

# California's Fiscal Outlook



**Legislative Analyst's Office**

**California Association of School Business Officials  
CBO Symposium  
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[www.lao.ca.gov](http://www.lao.ca.gov)



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# Budget Outlook

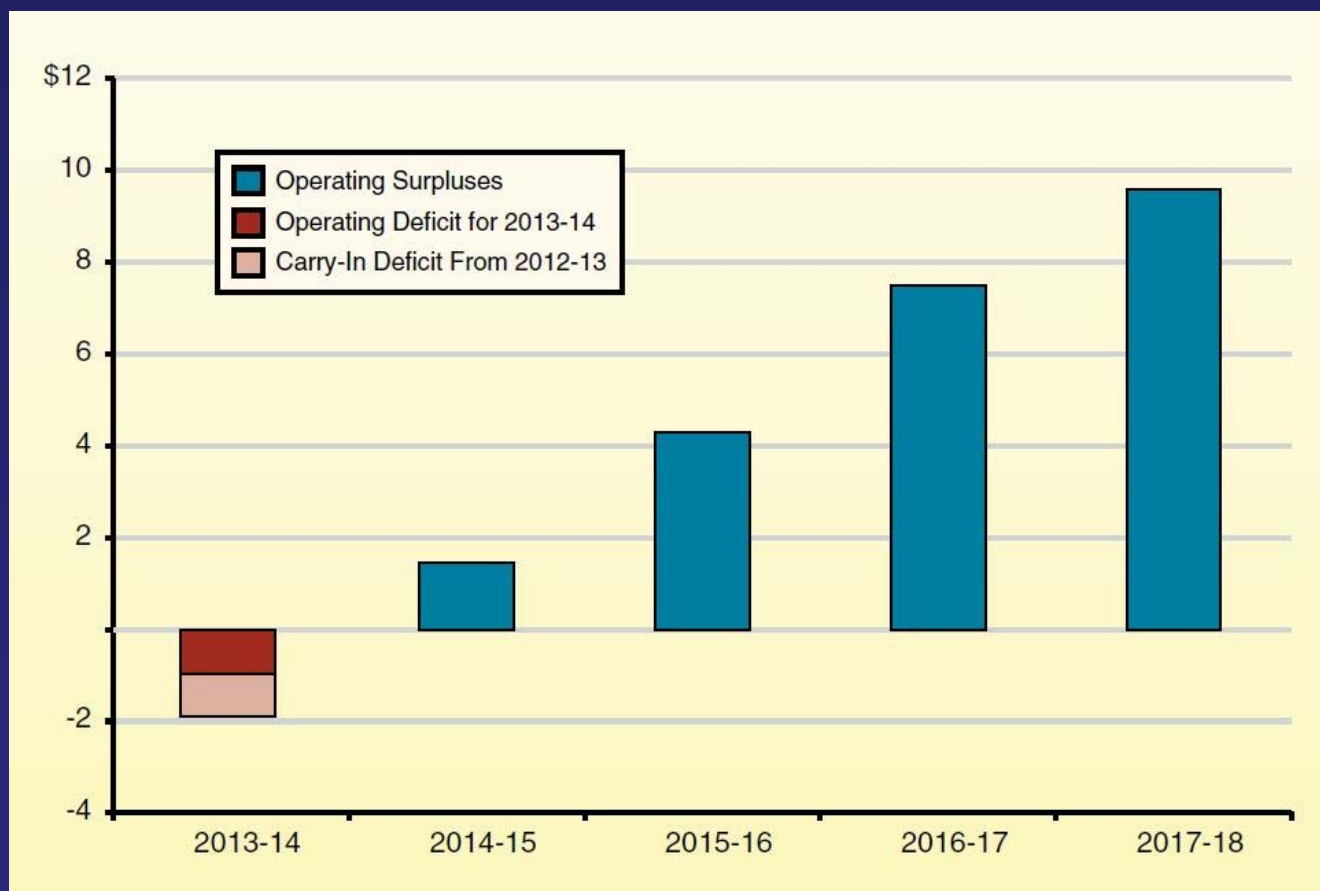
# **\$1.9 Billion Budget Problem**

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- **2012-13: \$943 Million Deficit**
- **2013-14: \$936 Million Operating Shortfall**

# Forecasted Operating Surpluses Beginning in 2014-15

*General Fund and Education Protection Account Combined (In Billions)*



# Consider How Best to Use Future Budget Surpluses

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- **Build Up State Reserve**
- **Pay Down Existing Obligations**
- **Address Retirement Liabilities**
- **Build Up Base Programs**
- **Invest in Infrastructure**

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# National Economic Outlook



# National Economic Near-Term Outlook Worsened Slightly

*Comparing LAO May and November Forecasts*

	2012		2013	
	LAO May 2012	LAO November 2012	LAO May 2012	LAO November 2012
Percent change in:				
Real Gross Domestic Product	2.2%	2.1%	2.4%	1.8%
Employment	1.6	1.4	1.7	1.3
Consumer Price Index	2.2	2.0	1.7	1.3
Unemployment Rate	8.2	8.2	7.9	8.0

# National Economic Forecast Summary

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Percent change in:										
Real gross domestic product	-3.1%	2.4%	1.8%	2.1%	1.8%	3.0%	3.4%	2.9%	2.7%	2.5%
Personal income	-4.8	3.8	5.1	3.5	3.9	4.9	4.9	4.9	4.3	4.4
Unemployment rate	9.3%	9.6%	8.9%	8.2%	8.0%	7.6%	6.9%	6.4%	6.2%	6.0%
Housing starts (thousands)	554	587	609	751	949	1,276	1,587	1,690	1,713	1,709



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# California's Economic Outlook



# California's Economic Near-Term Outlook Improved Slightly

*Comparing LAO May and November Forecasts*

	2012		2013	
	LAO May 2012	LAO November 2012	LAO May 2012	LAO November 2012
Percent change in:				
Personal income	3.9%	4.1%	4.7%	4.7%
Employment	1.7	1.7	2.1	2.3
Unemployment rate	10.7	10.6	9.9	9.6
Housing permits (thousands)	59	63	69	83

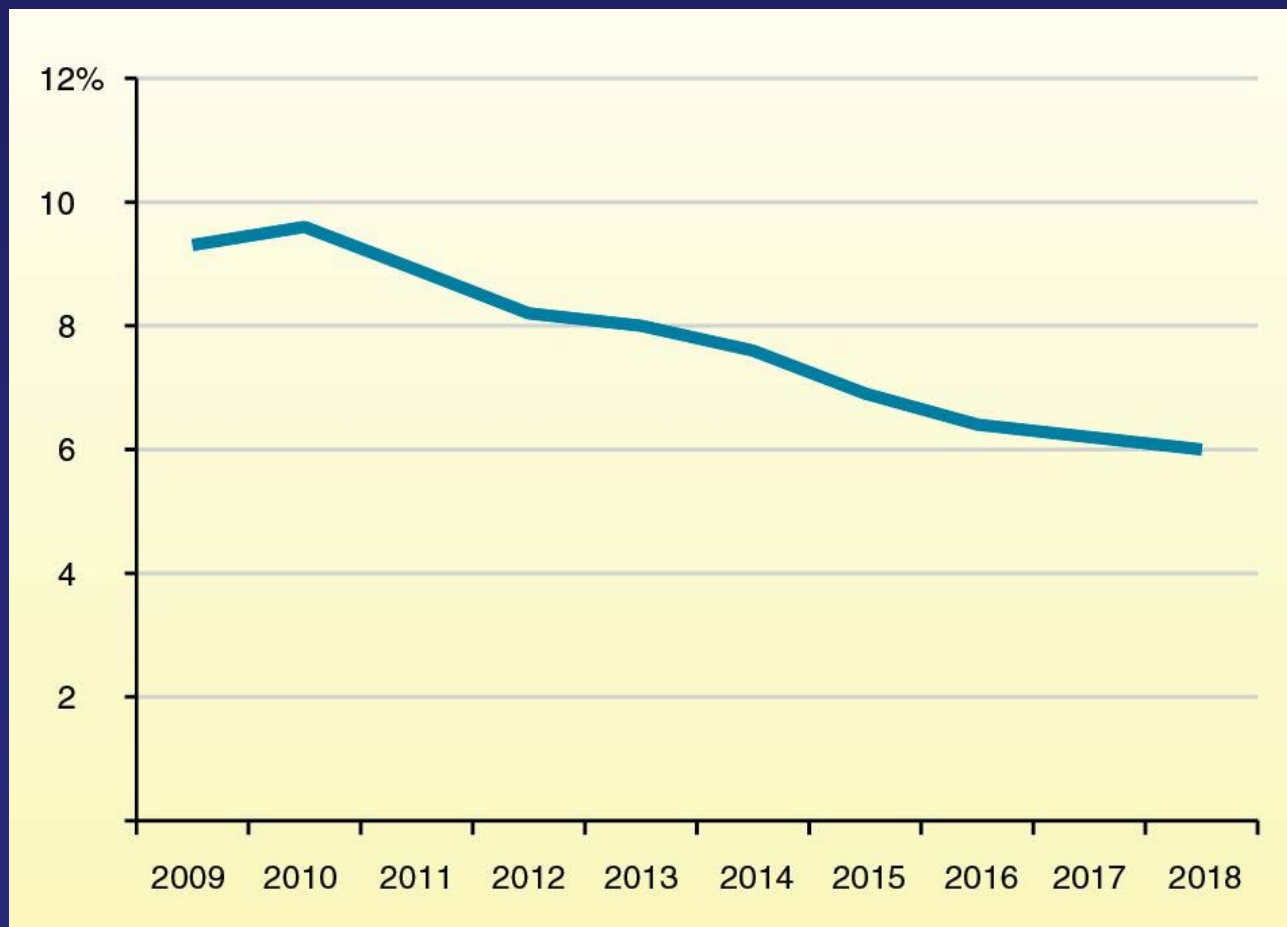
# Growth in California Personal Income Projected to Hover Around 5 Percent

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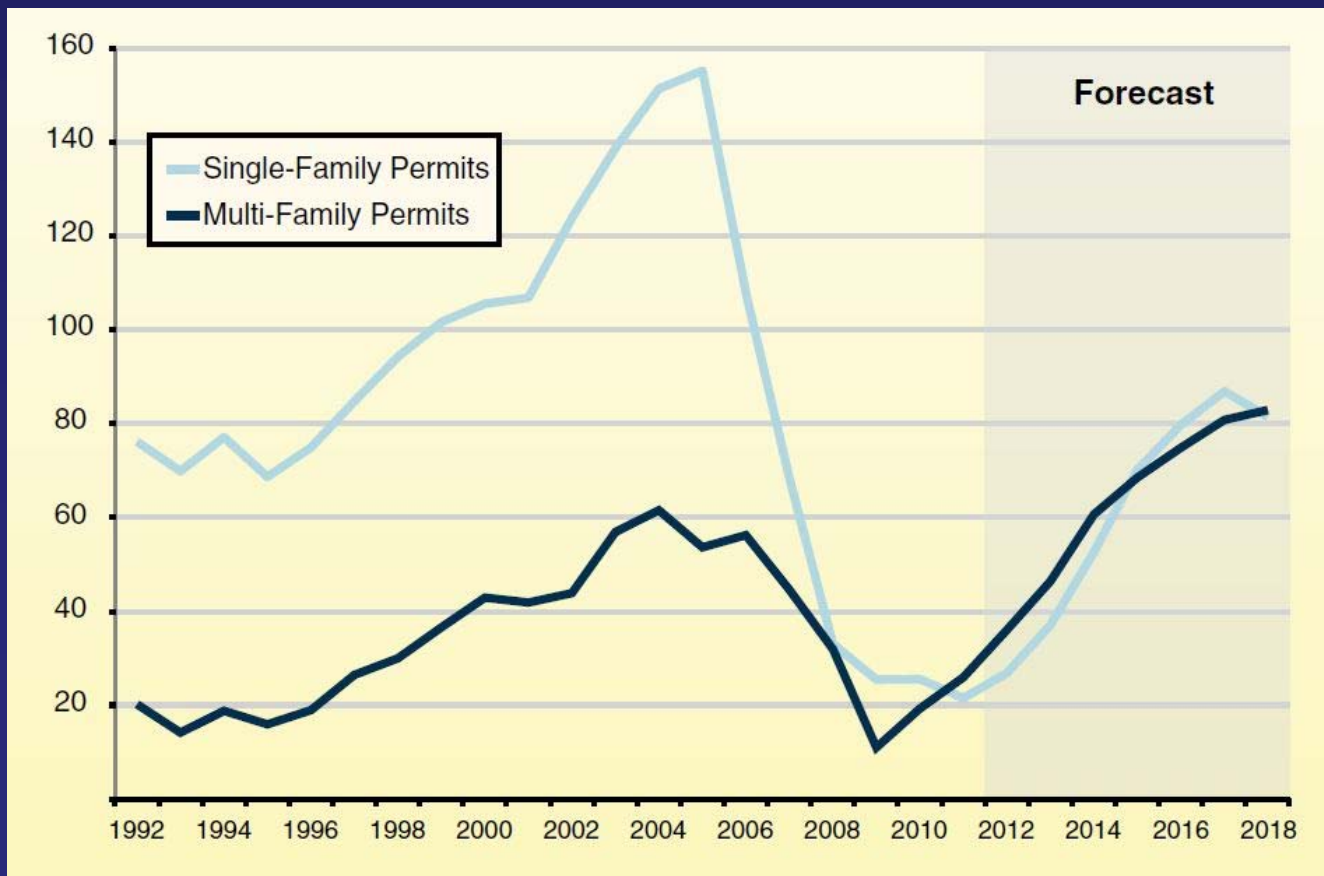
# Unemployment Rate in California Projected to Decline Steadily

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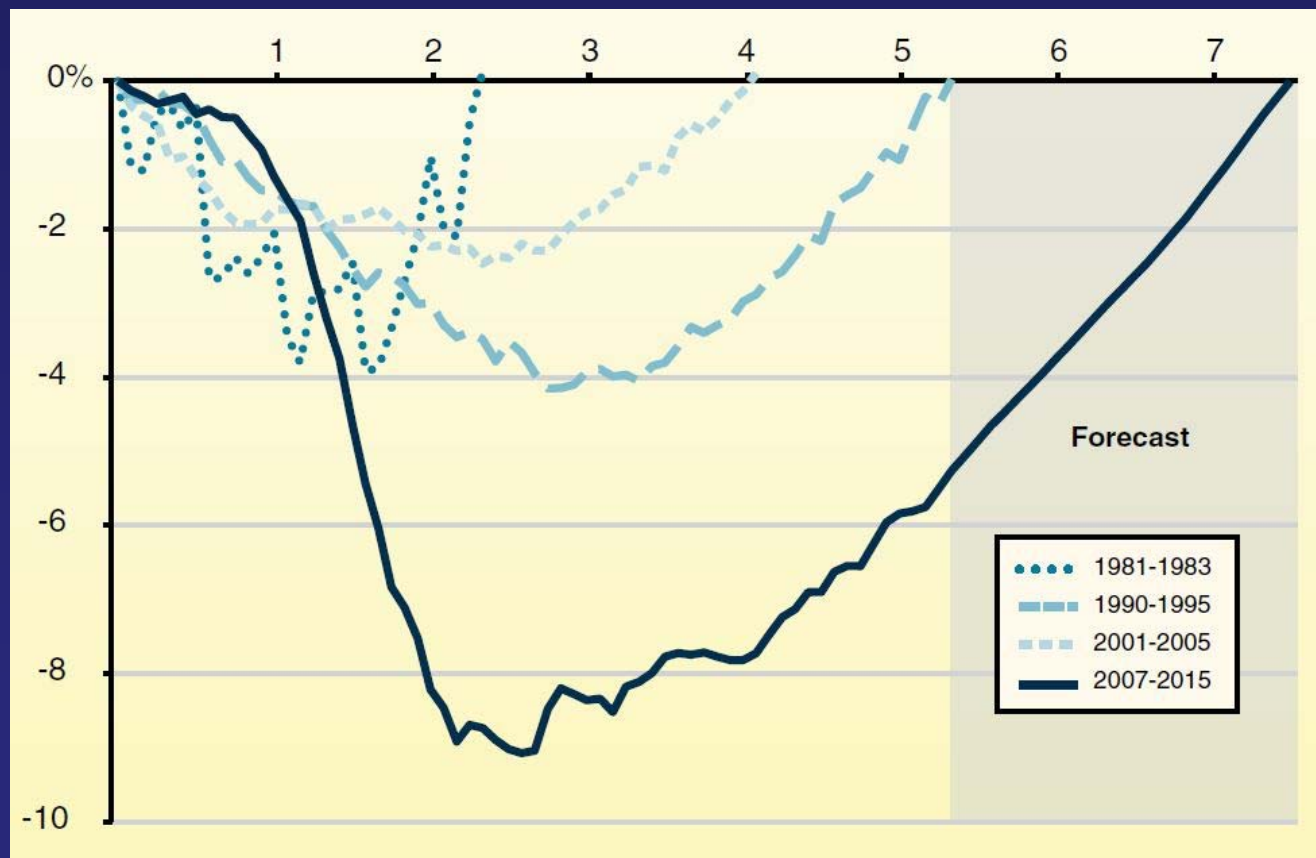
# California Building Activity Is Recovering

*Annual Residential Building Permits (In Thousands)*



# Jobs in California Growing Much More Slowly Than Prior Recoveries

*Job Loss and Years to Return to Prerecession Employment Peak*

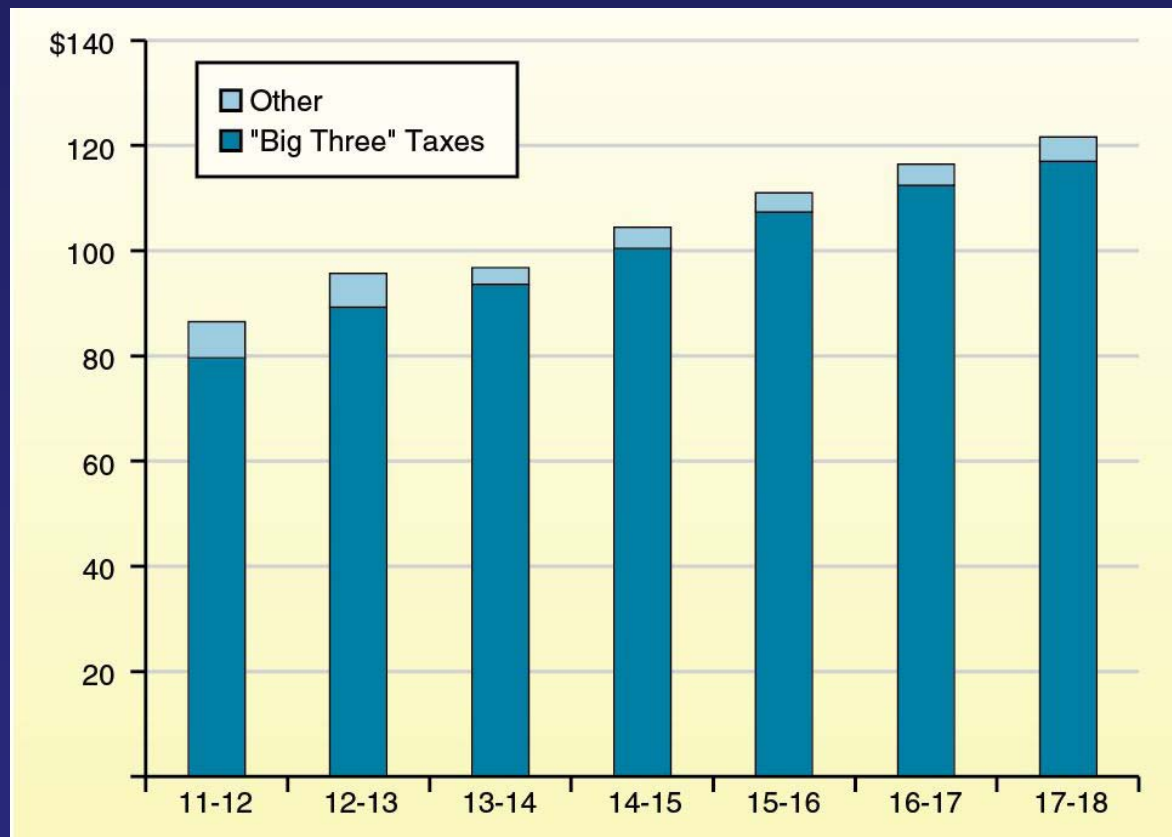


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# State Revenue Outlook

# LAO Revenue Forecast

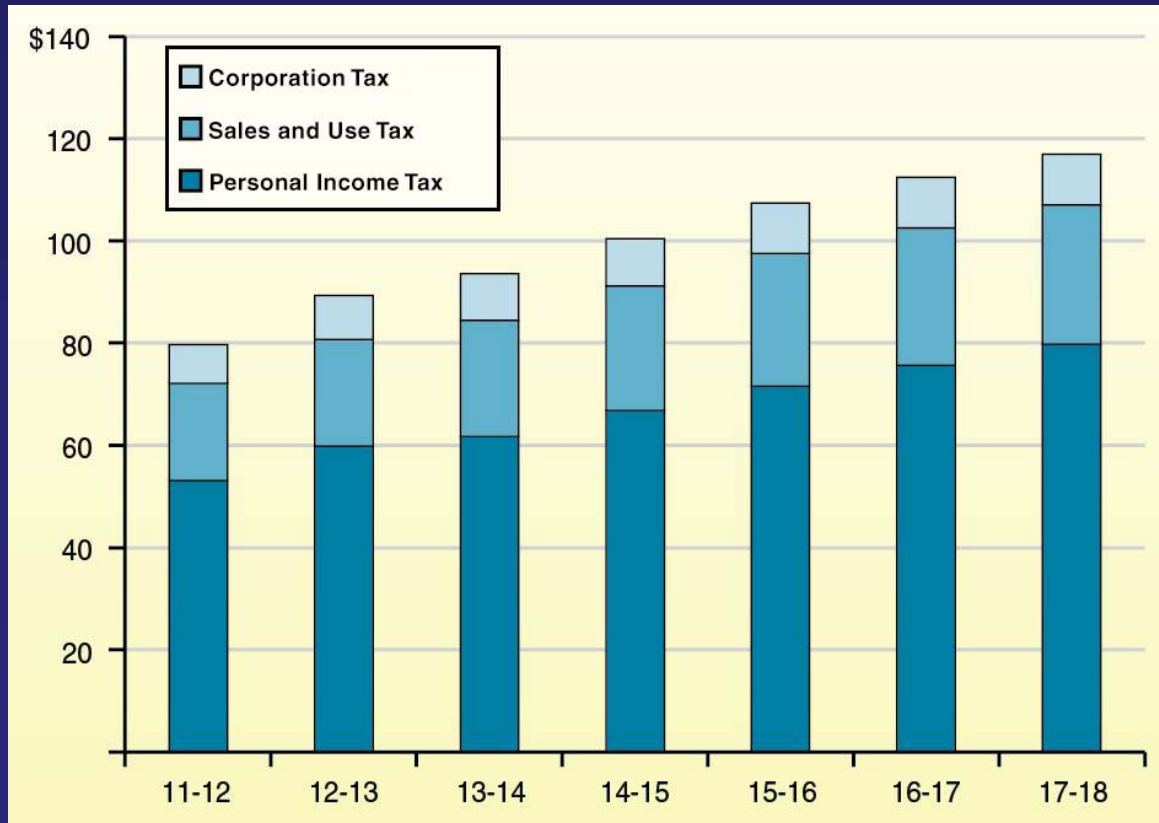
*(In Billions)*





# LAO “Big Three” Revenue Forecast

*(In Billions)*



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# Outlook for Education

# Proposition 98 Forecast

*(Dollars in Millions)*

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Minimum Guarantee</b>						
General Fund	\$38,648	\$40,470	\$43,399	\$45,797	\$46,015	\$46,848
Local property tax	15,140	15,303	15,314	16,053	18,300	19,684
<b>Totals</b>	<b>\$53,788</b>	<b>\$55,773</b>	<b>\$58,713</b>	<b>\$61,850</b>	<b>\$64,316</b>	<b>\$66,532</b>
<b>Year-to-Year Change in Guarantee</b>						
Amount	\$6,872	\$1,985	\$2,940	\$3,136	\$2,466	\$2,217
Percent change	14.6%	3.7%	5.3%	5.3%	4.0%	3.4%

# Key Proposition 98 Factors

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Key Factors</b>						
Operative Proposition 98 "Test"	1	3	2	2	3	3
K-12 average daily attendance	0.34%	-0.07%	-0.24%	-0.13%	0.01%	0.01%
Per capita personal income (Test 2)	3.77	4.34	3.80	4.60	4.43	4.15
Per capita General Fund (Test 3)	10.94	3.69	6.67	6.04	3.98	3.44
K-14 COLA	3.24	1.66	1.85	2.10	2.28	2.44

# Many Competing Spending Priorities

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- **Paying Down One-Time Obligations**
- **Building Up Ongoing Base Support**
  - Restoring prior-year base reductions.
  - Making up foregone COLAs.
  - Providing a budget-year COLA.
  - Equalizing per-pupil funding rates.
  - Addressing end of “categorical flexibility”/ transitioning to weighted student formula.

# Consider How Best to Use Proposition 98 Funding Increases

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- **Build Plan to Retire Existing, One-Time Education Obligations by End of 2017-18**
- **Carefully Consider How to Build Up Ongoing Base Support**
- **Caution Against More Categorical Programs**

# One-Time Education Obligations

Obligation	Description	Amount
Revenue limit/ apportionment deferrals	Reflects late state payments for schools (\$7.4 billion) and community colleges (\$801 million).	\$8,206
Education mandates	Reflects unpaid prior-year mandate claims for schools (\$3.8 billion) and community colleges (\$355 million).	4,115
Emergency Repair Program	Funds school facility projects deemed critical for ensuring public health and safety.	462
<b>Total</b>		<b>\$12,783</b>