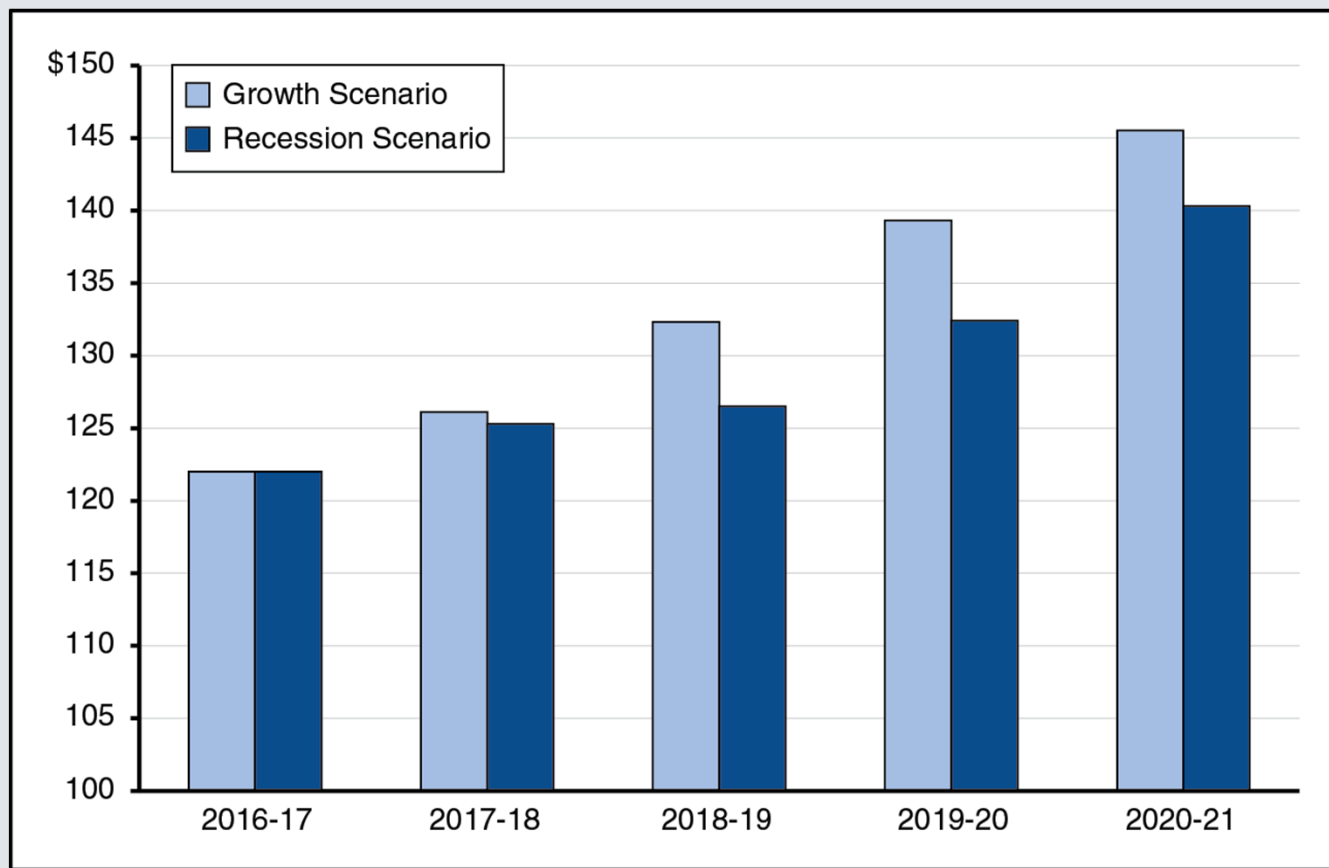
Comparing State Revenues Under Two Economic Scenarios

LAO Projections (In Billions)



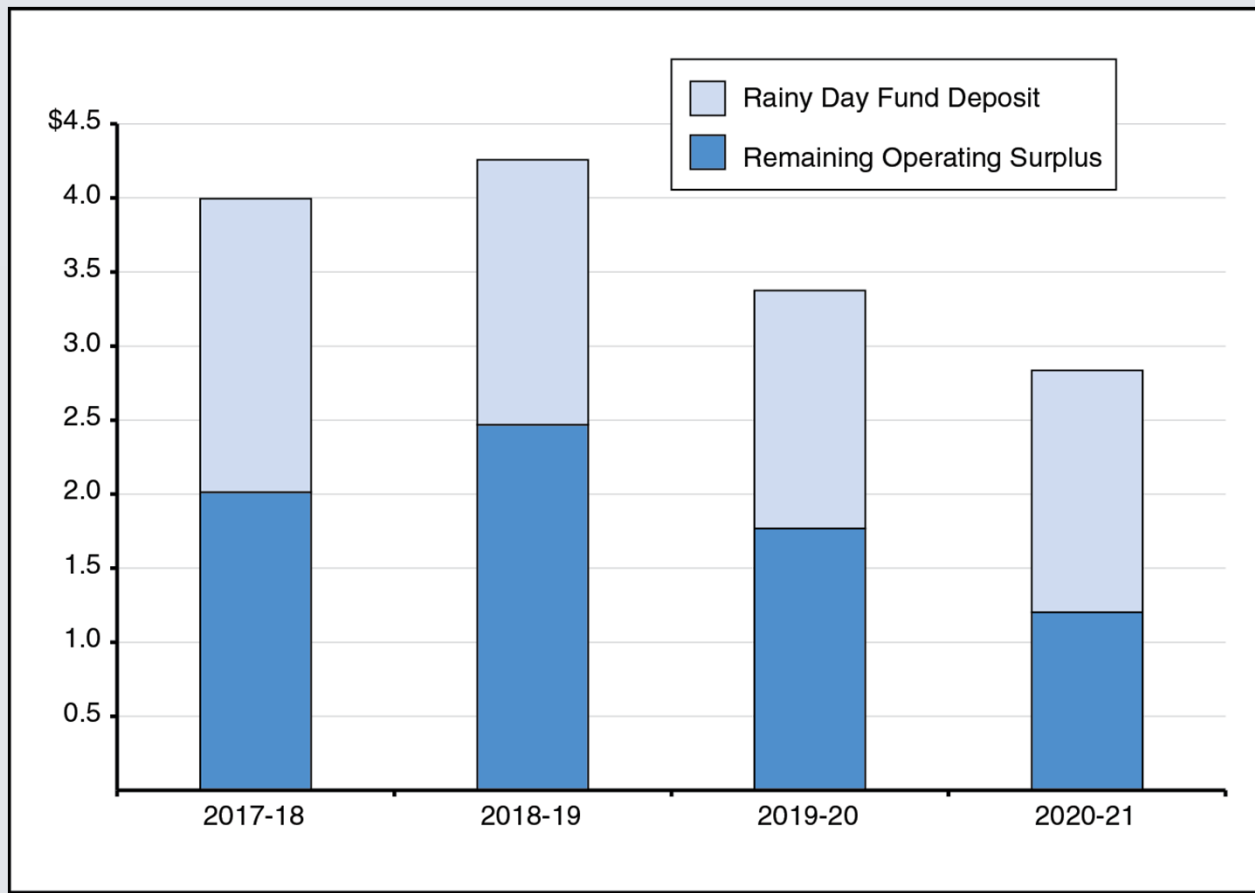
Comparing State Spending Under Two Economic Scenarios

LAO Projections (In Billions)



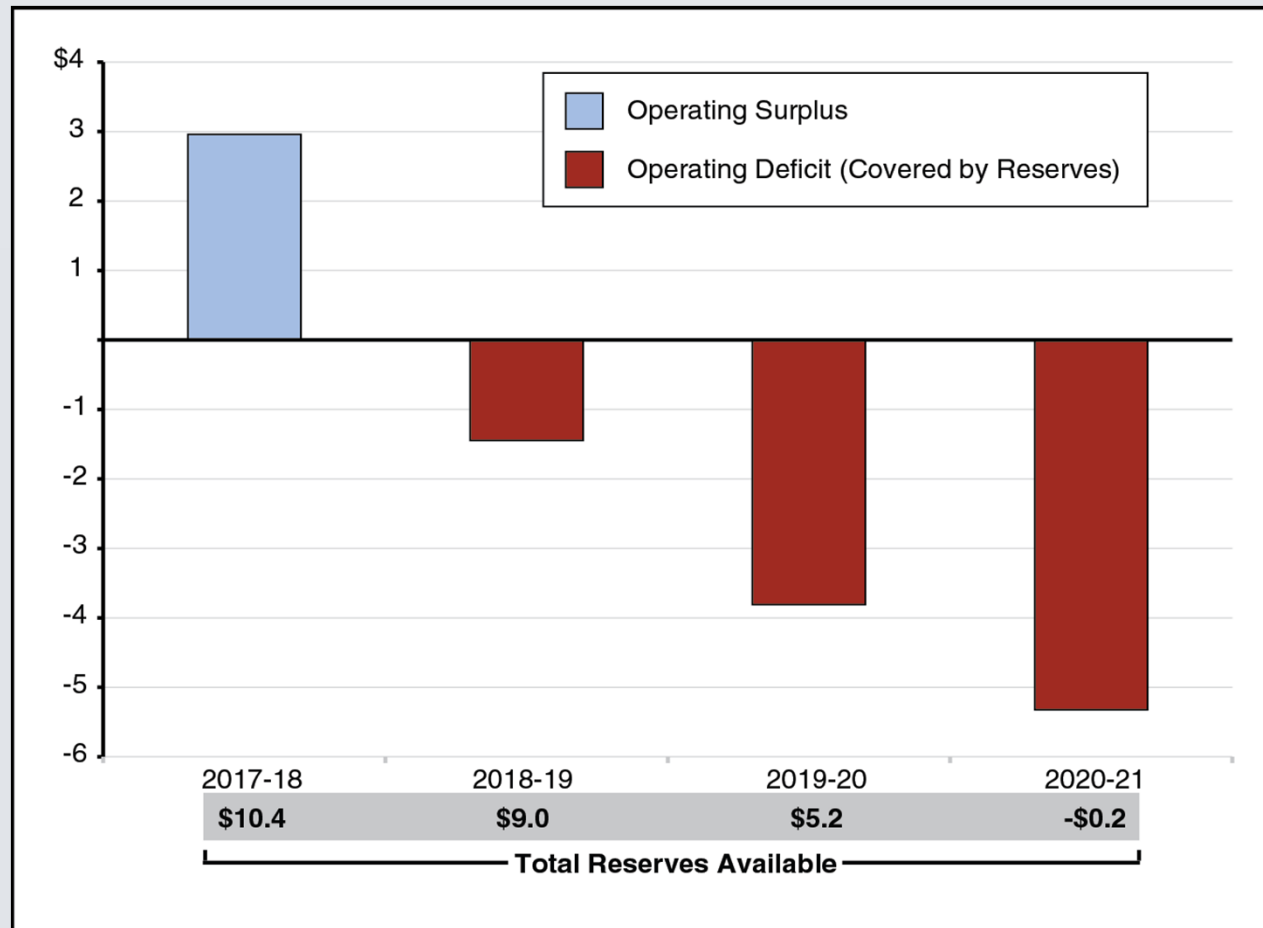
General Fund Surpluses and Reserve Deposits Under Economic Growth Scenario

LAO Projections (In Billions)



Reserve Covers Operating Deficits in Mild Recession Scenario

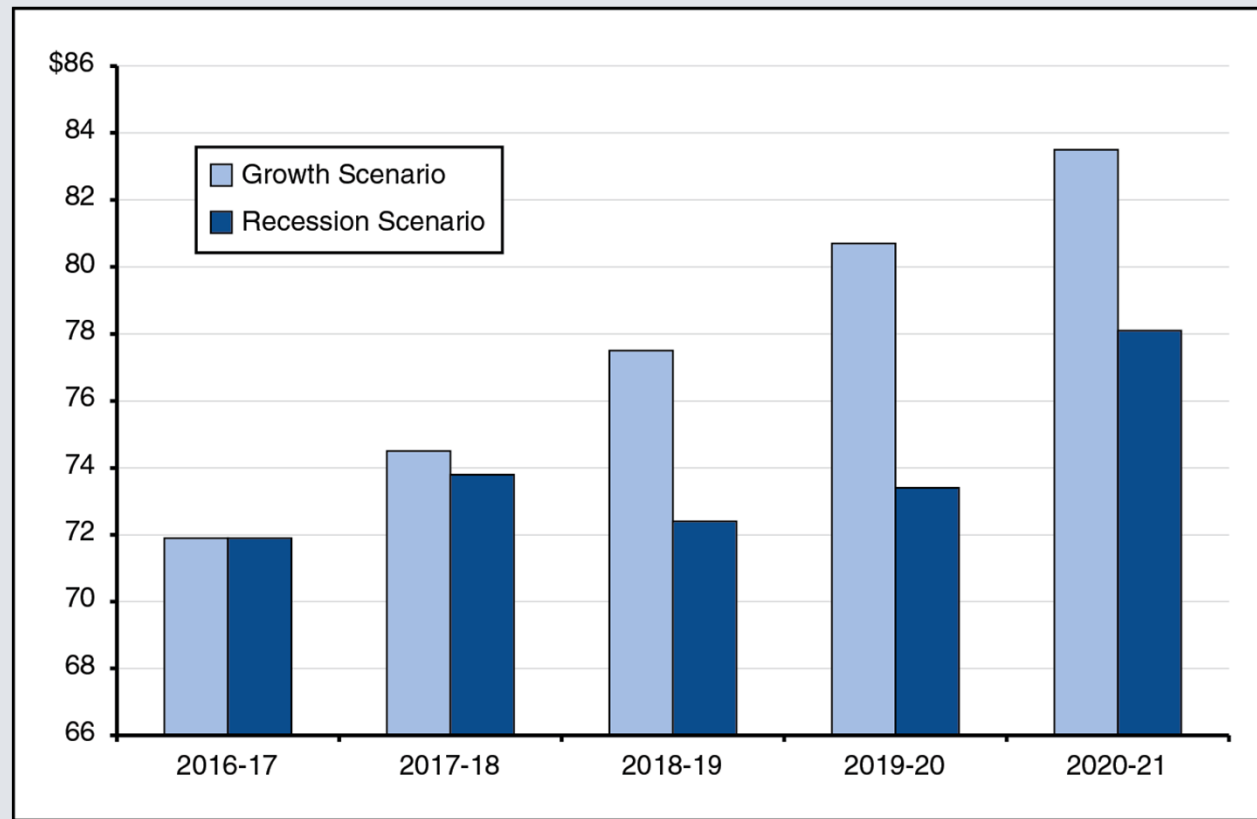
LAO Projections (In Billions)



Education Outlook Through 2020-21

Comparing Minimum Guarantee Under Two Economic Scenarios

LAO Projections (In Billions)



Other Outlook Factors

LAO Projections

- **Property Tax Revenue Projected to Rise Steadily**
- **K-12 COLA Projected to Remain Low**
- **K-12 Attendance Projected to Decline**
- **Projected Pace of LCFF Implementation Varies by Scenario**

Pension Costs

LAO Projections

- **\$6 Billion Higher Annual Costs by 2020-21**
- **Reflects One-Quarter of New Proposition 98 Funding Under Growth Scenario**
- **Reflects One-Third of New Proposition 98 Funding Under Recession Scenario**

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