

California's Finances: Fall 2017

Jason Sisney
Chief Deputy Legislative Analyst

jason.sisney@lao.ca.gov
Twitter: @LAO_CA @LAOEconTax



Three of the State's Major Issues

- Federal health care funding
- State tax volatility
- Pension funding



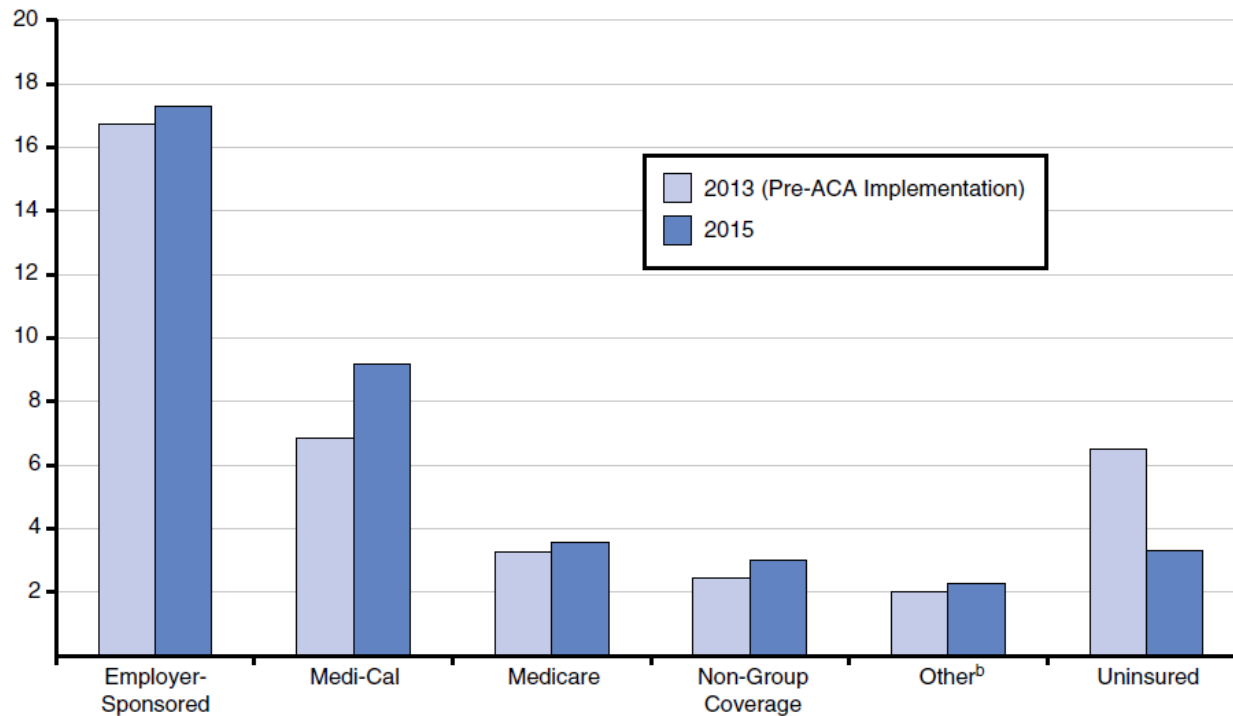
Los Angeles



Federal Health Care Funding

**ACA: Major Reductions in Uninsured;
Major Increases in Medi-Cal and Non-Group Coverage^a**

Number of Enrollees, by Type of Insurance Coverage (In Millions)



^a 2013 and 2015 American Community Surveys.

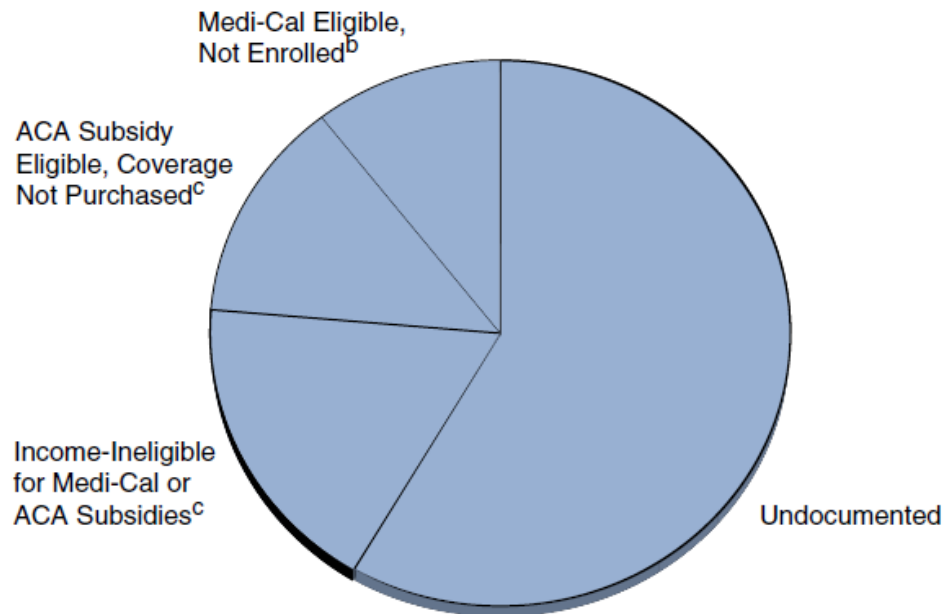
^b Includes, among other coverage types, public health plans available to current and former military members.
ACA = Patient Protection and Affordable Care Act.



Federal Health Care Funding

California's Remaining Uninsured Population^a

Californians Under Age 65



^a August 2016 Projections, UC Berkeley and UCLA California Simulation of Insurance Markets.

^b Data exclude undocumented children who are eligible for Medi-Cal, but not enrolled.

^c ACA subsidies are received through the state's Health Benefit Exchange, Covered California.

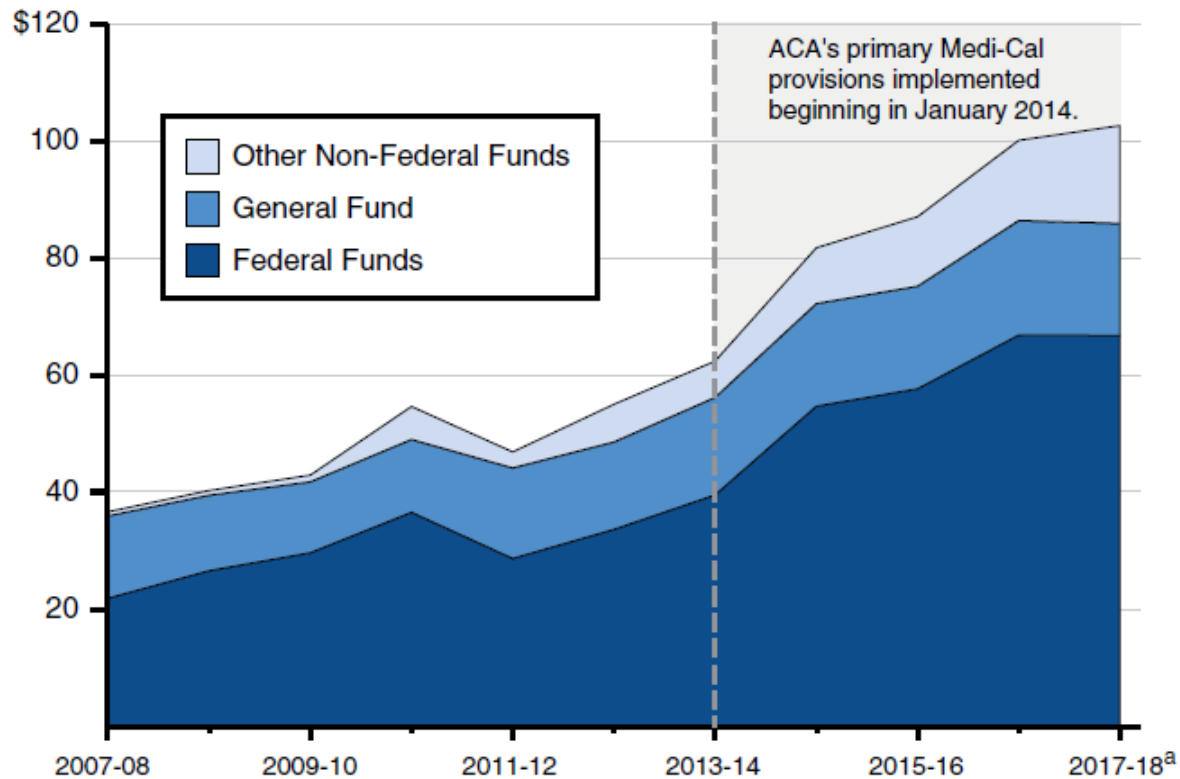
ACA = Patient Protection and Affordable Care Act.



Federal Health Care Funding

Medi-Cal Spending 2007-08 Through 2017-18

(In Billions)



^a Proposed.

ACA = Patient Protection and Affordable Care Act.



From February 2017 LAO publication. Not updated for final 2017-18 budget figures.

Federal Health Care Funding

Some State Policymakers Considering Single-Payer Healthcare Proposal. In 2017, state legislators introduced Senate Bill (SB) 562, which aims to eliminate commercial health insurance and replace the existing healthcare system with a government-administered single-payer healthcare program. In addition to replacing commercial health insurance with publicly provided coverage, the bill would consolidate existing public healthcare programs—such as Medi-Cal and Medicare—under the single-payer program. **A single-payer program similar to that envisioned in SB 562 could cost around \$400 billion annually and require new state tax revenues in the low hundreds of billions of dollars.** (Existing public healthcare expenditures could potentially be redirected to pay for a portion of a single-payer program, reducing the amount of new revenues that would need to be raised.)

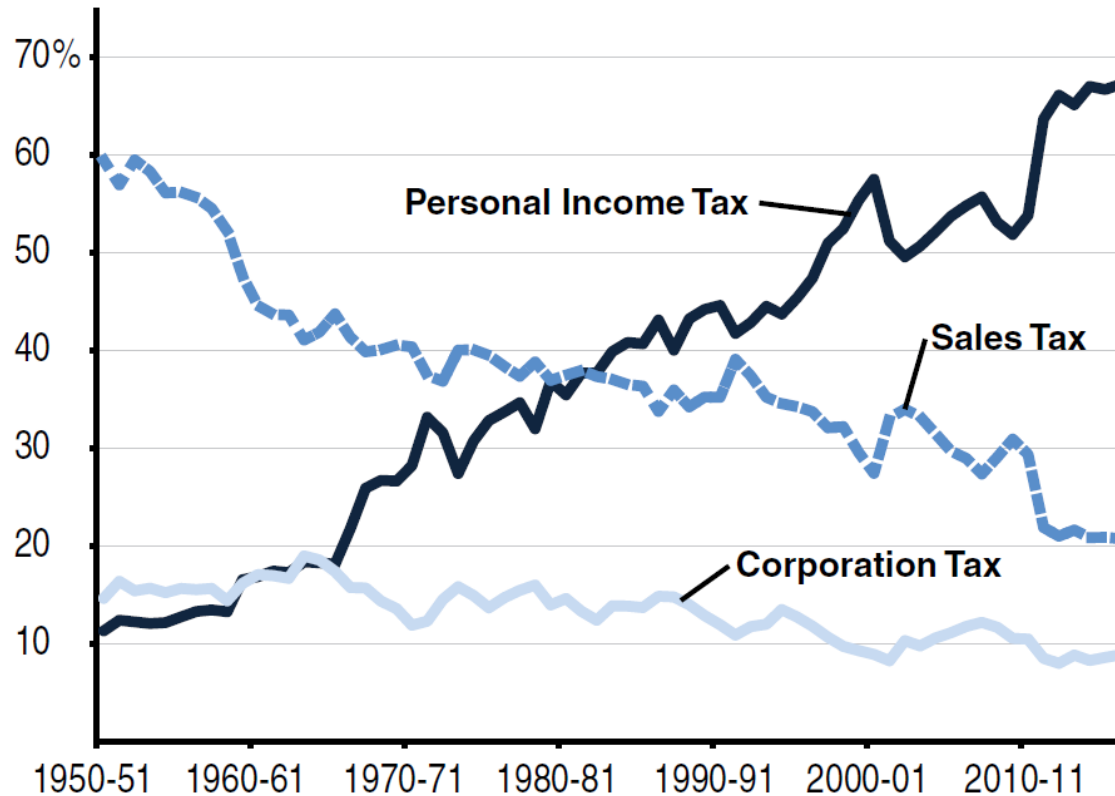
Some State Policymakers Considering Other More Targeted Approaches to Expanding Healthcare Coverage. Certain state policymakers are considering ways in addition to single-payer healthcare to expand healthcare coverage to the remaining 2 million to 3 million uninsured state residents. One approach, for example, is to extend full Medi-Cal coverage to undocumented immigrants who would qualify for Medi-Cal if not for their undocumented status. This approach was partially implemented in 2016 when Medi-Cal coverage was extended to otherwise qualifying undocumented immigrants under 19 years of age. **Extending Medi-Cal coverage to all qualifying undocumented immigrant adults would, for example, likely have state costs in the billions of dollars annually.**



State Tax Volatility

Personal Income Tax Is the Dominant State Revenue Source

Share of General Fund Revenues



State Tax Volatility

Personal Income Tax Is More Volatile Than Economy

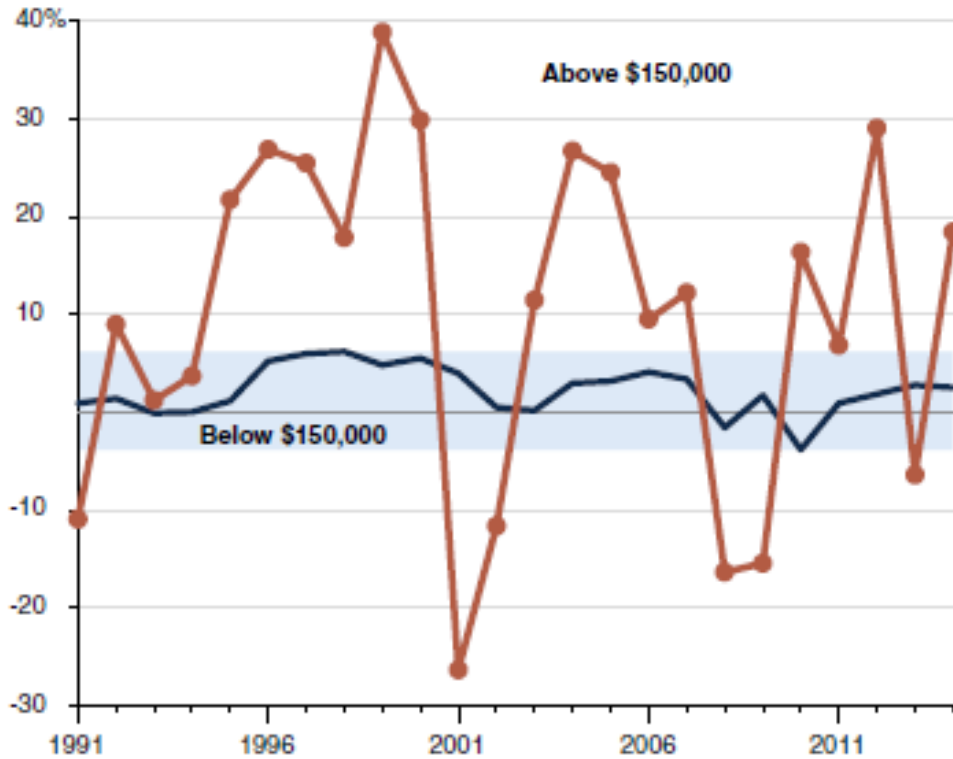
Percent Change From Prior Fiscal Year



State Tax Volatility

Higher-Income Filers Have Especially Volatile Incomes

Annual Percent Change in Adjusted Gross Income



State Tax Volatility

Bay Area Contributes Disproportionately to State Income Tax Revenues

2014 Resident Tax Returns

County	2014 Population		Adjusted Gross Income		Personal Income Tax Assessed		
	Number (Millions)	Percent of Statewide Total	Amount (Billions)	Percent of Statewide Total	Amount (Billions)	Percent of Statewide Total	Per Capita (\$)
San Francisco/Oakland/ San Jose MSAs	6.5	16.8%	\$346.2	29.1%	\$22.6	37.0%	\$3,474
Orange County	3.1	8.1	107.3	9.0	5.7	9.3	1,821
Ventura County	0.8	2.2	26.4	2.2	1.2	2.0	1,439
Los Angeles County	10.1	26.1	282.9	23.8	14.5	23.7	1,434
San Diego County	3.2	8.4	97.0	8.2	4.6	7.6	1,425
Central Coast ^a	1.4	3.7	39.1	3.3	1.8	3.0	1,282
Napa, Solano, and Sonoma Counties	1.1	2.7	31.4	2.6	1.3	2.2	1,267
Sacramento MSA	2.2	5.8	58.8	4.9	2.4	3.9	1,063
North State ^b	1.2	3.2	22.4	1.9	0.7	1.2	612
San Joaquin Valley ^c	4.1	10.7	72.1	6.1	2.4	4.0	593
Riverside and San Bernardino Counties	4.4	11.4	81.2	6.8	2.5	4.0	559
Other residents ^d	0.4	1.0	23.5	2.0	1.3	2.1	3,498
Totals	38.7	100.0%	\$1,188.2	100.0%	\$61.2	100.0%	\$1,581^e

^a Includes Monterey, San Luis Obispo, Santa Barbara, and Santa Cruz Counties.

^b Includes all counties north of San Francisco, Napa, Sonoma, Vallejo-Fairfield, and Sacramento MSAs.

^c Includes Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus, and Tulare Counties.

^d Includes California resident tax returns with (1) an address in another California county or (2) an out-of-state address. Returns with out-of-state addresses collectively had \$1.1 billion of tax assessed, the vast majority of the total shown on this line. Excludes nonresident tax returns, which collectively had \$2.5 billion of tax assessed.

^e Statewide average.

MSA – metropolitan statistical area.



State Tax Volatility

General Fund Summary

(In Millions)

	2016-17 Revised	2017-18
Prior-year fund balance	\$4,504	\$1,622
Revenues and transfers	118,539	125,880
Expenditures	121,421	125,096
Ending fund balance	\$1,622	\$2,406
Encumbrances	980	980
SFEU balance	642	1,426
Reserves		
SFEU balance	\$642	\$1,426
BSA balance	6,713	8,486
Total Reserves	\$7,355	\$9,912

SFEU – Special Fund for Economic Uncertainties (the General Fund's discretionary budget reserve); and

BSA – Budget Stabilization Account (the General Fund's mandatory budget reserve).



Pension Funding

Funded Status and Unfunded Liability on June 30, 2016

Plan	Present Value of Benefits	Entry Age Normal Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio
State Miscellaneous	\$116,407,430,627	\$102,443,593,272	\$66,607,613,590	\$35,835,979,682	65.0%
State Industrial	4,973,444,945	3,969,767,411	2,897,811,466	1,071,955,945	73.0%
State Safety	14,678,817,876	11,288,008,411	8,288,200,886	2,999,807,525	73.4%
State Peace Officers & Firefighters	49,422,292,374	41,484,601,481	26,621,971,404	14,862,630,077	64.2%
California Highway Patrol	13,495,219,004	11,470,696,987	6,705,506,460	4,765,190,527	58.5%
Total for the State	\$198,977,204,826	\$170,656,667,562	\$111,121,103,806	\$59,535,563,756	65.1%

Funded Ratio of the Retirement Program (Based on Market Value of Assets)

Plan	June 30, 2012	June 30, 2013	June 30, 2014	June 30, 2015	June 30, 2016
State Miscellaneous	66.3%	66.5%	72.4%	69.6%	65.0%
State Industrial	73.0%	74.7%	81.7%	78.6%	73.0%
State Safety	70.6%	71.6%	79.2%	76.6%	73.4%
State Peace Officers & Firefighters	65.5%	65.0%	71.0%	68.5%	64.2%
California Highway Patrol	60.3%	58.9%	64.3%	61.6%	58.5%
Total for the State	66.1%	66.1%	72.1%	69.4%	65.1%



Pension Funding

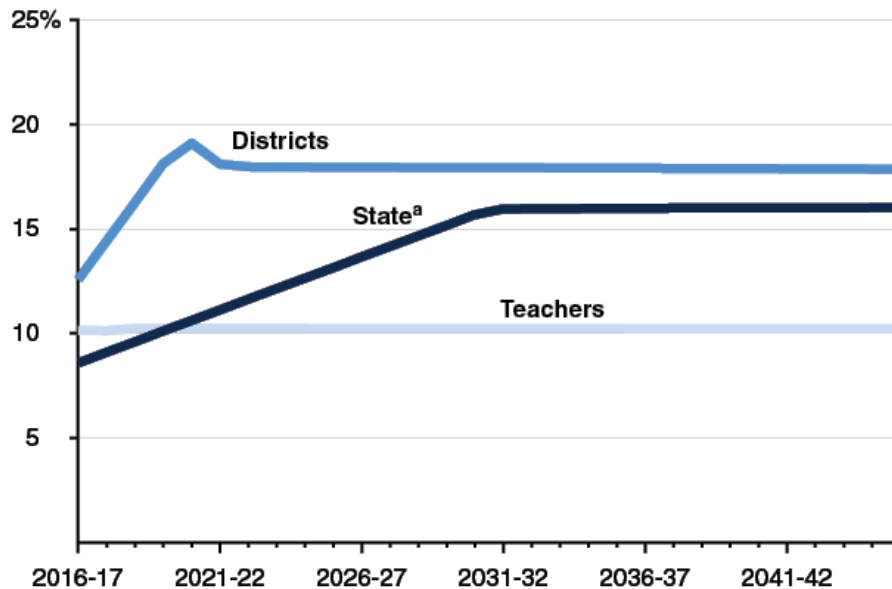
Plan	New Rate	Projected Future Employer Contribution Rates					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
State Miscellaneous	28.325%	29.4%	31.5%	32.6%	33.2%	33.4%	33.8%
State Industrial	19.527%	20.6%	22.6%	23.5%	24.1%	24.3%	24.6%
State Safety	19.402%	19.9%	21.4%	21.8%	22.0%	22.0%	21.4%
State Peace Officers & Firefighters	42.598%	43.9%	47.1%	48.5%	49.3%	49.5%	50.1%
California Highway Patrol	52.785%	54.1%	57.6%	59.2%	60.1%	60.5%	61.4%



Pension Funding

State Contributions to CalSTRS Projected to Increase Steadily for 15 Years

Percentage of Payroll



^a State contributions based on statewide payroll as measured on a two-year lag. Includes roughly 2.5 percentage points related to a program that protects retired teachers' pension from the effects of inflation.

Note: Assumes future experience matches CalSTRS' actuarial assumptions, including assumption that investment returns equal 7 percent beginning in 2017-18.

From May 2017 LAO report. With recent strong returns, terminal state rate could be somewhat less than shown above. See other data at:

<http://www.lao.ca.gov/PolicyAreas/education/EdBudget>



Key Points

- Reserves and near-term fiscal balance
- State fiscal condition stronger than it has been in years
- Nevertheless... big challenges ahead



Joshua Tree National Park

