

# California's Fiscal Outlook



Presented to:

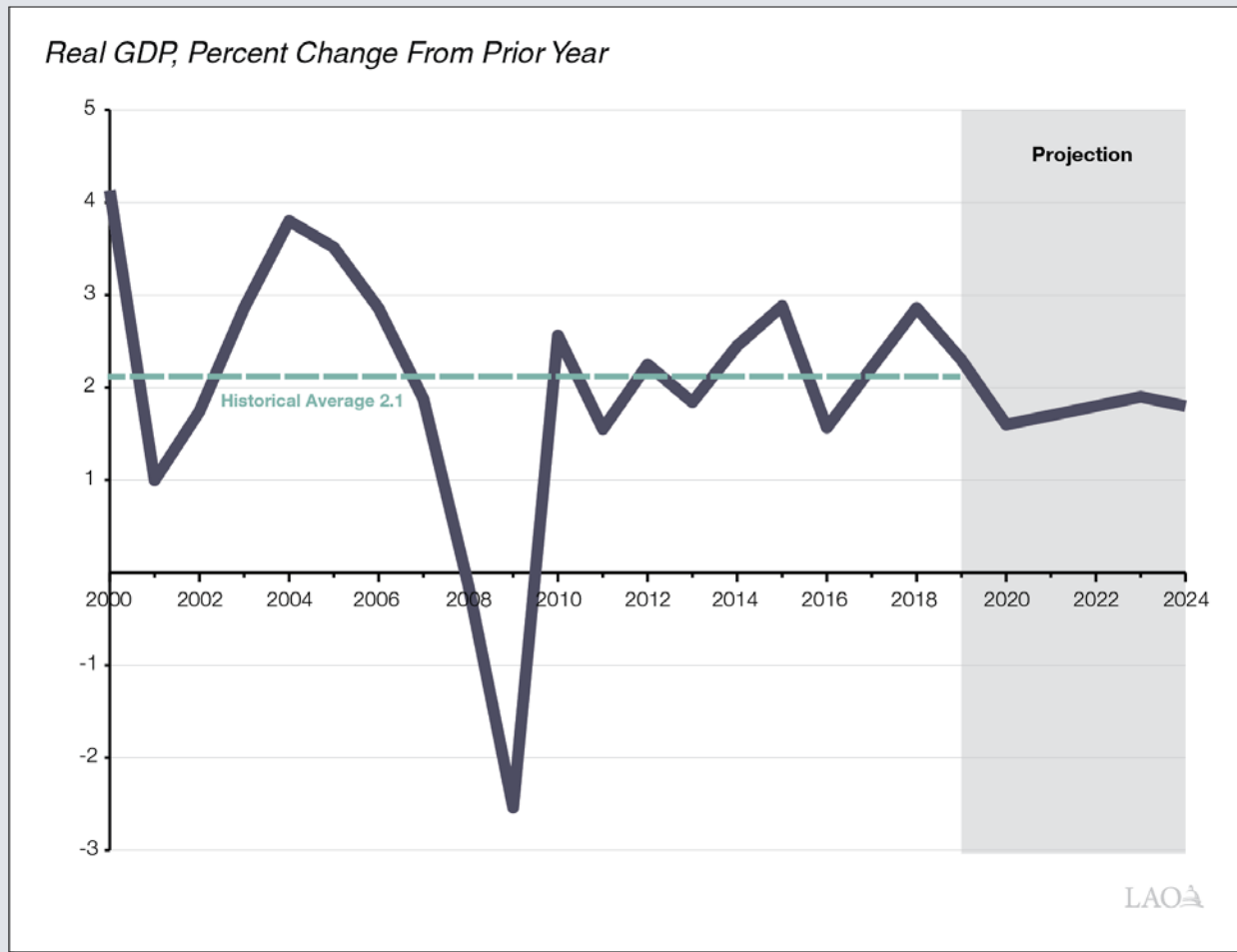
**California Association of School  
Business Officials**

November 21, 2019

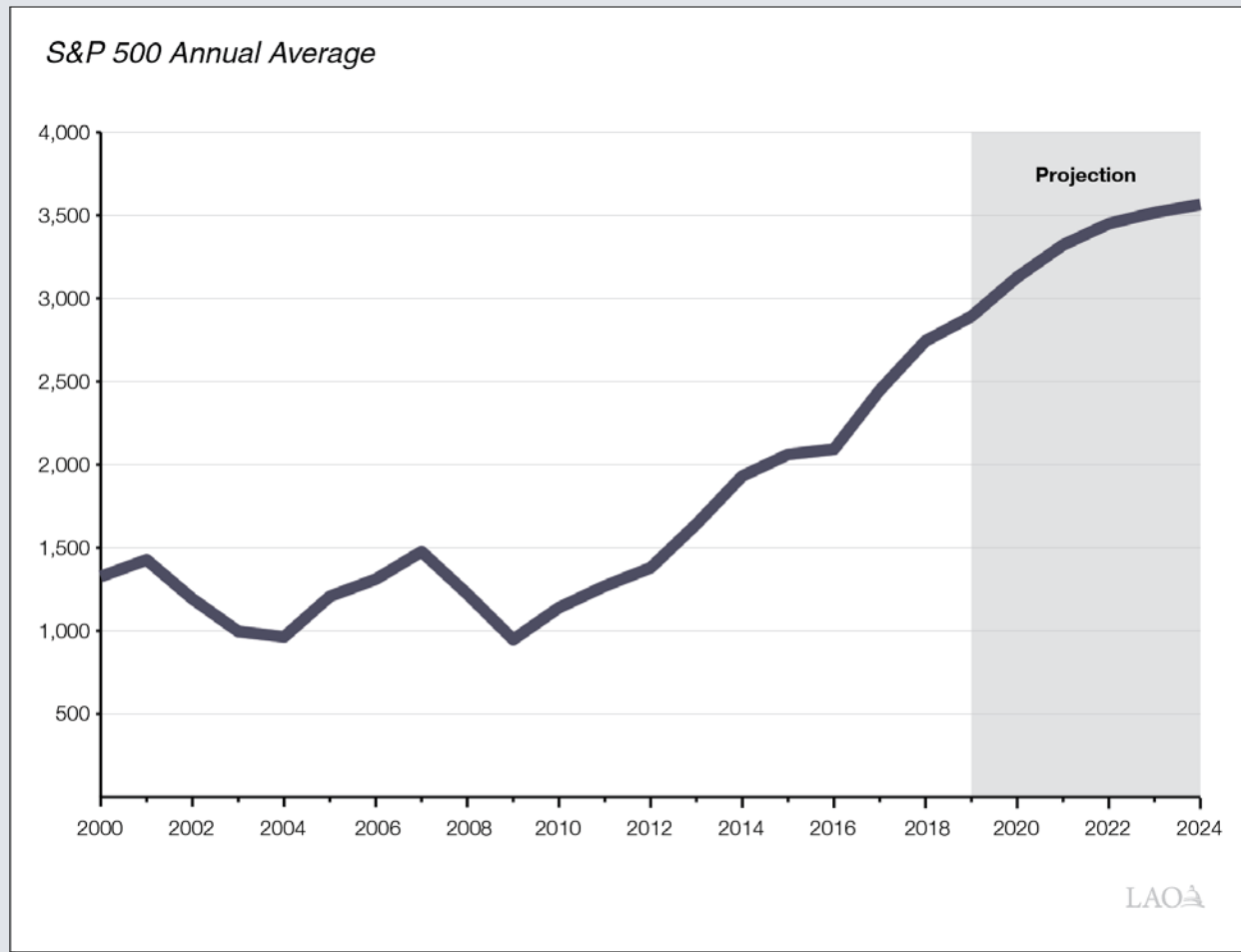
**Legislative Analyst's Office**

# Economic Outlook

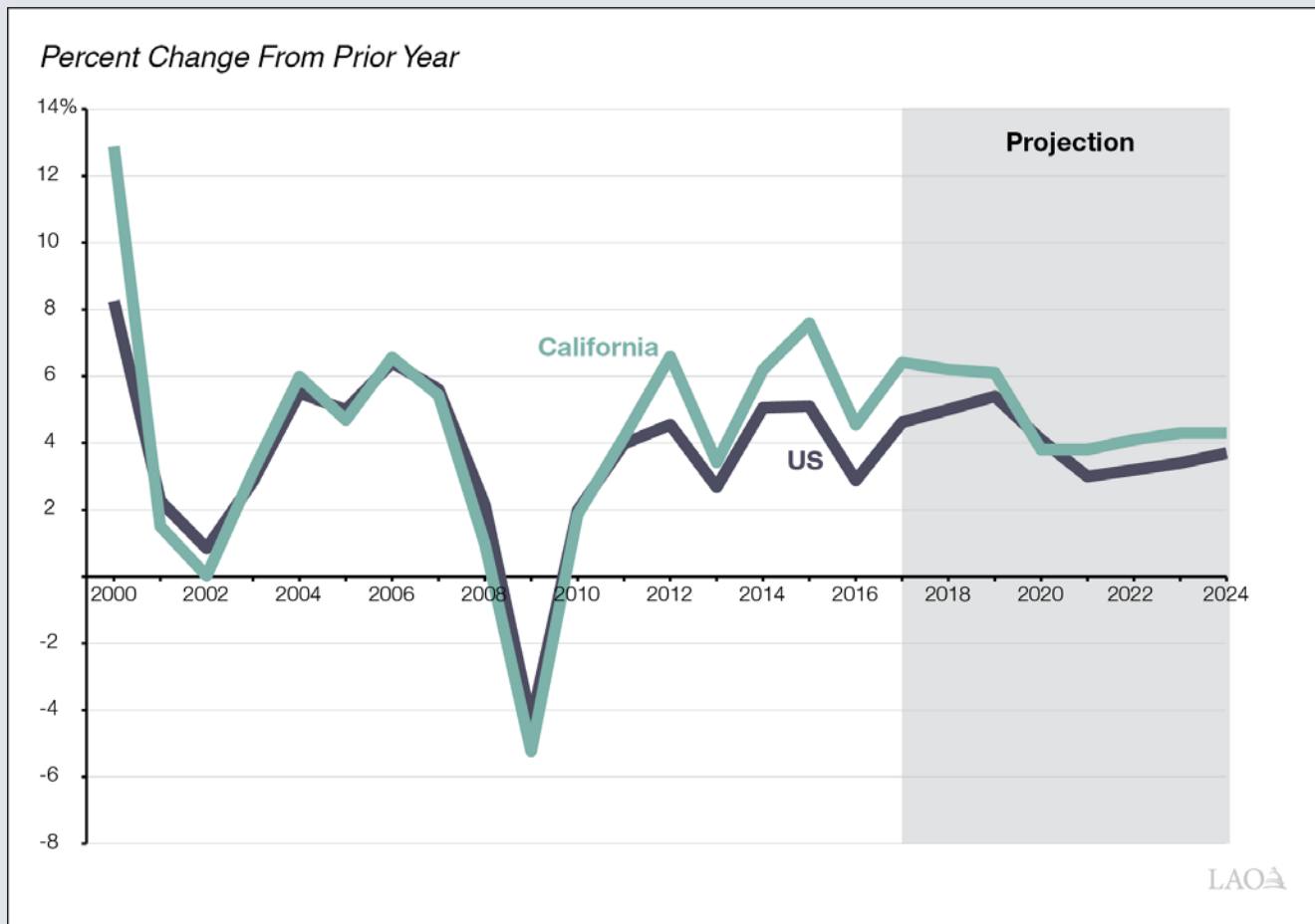
# National Economy Projected to Experience Slow Growth in Coming Years



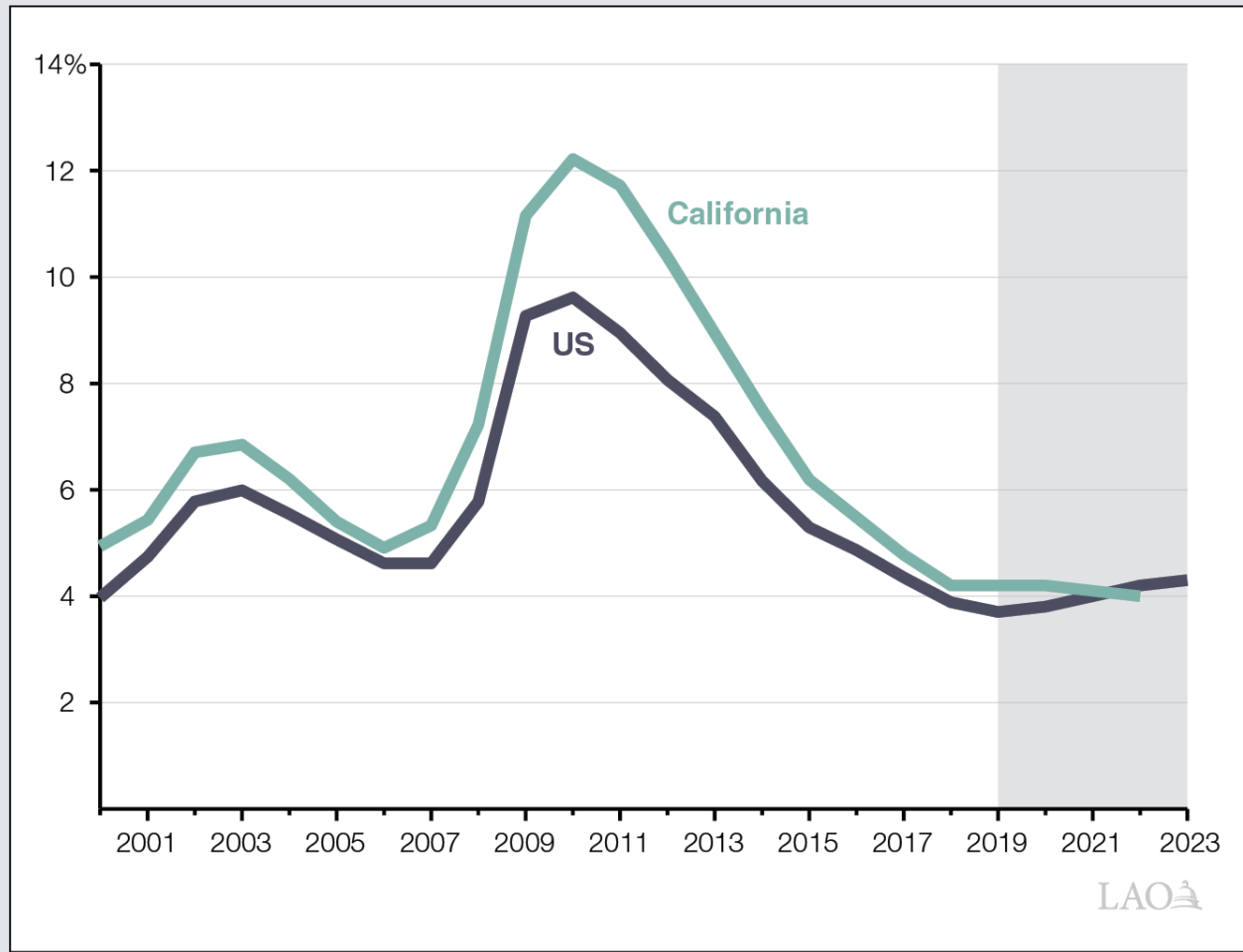
# After Steady Run Up, Stock Prices Projected to Begin Leveling Off



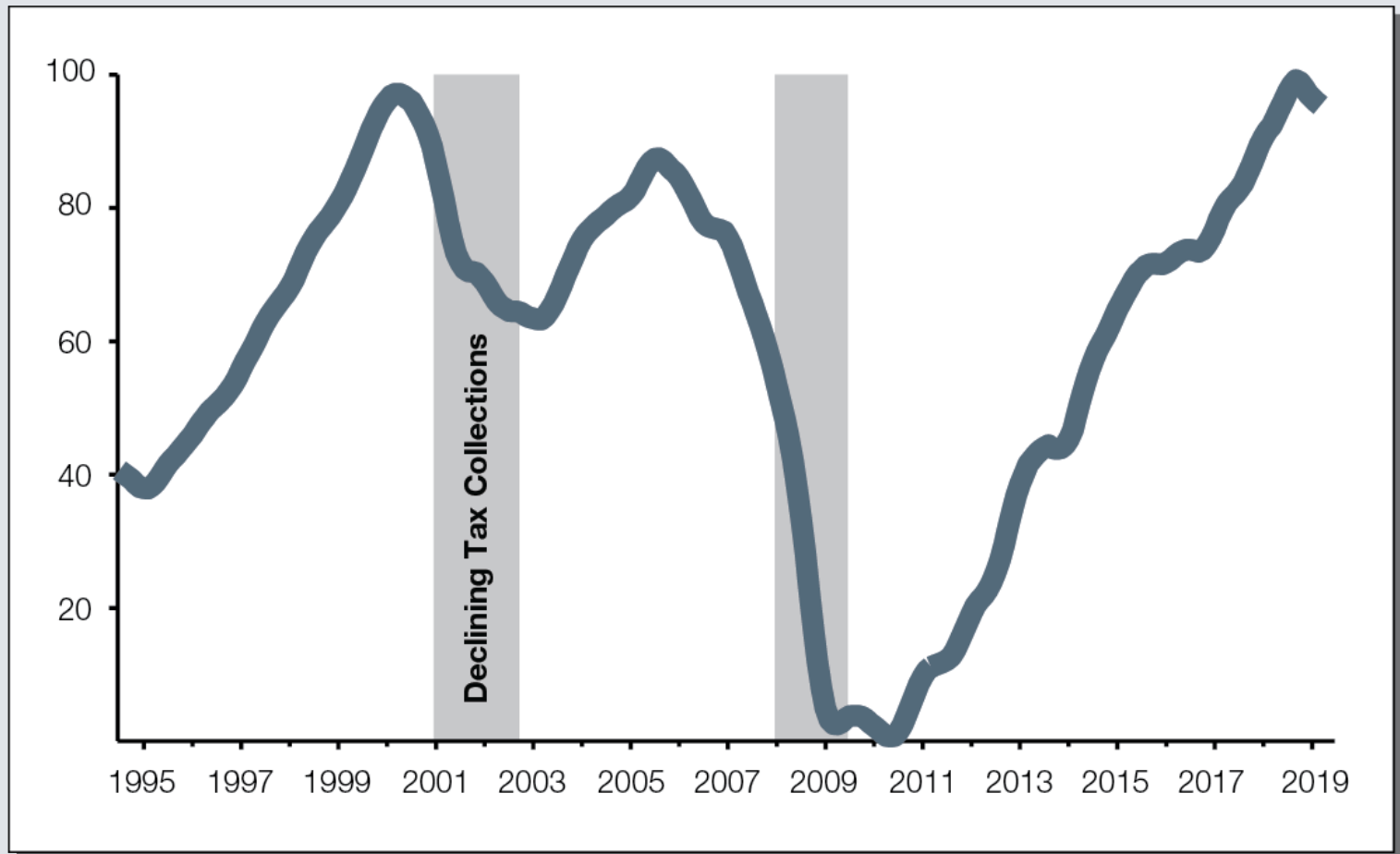
# Growth in Wages and Salaries Projected to Slow



# Unemployment Rate Is Projected to Remain Low



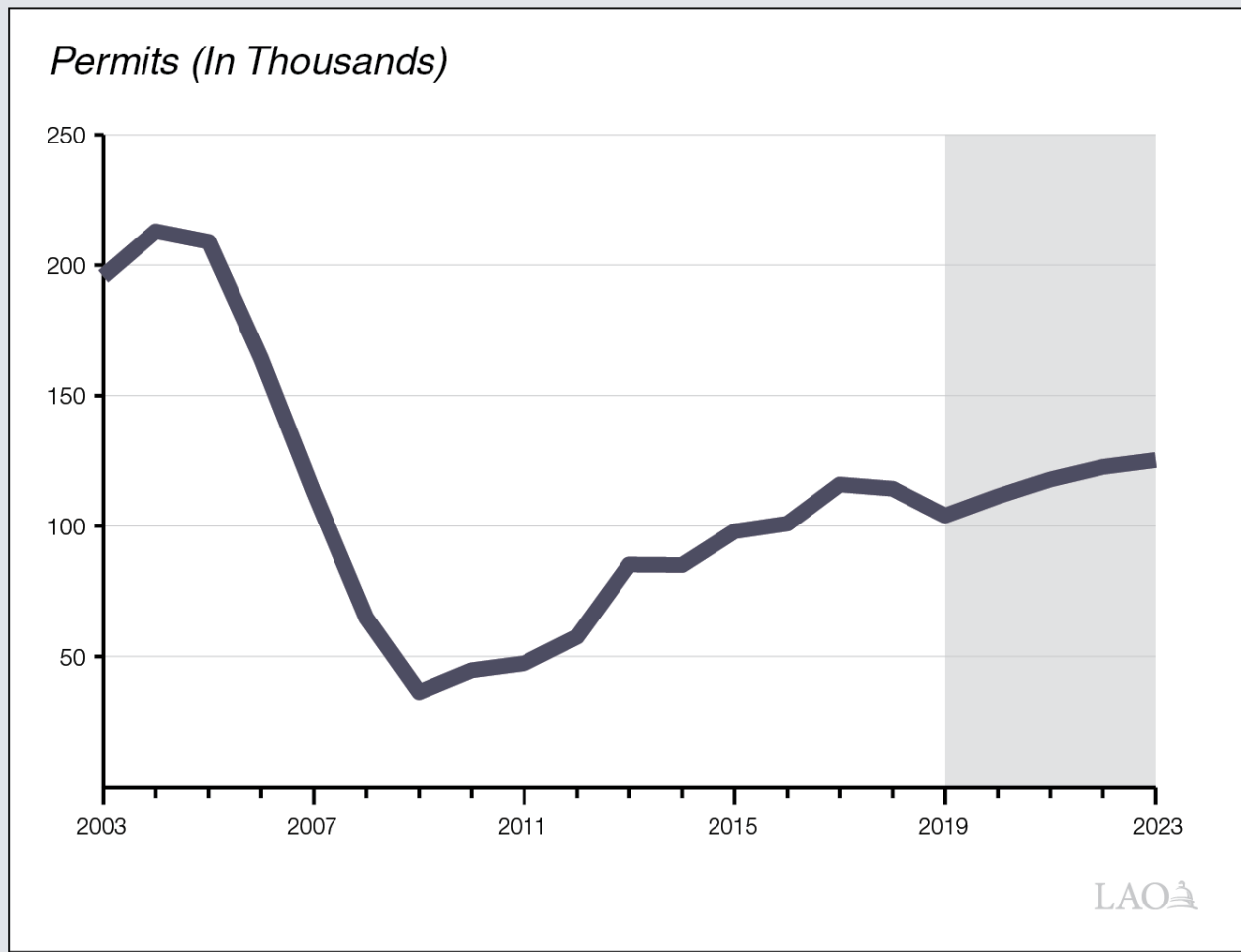
# Recent Drops in State Fiscal Health Index Could Be Harbinger of Slowdown



# California's Housing Outlook



# Number of California Housing Permits Projected to Tick Up Over Period

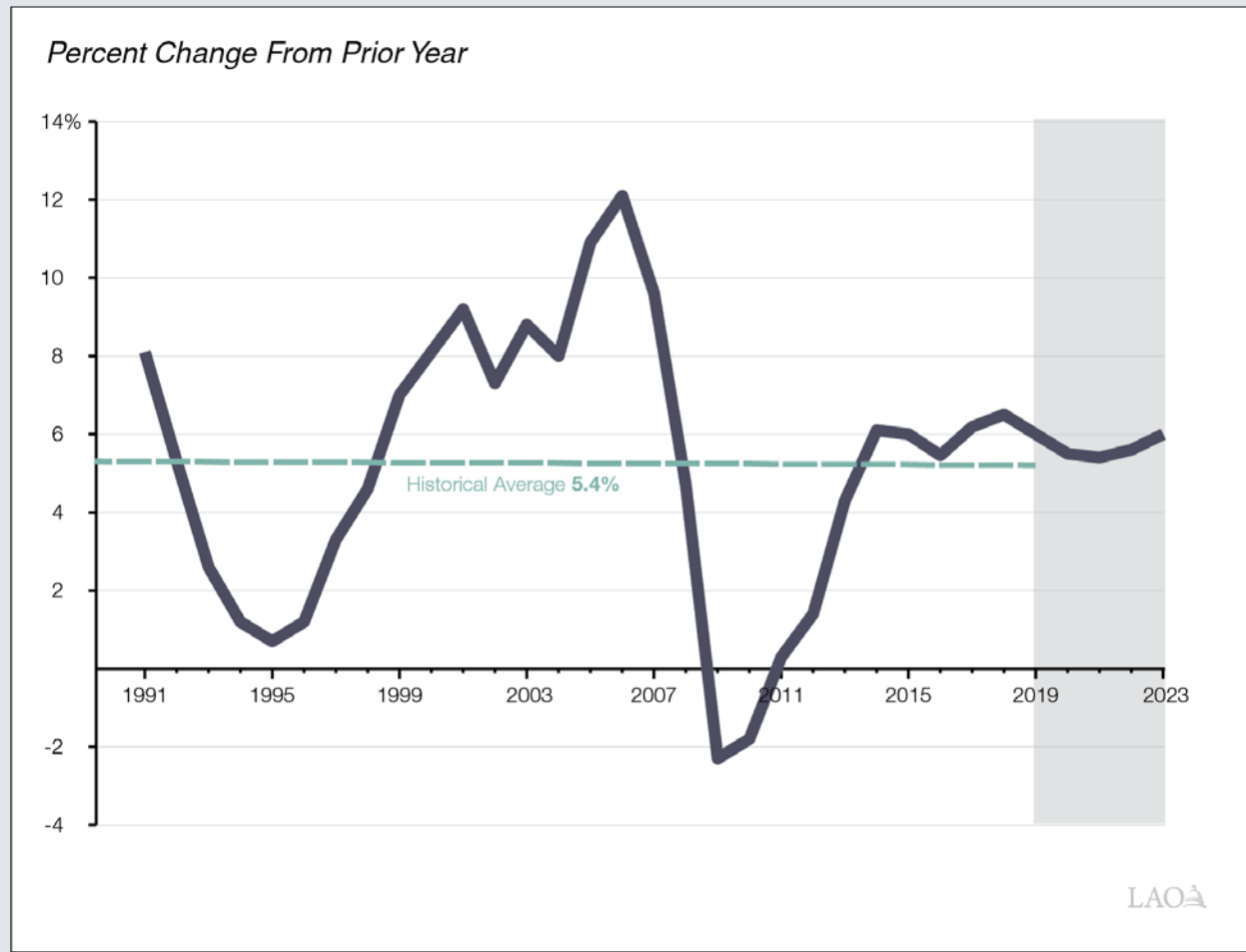


# Home Prices in California Are Projected to Grow Slowly Over Period

*Percent Change From Prior Year*



# Growth in Assessed Property Values Projected to Hover at Historical Average



# Growth in Assessed Values Varies Significantly Across the State

*Estimated Percent Growth From 2019-20 to 2020-21*

San Joaquin	7.4
San Francisco	7.1
San Mateo	6.8
Santa Clara	6.7
Sacramento	6.6
Placer	6.0
Sonoma	5.9
Alameda	5.9
Contra Costa	5.7
<b>Statewide Average</b>	<b>5.5</b>
Los Angeles	5.4
Riverside	5.4
San Bernardino	5.2
Orange	5.1
Santa Barbara	5.1
San Diego	5.0
Fresno	5.0
Marin	4.5
Ventura	4.3
Kern	4.1

# State Outlook

# Big Three Revenues Up an Estimated \$935 Million in 2018-19

<i>(In Millions)</i>			
	2018-19		Change
	LAO November 2019	DOF (Budget Act) June 2019	
Personal income tax	\$99,048	\$98,304	\$744
Sales and use tax	26,127	26,100	27
Corporation tax	13,938	13,774	163
Subtotals, "Big Three" Revenues	(\$139,113)	(\$138,178)	(\$935)
Other revenues and transfers	\$169	-\$131	\$300
<b>Totals, Revenues and Transfers</b>	<b>\$139,281</b>	<b>\$138,046</b>	<b>\$1,236</b>

# Big Three Revenues Up an Estimated \$159 Million in 2019-20

<i>(In Millions)</i>				
	2019-20			Total Change
	LAO November 2019	DOF (Budget Act) June 2019	Change	
Personal income tax	\$102,288	\$102,413	-\$125	\$619
Sales and use tax	27,108	27,241	-133	-106
Corporation tax	13,550	13,133	417	580
Subtotals, "Big Three" Revenues	(\$142,946)	(\$142,787)	(\$159)	\$1,094
Other revenues and transfers	\$1,212	\$1,018	\$194	\$494
<b>Totals, Revenues and Transfers</b>	<b>\$144,158</b>	<b>\$143,804</b>	<b>\$354</b>	<b>\$1,589</b>

# Revenues Expected to Continuing Growing in 2020-21

<i>General Fund (In Millions)</i>			
	2018-19	2019-20	2020-21
Personal income tax	\$99,048	\$102,288	\$105,902
Sales and use tax	26,127	27,108	27,961
Corporation tax	13,938	13,550	14,134
Subtotals, "Big Three" Revenues	(\$139,113)	(\$142,946)	(\$147,997)
Insurance tax	\$2,721	\$2,955	\$3,051
Other revenues	2,092	2,159	2,534
BSA transfer	-3,329	-2,050	-2,137
Other transfers	-1,315	-1,851	-78
<b>Totals, Revenues and Transfers</b>	<b>\$139,281</b>	<b>\$144,158</b>	<b>\$151,367</b>

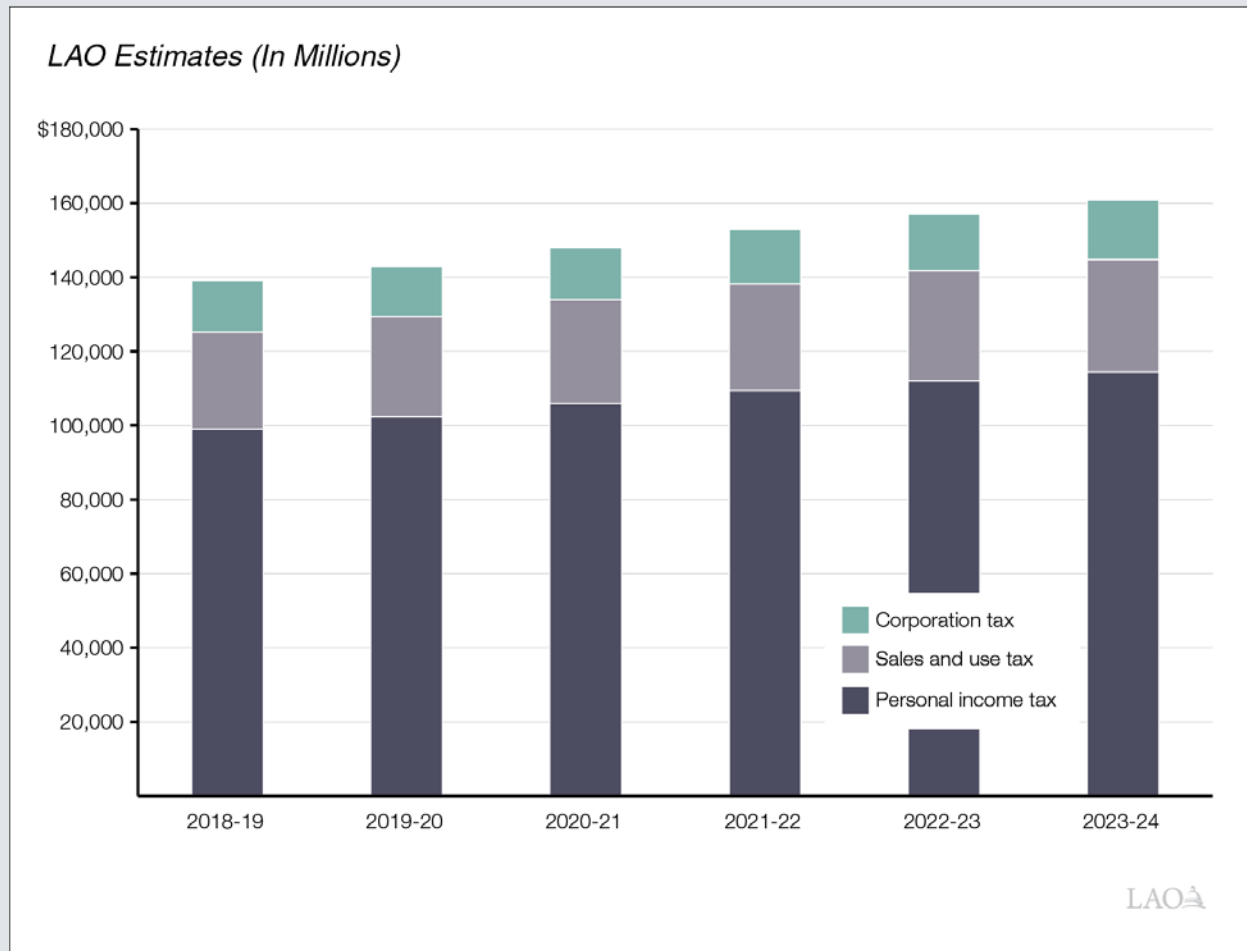
BSA = Budget Stabilization Account.



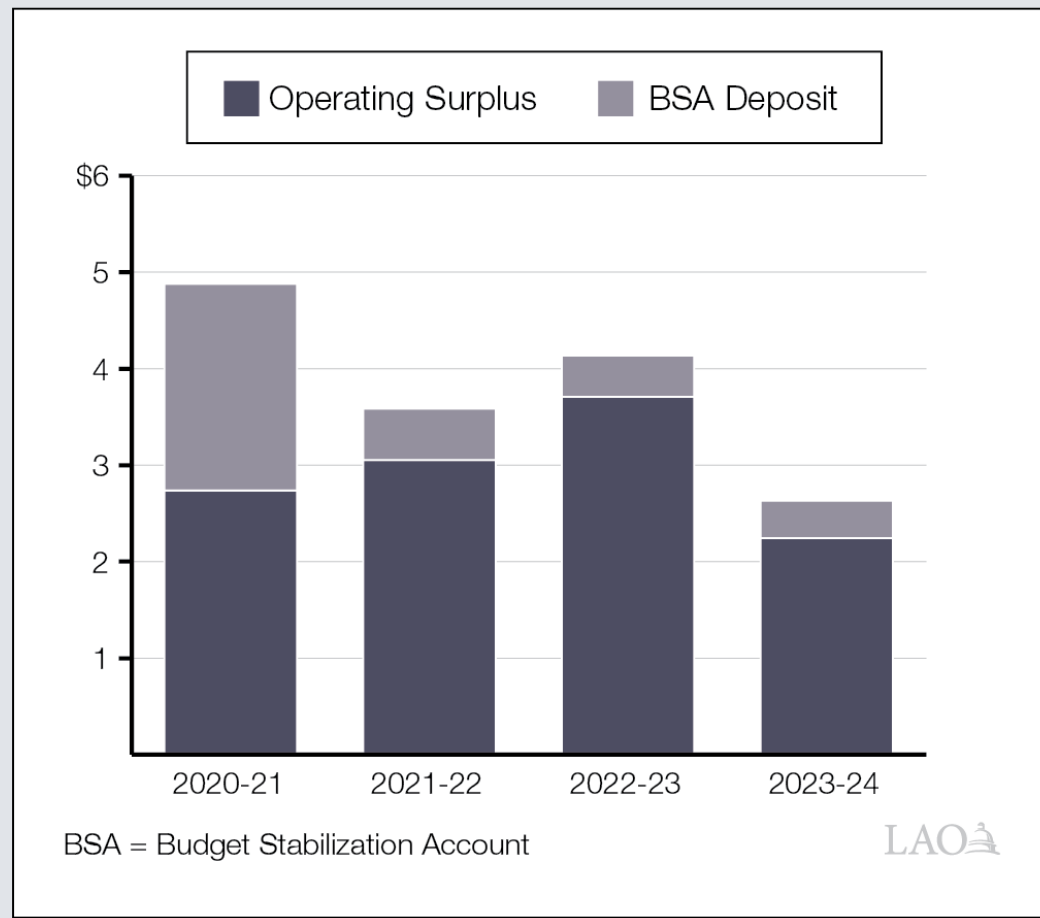
# State Reserves Projected to Grow in 2020-21

<i>LAO Estimates (In Millions)</i>			
	2018-19	2019-20	2020-21
Budget Stabilization Account	\$14,136	\$16,186	\$18,323
Special Fund for Economic Uncertainties	6,363	3,993	6,731
Safety net	900	900	900
<b>Total Reserves</b>	<b>\$21,399</b>	<b>\$21,079</b>	<b>\$25,954</b>

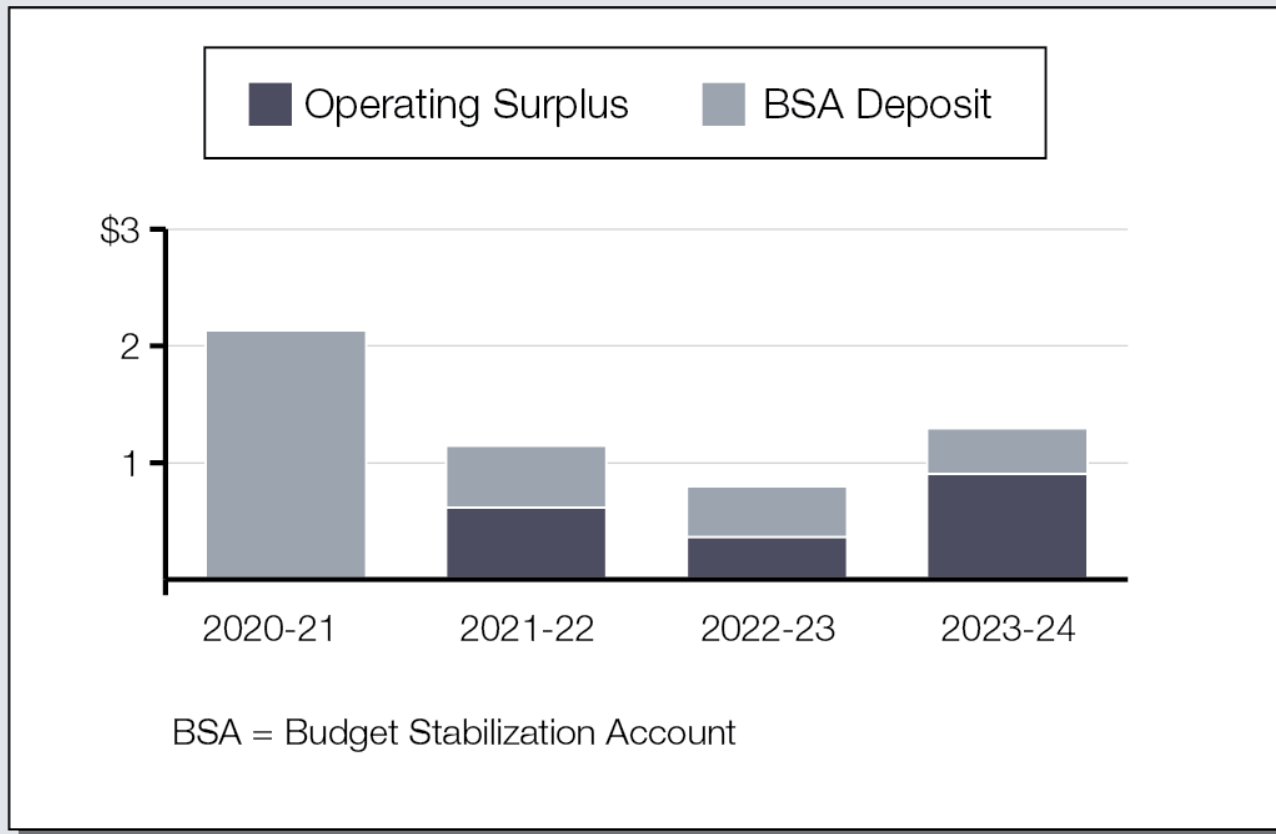
# State Revenues Continue Rising Under Economic Growth Scenario



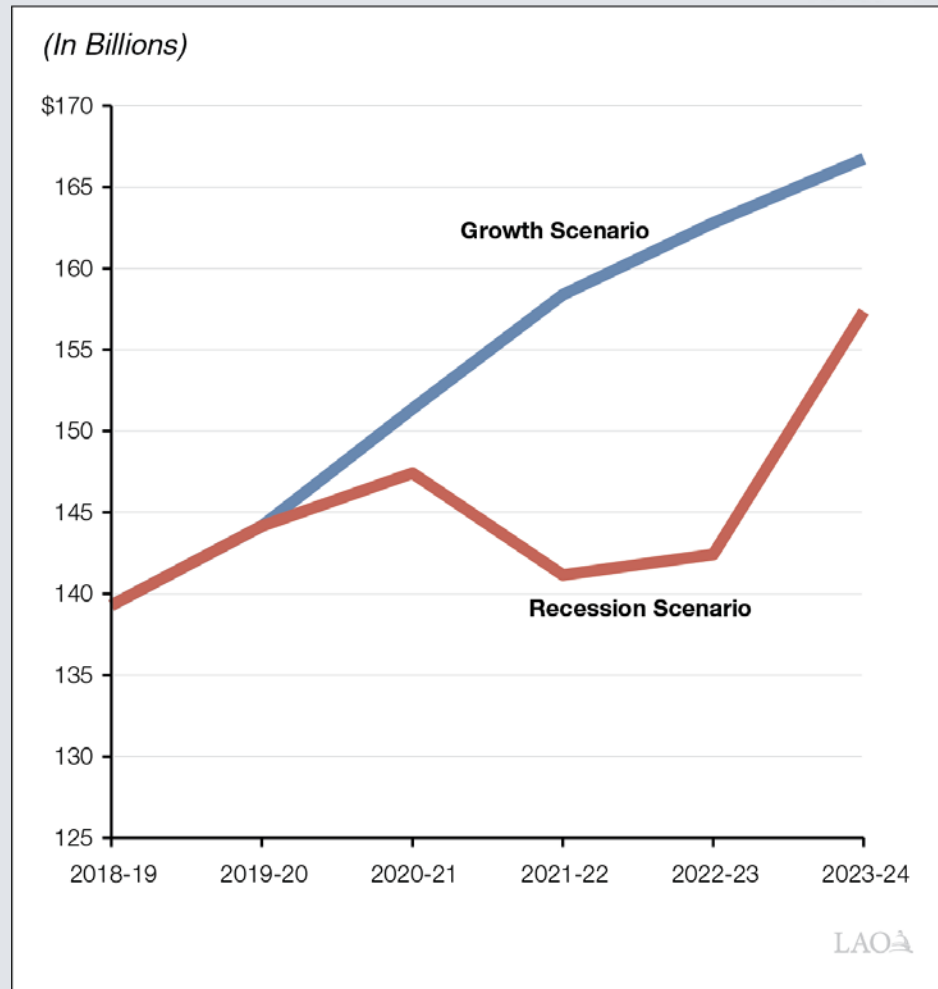
# Ongoing Surpluses Around \$3 Billion Under Economic Growth Baseline Scenario



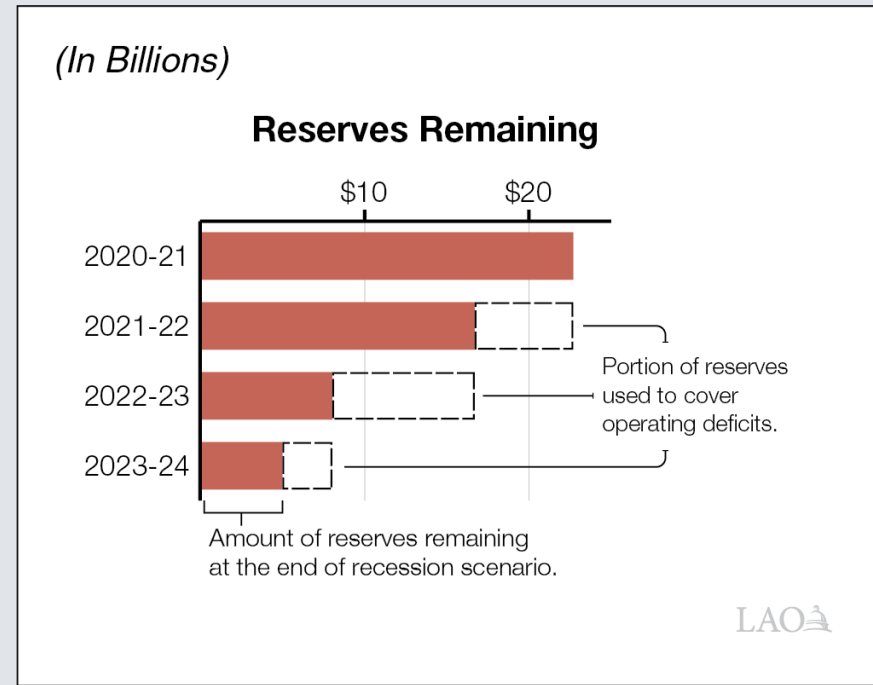
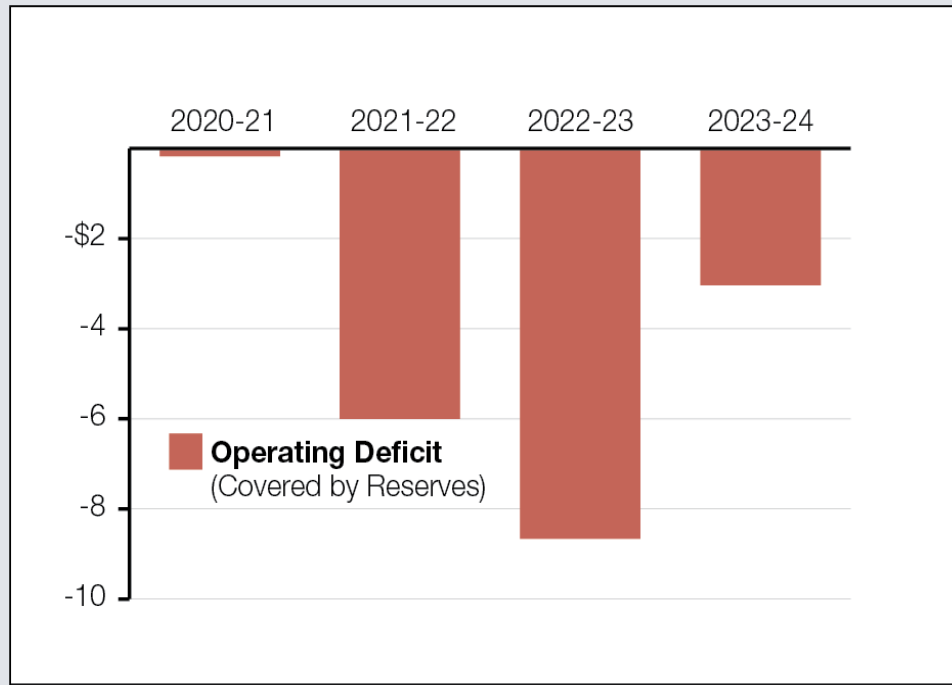
# Surpluses Decline to Less Than \$1 Billion Under Alternative Expenditure Scenario



# State Revenue Levels Differ Substantially Under Two Economic Scenarios



# Without Significant New Spending, California Could Weather a Typical Recession



# School Near-Term Outlook

# Minimum Guarantee Is Up Slightly in 2018-19

*(In Millions)*

	2018-19		
	June Budget Plan	November LAO Estimates	Change
<b>Minimum Guarantee</b>			
General Fund	\$54,445	\$54,617	\$172
Local property tax	23,701	23,723	22
<b>Totals</b>	<b>\$78,146</b>	<b>\$78,340</b>	<b>\$194</b>
<b>Operative Test</b>	2	1	Yes



# 2018-19 Updates Result in Estimated \$226 Million Settle-Up Payment

<i>(In Millions)</i>			
	2018-19		
	June Budget Plan	November LAO Estimates	Change
<b>Minimum Guarantee</b>	<b>\$78,146</b>	<b>\$78,340</b>	<b>\$194</b>
<b>Costs</b>			
Local Control Funding Formula	\$61,150	\$61,152	\$1
Community college apportionments <sup>a</sup>	6,709	6,694	-15
Special education	3,969	3,960	-9
Other programs	6,318	6,308	-10
<b>Total Costs</b>	<b>\$78,146</b>	<b>\$78,114</b>	<b>-\$32</b>
<b>Proposition 98 Reserve Deposit</b>	—	—	—
<b>Settle-Up Payment</b>	—	<b>\$226</b>	<b>\$226</b>

# Minimum Guarantee Is Down Slightly in 2019-20

<i>(In Millions)</i>			
	2019-20		
	June Budget Plan	November LAO Estimates	Change
<b>Minimum Guarantee</b>			
General Fund	\$55,891	\$55,985	\$95
Local property tax	25,166	24,886	-280
<b>Totals</b>	<b>\$81,056</b>	<b>\$80,871</b>	<b>-\$185</b>
<b>Operative Test</b>	1	1	No

# 2019-20 Updates Result in Estimated \$285 Million Settle-Up Payment

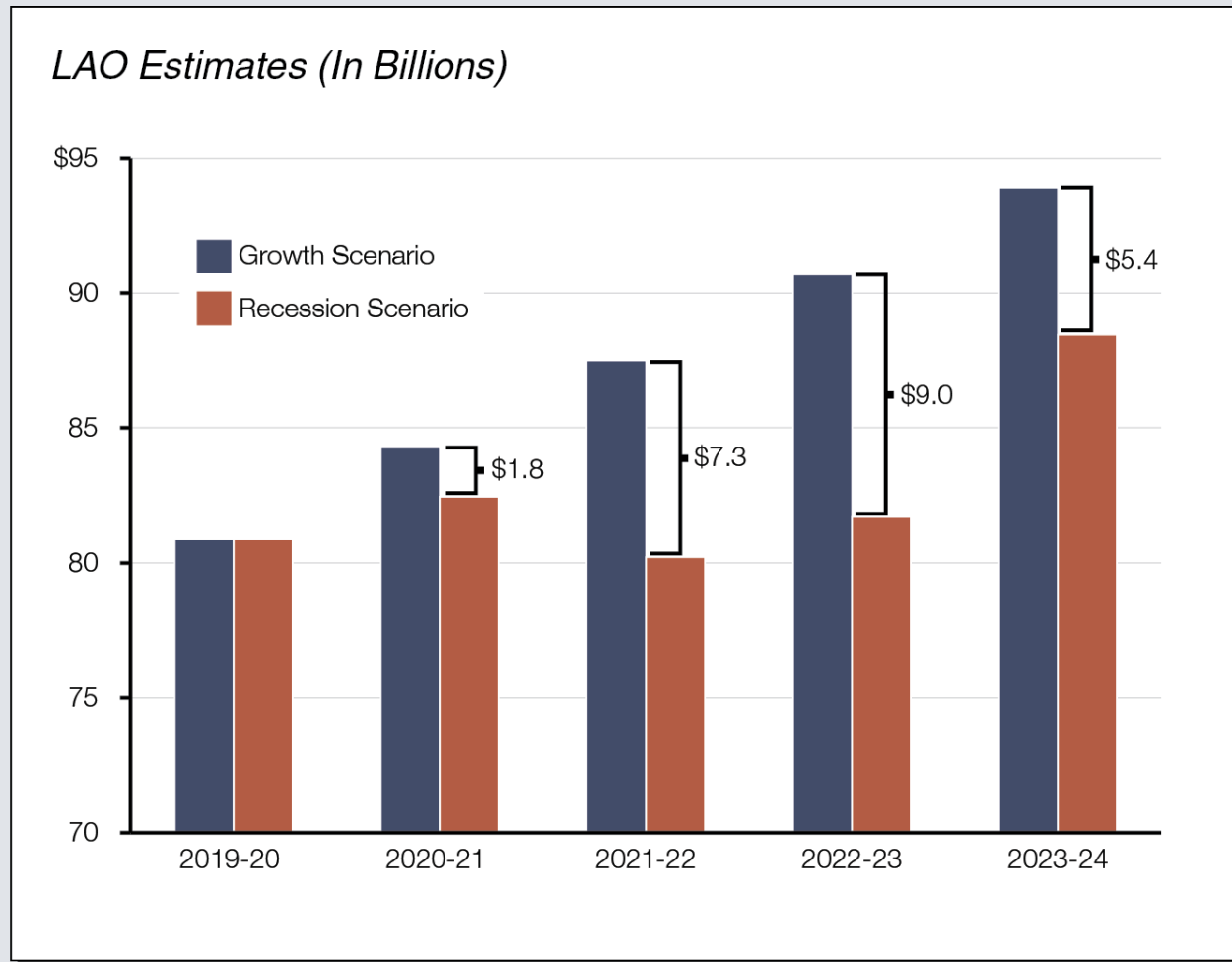
<i>(In Millions)</i>			
	2019-20		
	June Budget Plan	November LAO Estimates	Change
<b>Minimum Guarantee</b>	<b>\$81,056</b>	<b>\$80,871</b>	<b>-\$185</b>
<b>Costs</b>			
Local Control Funding Formula	\$62,989	\$62,685	-\$304
Community college apportionments <sup>a</sup>	6,973	7,016	43
Special education	4,698	4,695	-3
Other programs	6,020	6,014	-7
<b>Total Costs</b>	<b>\$80,680</b>	<b>\$80,409</b>	<b>-\$270</b>
<b>Proposition 98 Reserve Deposit</b>	<b>\$377</b>	<b>\$177</b>	<b>-\$200</b>
<b>Settle-Up Payment</b>	<b>—</b>	<b>\$285</b>	<b>\$285</b>

# Minimum Guarantee Projected to Rise Moderately in 2020-21

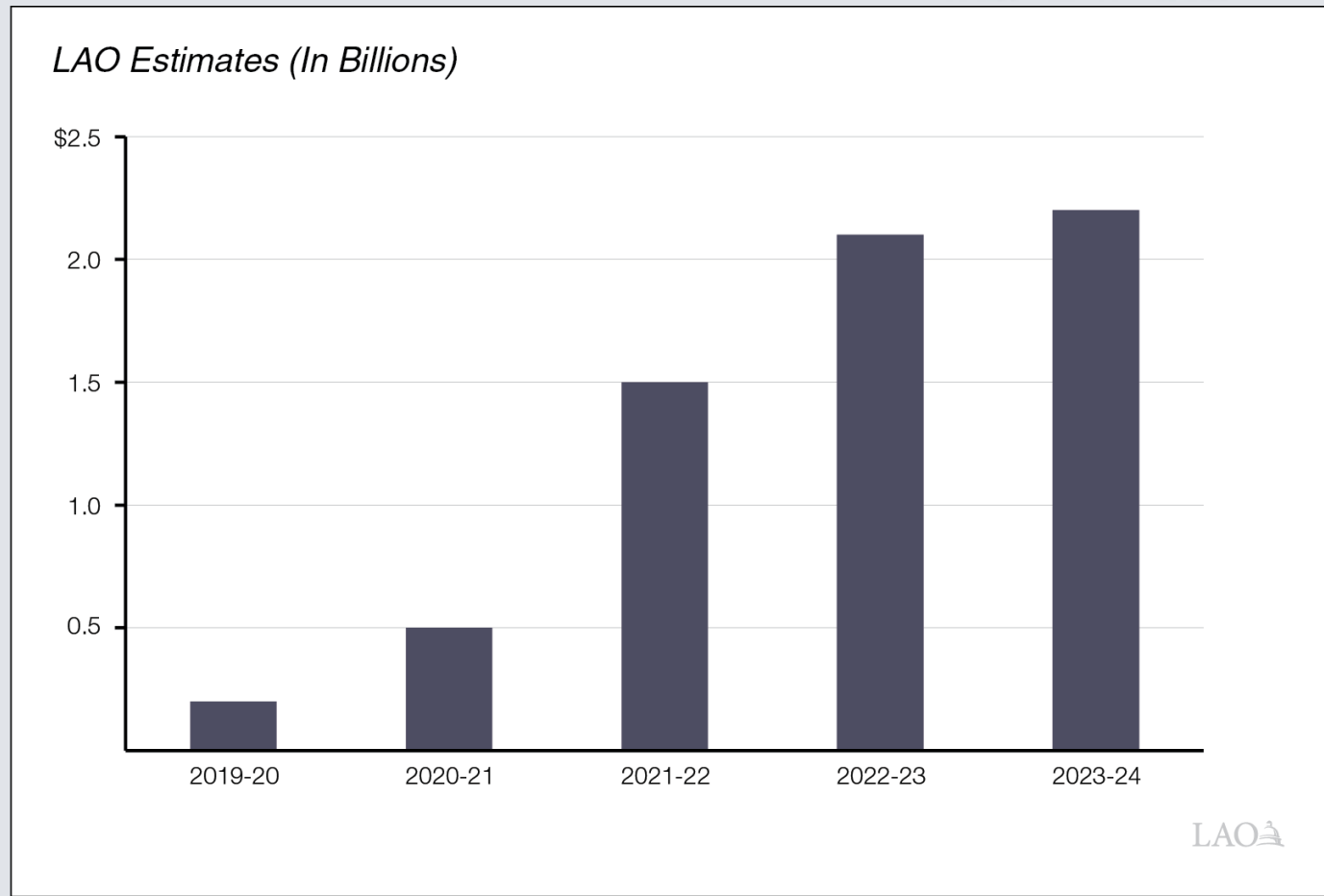
	2018-19	2019-20	2020-21
<b>Minimum Guarantee</b>			
General Fund	\$54,617	\$55,985	\$57,963
Local property tax	23,723	24,886	26,306
<b>Totals</b>	<b>\$78,340</b>	<b>\$80,871</b>	<b>\$84,269</b>
 <b>Proposition 98 Reserve</b>			
Deposit (+) or withdrawal (-)	—	\$177	\$350
Cumulative balance	—	177	527

# **School Outlook Through 2023-24**

# Minimum Guarantee Differs by Billions of Dollars Under Two Scenarios



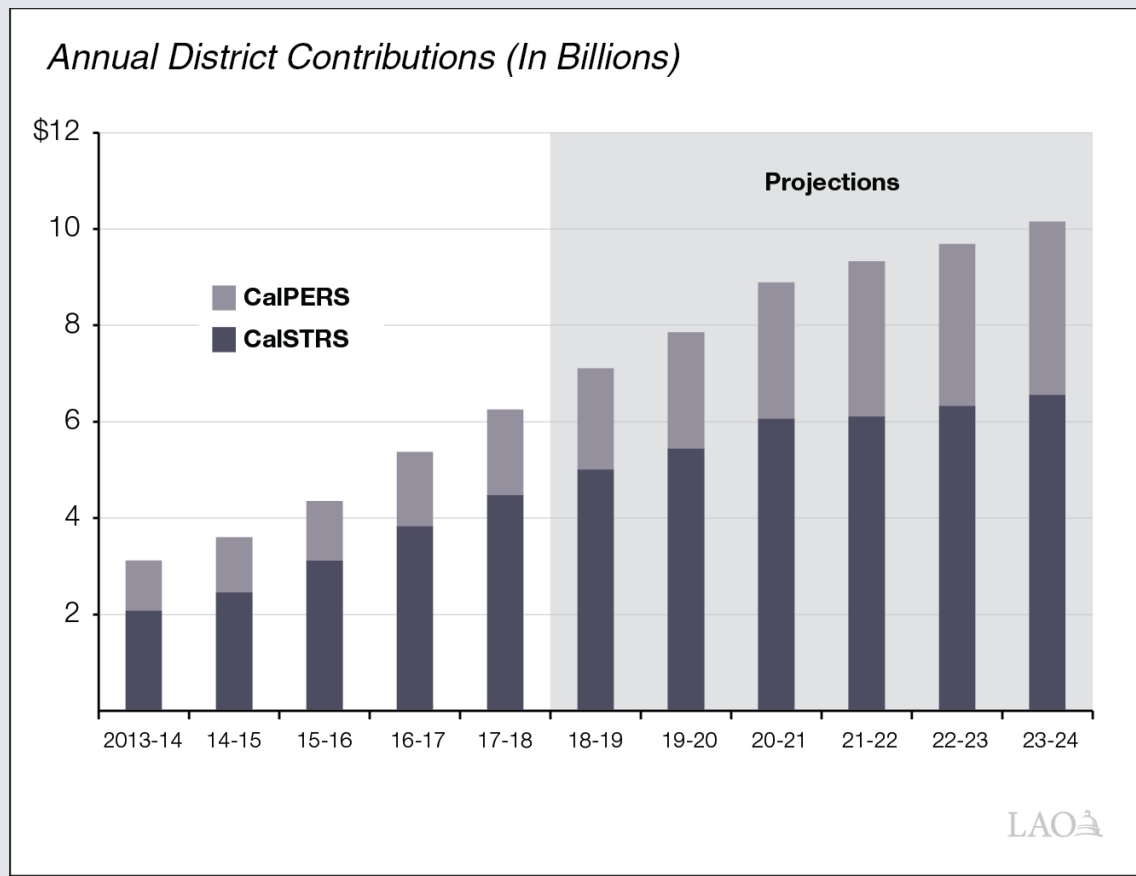
# Proposition 98 Reserve Rises in Economic Growth Scenario



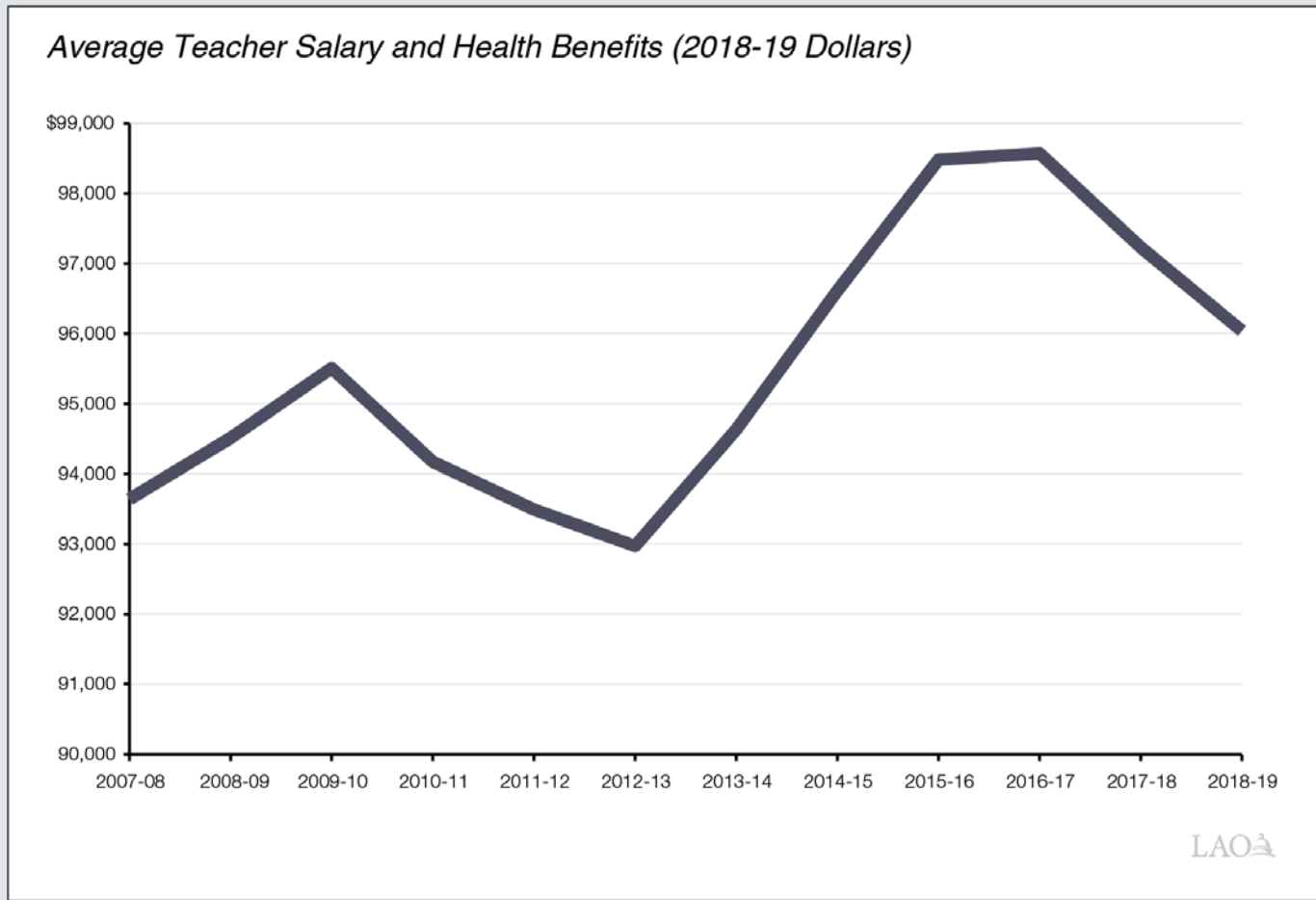
# **School Cost Pressures and Spending Trade-Offs**



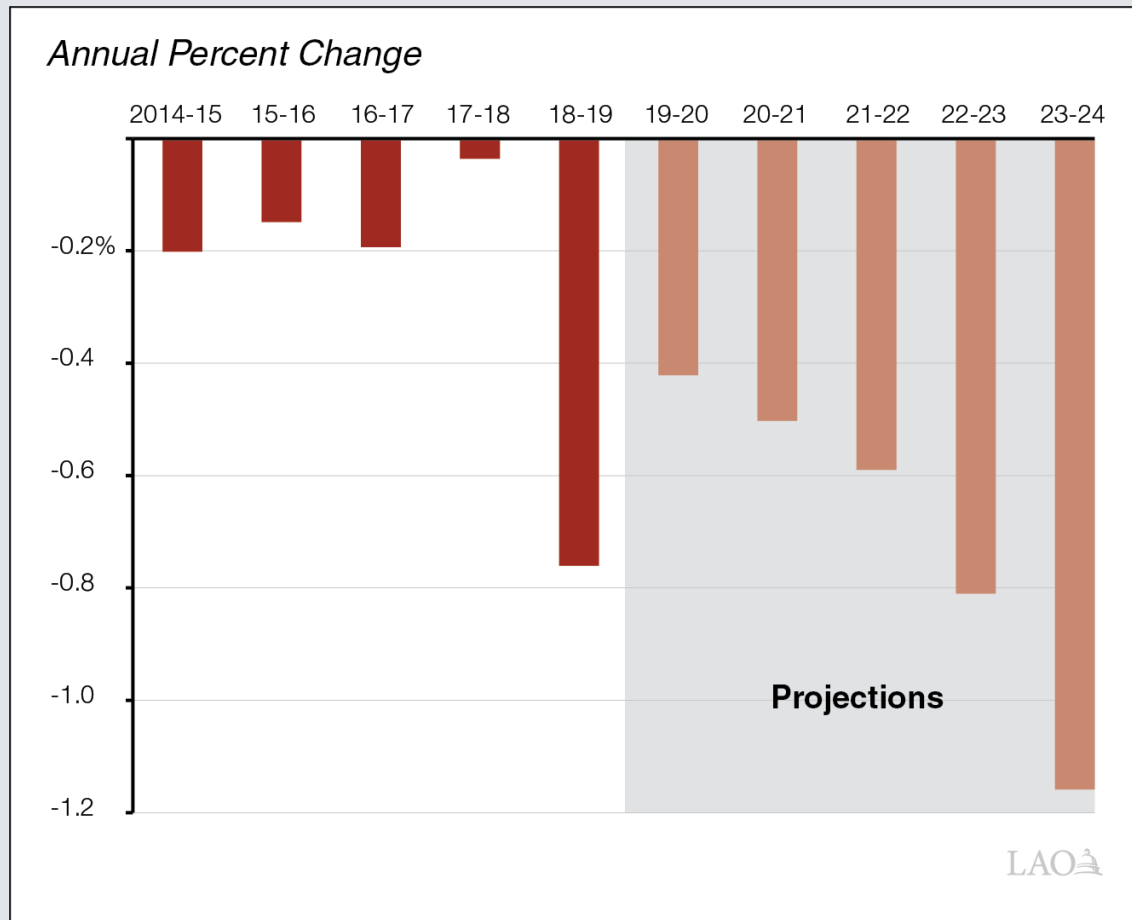
# School Pension Costs Rising Over the Period



# Teacher Compensation in California Is Close to All-Time High



# Declines in K-12 Attendance Projected to Accelerate



# Substantial Funding Available for New Proposition 98 Commitments

<i>LAO Estimates (In Millions)</i>	
<b>Available Funding</b>	
Growth in 2020-21 minimum guarantee	\$3,398
Funding freed-up inside guarantee	206
<b>Total Available</b>	<b>\$3,604</b>
<b>Cost Estimates<sup>a</sup></b>	
Local Control Funding Formula	-\$826
Community college apportionments	-177
Special education	-57
Other programs	-45
<b>Total Costs</b>	<b>-\$1,105</b>
<b>Proposition 98 Reserve Deposit</b>	<b>-\$350</b>
<b>Remaining Funds Available</b>	<b>\$2,148</b>
<sup>a</sup> Reflects cost of covering statutory cost-of-living adjustments and changes in student attendance.	

# **Ballot Measures Seeking to Raise School Funding**

# March 2020 Measure Seeks \$15 Billion for Education Facilities

<i>(In Billions)</i>	
	Amount
<b>Public School Facilities</b>	
Renovation	\$5.2 <sup>a,b</sup>
New construction	2.8 <sup>a</sup>
Career technical education facilities	0.5
Charter school facilities	0.5
<b>Total</b>	<b>\$9.0</b>
<b>Public Higher Education Facilities</b>	
Community college facilities	\$2.0
California State University facilities	2.0
University of California facilities	2.0 <sup>c</sup>
<b>Total</b>	<b>\$6.0</b>
<b>Grand Total</b>	<b>\$15.0<sup>d</sup></b>

# **Split-Roll Property Tax Initiative Seeks Billions Ongoing for State and School Operations**

- **Assesses Commercial and Industrial Properties at Their Market Value**
- **Allocates Additional Revenue to a Mix of Local Agencies**
  - About 60 percent for cities, counties, and other local agencies.
  - About 40 percent for K-14 education. Of this amount, 89 percent would be for schools and 11 percent for community colleges.
- **School Share Allocated According to LCFF**
- **Takes Effect Starting in 2022-23**

# Income Tax Initiative Seeks \$15 Billion Ongoing for School Operations

- **Increases Personal and Corporate Income Tax Rates**
  - Affects individuals with incomes exceeding \$1 million.
  - Affects corporations with profits exceeding \$1 million.
- **Allocates All Additional Revenue to K-14 Education**
  - Allocates 89 percent to schools, 11 percent to community colleges.
- **School Share Allocated According to LCFF**
  - From the school share, \$500 million would be set aside annually for teaching computer science and purchasing technology.
- **Takes Effect Starting in 2021**



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