

LAO   
**75**  
YEARS OF  
SERVICE

# California's Fiscal Outlook



Presented to:

**California State Association of Counties**

Carolyn Chu

**Legislative Analyst's Office**

# State Budget Basics

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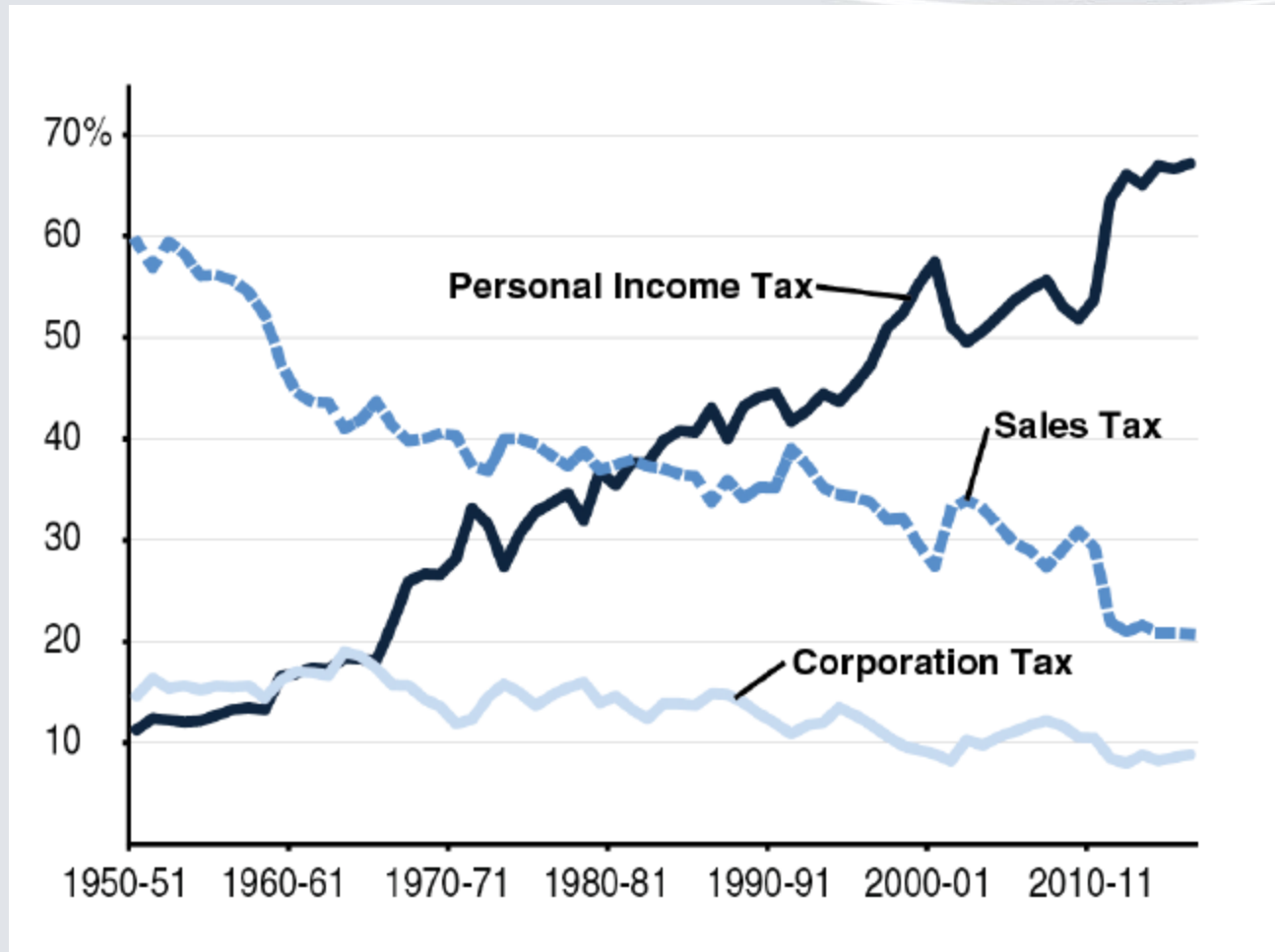
## ➤ Revenues

- Big Three: Personal Income Tax, Sales Tax, and Corporate Tax

## ➤ Expenditures:

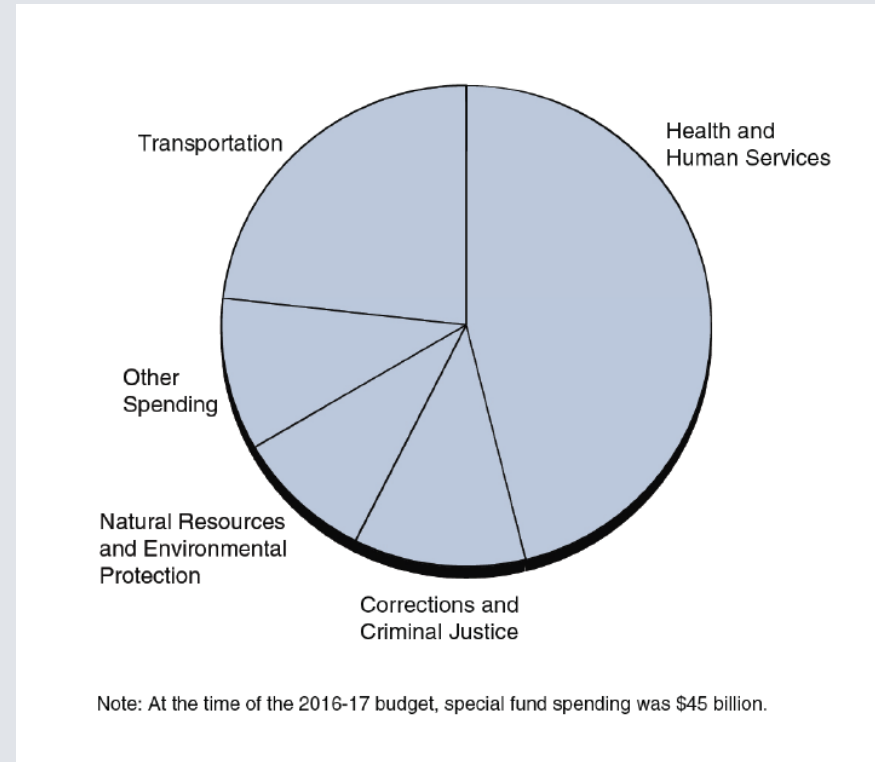
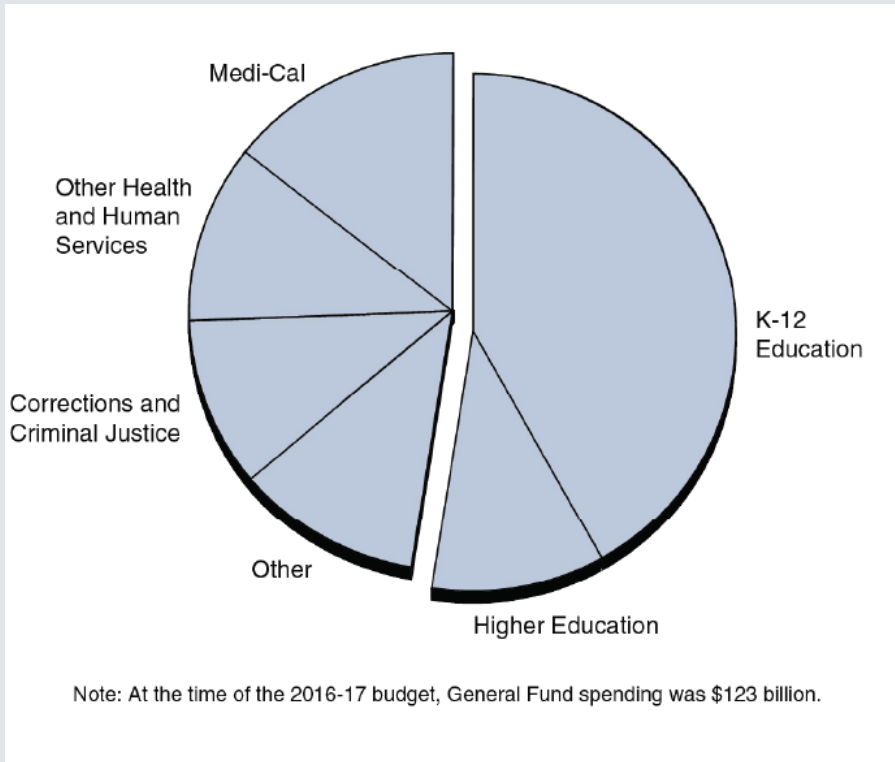
- Over \$120 billion General Fund and \$45 billion Special Funds
- About half of General Fund spending goes to education

# Personal Income Tax Is the Dominant State Revenue Source



# Education and Health and Human Services Make Up Majority of Spending

## General Fund and Special Fund Spending, 2016-17



# 2017-18 Outlook

# How We Build Our Outlook

## ➤ **Three Components to Outlook**

- Formula-Driven Requirements
- Caseload, Utilization, and Price Requirements
- Discretionary Elements

## ➤ **Outlook Includes the Effects of 2016 Voter Initiatives**

## ➤ **Outlook Assumes No New Changes in Federal Policy**

# The Economy

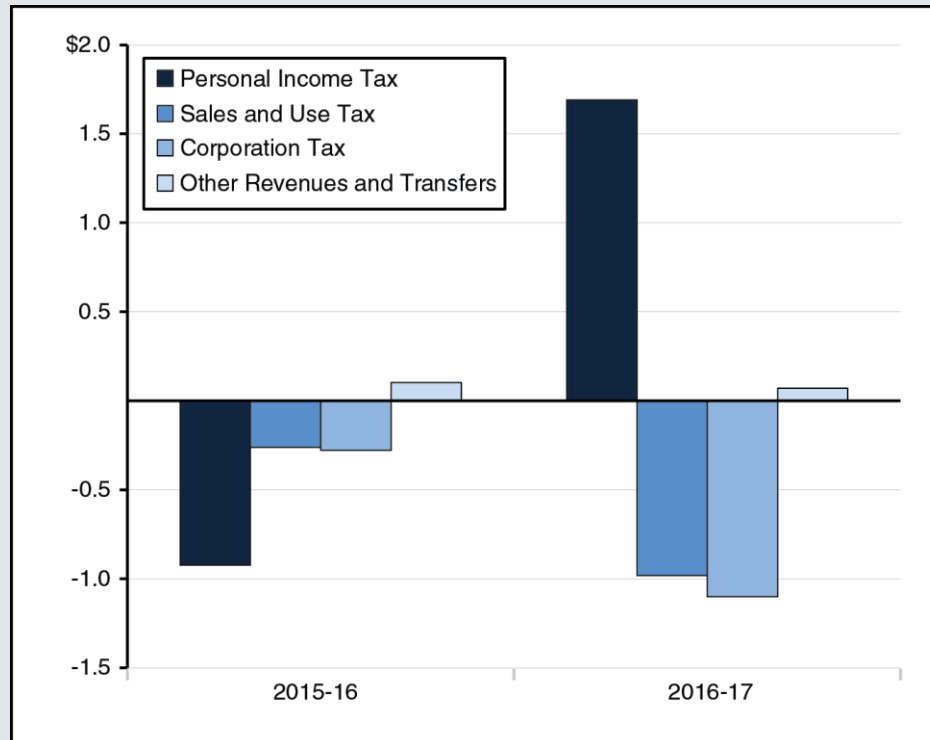
## *Long Economic Expansion Continues*

<b>United States</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Real gross domestic product	2.6%	1.6%	2.3%	2.2%
Personal income	4.4	3.3	4.3	4.8
Wage and salary employment	2.1	1.7	1.1	0.8
Unemployment rate (percent)	5.3	4.9	4.6	4.6
Consumer price index	0.1	1.1	2.3	2.2
Core PCE price index	1.4	1.6	2.0	1.6
Federal funds rate (percent)	0.1	0.4	1.0	1.9
Housing permits (thousands)	1,178	1,158	1,294	1,366
S&P 500 (annual average)	2,061	2,078	2,165	2,231
<b>California</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Personal income	6.4%	3.9%	5.0%	5.6%
Wage and salary employment	3.0	2.6	1.9	1.6
Unemployment rate (percent)	6.2	5.4	5.3	5.2
Consumer price index	1.5	2.3	2.8	2.7
Housing permits (thousands)	98	96	98	100
Single-unit permits	45	47	50	52
Multifamily permits	53	49	48	48
Population growth	1.0	1.0	0.9	0.9



# The Revenues: Prior & Current Year

*General Fund Revenue Estimates \$1.7 Billion Below Budget Assumptions for 2015-16 and 2016-17 Combined*



# The Revenues: Budget Year

*Strong Personal Income Tax Growth Drives Healthy Revenue Growth in 2017-18*

	2015-16	2016-17	2017-18	Change From 2016-17	
				Amount	Percent
Personal income tax	\$79,039	\$85,085	\$90,959	\$5,874	6.9%
Sales and use tax	24,766	24,747	25,024	277	1.1
Corporation tax	10,032	9,892	10,162	269	2.7
Subtotals, "Big Three" Revenues	(\$113,837)	(\$119,724)	(\$126,144)	(\$6,420)	(5.4%)
Insurance tax	\$2,561	\$2,376	\$2,456	\$80	3.4%
Other revenues	2,219	1,779	1,650	-129	-7.3
BSA transfer	-1,814	-3,294	-1,979	1,315	—
Other transfers	-1,160	-593	-148	446	—
<b>Totals, Revenues and Transfers</b>	<b>\$115,643</b>	<b>\$119,991</b>	<b>\$128,123</b>	<b>\$8,132</b>	<b>6.8%</b>

# General Fund Spending Outlook

(In Billions)

	Estimates		Outlook	
	2015-16	2016-17	2017-18	Change From 2016-17
<b>Education Programs</b>				
Proposition 98	\$49.1	\$51.0	\$52.4	2.7%
UC	3.2	3.4	3.4	1.3
CSU	3.0	3.3	3.3	2.3
Student Aid Commission	1.4	1.1	1.2	3.9
Child Care	0.9	0.9	1.1	17.5
<b>Health and Human Services</b>				
Medi-Cal	17.5	17.9	18.7	4.5
CalWORKs	0.7	0.7	1.0	48.2
SSI/SSP	2.8	2.9	2.9	1.5
IHSS	3.0	3.5	3.7	6.2
DDS	3.5	4.0	4.1	2.9
DSH	1.6	1.7	1.6	-4.3
Other major programs	2.2	2.4	2.4	0.6
<b>Criminal Justice Programs</b>				
CDCR	9.7	10.0	9.8	-1.1
Judiciary	1.6	1.8	1.8	-2.2
<b>Infrastructure Debt Service</b>				
	5.3	5.4	5.5	1.7
<b>Other Programs</b>				
CalSTRS	1.9	2.5	2.6	6.5
Proposition 2 debt payments	—	—	2.0	—
Remaining programs	7.4	9.7	8.6	-11.8
<b>Totals</b>	<b>\$114.9</b>	<b>\$122.0</b>	<b>\$126.1</b>	<b>3.4%</b>

# The General Fund Condition

	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
<b>Reserves</b>			
SFEU balance	\$2,749	\$751	\$2,765
BSA balance	3,420	6,714	8,694
<b>Total Reserves</b>	<b>\$6,169</b>	<b>\$7,466</b>	<b>\$11,459</b>

# Property Taxes

## ➤ **Property Tax Growth Somewhat Lower Than Expected**

- In May, we estimated assessed values would grow 6.6 percent in 2016-17
- Board of Equalization data shows assessed values increased by only 5.5 percent in 2016-17
- For 2017-18 and throughout the outlook period, we estimate assessed values will grow about 5.5 percent per year

# Why Were Assessed Values Lower?

## Relationship Between Assessed Values and Home Prices Has Shifted

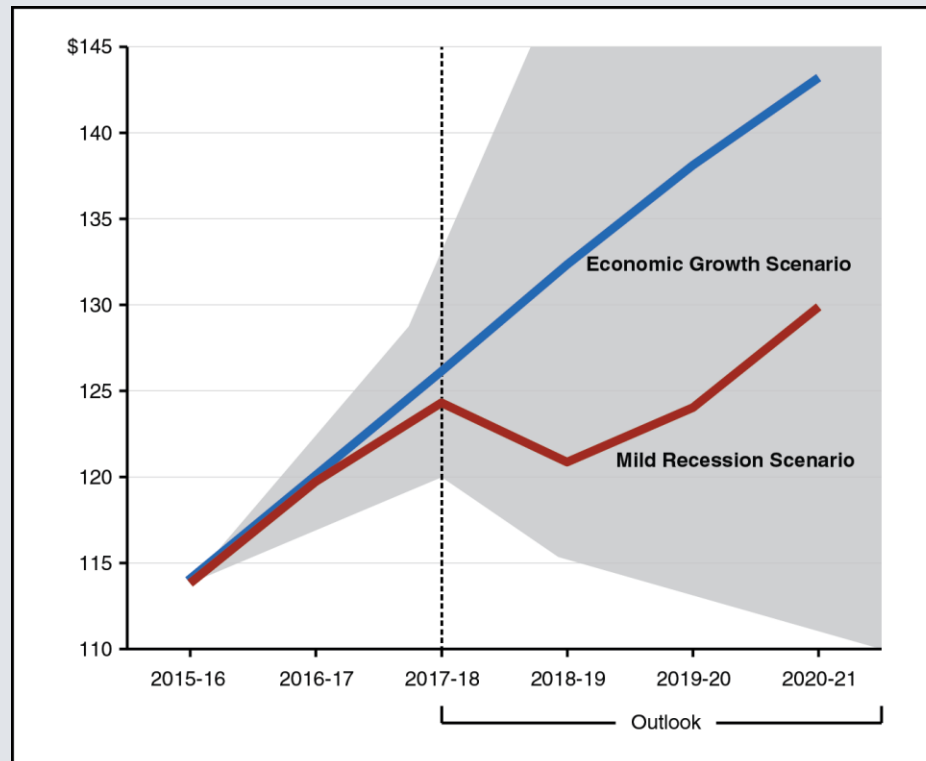
Large California Counties, 1994-2016



# The Out Years

# Uncertainty in the Outlook

*Range of Possible Revenue Estimates (In Billions)*

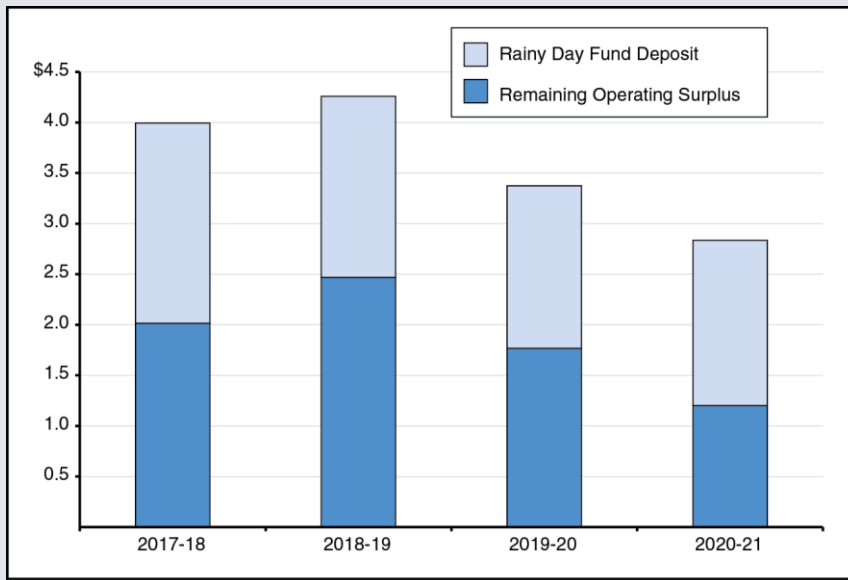




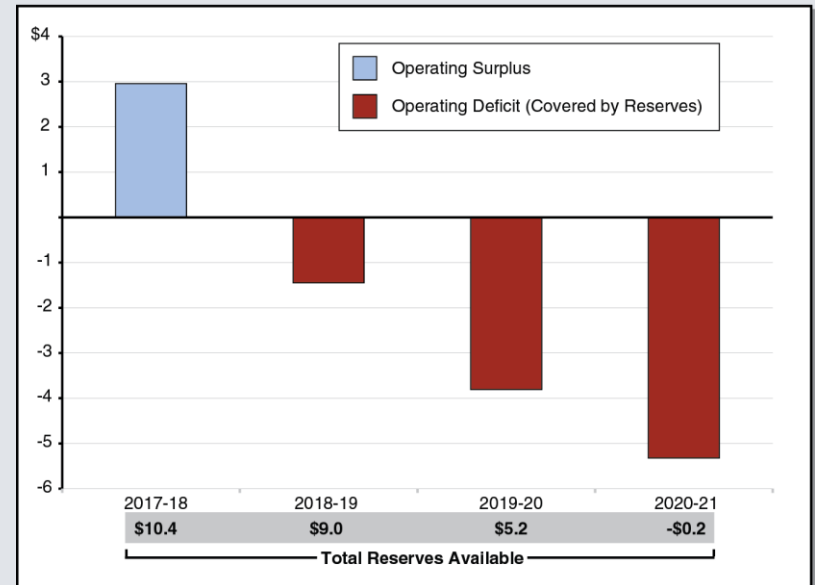
# Revenues Differ Dramatically Between Two Scenarios...

*...But Reserves Cover Operating Deficits in Recession Scenario*

## Growth Scenario

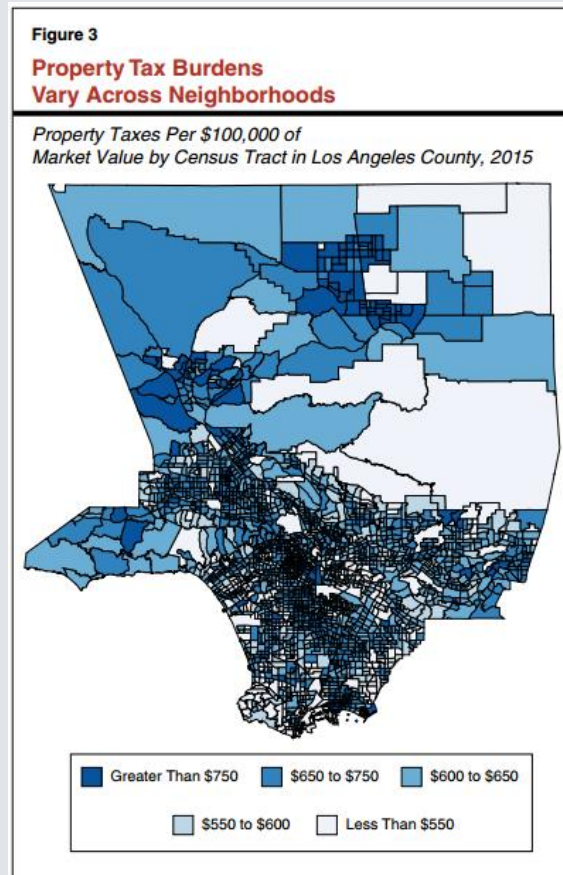


## Recession Scenario



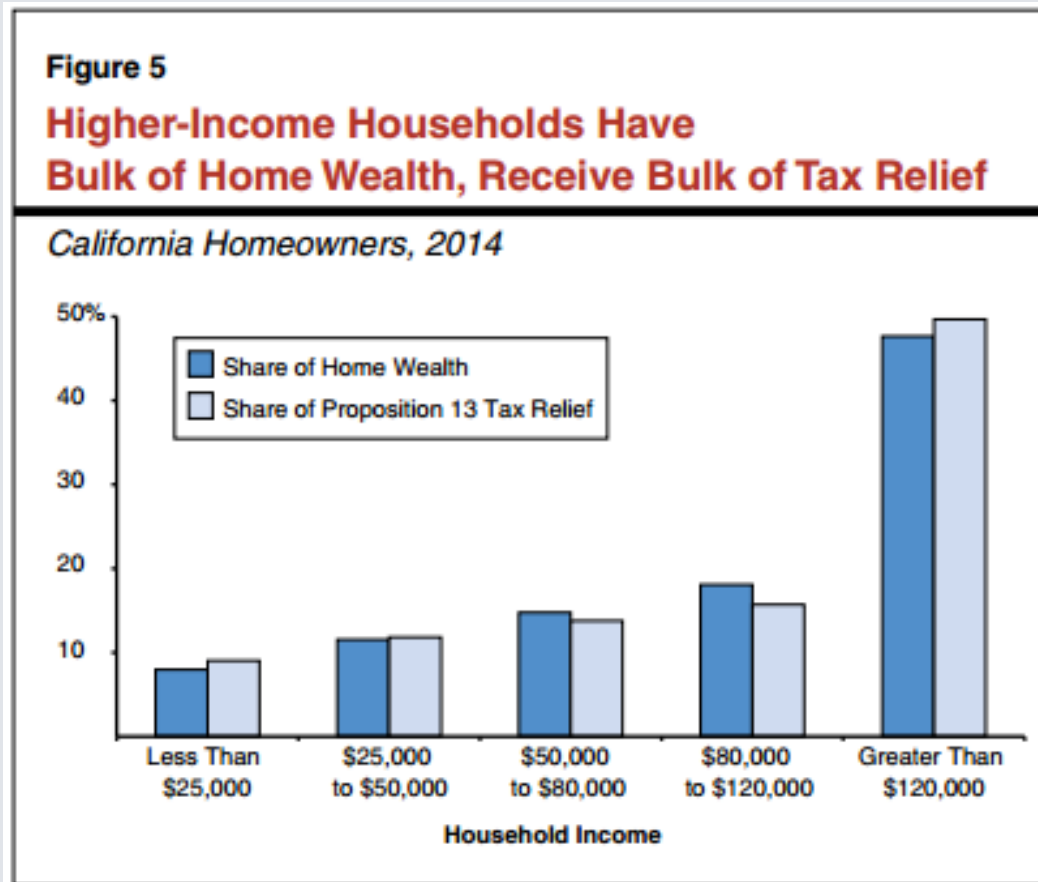
# Common Claims About Proposition 13

*Some Highlights....*



# Common Claims About Proposition 13

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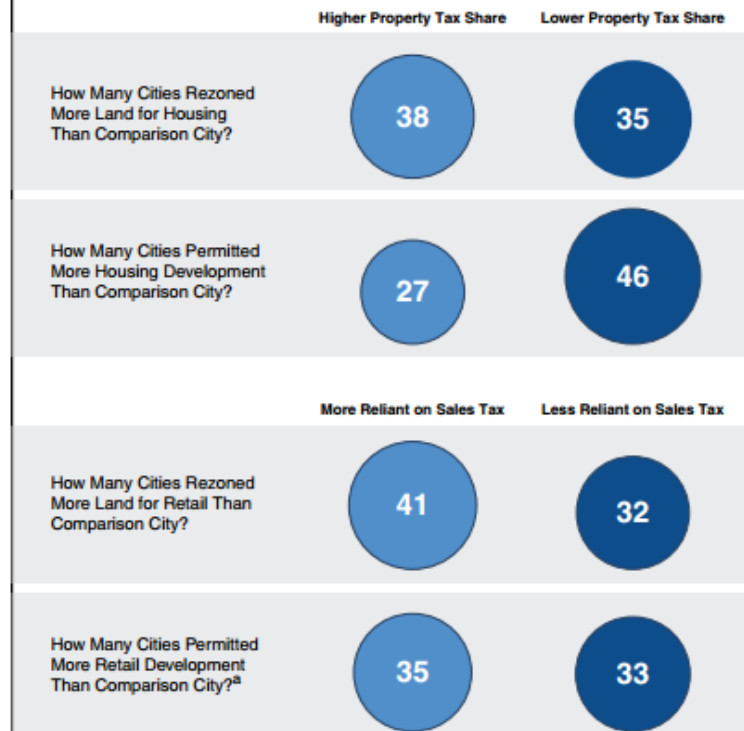
# Common Claims About Proposition 13

(Continued)

**Figure 19**

## Little Evidence That Fiscal Incentives Drive Land Use Decisions

*Comparison of Land Use Changes in 73 Pairs of Similar Cities, 2006-2015*



<sup>a</sup> Only covers the period 2013-2015. In five pairs of cities, neither city permitted any new retail.

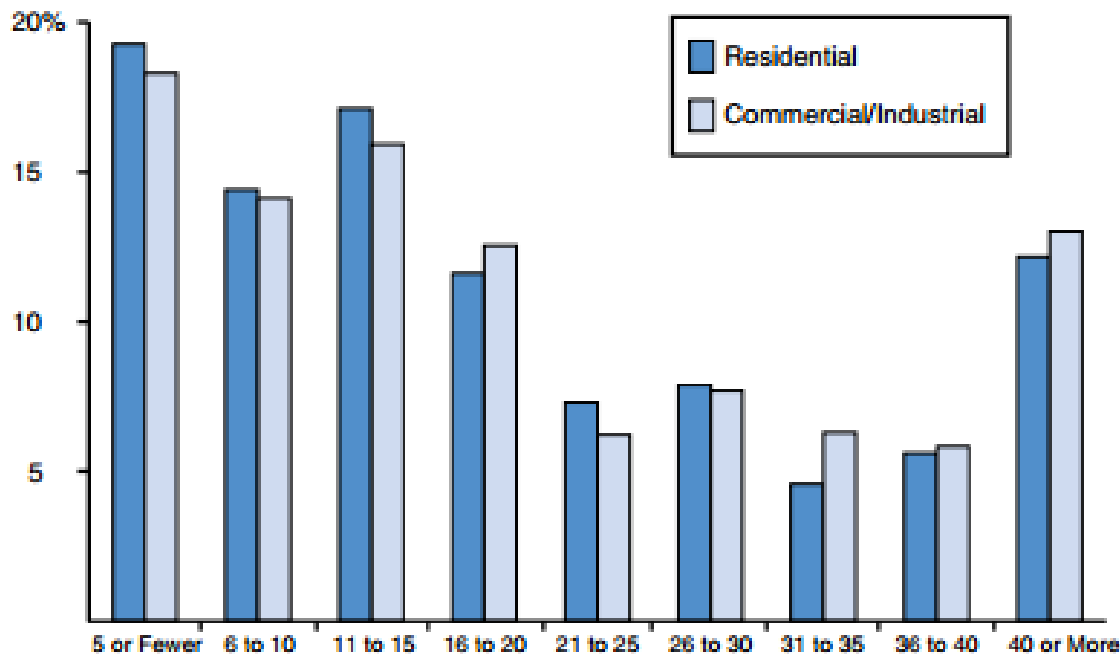
# Common Claims About Proposition 13

(Continued)

**Figure 9**

## Frequency of Reassessment Relatively Similar Across Property Types

*Years Since Reassessment for Properties in Los Angeles County*



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