


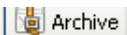
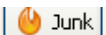



From Victoria Lewis

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Subject **Budget Update**

12/5/2013 10:23 AM

To all@cabrillo.edu

Other Actions

Hi everyone,

The end of the term is quickly approaching. I thought it might be a good time to update you on the status of the budget. I know you're all busy so I'll make this short. The College Planning Council has continued to review the latest funding information for 2012-13, the current year and the status of our enrollment. The college has also begun the budget planning process for 2014-15. We have conducted a couple of budget orientation sessions with the CPC as well.

The first budget orientation session was held in September. Here is a link to the information we covered at the meeting: <http://www.cabrillo.edu/services/president/Governance/CPC/2013-14CPCMtgs/091813BudgetPstn-GFUrestv4.pdf>

CPC began to discuss the budget planning assumptions on November 20. Here is the link to the presentation that guided our discussion: <http://www.cabrillo.edu/services/president/Governance/CPC/documents/112013CPCPlanningParam.pdf>. Our very preliminary projections are included on slide #8 of the presentation. As you can see, there are a lot of question marks to fill in as we await the Governor's Budget January 10, 2014.

The last resource I am including is a link to a video from School Services of California: <http://www.cabrillo.edu/internal/adminservices/budgetcenter/protected/video-ssc-reports-nov-2013/>. The video provides an overview of the Legislative Analyst's Report (LAO) of November 20. I am also attaching a PDF document that summarizes the information contained in the video.

Please take some time to review this information, send me questions, comments and feedback. We will continue to post budget updates on the Budget Information Center and CPC websites to keep you up-to-date on the status of the budget.

Have a wonderful holiday season.

Victoria

# COMMUNITY COLLEGE UPDATE

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## Legislative Analyst Says Structural Deficit Gone, Revenue Outlook Rosy

Today, November 20, 2013, the Legislative Analyst's Office (LAO) released its *California Fiscal Outlook* report, and the outline it provides of the state's Budget situation couldn't be much better. The *Outlook*, which provides an update of the condition of the current-year State Budget and provides the LAO's forecast of state revenues and expenditures through 2019-20, points to a state expenditure plan that is under control, an economy in recovery and holding steady, and strong growth in state revenues for the foreseeable future.

We know that the latest Department of Finance (DOF) Bulletin shows current-year state revenues are tracking slightly above the budget forecast, and 2012-13 ended the year with more than \$2 billion in unanticipated revenues above the budget forecast. The LAO report builds on where we are today, and as a result when compared with last year's LAO forecast, the projection for state tax revenue collections has increased. Noting that the Legislature and Governor Jerry Brown agreed to a "restrained" budget for 2013-14, the combined effect is a growing budget reserve, forecast to reach \$5.6 billion at the end of 2014-15 and stabilizing at just under \$10 billion by 2019-20, the end of the forecast period.

The forecast assumes steady, moderate economic growth that the LAO report characterizes as typical during a mature economic expansion. Because Proposition 98 is sensitive to increases in state tax collections during a recovery, much of the early growth in state revenues forecast by the LAO is constitutionally required to support additional funding for K-12 schools and community colleges.

### LAO Projects 2013-14 Operating Surplus of \$2.2 Billion

The 2013-14 Budget assumed the state would end the fiscal year with a reserve of \$1.1 billion.

Building on a small 2012-13 reserve, the LAO now estimates that the 2013-14 reserve will more than double—to \$2.4 billion—primarily as a result of the following factors:

- **\$4.7 Billion in Higher Revenues.** Largely due to a higher forecast of capital gains and stronger-than-expected stock price growth, the LAO forecast of personal income tax (PIT) revenues for 2013-14 is about \$5.2 billion higher than was assumed in the 2013-14 Budget. That increase in revenues is partially offset by lower projections for sales and corporation taxes.
- **\$3.1 Billion in Higher Proposition 98 Spending.** State General Fund spending for K-14 education in 2013-14 is projected to be higher than the amount provided in the budget due to higher than anticipated state revenues. Spending for other state programs accounts for an additional \$300 million of increased costs for 2013-14 compared with the adopted State Budget, mostly attributable to the Department of Corrections.

### Projected 2014-15 Operating Surplus Grows to \$3.2 Billion

The LAO reports a state General Fund operating surplus in 2014-15 estimated at \$3.2 billion, an

increase of about \$1 billion from its forecast of the 2013-14 operating surplus. A larger operating surplus is the result of revenues growing faster than expenditures, assuming the Legislature is restrained in its spending. In 2014-15, the LAO projects that General Fund will grow 5.7%, while spending will grow a more modest 4.8%. The forecast reflects the following factors for 2014-15:

- **\$5.8 Billion in Higher Revenues.** While the LAO expects revenue growth to be somewhat depressed in 2013-14—due mainly to higher income taxpayers accelerating 2013 income into 2012—revenues are forecast to bounce back, principally due to growth in PIT, which is forecast to grow 8.1% in 2014-15.
- **\$3.3 Billion in Higher General Fund Proposition 98 Spending.** Again, forecast high growth in revenues for 2014-15 produces additional growth in Proposition 98 spending, increasing by \$3.3 billion above the revised projection of 2013-14 Proposition 98 spending levels.
- **\$1.5 Billion in Higher Spending for Other Parts of the State Budget.** This includes increases of \$630 million in debt service on infrastructure bonds and about \$600 million in health and human services.

The operating surpluses, growing ending balances, and end to chronic state structural budget deficits, as reported by the LAO, must be understood in the context of the forecast methodology. Estimates of future spending reflect adjustments for the ongoing impact of existing constitutional requirements (such as Proposition 98), state laws, and current policies. It does not attempt to predict future budgetary decisions that may be made by our elected officials, and for most state-funded programs it does not include annual adjustments to spending that would account for inflation, since that is not a requirement of state law for those programs.

### Proposition 98

For Proposition 98, the LAO report provides significant upward revisions for the 2012-13 and 2013-14 minimum guarantees and projects significant growth in the forecast. For 2012-13, the LAO estimates the minimum guarantee has increased \$1.7 billion above the Budget plan to \$58.2 billion, based on its estimate that 2012-13 General Fund revenues are \$1.6 billion higher than assumed. For 2013-14, the LAO projects the minimum guarantee to be \$58 billion or \$2.7 billion higher than the 2013-14 Budget Act, again attributing the higher guarantee to projected increase in the year-to-year growth of General Fund revenues. The LAO recommends spending the combined \$4.4 billion required minimum guarantee funding to pay down outstanding obligations such as deferrals and unpaid mandate claims, which total \$11 billion.

Looking towards 2014-15, the LAO forecast projects a minimum guarantee of \$62.2 billion, an increase of \$4.2 billion above its projected 2013-14 minimum guarantee and almost \$8 billion higher than current ongoing programmatic spending levels when funding for one-time purposes are factored in. The LAO's long-term forecast shows significant growth in Proposition 98 through 2019-20, with an average annual rate of 2.6%. The forecast projects average \$3 billion year-over-year increases until the phase out of Proposition 30, at which time the LAO expects more modest annual growth in the minimum guarantee.

The LAO notes that Proposition 98 funding will be supported by healthy property tax growth—a byproduct of the recovering housing market—and will help to steady the growth of required state General Fund spending. Combined with a projected 7% growth in local property taxes, the return of property taxes to education that have been used to support state Economic Recovery Bonds under the "triple flip" will increase these revenues by \$1.6 billion starting in 2016-17. Given the strong projected growth in property tax revenues, the state's General Fund bears little of the growth in the minimum guarantee beginning in 2016-17.

## **Continued Caution Needed**

While the report paints a relatively rosy picture, especially against the backdrop of recent years, the LAO sounds several notes of caution. The forecast assumes continuing steady economic growth and a rising stock market. An economic downturn within the next few years could quickly result in a return to operating deficits, rather than surpluses. Normal volatility in capital gains could boost or depress annual revenues by billions of dollars compared with the forecast. And other liabilities, including some items in the Governor's wall of debt and unfunded retirement liabilities, as well as inflation adjustments which are not reflected in the forecast, could cause future surpluses to fall considerably if payments toward these obligations are made.

The report outlines the effects of a possible recession within the time period of the forecast, noting the average economic expansion is less than five years and that California has been in recovery for several years already. The LAO's sketch of a hypothetical recession demonstrates how rapidly a budget surplus can turn into a budget deficit if the economy slows and the importance of building a sizable reserve and not committing too much spending too soon. Given that, the LAO finds ". . . that California's State Budget situation is even more promising than we projected one year ago." That is welcome news. In particular, we are heartened by the anticipated growth in Proposition 98 revenues which will allow for continued restoration of cuts imposed following Proposition 98's precipitous decline and corresponding cuts to public education funding during the Great Recession.

The Governor's Budget will be our next check on current and future year budget forecasts and estimates, and will be released in less than two months on January 10, 2014.

*—Michael Ricketts and Michelle McKay Underwood*

posted 11/20/2013