

State Budget Update

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State of the State



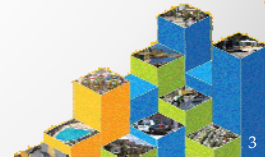
- ✓ Prop30 temporary sales tax ended 12/31/2016
...but state tax revenues hold steady
- ✓ Operating budget debt progress
...but large unfunded employee retirement costs remain
- ✓ State revenues down from previous budgets, estimates
...but still growing moderately
- ❖ *Unmet needs: water, other infrastructure, poverty, housing, etc.*
- ❖ *Uncertainties/risks: health care (ACA), federal funding, pension funding, natural disasters.*



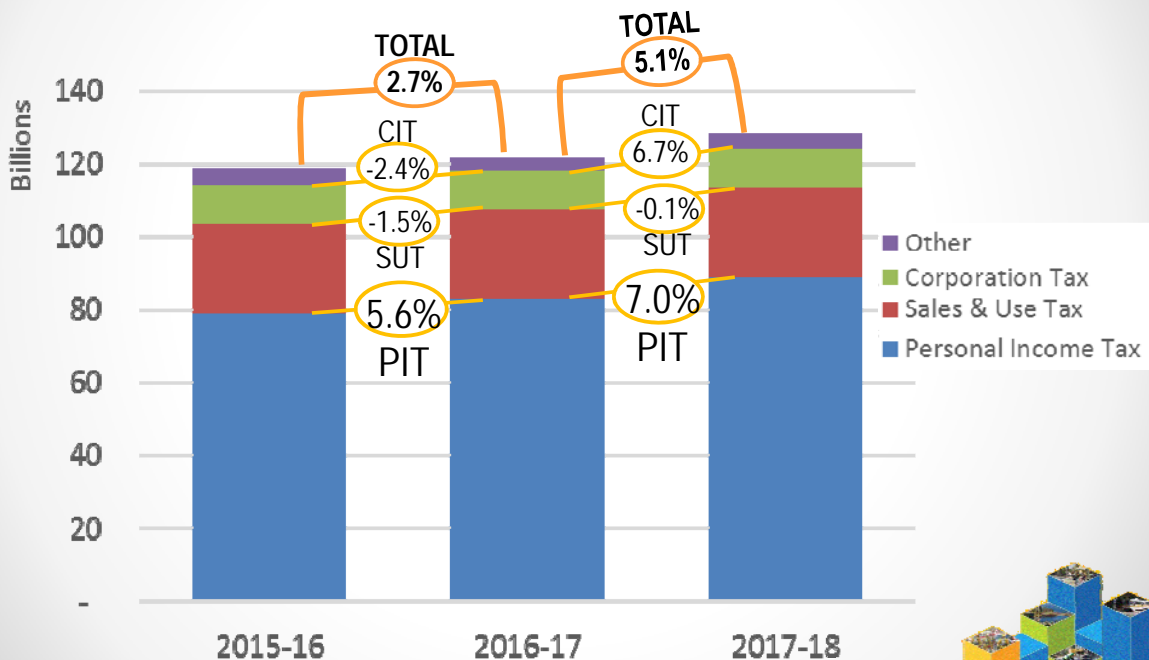
Governor's Proposed Budget May Revision 2017



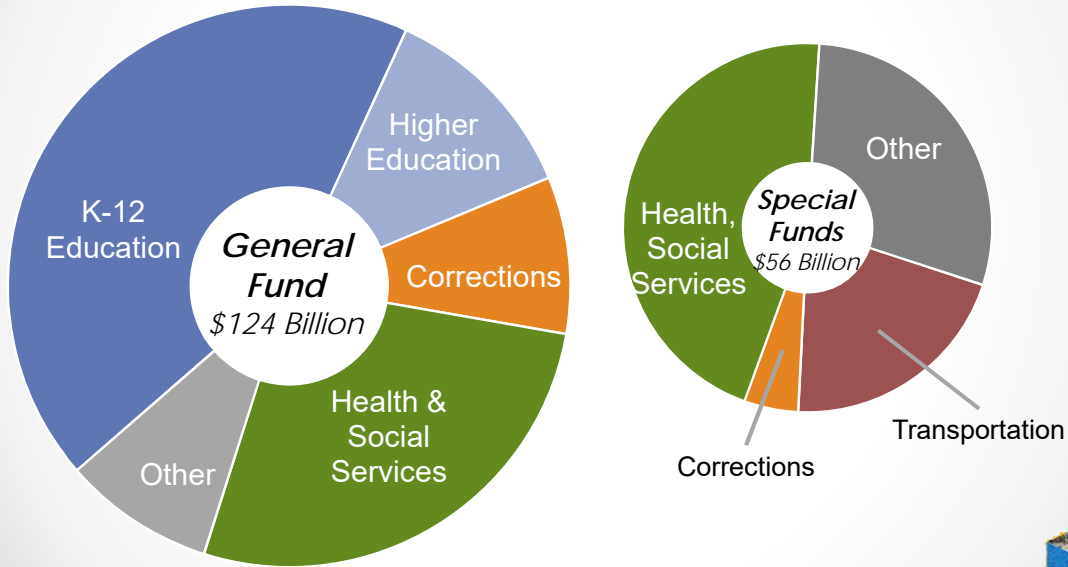
- ✓ Revenue estimates up \$2.4 Billion from Jan'17 estimates
 - Required reserve deposits (Prop2) up \$1.2 billion
 - Governor sends most remaining discretionary \$ to schools, colleges
- ✓ Governor's proposed budget balancing actions:
 - Recapture \$400 million affordable housing set-aside and \$300 million for state building modernization.
 - Constrain some spending
- ✓ Would end 2017-18 with \$10.1 Billion reserves



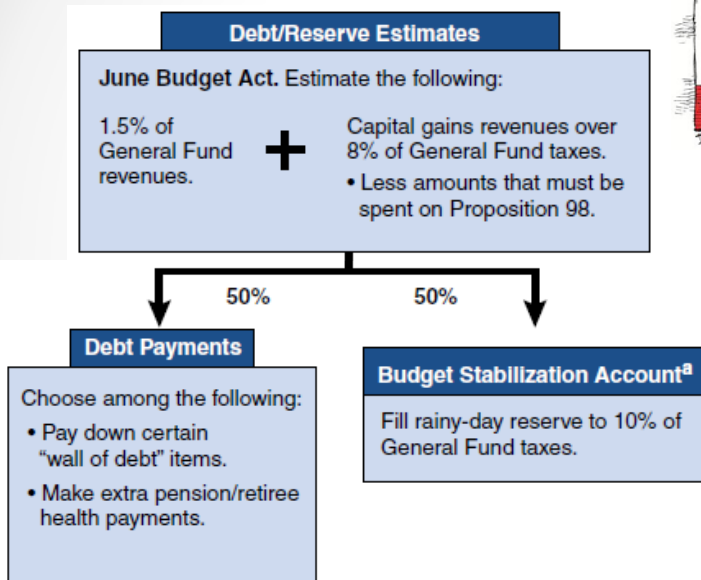
State Revenues Still Projected to Grow General Fund – Dept of Finance Jan2017 estimates



State General & Special Funds Proposed Spending 2017-18



Proposition 2* Rainy Day Fund & Debt Reduction



^a Upon budget emergency declaration by Governor and majority votes of both houses of the Legislature, deposits may be suspended or reduced.



Debts and Liabilities Eligible for Accelerated Payments Under Prop2

Dollars in Millions	Outstanding Amount Start of 2017-18	Proposed PayDown 2017-18
Budgetary Borrowing		
Repay Loans from Special Funds	\$ 1,365	\$ 252
Settle-up Underfunding of Prop98	1,043	603
Repay Transportation Loans	706	235
State Retirement Liabilities		
State Retiree Health	76,533	89
State Employee Pensions	59,578	427
Teacher Pensions	101,586	0
Judges Pensions	3,489	0
Deferred Payments to CalPERS	627	0
University of California Retirement Liabilities		
UC Employee Pensions	15,141	169
UC Retiree Health	21,860	0
Total	\$ 281,928	\$ 1,775

Source: Governor's Budget Summary 2017 Fig INT-02



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Governor's Proposed Budget Would End 2017-18 with \$9.4 Billion Reserve

Dollars in Millions	2016-17	2017-18
Prior Year Fund Balance	\$ 4,515	\$ 723
Revenues and Transfers	118,540	125,912
Expenditures	122,332	124,018
Ending Fund Balance	1,027	2,534
Encumbrances	980	980
SFEU balance	(257)	1,637
Reserves		
SFEU balance	(257)	1,637
BSA balance	6,713	8,488
Total Reserves	\$ 6,456	\$ 10,125



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Debt Service Ratio Expected to Decline Somewhat Throughout Forecast Period

Debt Service Costs as Share of Annual General Fund Revenues, LAO Projections

