

## K-12 Land Trust Projections – 20 Year Addendum

Based on a legislative request, JLBC Staff is extending its analysis of the Executive Land Trust proposal from 10 to 20 years (FY 2017 – FY 2036). Currently, as required by Proposition 118 (2012), the annual distribution percentage from the Land Trust is 2.5% through FY 2021. The Executive proposal would increase the annual distributions to 10% during FY 2017 – FY 2021, followed by 5% during FY 2022 – FY 2026. *(Please see the original [Land Trust Proposal Projections](#) report of June 19, 2015 for more information).*

This report summarizes the estimated impact of the Executive proposal on FY 2027 – FY 2036 distributions. Since the Executive proposal ends in FY 2026, we have chosen 2 possible post-FY 2026 distributions:

- 1) Continue the 5% during FY 2027 – FY 2036.
- 2) Revert to the current 2.5% distribution policy during FY 2027 – FY 2036.

Under either scenario, the JLBC Staff’s estimated FY 2017 – FY 2026 distributions match the original projections of June 19.

### 10% / 5% / 5% Scenario

Under the 10%/5% Executive proposal, and assuming a 5% distribution during FY 2027 – FY 2036, Land Trust distributions are projected to increase \$2.96 billion during the next 20 years.

Land Trust distributions would be \$7.00 billion under the extended version of the Executive proposal, compared to \$4.04 billion under the existing baseline formula. *(See Table 1)*

The latter baseline estimate represents maintaining the current 2.5% distribution during the entire FY 2017 – FY 2036 timeframe.

### 10% / 5% / 2.5% Scenario

Assuming that the Land Trust distributions are 2.5% during FY 2027 – FY 2036, distributions would be projected to increase \$1.37 billion during the next 20 years. This consists of Land Trust distributions of \$5.41 billion under the

Fiscal Year	2.5% Baseline Distribution	10%/5%/5% Proposal Distribution	Estimated Net Funding Increase
2017	\$98,027,100	\$392,108,500	\$294,081,400
2018	108,913,800	435,655,100	326,741,300
2019	119,948,600	473,912,800	353,964,200
2020	129,718,500	500,203,600	370,485,100
2021	138,804,400	515,869,600	377,065,200
2022	148,196,700	262,021,400	113,824,700
2023	157,925,500	262,079,900	104,154,400
2024	168,019,300	263,442,900	95,423,600
2025	178,507,000	266,628,000	88,121,000
2026	189,418,100	272,119,300	82,701,200
2027	200,776,000	280,294,100	79,518,100
2028	212,599,800	291,423,800	78,824,000
2029	224,909,200	303,075,300	78,166,100
2030	237,724,300	315,170,800	77,446,500
2031	251,066,200	327,635,700	76,569,500
2032	264,956,600	340,404,300	75,447,700
2033	279,417,900	353,425,800	74,007,900
2034	294,473,800	366,670,600	72,196,800
2035	310,148,600	380,133,700	69,985,100
2036	<u>326,467,900</u>	<u>393,813,100</u>	<u>67,345,200</u>
<b>Total</b>	<b>\$4,040,019,300</b>	<b>\$6,996,088,300</b>	<b>\$2,956,069,000</b>

<sup>1/</sup> Represents increased funding from Land Trust distributions of 10% during FY 2017 - FY 2021, 5% during FY 2022 - FY 2026, 5% during FY 2027 - FY 2036.

extended version of the Executive proposal, compared to \$4.04 billion under the baseline formula. (See Table 2)

Under this scenario, the extended proposal would actually result in a net decrease in distributions during FY 2027 – FY 2036 compared to the baseline. Increased distributions during the first 10 years of the analysis creates annual Land Trust valuations of approximately \$(3) to (4) billion below the baseline level. Applying the same 2.5% percent factor during FY 2027 – FY 2036 to lower valuations results in annual distributions that are \$(60) to (100) million less than the baseline amount each year.

### Land Trust Principal

The Executive proposal would also affect the size of the K-12 Land Trust principal. Under the baseline 2.5% distribution formula, the principal is expected to increase to \$15.92 billion by Calendar Year (CY) 2036.

With the 10%/5%/5% distribution, the principal would increase to \$9.01 billion by CY 2036. If the State were to use the lower 2.5% distribution during the second half of the analysis (FY 2027 – FY 2036), the principal would instead grow to \$11.11 billion by CY 2036.

Table 3 lists the projected Land Trust balances each year under the 2.5% baseline distribution and both extended versions of the Executive 10%/5% proposal.

### Sensitivity Analysis

The above estimates use the same assumptions regarding annual Land Trust principal growth as the June 19 projections. As discussed in that analysis, the JLBC Staff recommends that any Land Trust distribution forecasting model should be subject to a sensitivity analysis that varies the annual growth rate from a constant pattern.

In particular, a more lengthy analysis timeframe increases the likelihood that economic conditions will significantly depart from the constant assumptions used in the above JLBC Staff estimates. Because of the extensive modeling required to forecast a variety of economic data over several decades, an in-depth sensitivity analysis is beyond the scope of this report.

Fiscal Year	2.5% Baseline Distribution	10%/5%/2.5% Proposal Distribution	Estimated Net Funding Increase
2017	\$98,027,100	\$392,108,500	\$294,081,400
2018	108,913,800	435,655,100	326,741,300
2019	119,948,600	473,912,800	353,964,200
2020	129,718,500	500,203,600	370,485,100
2021	138,804,400	515,869,600	377,065,200
2022	148,196,700	262,021,400	113,824,700
2023	157,925,500	262,079,900	104,154,400
2024	168,019,300	263,442,900	95,423,600
2025	178,507,000	266,628,000	88,121,000
2026	189,418,100	272,119,300	82,701,200
2027	200,776,000	140,147,000	(60,629,000)
2028	212,599,800	145,711,900	(66,887,900)
2029	224,909,200	152,238,400	(72,670,800)
2030	237,724,300	159,759,800	(77,964,500)
2031	251,066,200	168,313,400	(82,752,800)
2032	264,956,600	177,942,700	(87,013,900)
2033	279,417,900	188,700,700	(90,717,200)
2034	294,473,800	199,950,600	(94,523,200)
2035	310,148,600	211,697,700	(98,450,900)
2036	<u>326,467,900</u>	<u>223,949,800</u>	<u>(102,518,100)</u>
<b>Total</b>	<b>\$4,040,019,300</b>	<b>\$5,412,453,100</b>	<b>\$1,372,433,800</b>

<sup>1/</sup> Represents increased funding from Land Trust distributions of 10% during FY 2017 - FY 2021, 5% during FY 2022 - FY 2026, 2.5% during FY 2027 - FY 2036.

**Table 3****JLBC Staff Estimate of K-12 Land Trust Principal**

<b>Calendar Year</b>	<b>2.5% Baseline</b>	<b>10%/5%/5% Proposal</b>	<b>10%/5%/2.5% Proposal</b>
2017	\$5,540,115,200	\$5,246,033,800	\$5,246,033,800
2018	5,914,890,700	5,275,452,600	5,275,452,600
2019	6,302,354,700	5,268,475,900	5,268,475,900
2020	6,704,575,300	5,234,766,800	5,234,766,800
2021	7,123,170,500	5,183,257,900	5,183,257,900
2022	7,558,870,500	5,382,336,700	5,382,336,700
2023	8,012,421,500	5,593,958,700	5,593,958,700
2024	8,484,588,500	5,817,613,400	5,817,613,400
2025	8,976,156,000	6,052,240,300	6,052,240,300
2026	9,487,928,600	6,296,227,800	6,296,227,800
2027	10,020,738,500	6,547,484,900	6,687,632,000
2028	10,575,451,400	6,803,516,900	7,098,247,200
2029	11,152,968,300	7,064,104,200	7,528,327,800
2030	11,754,226,900	7,329,091,200	7,978,111,100
2031	12,380,203,300	7,598,387,000	8,447,812,100
2032	13,031,913,600	7,871,960,600	8,937,615,900
2033	13,710,415,800	8,149,829,900	9,447,666,300
2034	14,416,811,300	8,432,043,500	9,978,753,000
2035	15,152,246,900	8,718,658,200	10,531,710,400
2036	15,917,916,200	9,009,736,200	11,107,417,900