

# California's Fiscal Outlook



Presented to:

**California State Association of Counties**

**Legislative Analyst's Office**

# Basics of the State's Budget

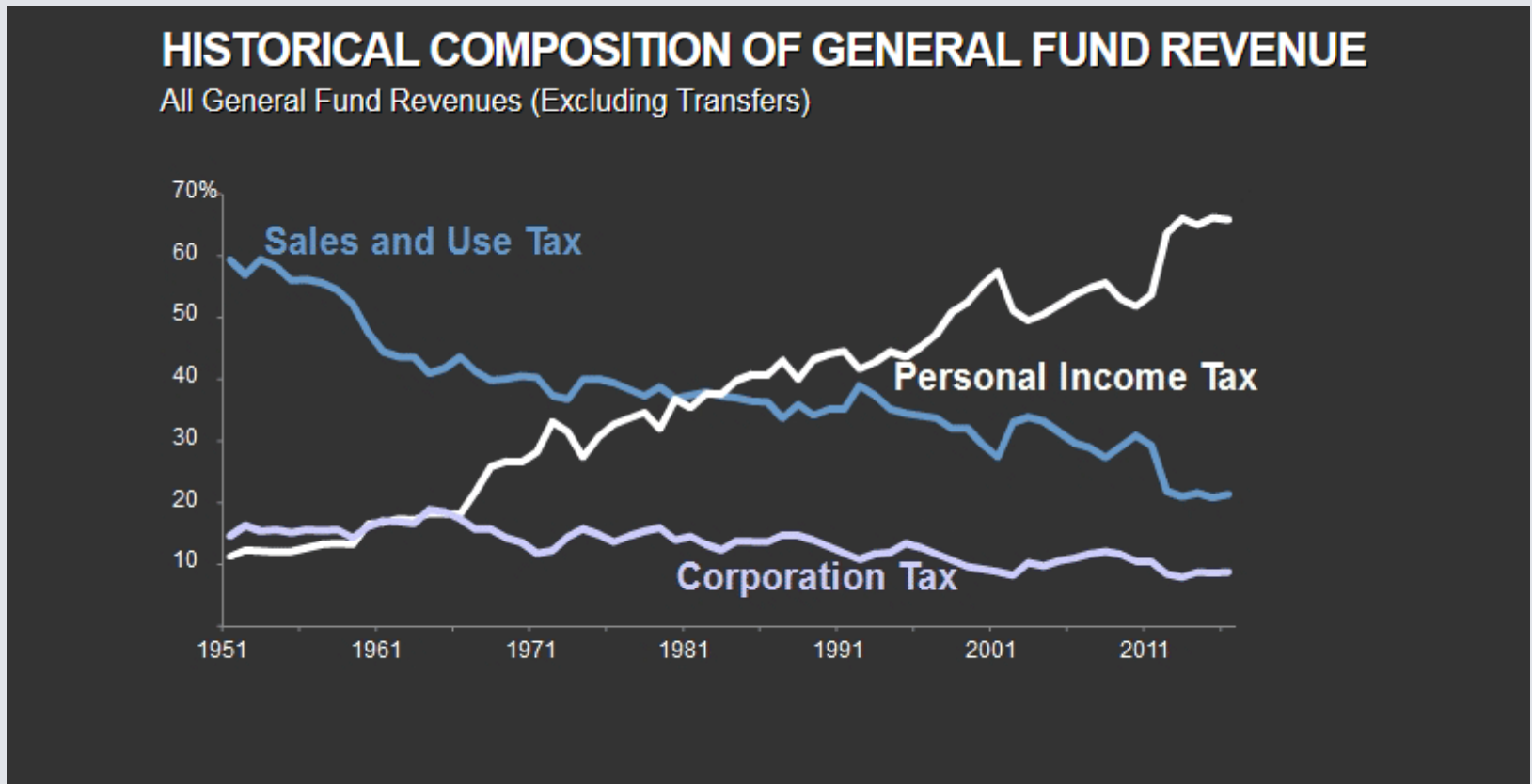
## ➤ Revenues:

- Big Three – personal income tax, sales tax, and corporate tax

## ➤ Expenditures:

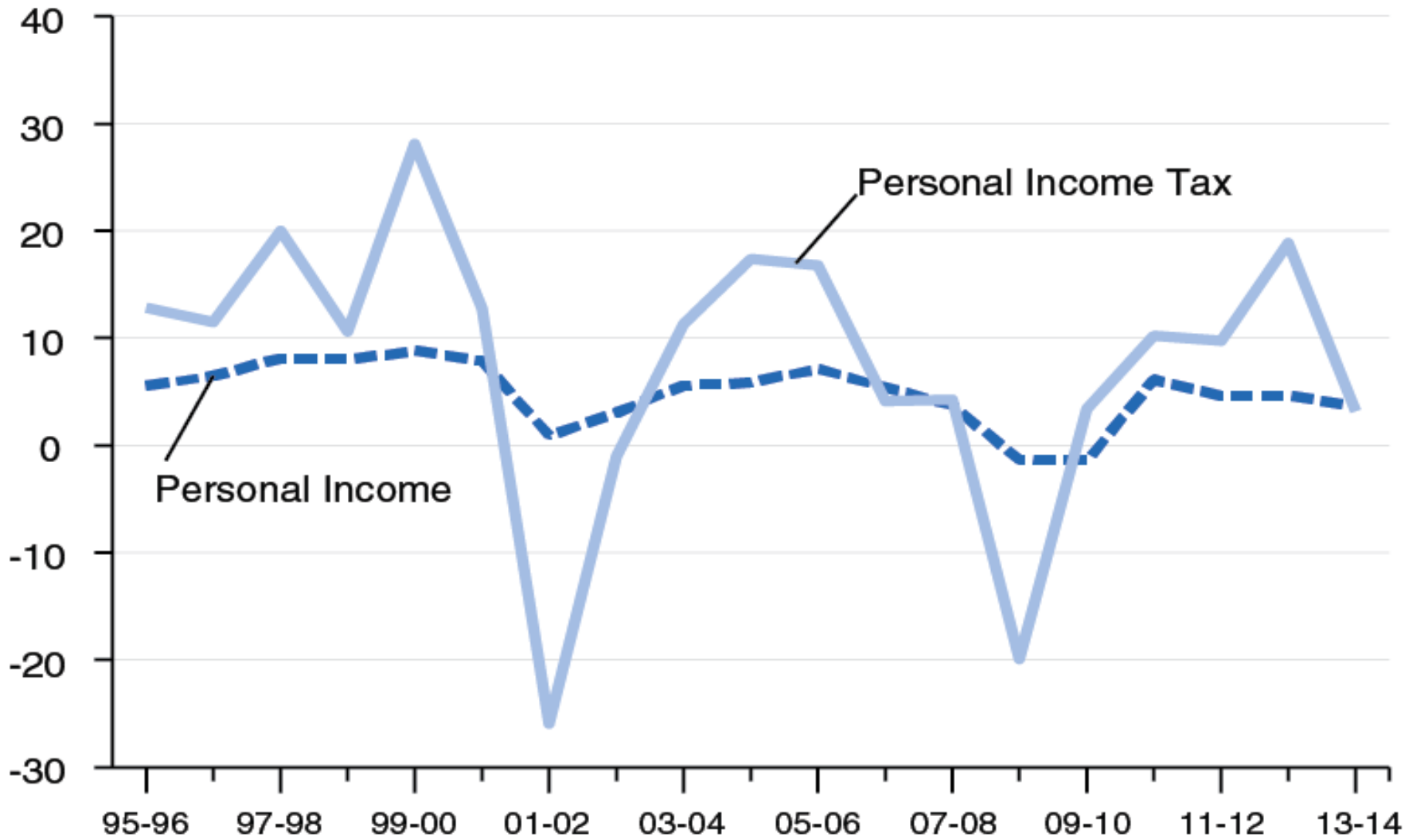
- About half of General Fund spending is for education
- Most of the rest goes to health and human services and corrections

# Personal Income Now the Dominant State Revenue Source



# Personal Income Tax Much More Volatile Than Economy

*Percent Change From Prior Year*



# Economic Outlook Decidedly Positive

*Main economic scenario assumes the economy continues to grow through 2019-20*

**Figure 1**

**LAO Economic Assumptions: November 2015 Main Scenario**

*Percent Change Unless Otherwise Noted*

<b>United States</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Real gross domestic product	2.4%	2.5%	3.2%	3.2%	2.6%	2.0%	1.7%
Personal income	4.4	4.3	5.2	6.0	6.0	4.7	3.9
Wage and salary employment	1.9	2.1	1.9	2.2	1.9	1.1	0.5
Unemployment rate (percent)	6.2	5.3	5.0	4.7	4.5	4.6	4.8
Consumer price index	1.6	0.2	2.1	2.8	3.1	2.8	2.4
Core PCE price index	1.5	1.3	1.6	2.5	2.9	2.7	2.2
Federal funds rate	0.1	0.2	0.9	2.3	3.8	3.7	3.7
Housing starts (thousands)	1,052	1,183	1,466	1,697	1,626	1,535	1,602
S&P 500 (annual average)	1,931	2,046	2,031	2,105	2,191	2,280	2,372
<b>California</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Personal income	4.9%	5.8%	5.8%	6.2%	6.2%	5.3%	4.8%
Wage and salary employment	3.1	3.0	2.5	2.3	2.0	1.7	1.5
Unemployment rate (percent)	7.5	6.3	5.5	5.0	4.6	4.5	4.5
Consumer price index	1.8	1.7	2.1	2.8	3.1	2.8	2.4
Housing permits (thousands)	85.1	98.3	98.3	100.8	103.8	106.9	110.1
Single-unit permits	36.4	46.5	51.1	53.9	56.6	58.8	60.9
Multifamily permits	48.6	51.7	47.2	46.9	47.2	48.2	49.2
Population growth	0.9	0.9	0.8	0.7	0.7	0.7	0.7

Note: Based generally on Moody's Analytics October 2015 U.S. macroeconomic outlook ("baseline" scenario). This November 2015 main scenario reflects a California state macroeconomic scenario developed by the LAO and lowers Moody's Analytics' (a) U.S. personal income growth outlook for 2015 through 2018 and (b) S&P 500 assumptions throughout the period beginning in late 2015.

Core PCE = Personal consumption expenditures excluding food and energy.

# Current Year Fiscal Condition

- **Project General Fund revenues to be \$3.5 billion above budget act**
  - Two-thirds of higher revenues to Budget Stabilization Account (BSA)
  - Between BSA and Special Fund for Economic Uncertainty (SFEU) estimate ending 2015-16 with \$7.9 billion in reserves

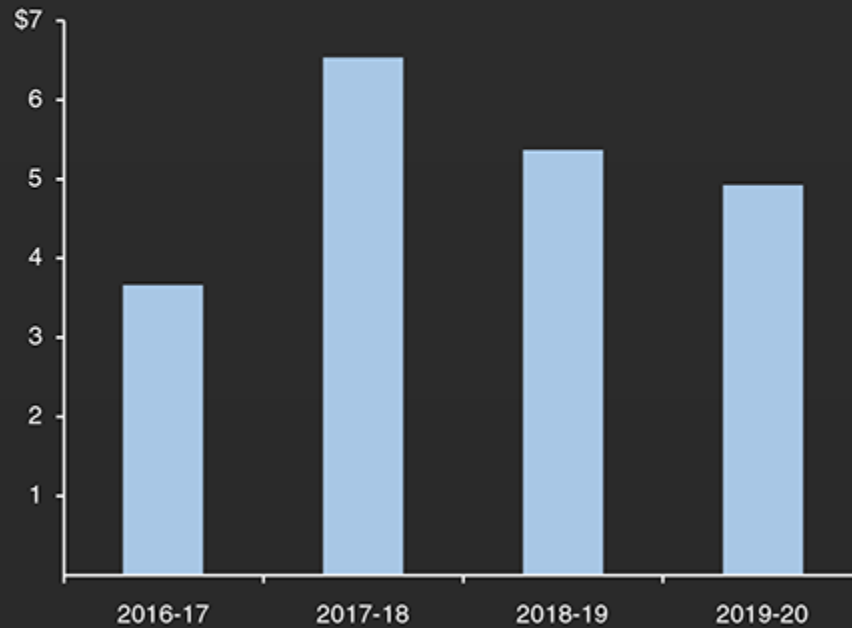
# Budget Year Fiscal Condition

- **Modest General Fund growth due to slower Personal Income Tax growth**
  - Estimate revenues and transfers to increase 6 percent in the budget year
  - Project General Fund spending to grow 5 percent (nearly half of which is due to increases in MediCal costs)
- **Anticipate ending 2016-17 with \$11.5 billion reserve**
  - \$7.2 billion in BSA and \$4.3 billion in SFEU

# Budget Remains in Surplus Under Main Scenario

## LONGER TERM BUDGET OUTLOOK

IF ECONOMY CONTINUES TO GROW, BUDGET REMAINS IN SURPLUS  
In Billions





# How Long Will Growth Continue?

*Current period of economic expansion notably long*

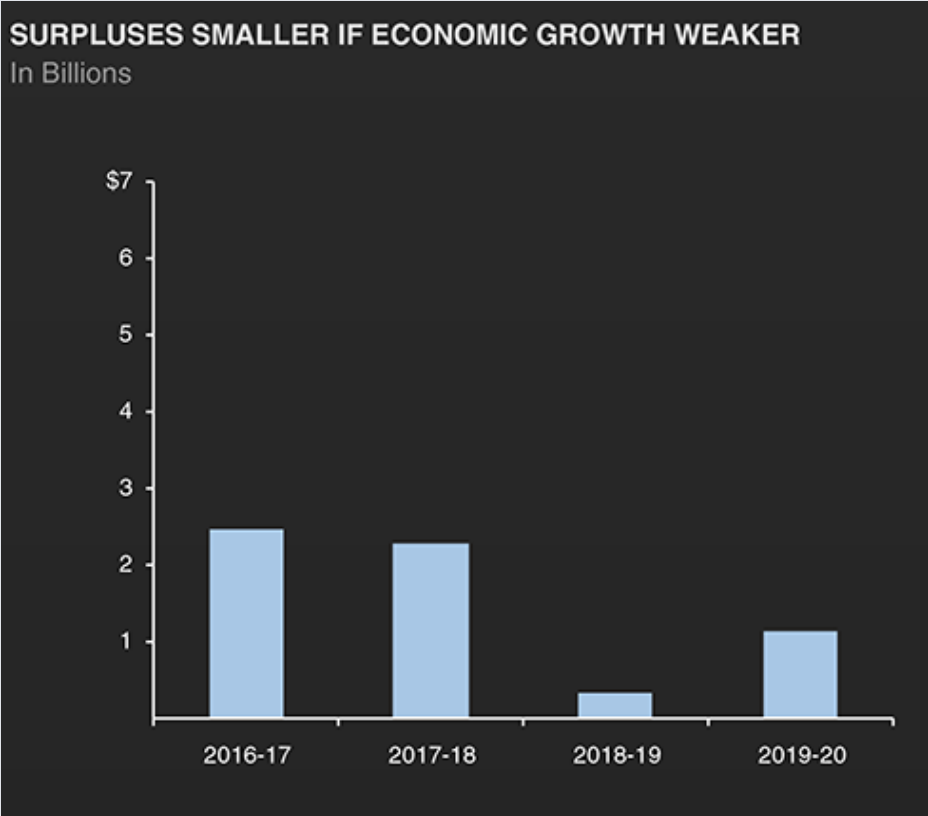
**Figure 3**  
**Current Economic Expansion**  
**Already Among Longest in U.S. History**

*Data Since 1854*

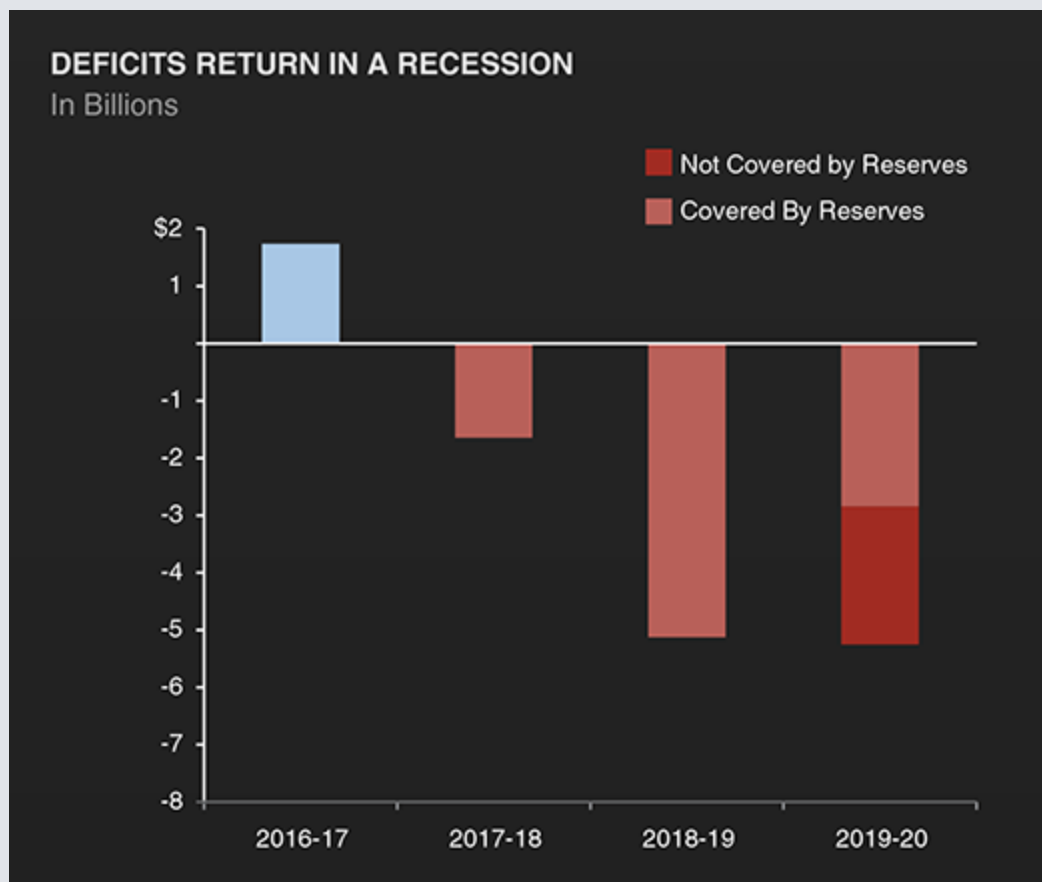
Economic Expansion	Number of Months
April 1991 to March 2001	120
March 1961 to December 1969	106
December 1982 to July 1990	92
July 1938 to February 1945	80
<b>July 2009 to present</b>	<b>77 (so far)</b>
December 2001 to December 2007	73
April 1975 to January 1980	58
April 1933 to May 1937	50
<b>Average Economic Expansion, 1945 to 2009</b>	<b>58</b>

Source: National Bureau of Economic Research.

# Slowdown Scenario: Smaller Operating Surpluses



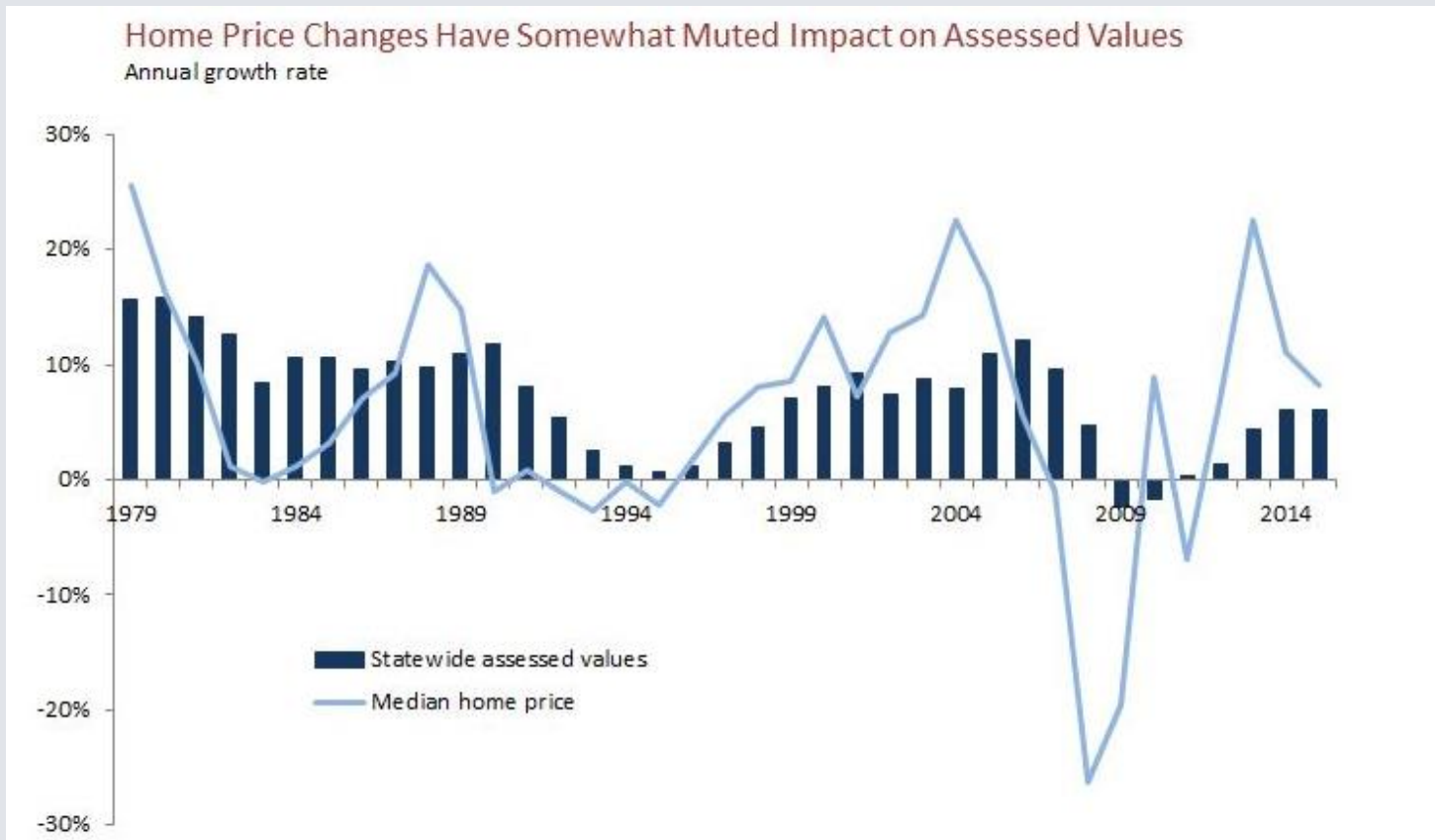
# Reserves Cover Deficits Until 2019-20 in Recession Scenario



# Assume Continued Growth in Assessed Values

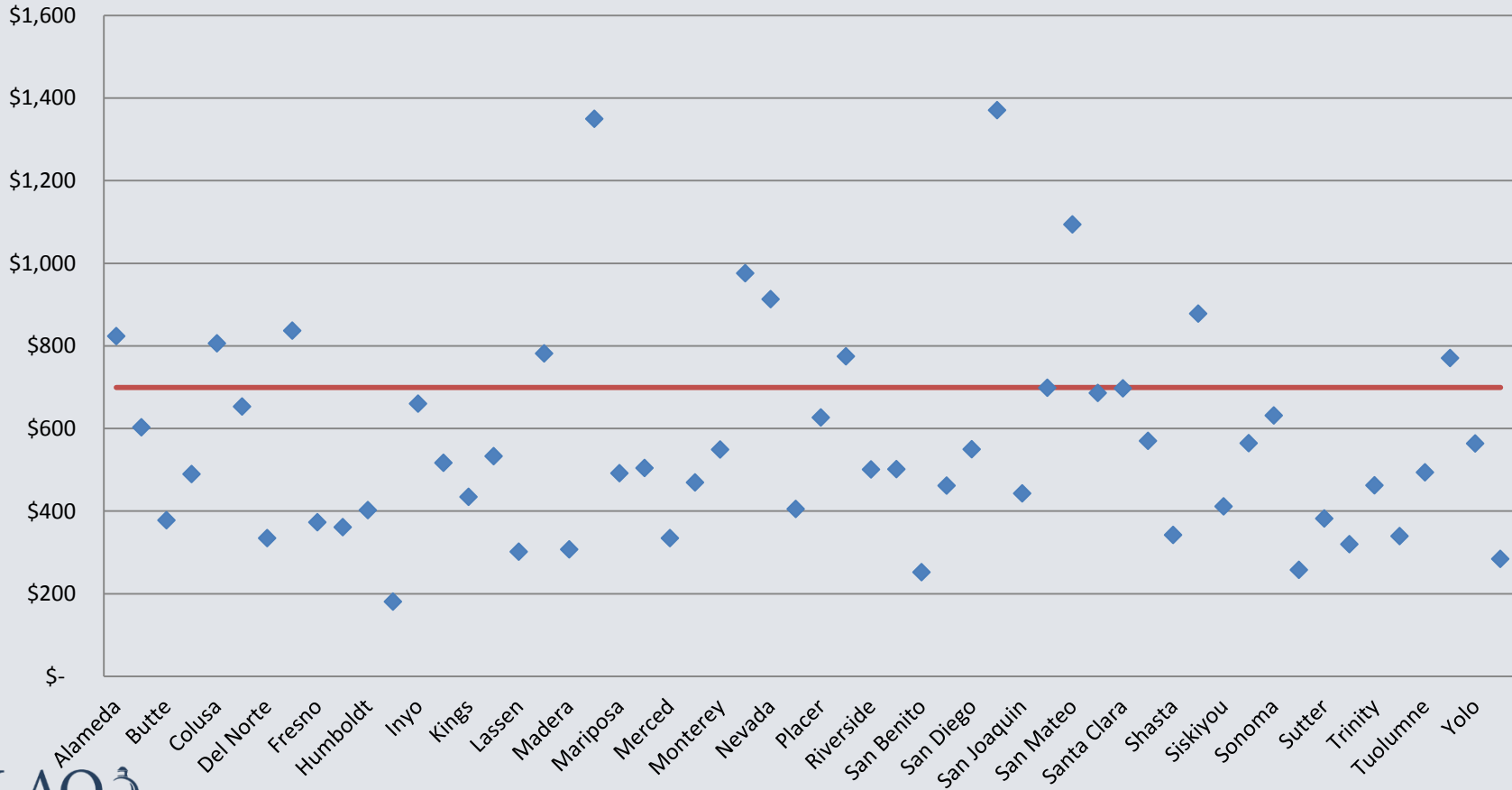
- **Budget assumed assessed values (AV) would grow 5.5 percent in 2015-16**
  - Latest data from county assessors indicates actual increase will be about 6 percent
- **Project AV will increase 6.3 percent in 2016-17 and 5 percent per year for the rest of the forecast period**

# Property Taxes Steadier Than Home Prices



# Something (Potentially) of Interest....

*After K-14 and paying RDA debt, how much property tax is available to CCSD on a per capita basis?*



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# Main Economic Scenario Revenue Estimates

**Figure 7**

**LAO Revenue Summary: November 2015 Main Scenario**

*General Fund and Education Protection Account Combined (Dollars in Millions)*

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Personal income tax	\$76,400	\$81,676	\$84,274	\$88,946	\$90,057	\$91,122
Sales and use tax	23,709	24,971	25,351	25,980	26,808	28,091
Corporation tax	9,714	10,198	10,685	10,842	11,089	11,557
Subtotal, "Big Three" Revenues	(\$109,823)	(\$116,844)	(\$120,311)	(\$125,768)	(\$127,953)	(\$130,770)
Percent growth from prior year	11.8%	6.4%	3.0%	4.5%	1.7%	2.2%
Insurance tax	\$2,444	\$2,493	\$2,582	\$2,682	\$2,796	\$2,903
Other revenues	1,993	2,094	1,727	1,889	1,990	2,090
Transfers to Budget Stabilization Account	-1,606	-4,035	-1,593	-1,550	-1,368	-1,016
Other net transfers in (out) <sup>a</sup>	-409	-1,082	156	0	-34	-257
<b>Total Revenues and Transfers</b>	<b>\$112,244</b>	<b>\$116,315</b>	<b>\$123,183</b>	<b>\$128,789</b>	<b>\$131,337</b>	<b>\$134,490</b>
<b>Proposition 2 Inputs</b>						
Taxes on capital gains	N/A	\$13,940	\$12,488	\$12,604	\$11,990	\$10,557
As percent of General Fund taxes	N/A	11.6%	10.1%	9.7%	9.1%	7.8%

<sup>a</sup> For 2016-17 through 2019-20 (unlike prior fiscal years), no special fund loan repayments are included in this line as transfers out. To the extent those repayments are to be made in future years, they are assumed to occur as Proposition 2 debt payment expenditures.

# Forecast Across Scenarios

<b>Comparing LAO Budget Outlook Scenarios</b>					
<i>General Fund and Education Protection Account Combined (In Millions)</i>					
	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Revenues</b>					
<b>Total Revenues and Transfers (Before BSA Deposit)</b>					
Main	\$120,350	\$124,776	\$130,339	\$132,704	\$135,506
Slowdown	120,350	122,276	121,339	122,704	128,006
Recession	120,350	120,776	112,339	112,704	119,506
<b>Spending</b>					
<b>General Fund Spending</b>					
Main	\$115,262	\$121,119	\$123,804	\$127,345	\$130,575
Slowdown	115,262	119,815	119,045	122,385	126,882
Recession	115,262	119,043	113,981	117,831	124,755
<b>Proposition 98 Minimum Guarantee (General Fund and Local Property Taxes)</b>					
Main	\$69,148	\$71,447	\$74,599	\$75,825	\$77,468
Slowdown	69,148	70,215	70,180	70,937	73,382
Recession	69,148	69,475	64,884	66,083	70,969
<b>Proposition 98 General Fund</b>					
Main	\$49,444	\$50,213	\$52,110	\$52,376	\$52,992
Slowdown	49,444	48,981	47,691	47,487	48,905
Recession	49,444	48,242	42,395	42,634	46,492
<b>Total Reserves</b>					
Main	\$7,880	\$11,537	\$18,072	\$23,432	\$28,363
Slowdown <sup>a</sup>	7,880	10,341	12,635	12,955	14,078
Recession <sup>a</sup>	7,880	9,613	7,971	2,844	-2,405

<sup>a</sup> These scenarios implicitly assume Proposition 2 budget emergency suspensions or withdrawals in some fiscal years.  
BSA = Budget Stabilization Account.