

COUNTYWIDE CHIEF BUSINESS OFFICERS MEETING

MARCH 28, 2019

9:30 a.m. to 12:00 p.m.

MILPITAS ROOM

AGENDA

9:30 - 9:35	Welcome	Eric Dill, Santa Clara Unified SD Megan K. Reilly, Santa Clara COE
9:35 - 9:55	Budget Advisory Committees	Rosemarie Pottage, Los Gatos-Saratoga Union HSD
9:55 - 10:15	Alcohol at School Events	Cathy Vance, Loma Prieta School District
10:15 - 10:45	Negotiations Update	All
10:45 - 11:15	District Roundtable	All
11:15 - 12:00	State, Economic and Legislative Update	Robert Miyashiro/Leilani Aguinaldo, School Services of CA

FY 2018-2019 MEETINGS

DATE	TIME	ROOM
August 30, 2018	9:30 a.m. - 12:00 p.m.	Milpitas Room
September 27, 2018	9:30 a.m. - 12:00 p.m.	Oak Grove Room
October 18, 2018	9:30 a.m. - 12:00 p.m.	Milpitas Room
November 15, 2018*	9:30 a.m. - 12:00 p.m.	Oak Grove Room
January 24, 2019	9:30 a.m. - 12:00 p.m.	Milpitas Room
February 28, 2019	9:30 a.m. - 12:00 p.m.	Milpitas Room
March 28, 2019	9:30 a.m. - 12:00 p.m.	Milpitas Room
April 25, 2019	9:30 a.m. - 12:00 p.m.	Milpitas Room
May 23, 2019	9:30 a.m. - 12:00 p.m.	Milpitas Room

*Meeting cancelled due to CASBO CBO Symposium

Santa Clara County Office of Education
CBO Meeting
March 28, 2019



Santa Clara County Office of Education
CBO Meeting

March 28, 2019

Presented by

Robert Miyashiro
Vice President



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Topics for Discussion

1



UCLA's Economic Forecast



State Revenues Down \$2.2 Billion Through February



Upside Revenue Potential – Initial Public Offerings

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UCLA Warns of Recession in Late 2020

2

- The slowing U.S. economy is on a “3-2-1” path: 3% growth in 2018, 2% in 2019, 1% in 2020
- At their March 2019 conference, UCLA economists warned of a high risk of recession a in late 2020
 - Slowing global economic growth
 - Brexit threatens European Union markets, and China is slowing
 - Two-year interest rates are now negative in Germany, Japan, and France
 - Waning effects of the December 2017 federal tax cuts
 - Rising federal budget and U.S. trade deficits
 - The tax cuts are leading to +\$1 trillion federal budget deficits “as far as the eye can see”
 - The deficit had dropped to \$600 billion in 2016
 - Despite increased tariffs, the U.S. trade deficit will exceed \$1 trillion in 2019

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Interest Rates and the Federal Reserve

3

- Federal Reserve outlook
 - Chairman Jerome Powell to U.S. Senate – “Financial conditions are now less supportive of growth than they were earlier last year”
- An overheating economy is no longer a concern
 - UCLA’s expectation of Federal Reserve action
 - 2019 – one rate hike in 2019
 - 2020 – two or three *rate reductions* to address a slowing economy and potential recession



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California's Economic Outlook

4

- UCLA notes that California's economy will tend to follow the path of the U.S. economy
- Broad slowdown is forecast over the next several years

California	2019	2020	2021
Total Employment Growth	1.3%	0.6%	0.5%
Real Personal Income Growth	3.2%	1.8%	1.6%

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The Yield Curve

5

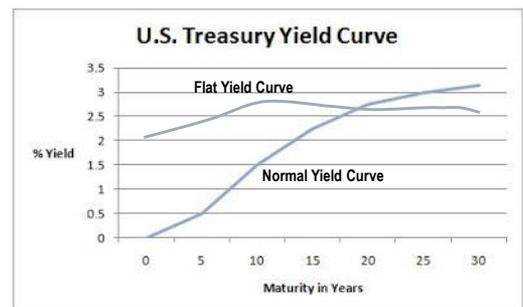
- Recent attention has been focused on the "yield curve" as a signal of an impending recession

Q. What is the yield curve?

A. This is a measure of investment returns on debt as the time to maturity lengthens. Under normal circumstances the yield curve rises, reflecting higher interest rates paid for longer term debt.

Q. What happened?

A. On Friday, March 22, 2019, yields on ten-year bonds fell below three-month notes for the first time since 2007. In other words, the yield curve was flattening.



- This could signal a more pessimistic outlook for the economy in the future

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Bad News - State Revenue Collections Are Down \$2.2 Billion

6

- General Fund revenues through February 2019 are short \$2.2 billion compared to the revised forecast presented in the Governor's January proposed State Budget
- Most of the shortfall has occurred in the personal income tax (\$2.8 billion)
 - \$2.2 billion occurred in estimated payments made by taxpayers whose earnings come from business income, capital gains, and other non-wage sources
 - A large portion of this shortfall is likely related to federal tax law changes, which capped the deduction for state and local taxes to \$10,000
 - Taxpayers no longer have an incentive to pre-pay state taxes in December
 - The Department of Finance expects higher April collections to partially offset this shortfall
 - \$450 million is related to a shortfall in payroll tax withholding, which could signal a softening of the labor market

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Other Revenue Sources – A Mixed Bag

7

- The other revenue sources posted a mixed performance
 - The sales and use tax for the three-month period is essentially on target, off just \$31 million
 - The corporation tax has outperformed the forecast by \$537 million, or 12%
 - All other revenue sources were up a net \$71 million
- Taken together, the overall state revenue picture suggests a maturing economic recovery
 - Unlike the prior six years, 2018-19 is not yielding significant revenue gains above the forecast level
 - The length of the recovery is reaching ten years, a historic high



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The Legislative Analyst's Office Warning

8

- In its annual review of the Governor's Budget, the Legislative Analyst's Office advised the Legislature that the May Revision could propose reductions from the January state spending plan, as a result of a slowing economy and weaker revenue collections
 - January General Fund revenues fell more than \$2 billion below the forecast level
 - The stock market sell-off in December 2018 could portend lower capital gains collections
- Proposition 98 could fall from current levels if state revenues are revised downward
 - In 2018-19, \$549 million reduction for each \$1 billion loss in state revenues (Test 3)
 - In 2019-20, \$382 million reduction for each \$1 billion loss in state revenues (Test 1)
- Reduced Proposition 98 funding at the May Revision could result in a reduction in the Local Control Funding Formula cost-of-living adjustment or a smaller allocation for the new Special Education categorical program

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California's Advantage: High-Tech Companies

9

- UCLA noted that California is home to many new technology companies
- Spending on intellectual property – software development, motion picture/TV production, and corporate research and development – will continue to fuel growth in gross domestic product
 - Spending in this area was “a torrid” 7% in 2018 and is expected to outpace the growth of the overall economy in 2019
- California is particularly well-poised to reap the benefits of new technologies and the growth of high-tech companies



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Upside Revenue Potential – Initial Public Offerings

10

- The investment community is anticipating that a number of high-tech companies may go public in 2019 or 2020
 - Uber, Lyft, Airbnb, Pinterest, and more
- Facebook went public in 2012 and generated \$1.65 billion in capital gains tax revenues to the state General Fund
- Preliminary estimates place Lyft's initial public offering (IPO) at \$19 billion and Uber's IPO at \$120 billion
 - These IPOs will create thousands of new millionaires who will pay California taxes at the top rate of 13.3%
 - These payments would generate billions of dollars, which are not included in current forecasts of General Fund revenues



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