A MONTHLY REPORT FROM STATE CONTROLLER BETTY T. YEE

California Fiscal Focus

Volume 3, Issue 4

October 2017

CA Controller Reports State Revenue Outpacing Expectations

State Controller Betty T. Yee reported the state brought in $10.92 billion in September, exceeding revenue projections in the state budget by $50.9 million, or 0.5 percent.

Total revenues of $25.92 billion for the fiscal year to date are $583.4 million, or 2.3 percent higher than projections in the state budget enacted in June with all of the "big three" tax revenue sources beating expectations. Revenues for the first quarter of the 2017-18 fiscal year were $1.36 billion higher than one year ago.

Personal income tax (PIT) receipts of $7.62 billion in September were $3.3 million higher than 2017-18 Budget Act estimates. For the current fiscal year, California collected total PIT receipts of $17.58 billion, $216.2 million more than anticipated in the 2017-18 Budget Act.

September corporation tax receipts of $1.06 billion were up $133.1 million from 2017-18 Budget Act projections. Fiscal year-to-date corporation tax receipts of $1.52 billion are $222.0 million above budget estimates.

Retail sales and use tax receipts of $1.90 billion for September were $1.6 million below budget estimates. Sales tax receipts in September were $102.2 million, or 5.1 percent lower than the $2.00 billion collected in September 2016. For the fiscal year to date, sales tax receipts of $5.93 billion are $150.3 million higher than expected.

Outstanding loans of $13.49 billion in September were $399.9 million more than 2017-18 Budget Act estimates. This loan balance consists of borrowing from the state's internal special funds. Available borrowable resources in September exceeded projections by $4.02 billion or 9.8 percent. Compared to 2017-18 Budget Act forecasts, total disbursements for the fiscal year to date are $1.05 billion higher than expected.

For more details, read the monthly cash report.

Inside this issue

Californians Support Bond Measures for K-14 Facilities

California school districts and community college districts have a long history of using voter-approved general obligation bonds to finance school facilities.

Historically, local bond passage required approval from two-thirds of the voters who cast ballots in an election. In 2000, Proposition 39 changed the voter approval requirement to 55 percent of ballots cast.

In exchange for the lower voter threshold, school districts were required to issue and structure bonds in a manner that tried to keep the tax rate below $60 per $100,000 of assessed value (tax base) for unified school districts and below $30 per $100,000 of assessed value for elementary and high school districts. However, the county assessor is legally required to levy and collect the tax necessary to pay bond principal and interest, even if the tax rate exceeds Proposition 39 tax rate caps.

California School District and Community College District Bond Measures Approved November 2002 through November 2016

Election Year	Number of Bond Measures Approved	Voter-Approved Bond Authority (Dollars in Millions)
2002*	83	$9,451
2003	11	$1,553
2004	112	$11,561
2005	35	$6,294
2006	94	$10,319
2007	11	$1,253
2008	142	$28,001
2009	2	$69
2010	62	$5,015
2011	7	$981
2012	116	$15,286
2013	8	$330
2014	128	$12,771
2015	9	$1,143
2016	215	$29,544
Total	**1,035**	**$133,571**

**2002 figures only include bonds approved in November elections.*

Data Source: California Debt and Investment Advisory Commission

The new rules required that bond elections be held in conjunction with another regularly scheduled federal, state, or local election. They also called for the creation of bond oversight committees—composed of at least seven specific representatives from the community—to oversee the expenditure of bond proceeds and ensure projects financed match those outlined in the ballot statement.

California saw an increase in the number of local school bond measures on the ballot in 2016, driven in part by school districts eager to lock in matching funds for Proposition 51 of 2016, a $9 billion state school facility bond. Passed more than 10 years after the last school facility bond, Proposition 51 included K-12 matching funds of $3 billion for new construction, $3 billion for modernization, $500 million each for charter schools and career technical education, and $2 billion for community college districts. Districts are required to provide a 50 percent match for qualifying new construction projects and 60 percent for modernization projects.

(See SCHOOL BONDS, page 4)

CalPERS, Locals, State Work Together to Address Funding Status

Last December, the California Public Employees' Retirement System (CalPERS) Board of Trustees made the difficult decision to gradually reduce the discount rate—or expected rate of return—to 7.0 percent over the next three years. This was done after much discussion and presentations about expert economic projections showing that anticipated returns were expected to be below 7.5 percent over the next 10 years.

While the move reduces the amount of future-unfunded pension liability, it also increases projected employer contributions and lowers funded status in the short term.

As CalPERS continues to review options to ensure the funding stability of pension benefits, local employers are working with CalPERS to examine options for managing their pension liabilities.

Cities, special districts, and school districts are preparing in various ways to address increasing contribution rates. Some are revising benefits with their employee labor groups. Some are creating pension payment reserve funds, and others are trying to eke out additional budget savings to use for contributions.

One group of employers has asked the CalPERS actuarial staff to explore changing the formula for paying down future unfunded liabilities that arise from investment losses when actual returns do not meet the discount rate. Currently, this type of debt is paid off over 30 years, with the payments ramped up over the first five years and ramped down the last five years in order to keep contribution rates as smooth as possible.

> **Some local employers are working with CalPERS to explore options that address funding status and contribution rates.**

Recent reports have suggested it would be more prudent to shorten the repayment period to 20 years, which increases the funded status but can make contributions more volatile. Under this formula, contributions can increase more quickly when investment returns are not as high as expected.

As the CalPERS actuarial staff work with local employers and other stakeholders to explore this proposal, the state government has taken a different step to pay down unfunded liability. Last spring, Governor Jerry Brown announced California would make an extra $6 billion in payments over the next year, which is projected to save an estimated $11 billion over the next 20 years if investment earnings meet projections.

This, along with the proposed actuarial formula change, would help to improve CalPERS' 68 percent-funded status and stabilize the fund.

Controller Yee applauds local employers who are working with CalPERS to explore options that address funding status and contribution rates. She also encourages local employers to continue providing input at regular CalPERS board meetings.

Employers and stakeholders are invited to attend the CalPERS Educational Forum from October 23 to 25 in Rancho Mirage. This event is a great opportunity to meet with CalPERS staff to discuss their actuarial valuations. They also will have the opportunity to network with peers and discuss approaches to managing pension liability.

Together, state and local governments and CalPERS can address the challenging issues facing employers.

(SCHOOL BONDS, continued from page 2)

School districts generally structure bond issuance with two types of bonds. Current interest bonds (CIB) are similar to mortgage payments and include semi-annual interest payments and an annual principal payment until maturity. Capital appreciation bonds (CAB) do not include any payments to bondholders until maturity, at which time the full principal and accrued interest are paid.

CIBs are usually sold at lower interest rate than CABs since bondholders receive interest payments on a regular basis, making them a more secure investment. Typically, the interest paid does not exceed two times the principal amount of the bonds. Under the California Education Code, repayment terms for both CIBs and CABs cannot exceed 25 years. The amount of CAB interest cannot exceed four times the principal amount of the bond.

School districts find CABs help manage the tax rate for bond authorization tax caps, since bond issuances are structured to assume the assessed valuation will grow by a certain percentage amount per year. By pushing payments out into the future, CABs allow districts to issue a larger amount of bonds today, which enables districts to complete school construction and improvement projects faster and contain construction costs.

Most school districts also issue their bond authorization over time. One common financing plan includes the sale of three to four bonds—spaced about three years apart—to give the tax base time to grow.

Voters continue to respond favorably to local bond elections. In 2016, approximately 95.8 percent of bond measures worth approximately $29.4 billion for K-14 school districts were approved.

According to the California Debt Investment Advisory Committee, voters approved more than $133 billion in general obligation bond authority from November 2002 through November 2016. Of that amount, approximately $64 billion had not been issued as of February. Bond authorization amounts ranged from $2.2 million to $1.5 billion, with an average size of $137.4 million.

---

www.sco.ca.gov

EOinquiry@sco.ca.gov

P.O. Box 942850
Sacramento, California 94250-5872
(916) 445-2636