

LAO Fiscal Outlook
11/18/2015



Colleagues,

The Legislative Analyst's Office (LAO) has just released their Fiscal Outlook. This document, released annually each November, provides updates on state revenues for the current and recent prior years and provides a 5-year revenue forecast to help the Legislature with their deliberations on the budget. Included in this analysis, is an updated projection of the Proposition 98 minimum funding guarantee which is crucial to community college funding.

The LAO finds that the Prop 98 guarantee has been underfunded in the 14-15 and 15-16 fiscal years by a cumulative \$2.3B. If this projection turns out to be accurate, additional 1-time funds would be available for appropriation to K14 districts. Assuming the community colleges receive the traditional 11% split within the guarantee, this would equate to approximately \$253M in 1-time funds. Please note that these funds, to the extent they materialize, would likely be appropriated in concert with the approval of the 2016-17 budget, so the cash would not be available until the next fiscal year.

For the 2016-17 fiscal year, the LAO projects that \$3.6B in new ongoing proposition 98 funds would be available for K14 education. Again, assuming the traditional 11% split, this means community colleges would receive approximately \$396M in ongoing increases for the 16-17 fiscal year. They estimate the statutory COLA at 1.99%.

In discussing Proposition 98, the LAO notes a few key issues. The maintenance factor that accumulated rapidly during the recession (once totaling over \$11B) would be entirely paid off in the 2015-16 year. Also, they project that the Test 3 will be operative in 16-17 and throughout the forecast, which has the effect of providing only modest growth in the guarantee over the next few years. For example, they currently project growth to be 1.6% for the 18-19 fiscal year and 2.2% in 19-20. While any increase looks positive relative to the drastic reductions of the recession years, this analysis reminds us that the large spike in funding received in the current year was anomalous.

Please note that this analysis does NOT assume an extension of Proposition 30 revenues. If an extension of some kind is approved by the voters, the outlook for the 18-19 and subsequent fiscal years would improve significantly.

Of course, these are merely point-in-time projections, which can change as more data is gathered during the year. The Governor will provide his estimate of revenues when he released his 2016-17 budget proposal in January.

The full LAO report can be found at this link: <http://www.lao.ca.gov/Publications/Report/3305>

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