

ACBO 2016 Spring Conference

Overview of the 2016-17 May Revision

Presented By
John Gray, President

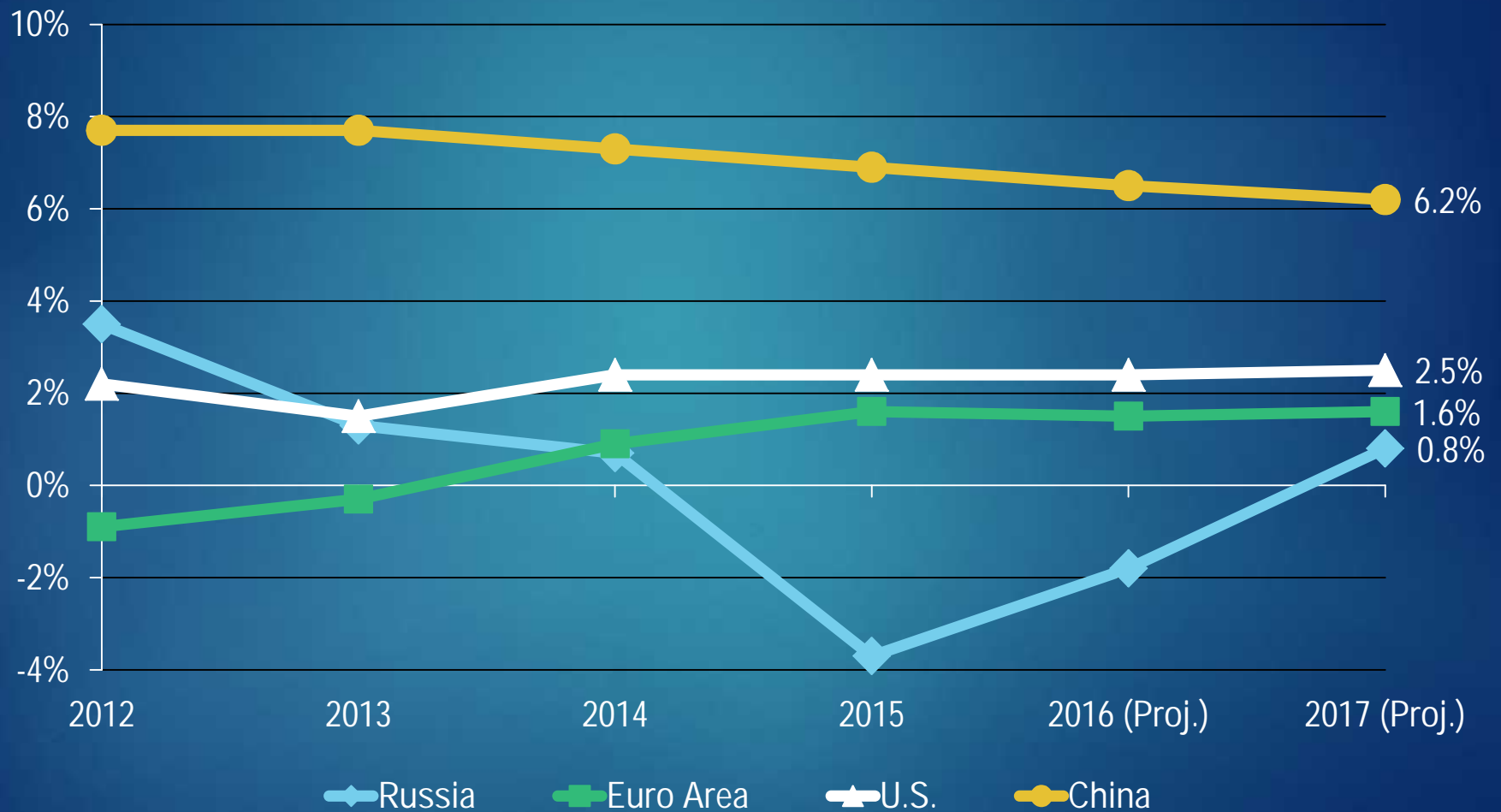


U.S. Economy – GDP

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Annual Change in the Gross Domestic Product (GDP)



Source: International Monetary Fund, April 2016

U.S. Economy

Dow Jones Industrial Average

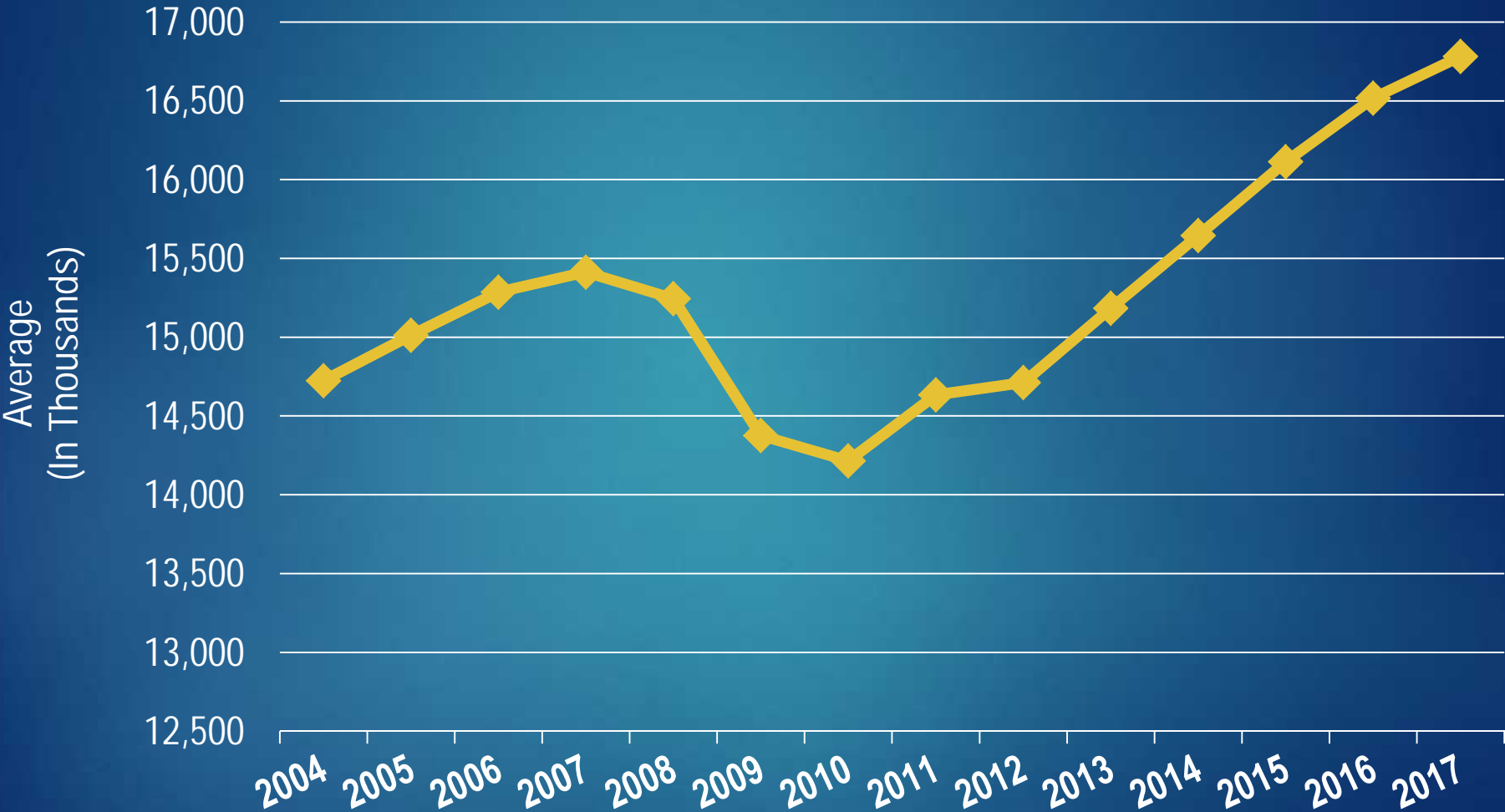


Oil Prices

- Oversupply spanning the past couple of years has caused prices to plummet
- Oil prices are beginning to rise again, but why?
 - ▶ Fire near Canada's main oil hub has caused the country to cut off 645,000 barrels of production per day, or 25% of the country's overall output
 - ▶ Recent trade data from China indicates more than 123.76 million barrels of crude oil imported over the first four months of 2016; a 12% rise
 - ▶ The ousting of Saudi Arabia's oil minister, Ali Al-Naimi, was projected to cause a decrease in oil prices, but factors mentioned above have been larger drivers

California – Nonfarm Jobs

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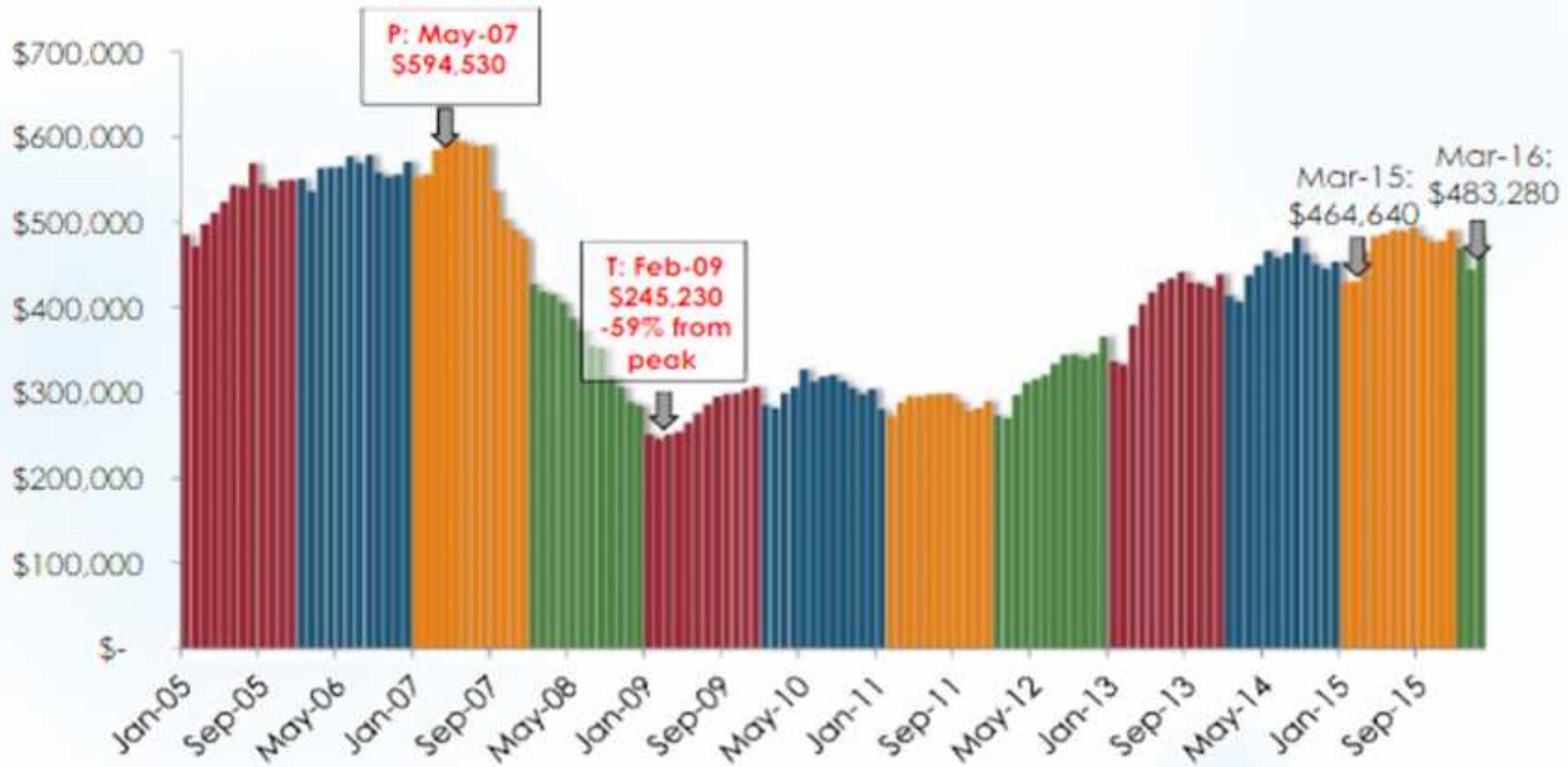


Source: <http://laedc.org/wp-content/uploads/2016/02/LAEDC-2016-2017-February-Forecast.pdf>

Home Prices in California

MEDIAN PRICE OF EXISTING DETACHED HOMES

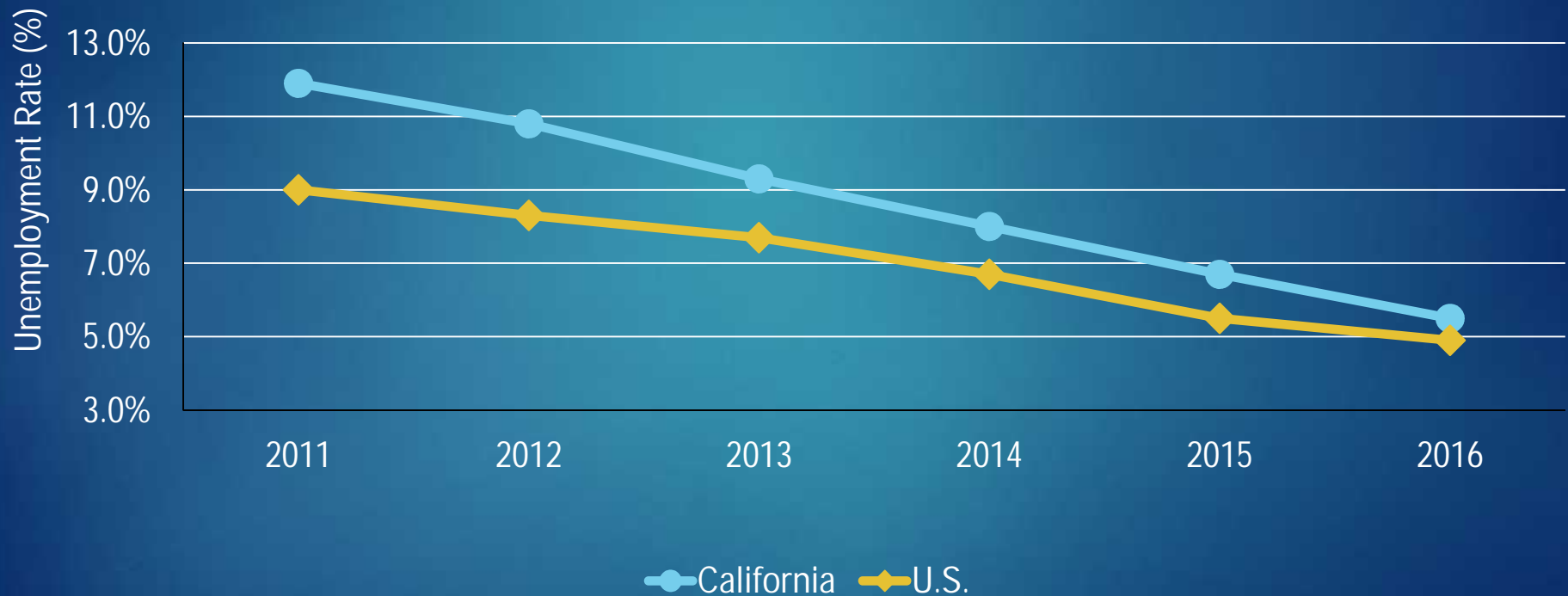
California, Mar. 2016: \$483,280, +8.9% MTM, +4.0% YTY



Unemployment Rates

California and U.S. Unemployment Rates Five-Year Trend

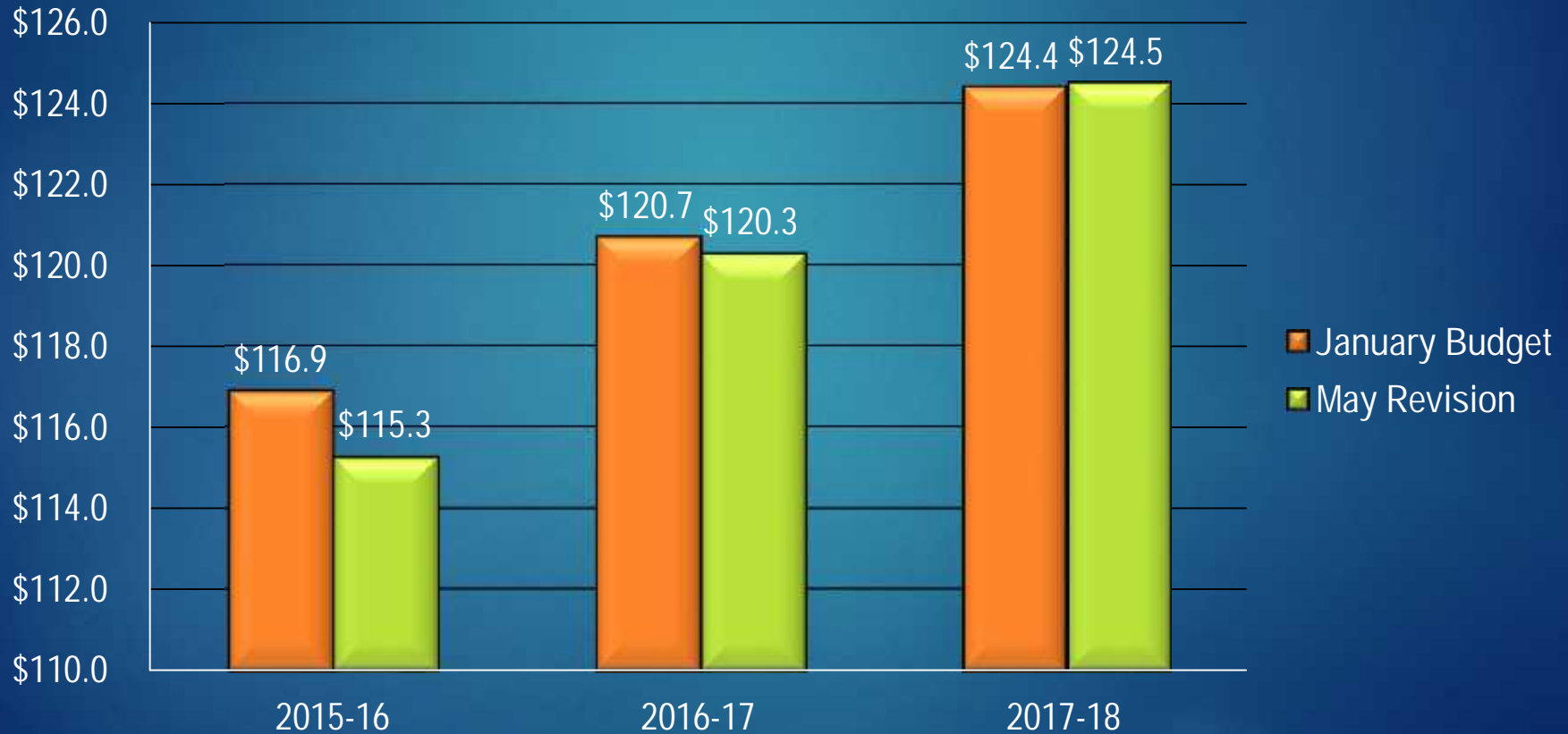
February 2016; Seasonally Adjusted Data



Source: <http://www.labormarketinfo.edd.ca.gov/file/lfmonth/employment-highlights.pdf>

General Fund Revenues in 2016-17 – Big Three

General Fund Revenues (in Billions)



General Fund Budget Summary in 2016-17

	2015-16	2016-17
Prior-Year Balance	\$3,444	\$4,829
Revenues and Transfers	<u>\$117,000</u>	<u>\$120,080</u>
Total Resources	\$120,444	\$124,909
Total Expenditures	<u>\$115,615</u>	<u>\$122,155</u>
Fund Balance	\$4,829	\$2,754
Budget Reserve:		
Reserve for Encumbrance	\$966	\$966
Reserve for Economic Uncertainties	\$3,863	\$1,788
Budget Stabilization Account	<u>\$3,421</u>	<u>\$6,713</u>
Total Available Reserve	\$8,250	\$9,467

- Revenues and Transfers for 2016-17 have decreased \$550 million from the January Budget proposal
- Available reserves for 2016-17 have decreased approximately \$1.8 billion from the January Budget proposal

Proposition 98 Funding Will Slow

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- Compared to the 2011-12 Proposition 98 guarantee, funding in 2016-17 will have increased \$24.6 billion to \$71.9 billion under the May Revision
- These gains are largely attributed to the repayment of the Proposition 98 Maintenance Factor, an amount equivalent to the loss of funds imposed on K-14 education during the recession
- A restoration, not a repayment
- According to the May Revision, \$908 million in Maintenance Factor payments will remain at the end of 2016-17
 - ▶ \$155 million outstanding with another \$746 million newly created
- Conclusion: Proposition 98 funding will slow considerably once the Maintenance Factor has been fully paid
 - ▶ Growth will likely be in the range of 2% to 4% annually

Implications for Education Funding

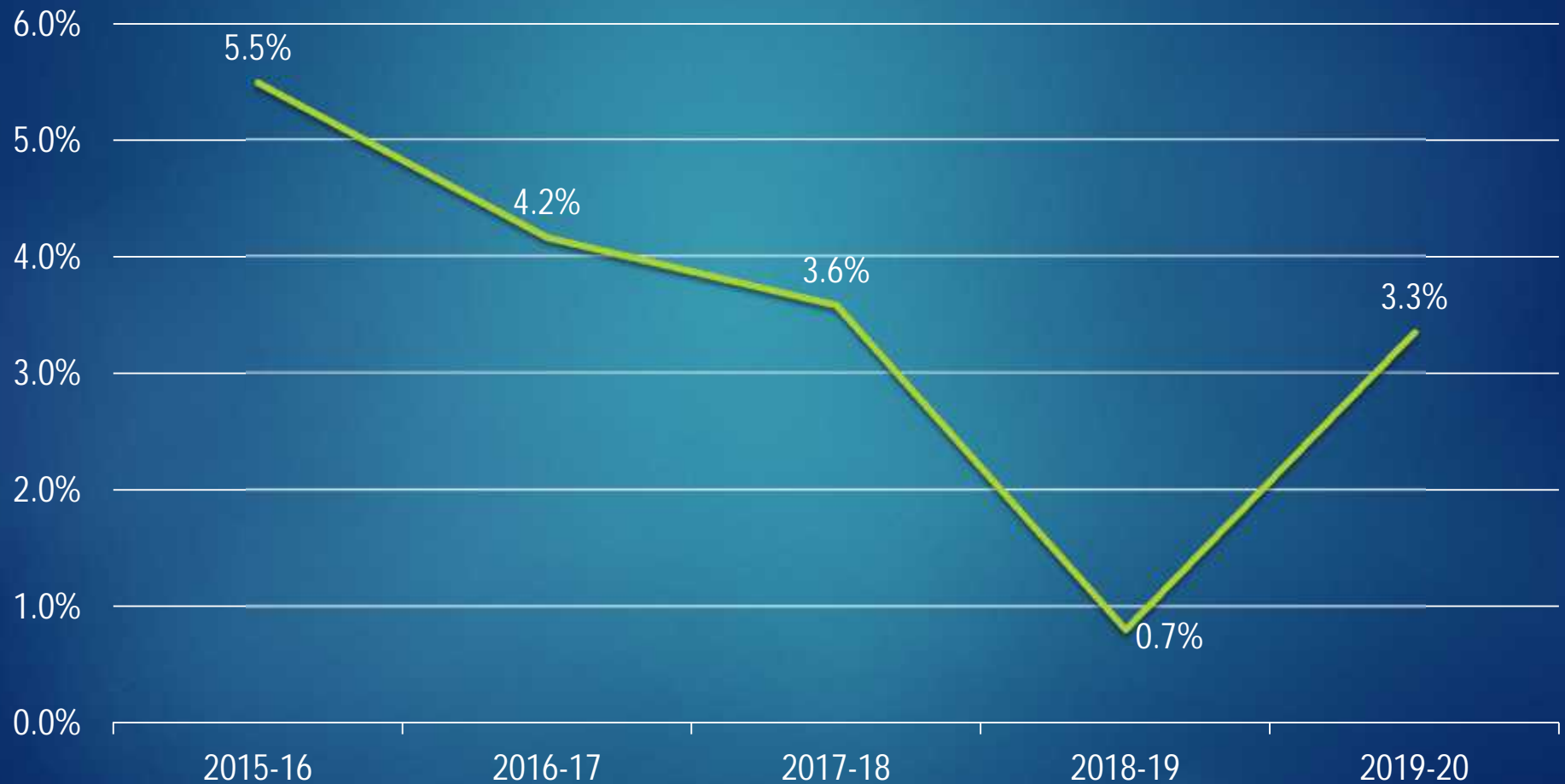
- The Administration is signaling that economic slowdown is just around the corner
 - ▶ The May Revision warns that the current economic expansion has already exceeded the average postwar expansion by over a year
- Slow to no growth in the income tax and the sales tax, which together account for 90% of General Fund revenues, will slow funding significantly as Proposition 30 revenues fade
 - ▶ The May Revision is built on the assumption that no new revenues are on the horizon and the extension of Proposition 30 would simply allow the state to eliminate deficit spending, but will not provide new monies for new programs
- If a recession occurs and Proposition 30 is not extended, state revenues could drop below prior-year levels, and cuts to education could be on the table again

Big Three Taxes – Percent Change

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Income, Sales, and Corporation Tax Revenue (Percent Change)



Source: 2016-17 May Revision, pg. 91

January Budget vs. May Revision

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Item	January Budget	May Revision
Proposition 98 Minimum Funding Guarantee		
2014-15	\$66.7 billion	\$67.2 billion
2015-16	\$69.2 billion	\$69.1 billion
2016-17	\$71.6 billion	\$71.9 billion
2016-17 COLA	0.47%	0.00%

Why Is Proposition 98 Increasing?

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- The Proposition 98 guarantee for 2016-17 will be based on Test 3, the change in per capita General Fund revenues, plus 0.5%
- Therefore, even though state revenues are projected to be lower for both the current year and 2016-17, the Proposition 98 guarantee rises compared to the January estimate
 - ▶ The 2016-17 guarantee is projected to increase from \$71.6 billion in January to \$71.9 billion at the May Revision, an increase of \$288 million
- This increase in the Proposition 98 guarantee would be expected to squeeze funding for all non-Proposition 98 programs, especially given the more pessimistic outlook for state revenues next year
- However, the growth in local property taxes more than funds this increase
 - ▶ \$196.5 million in higher property taxes for 2015-16
 - ▶ \$211.3 million in higher property taxes for 2016-17

SSC Financial Projection Dashboard

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Factor		2015-16	2016-17	2017-18	2018-19	2019-20
Statutory COLA		1.02%	0.00%	1.11%	2.42%	2.67%
Base Allocation Increase		\$266.7 million	\$75 million	Ongoing	Ongoing	Ongoing
Growth/Restoration Funding		3%	2%	Ongoing	Ongoing	Ongoing
California Consumer Price Index		2.02%	2.15%	2.26%	2.49%	2.36%
California Lottery	Base	\$140	\$140	\$140	\$140	\$140
	Proposition 20	\$41	\$41	\$41	\$41	\$41
Interest Rate for Ten-Year Treasuries		1.98%	2.05%	2.43%	2.58%	2.70%
CalPERS Employee Rate (projected)		11.847%	13.888%	15.50%	17.10%	18.60%
CalSTRS Employee Rate (statutory)		10.73%	12.58%	14.43%	16.28%	18.13%

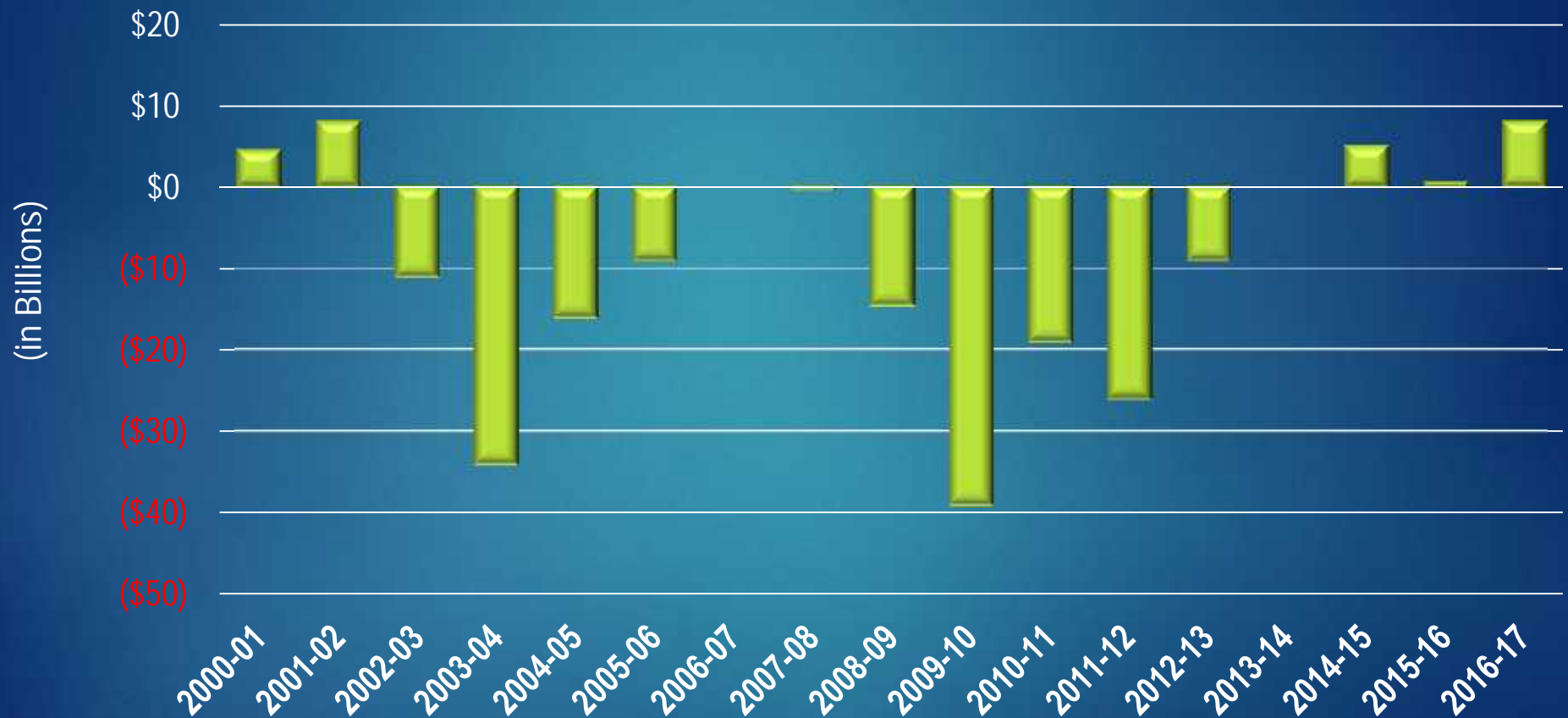
Negotiations and Increased Employee Costs

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- Automatic cost increases for step and column, health and welfare benefits, and pension costs will leave little to nothing for pay raises in 2016-17
- For the average community college, costs increase approximately as follows (as a percentage of salary):
 - ▶ Step and column 1.2%
 - ▶ Health and welfare 1.1%
 - ▶ CalSTRS/CalPERS 1.85%
 - ▶ Total increase in costs average about 4.15%
- Basically, the first 4% of new revenues is already committed to employees

Balanced Budgets Have Been Quickly Followed by High Deficits¹



¹Budget shortfall or surplus, measured by the annual Governor's Budget

Deficit Spending on the Horizon

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Source: May Revision 2016-17, pg. 4



Thank you

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