

An Update on the State Budget and its Impact on Local Agencies



Presented to:

**State Treasurer's Local Agency
Investment Fund Conference**

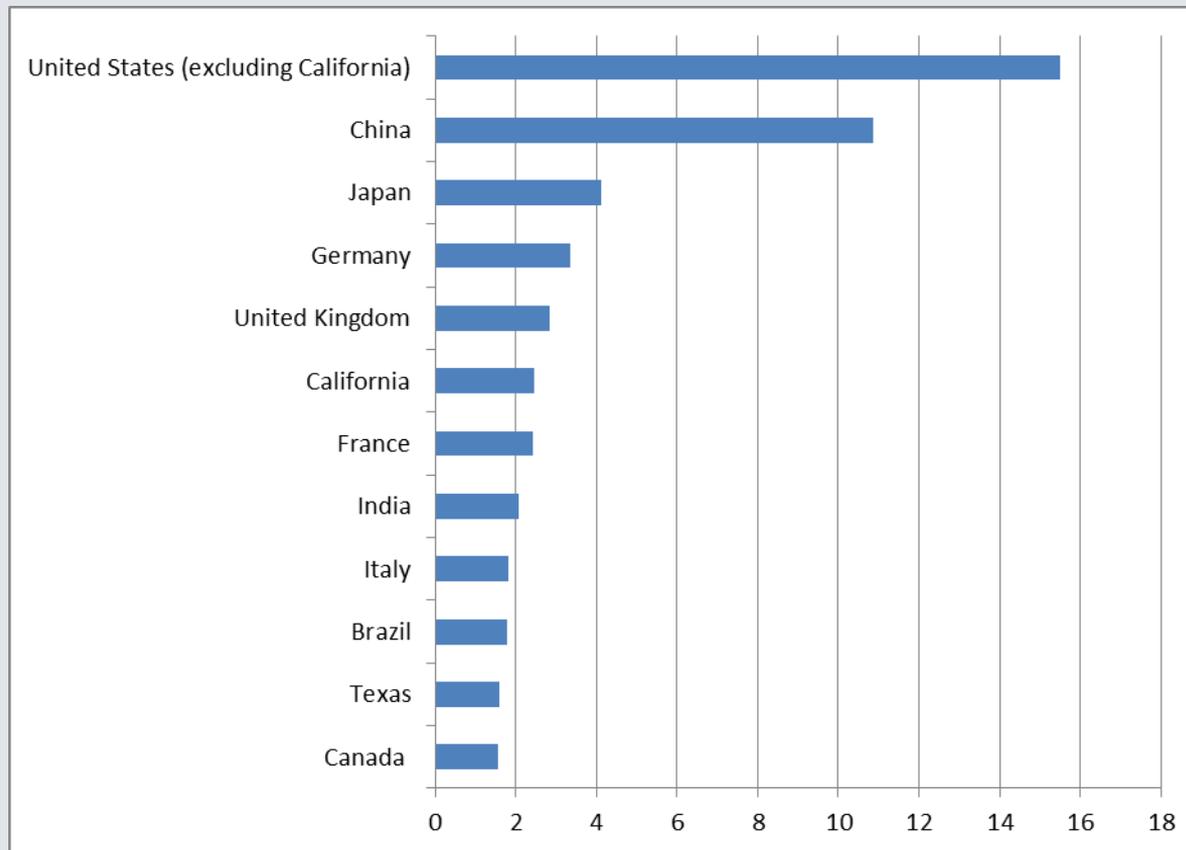
November 18, 2014

Legislative Analyst's Office

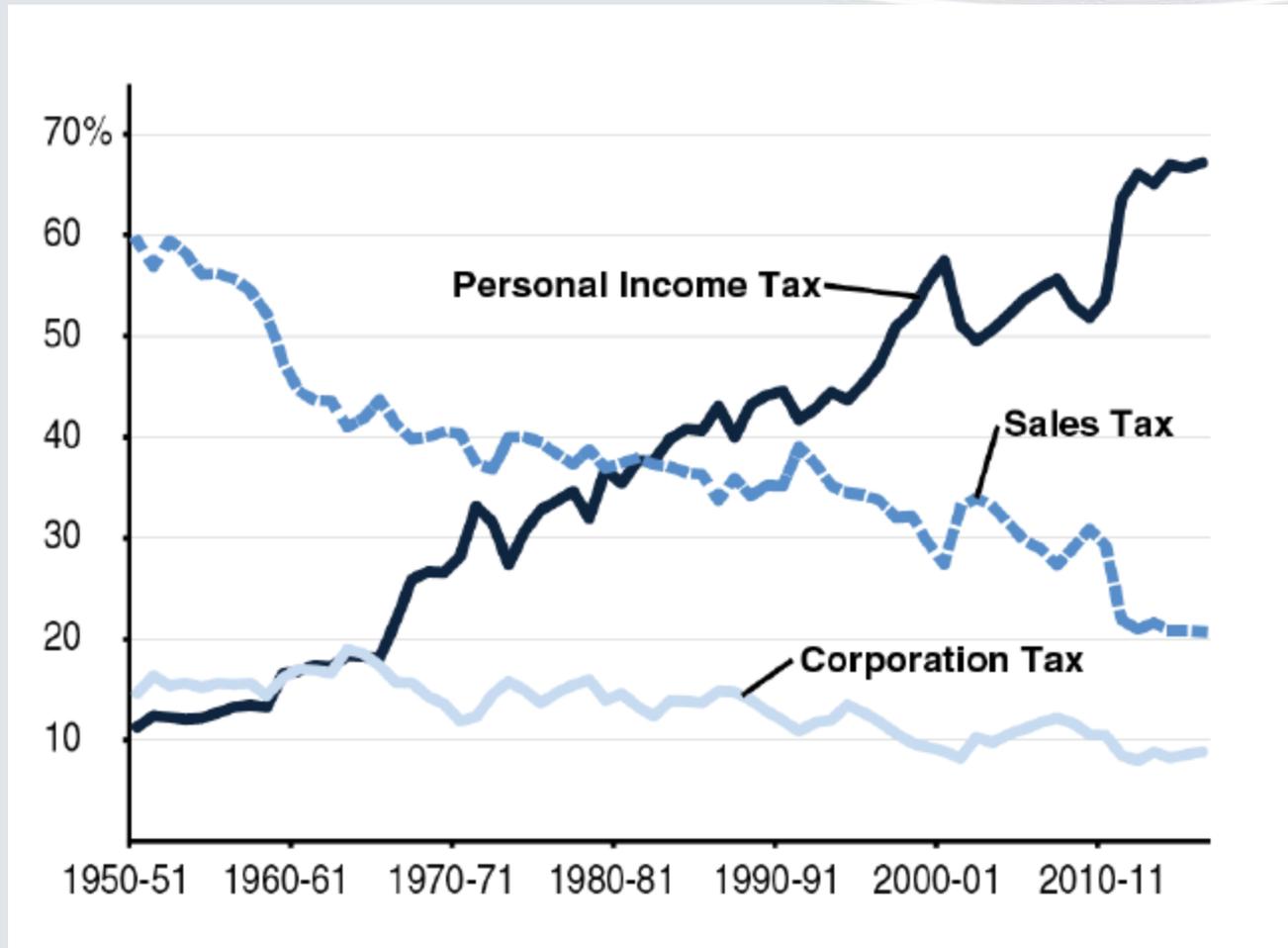
The State's Fiscal Structure: A Quick Overview

California's Economy Is Sixth Largest in the World

2015 Gross Domestic Product (In Trillions)

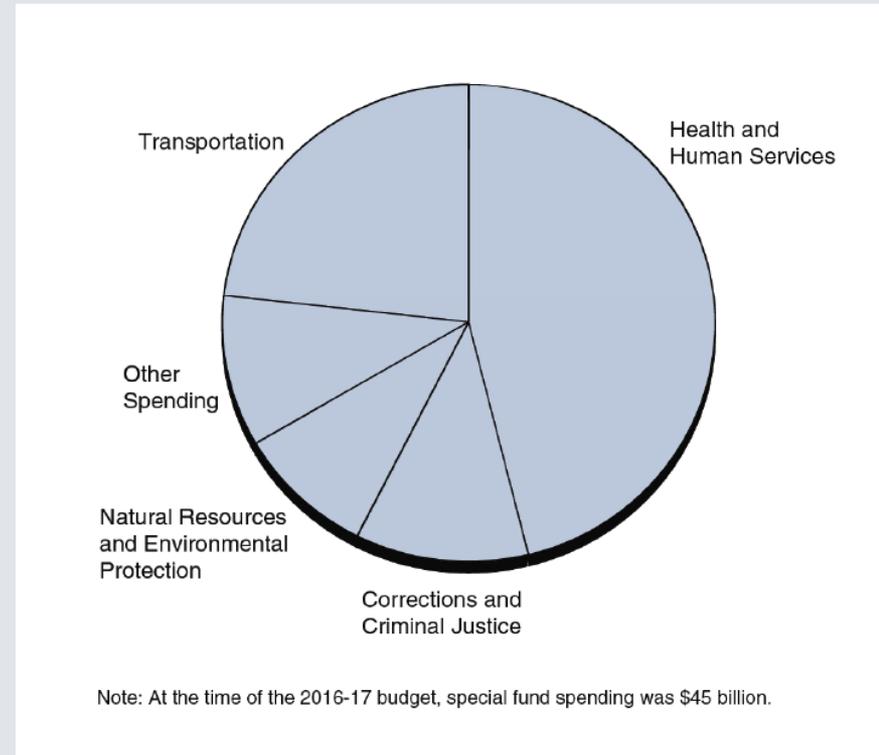
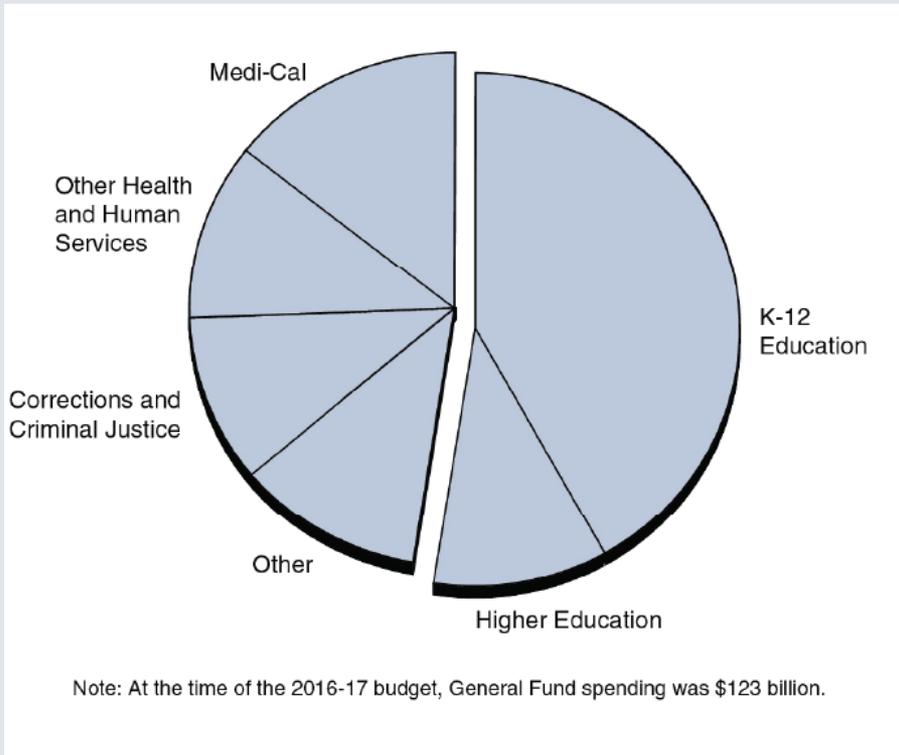


Personal Income Tax Is the Dominant State Revenue Source

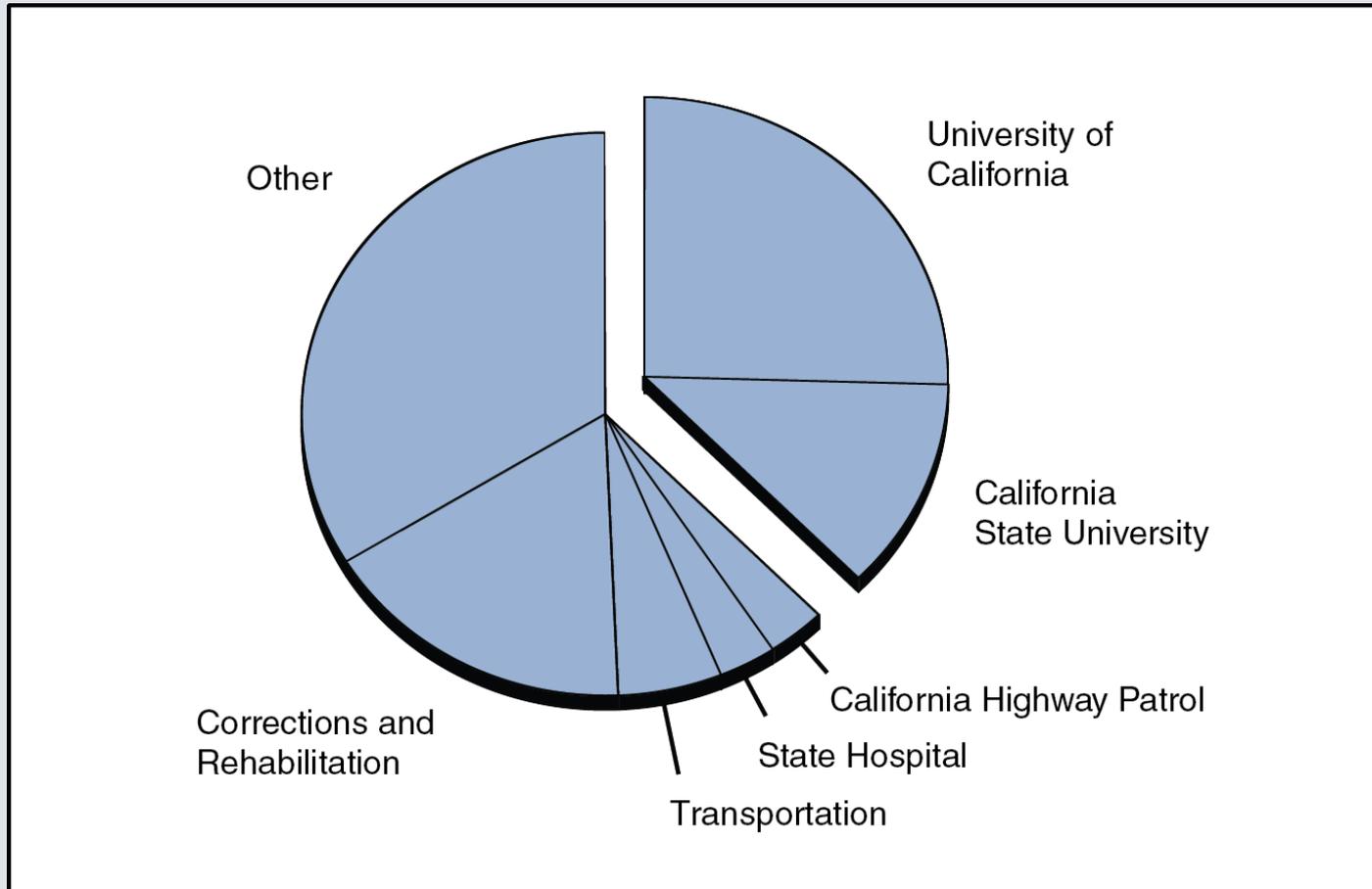


Education and Health and Human Services Make Up Majority of Spending

General Fund and Special Fund Spending, 2016-17

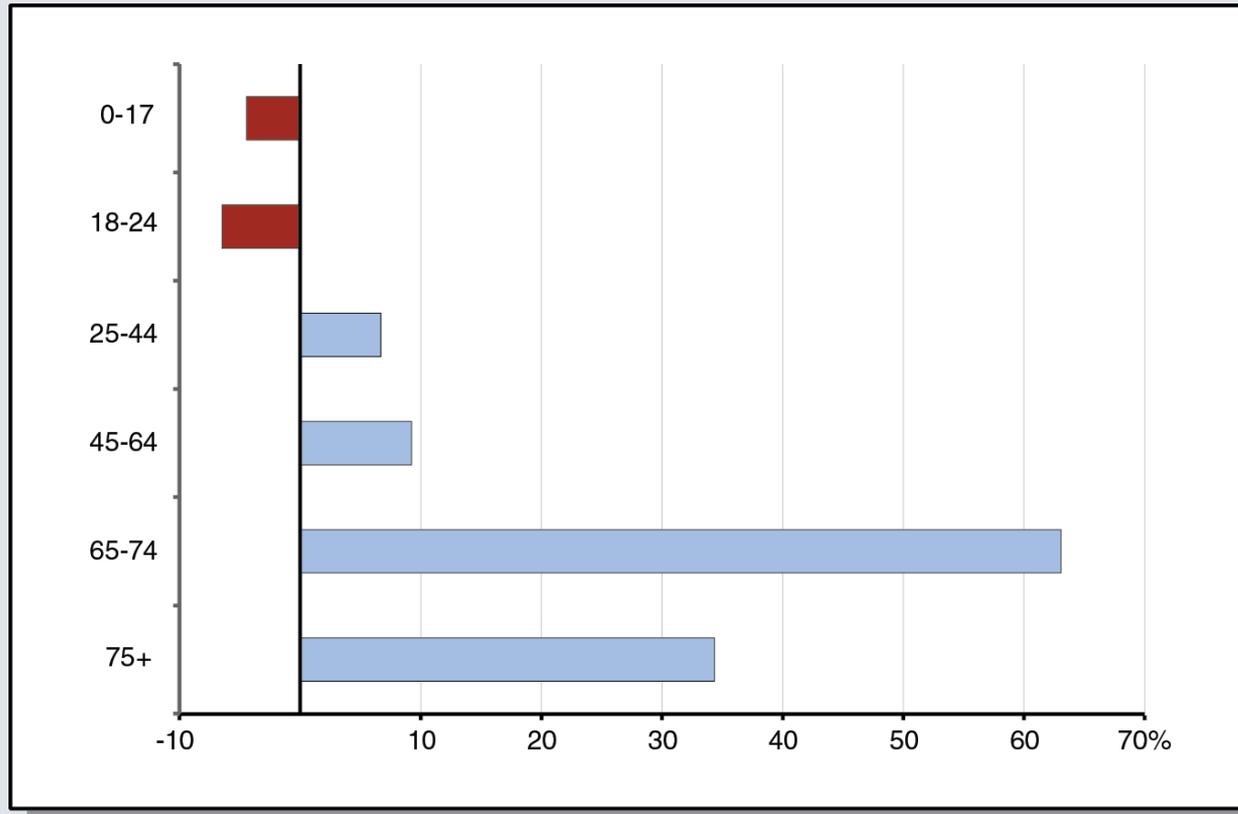


Universities Represent One-Third Of State Government Jobs



California's Elderly Population Will Grow Rapidly in the Next Decade

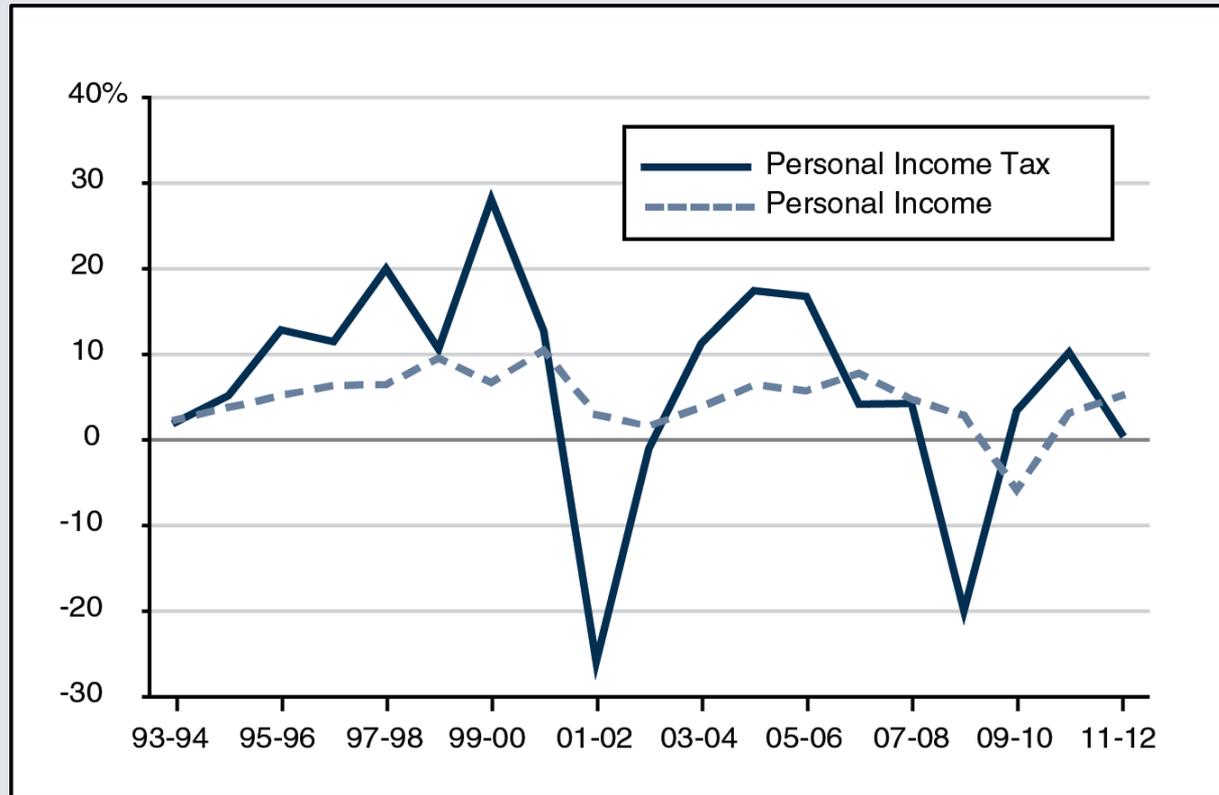
LAO Projected Growth by Age Group, 2010 Through 2020



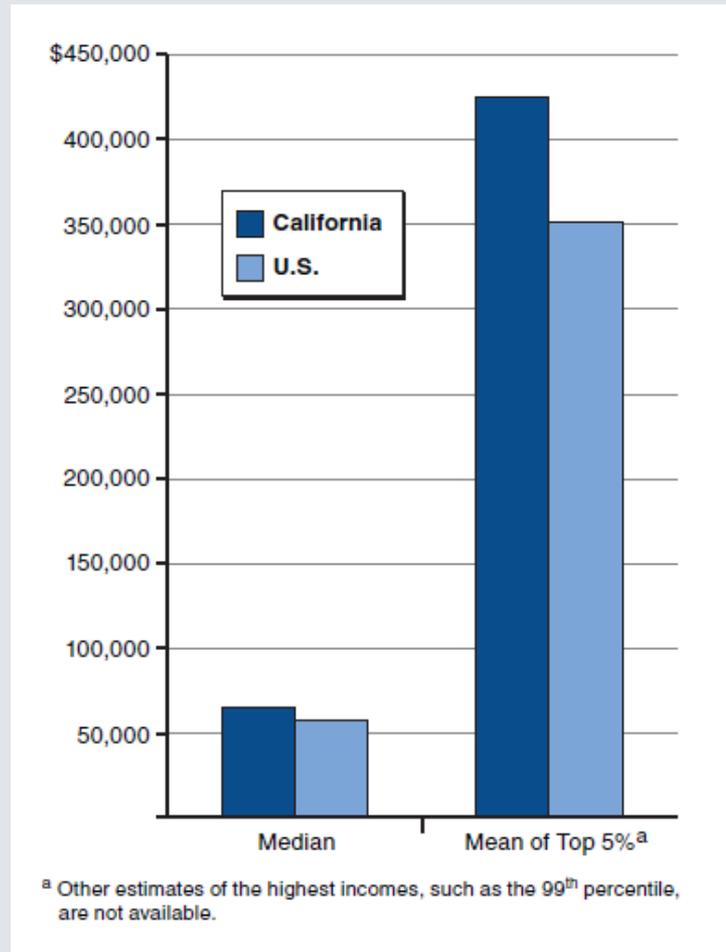
Notable Characteristics of Economy and Budget

Personal Income Tax Much More Volatile Than Personal Income

Percent Change From Prior Year

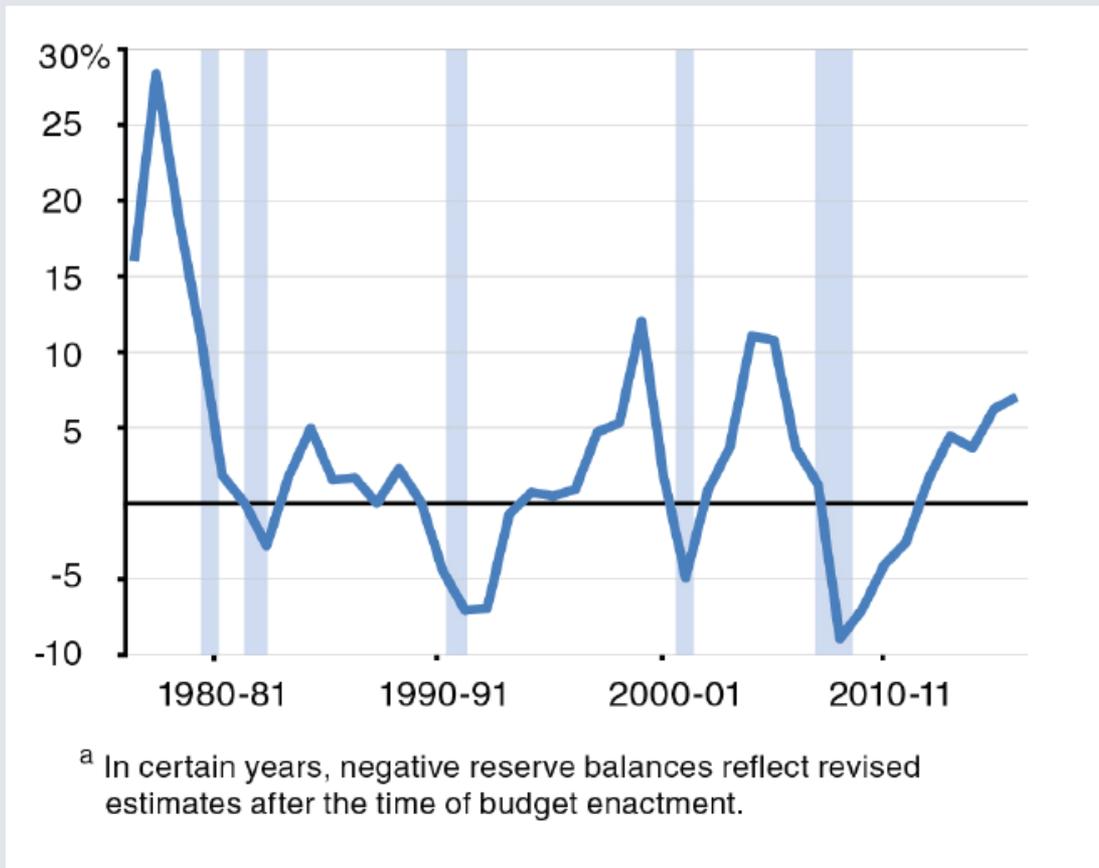


Top Incomes Higher in California Than in the Rest of US

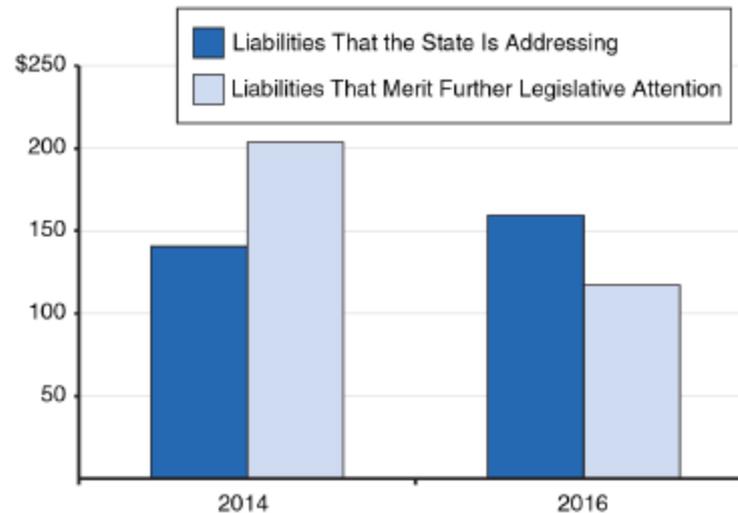


State's Reserve Has Fluctuated Over Time

Reserve Balance as Share of Revenue and Transfers



State Addressing More Liabilities



Note: The 2014 amount includes entire CalSTRS unfunded liability (\$73.7 million). The 2016 amount only includes the portion of the CalSTRS unfunded liability assigned to the state (\$13.9) according to legislation passed in 2014.

2016-17 Budget

2016-17 Budget Focused on Reserves and One-Time Spending

- **Major Taxes Assumed to Grow 4 Percent**
- **Spending Increased 3 Percent**
- **Planned Year-End Reserve of \$8.5 Billion**

Proposition 2 (2014)

➤ **Pay Down State Debts For 15 Years**

- State must spend minimum amount each year.

➤ **Annual State Reserve Payments**

- Higher payments when above average capital gains.

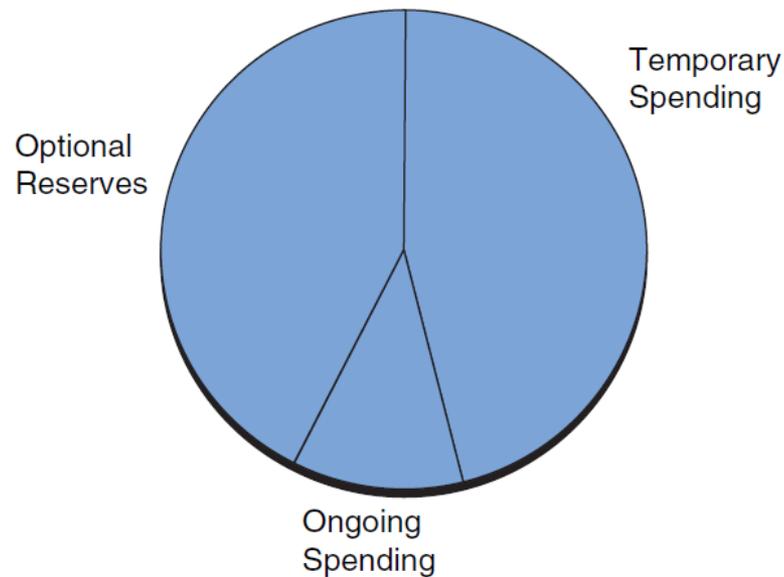
➤ **Amount of Funds in Reserve**

- Not clear if will be higher or lower than under prior law.
- Depends on economy and implementation decisions.

New Spending Primarily Temporary

June 2016 Budget Package Emphasizes Reserves, Temporary Spending

*How Budget Allocates
\$6.2 Billion in Discretionary Spending*



New Spending Primarily Temporary

Continued...

June 2016 Budget Package Allocates Over \$6 Billion in Discretionary General Fund Resources

General Fund Budget Commitments by Type (In Billions)

Reserves

Makes extra rainy day fund deposit	\$2.0
Grows discretionary reserve balance	0.6
Subtotal	<u>(\$2.6)</u>

Temporary Spending

Replaces and renovates state office buildings	\$1.0
Funds statewide deferred maintenance projects	0.5
Increases funding for affordable housing-related programs	0.5
Funds the IHSS service restoration	0.3
Augments funding for drought-related activities	0.2
Provides funding for local public safety package	0.1
Repeals maximum family grant policy	0.1
Provides grants for community services infrastructure	0.1
Adopts various other Conference Committee proposals	0.2
Subtotal	<u>(\$2.9)</u>

Ongoing Spending Commitments

Augments funding for UC and CSU	\$0.3
Sets aside funds for future collective bargaining processes	0.2
Makes augmentations for CDCR and courts	0.1
Makes augmentations for SSI/SSP and DDS	0.1
Subtotal	<u>(\$0.7)</u>

Total

\$6.2

Local Government

2016-17 Budget Package

- **No Place Like Home Supportive Housing: \$1.8 Billion**
- **Hard-to-Site Facilities: \$25 million**
- **Mandates: Some changes to RRM**
- **Last Year of Property Tax Pilot**

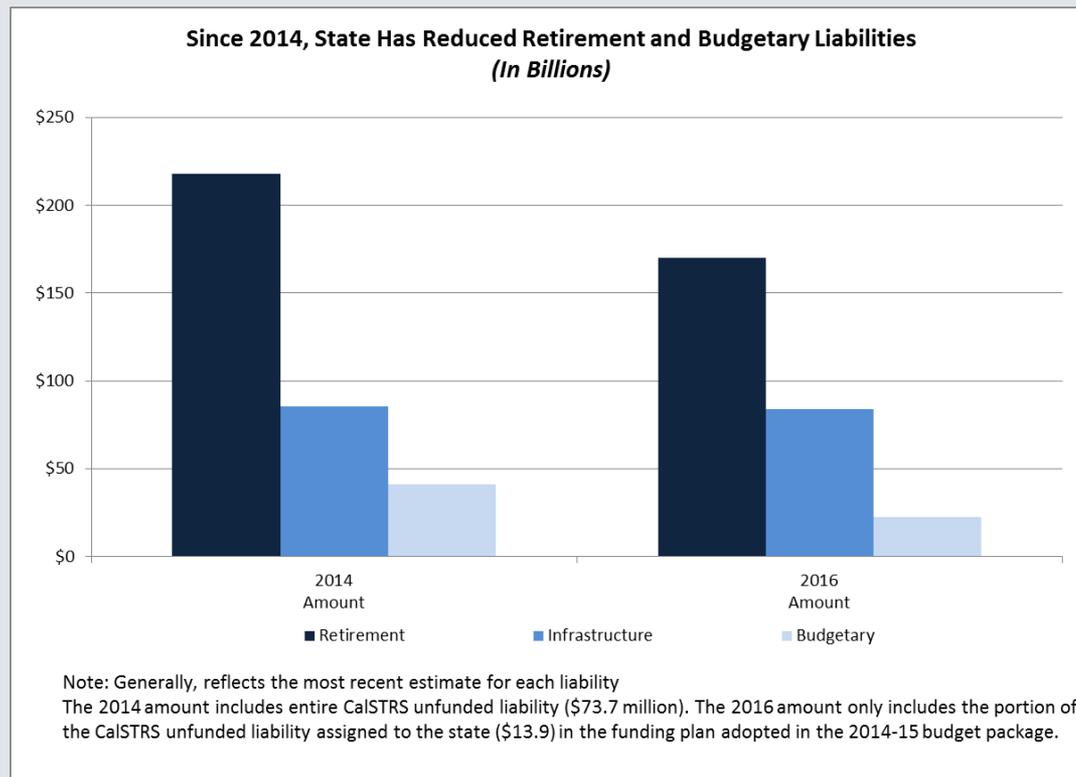
Continuing Challenges

Dealing With an Economic Downturn or Market Correction

- **State Has Not Changed Its Revenue Structure to Address Volatility**
- **Susceptible to Wide Swings in Revenue**
- **Difficult to Save Enough to Smooth Out Volatility**

Paying Off Remaining Debts

➤ Despite Progress, State Has Substantial Remaining Liabilities

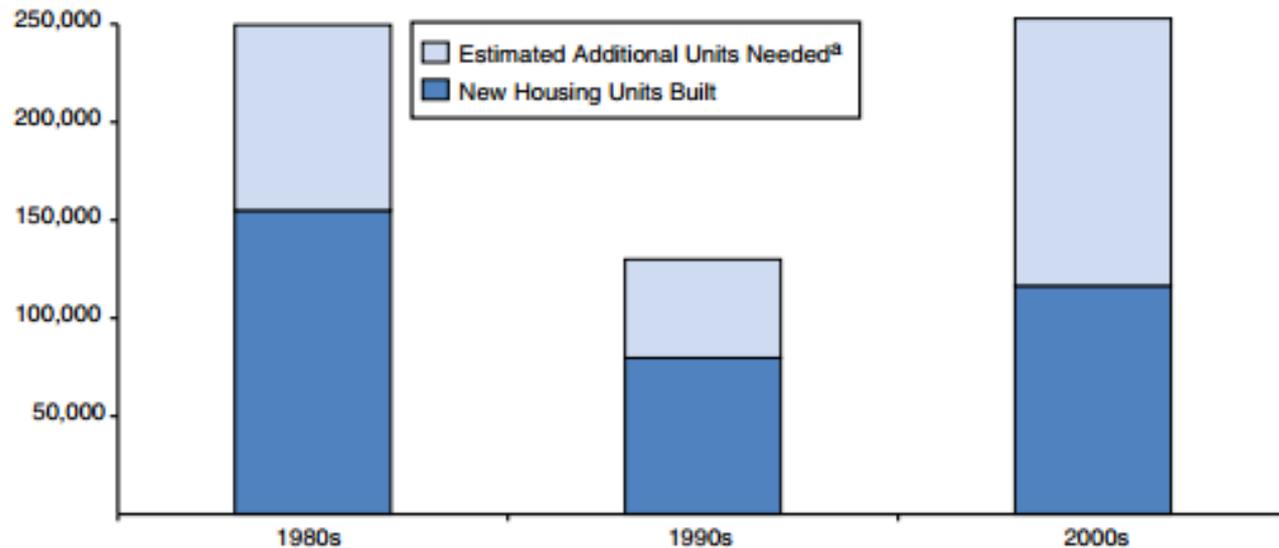


High Housing Costs

Figure 7

Building More Housing Would Have Slowed Rising Housing Costs

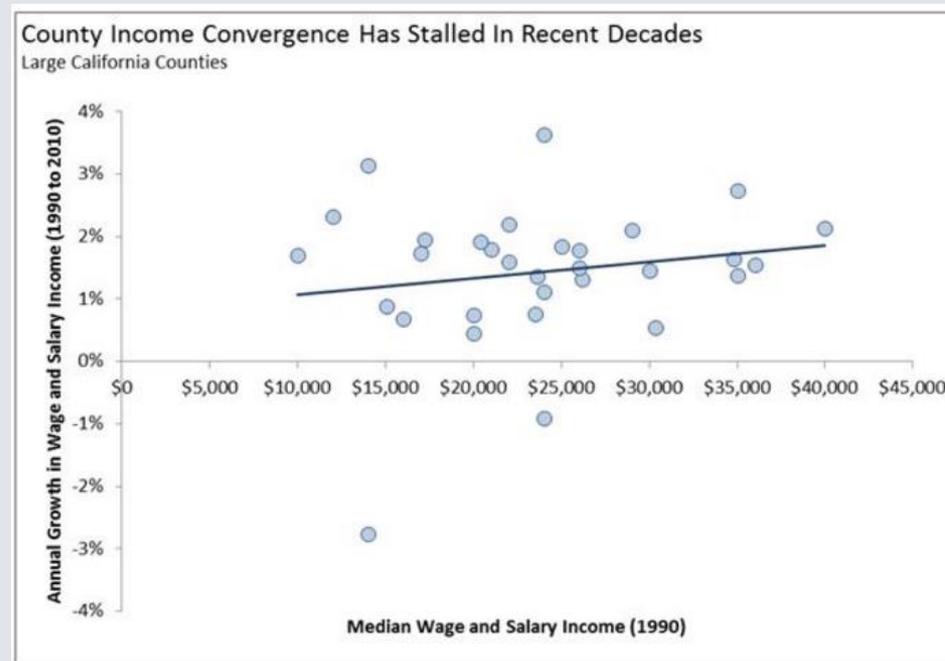
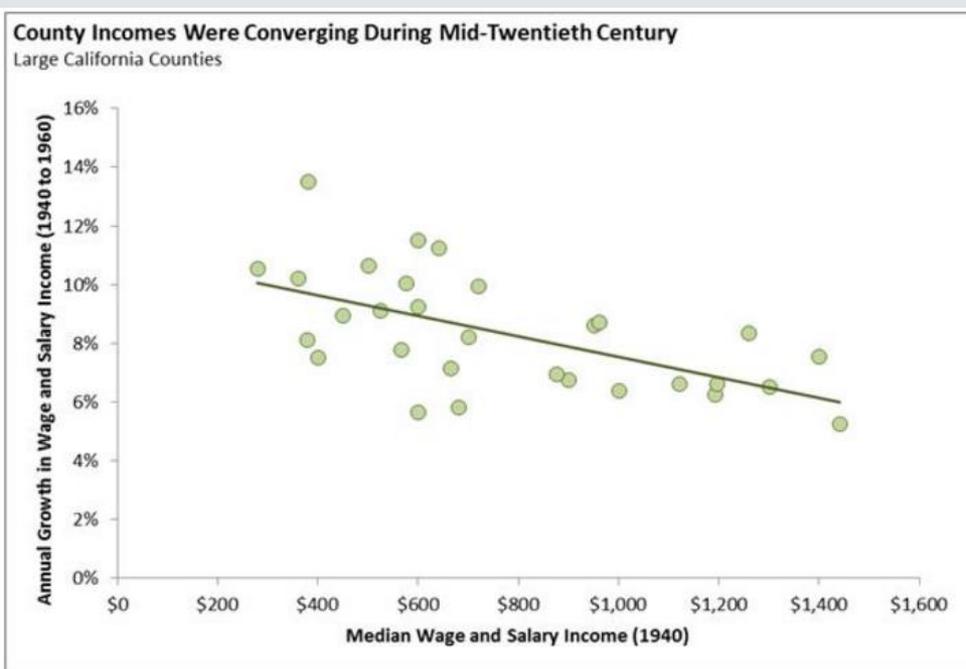
Average Annual Number of New Housing Units Built by Decade, 1980-2010



^a Estimated new housing construction needed to prevent home prices from growing faster than the rest of the country.

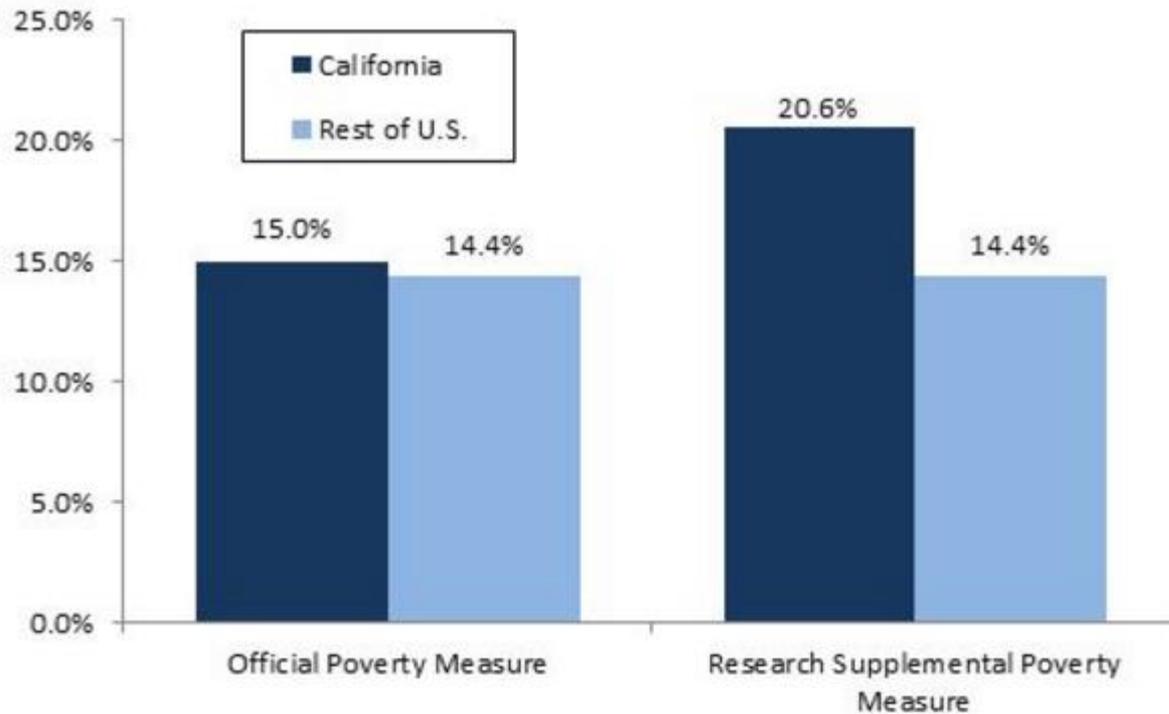
Housing Costs Constrain Access to Higher Paying Jobs

...Potentially Contributing to Stalling Income Convergence



Housing Costs Explain Some of the Difference Between Poverty Measures

Percentage of Population Living Below Poverty Threshold
2013 Through 2015



What About Local Government?

Longstanding Challenges & Sore Spots Remain

- **No Local Control Over Property Tax Allocation**
- **Local Competition Over Sales Tax Revenues**
- **Constraints on Revenue Raising**
 - Even more evident after end of redevelopment

Common Claims About Proposition 13

Figure 3

Property Tax Burdens Vary Across Neighborhoods

*Property Taxes Per \$100,000 of
Market Value by Census Tract in Los Angeles County, 2015*

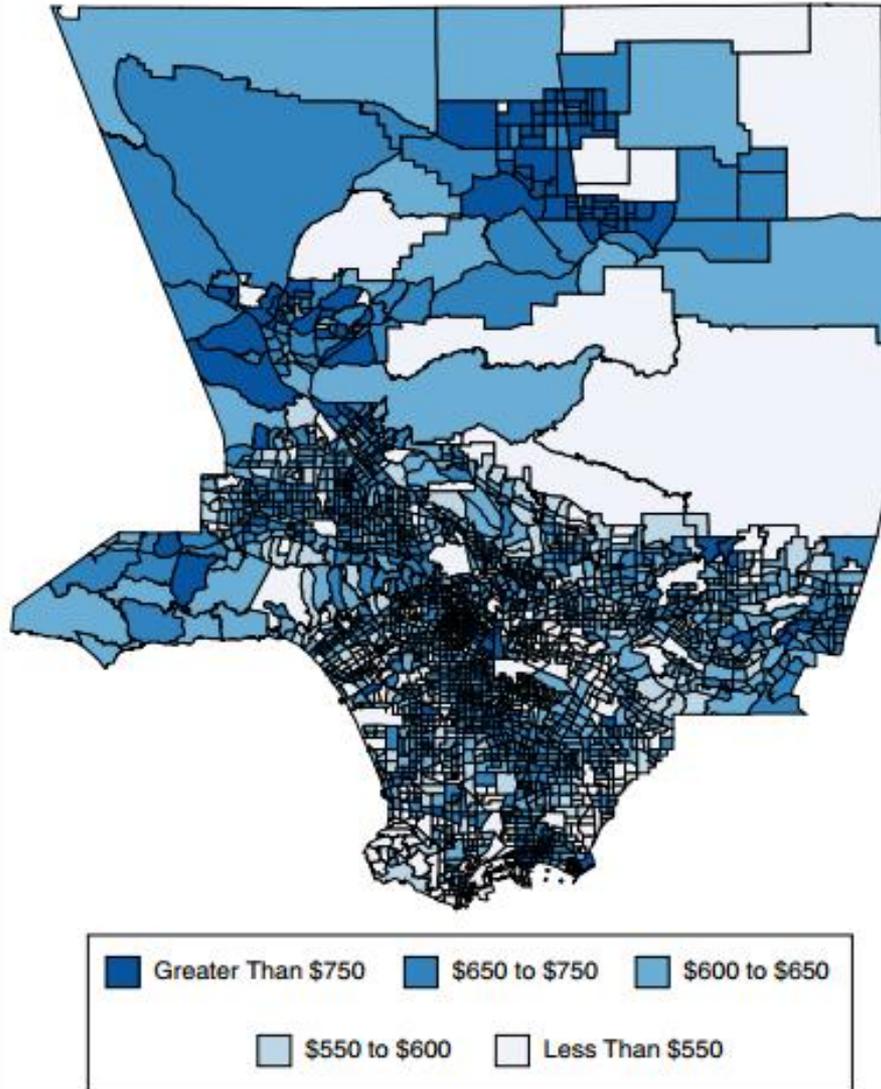


Figure 5

Higher-Income Households Have Bulk of Home Wealth, Receive Bulk of Tax Relief

California Homeowners, 2014

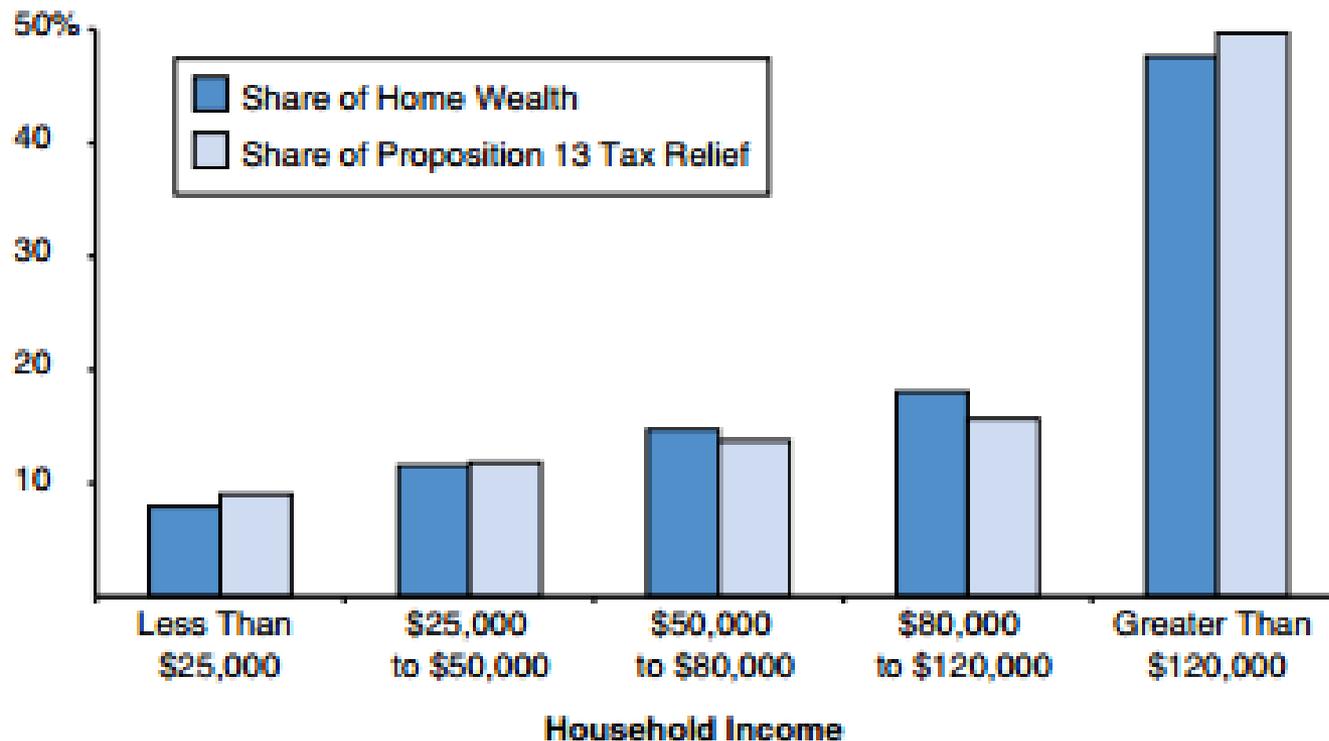
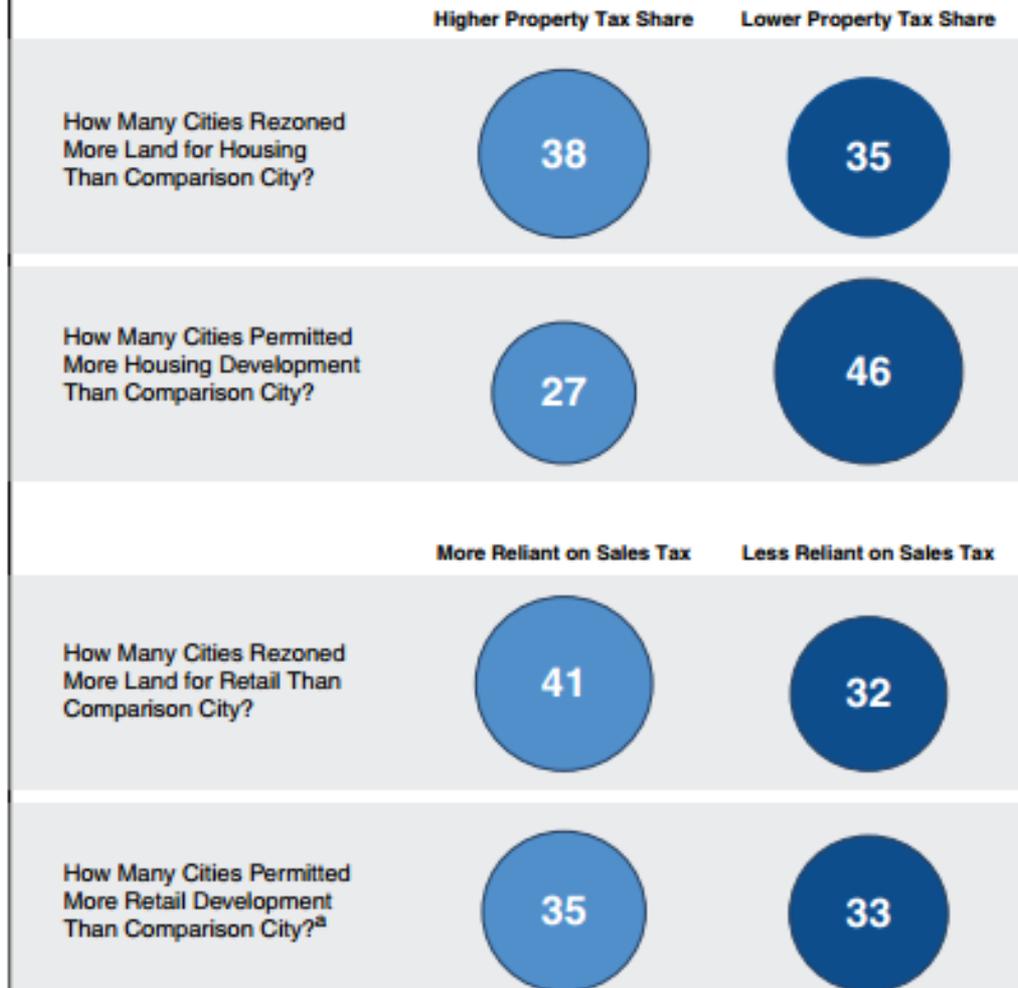


Figure 19

Little Evidence That Fiscal Incentives Drive Land Use Decisions

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



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

Figure 8

Different Property Types Turn Over at Similar Rates

Percent of Parcels Transferred by Type

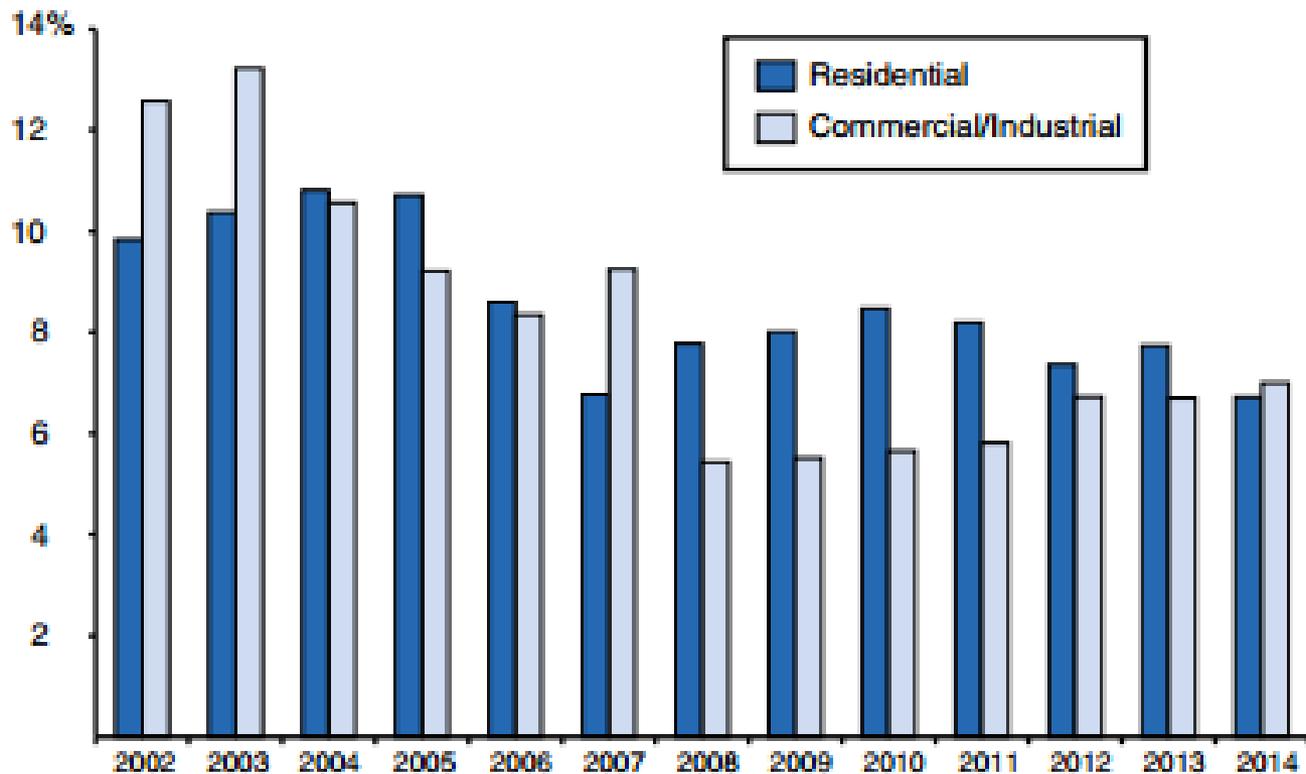


Figure 9

**Frequency of Reassessment
Relatively Similar Across Property Types**

Years Since Reassessment for Properties in Los Angeles County

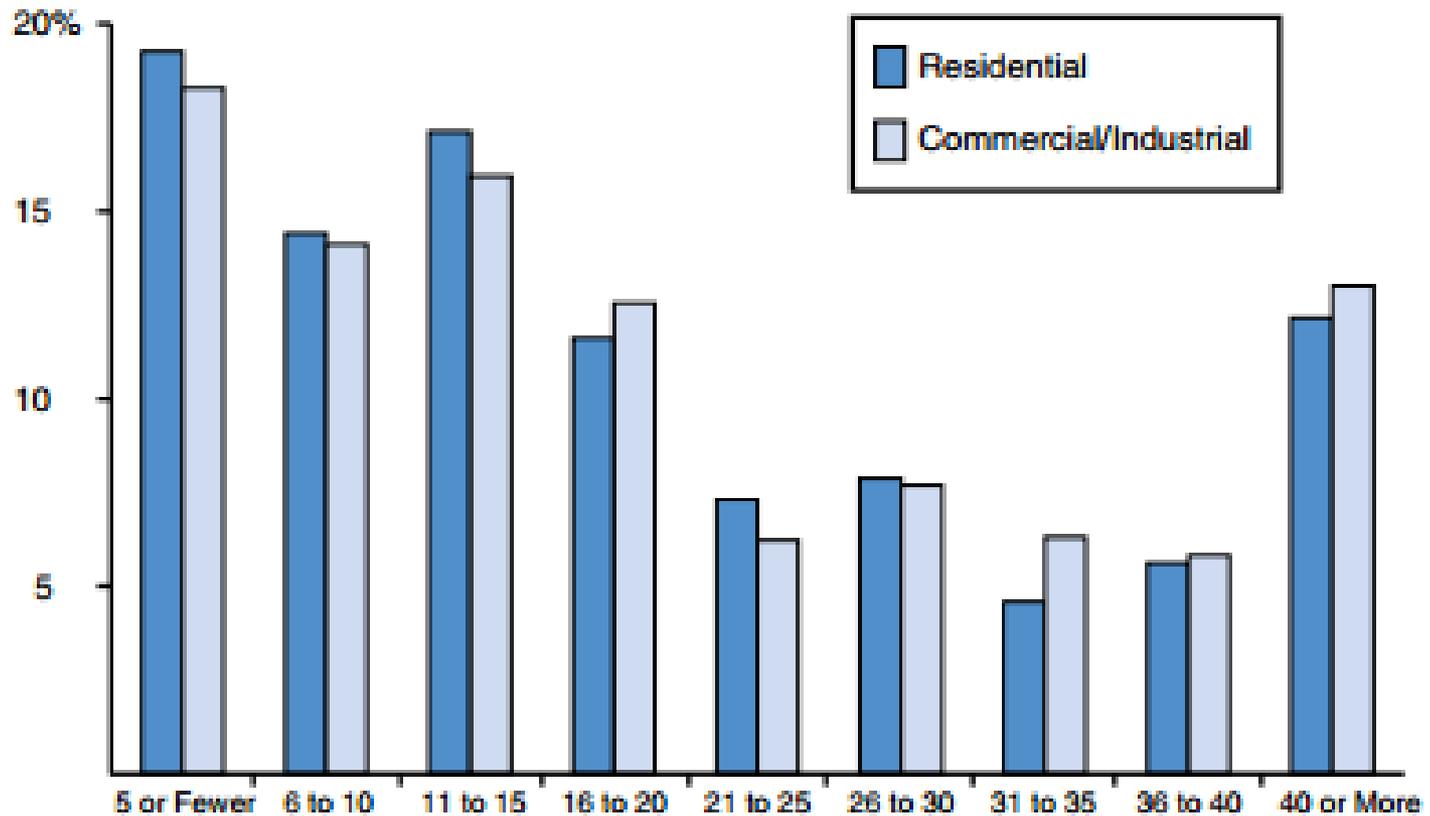


Figure 12

Local Governments Adjusted Property Tax Rates Based on Changes in Property Values

Statewide Average Percent Change

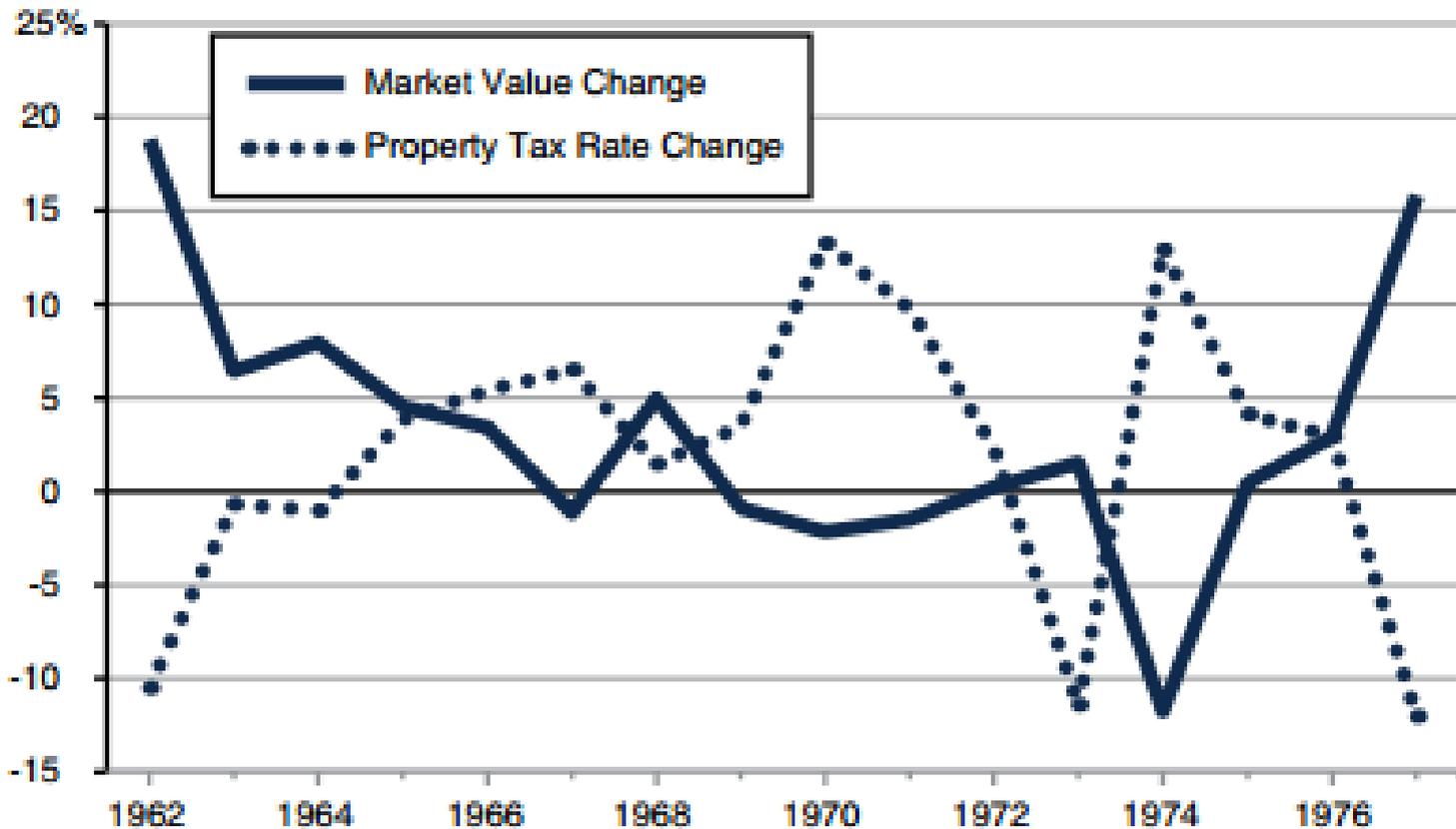
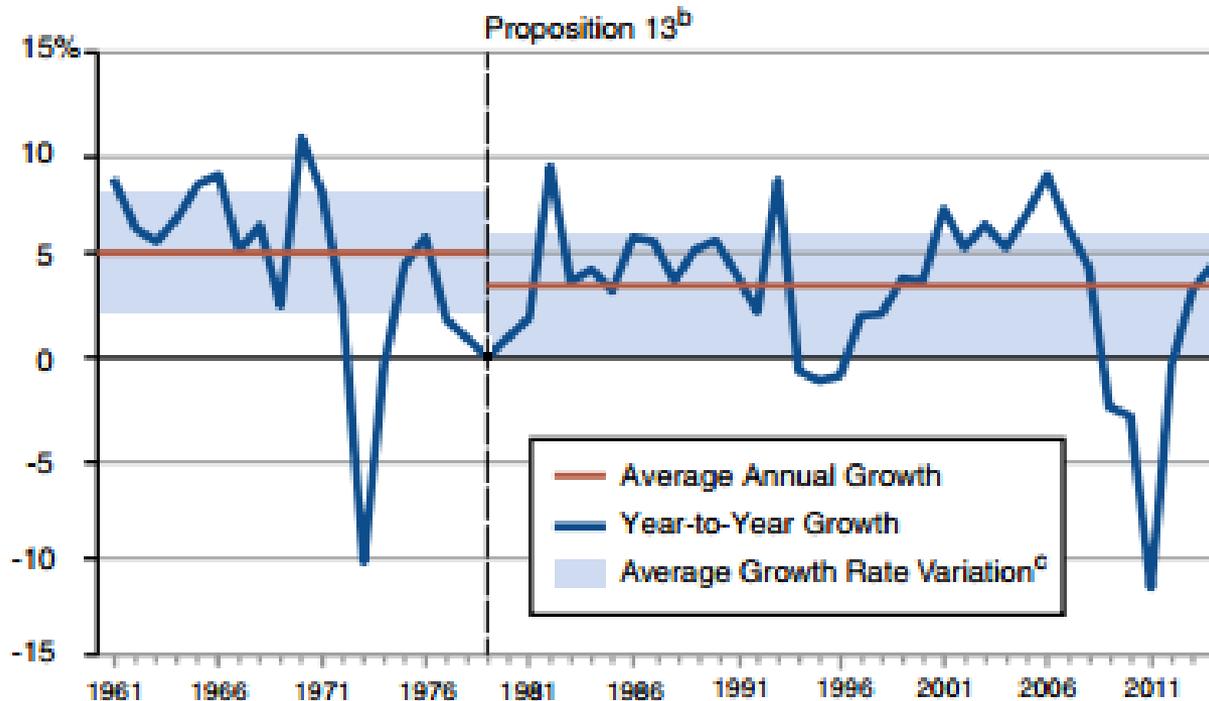


Figure 13

Property Tax Revenue Similarly Stable Before and After Proposition 13

Percent Change Local Government Property Tax Revenue^a



^a Growth rates calculated based on property tax revenue in 2014-15 dollars.

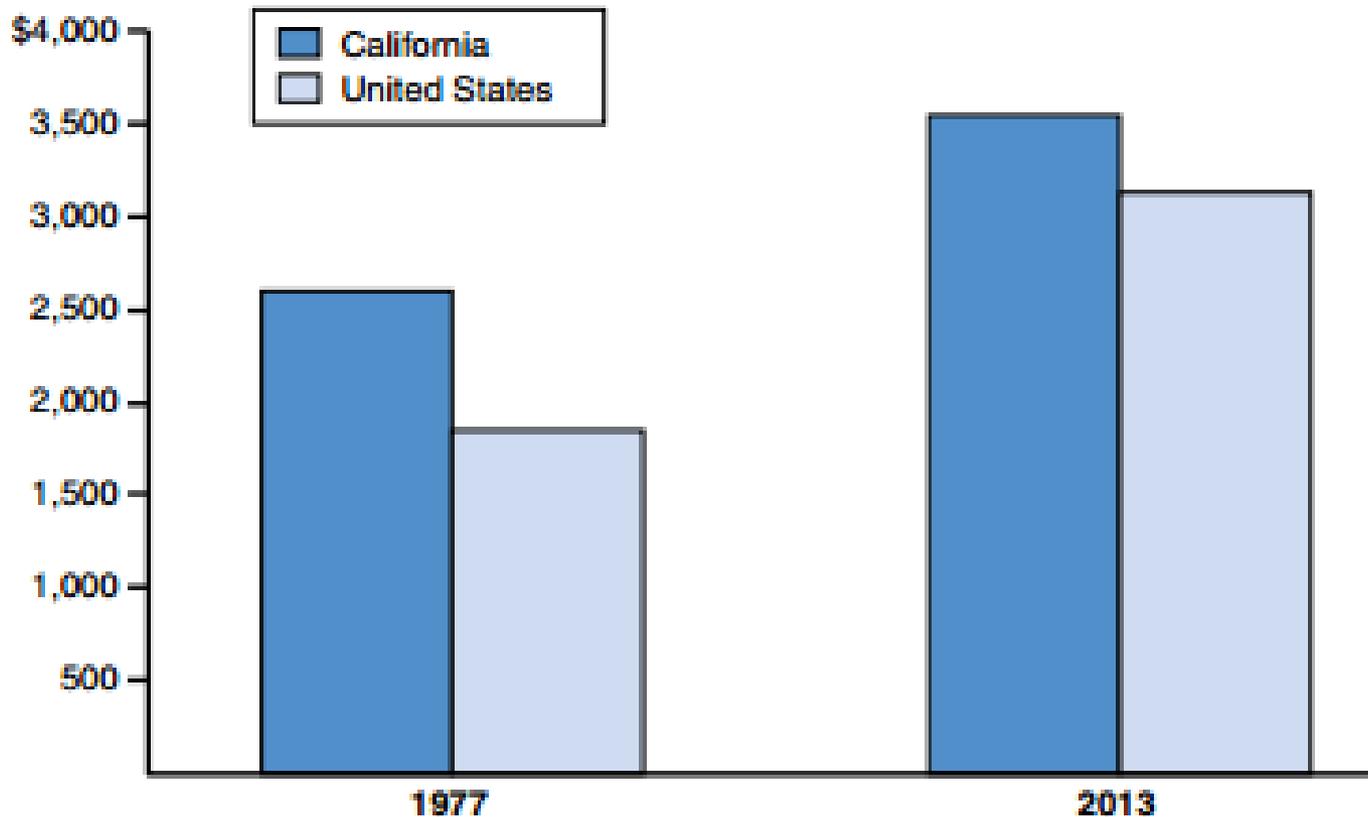
^b Proposition 13 reduced property tax revenue by almost 60 percent in the first year. The decline in revenue due to Proposition 13 is removed from the figure to maintain the scale of year-to-year change before and after Proposition 13.

^c The mean absolute deviation for the percent change in property tax revenue before and after Proposition 13 is 3 percent.

Figure 16

California Local Governments' Revenue Grew Less Than Rest of U.S.

Per-Person Own-Source Revenue for Local Governments (2014-15 Dollars)



Coming Soon . . .

➤ **The 2017-18 Budget**

- California's Fiscal Outlook (November 2016)
- Overview of Governor's Budget (January 2017)
- Other budget and policy reports

➤ **Cal FACTS 2016**

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