A MONTHLY REPORT FROM STATE CONTROLLER BETTY T. YEE

California Fiscal Focus

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CA Controller Reports State Revenues Beating Estimates after Four Months of Shortfalls

After four straight months of missed budget projections, California's August revenues of $8.56 billion outpaced expectations by $425.2 million, or 5.2 percent, based largely on the strength of personal income tax receipts, State Controller Betty T. Yee reports.

Personal income tax (PIT) receipts of $4.79 billion in August were $373.4 million higher than predicted in the 2016-17 Budget Act signed by Governor Jerry Brown in June—a difference of 8.5 percent. For the first two months of the fiscal year, PIT receipts are on target—just 0.5 percent higher than expected.

Two months into the new fiscal year, total year-to-date revenues of $13.98 billion are just $166.1 million below projections, or 1.2 percent.

"Under our outdated tax structure, revenues fluctuate greatly from month to month," said Controller Yee, the state's chief fiscal officer. "After the lengthy period of sustained growth California has enjoyed, I would expect to see some degree of economic plateau."

Corporation tax receipts of $72.8 million for August fell $49.7 million short of projections—a difference of 40.6 percent. For the fiscal year-to-date, they are 24.9 percent lower than anticipated. Retail sales and use tax receipts of $3.24 billion for August were just $20.8 million—a negligible 0.6 percent—lower than expected. For the fiscal year-to-date, sales tax receipts are 5.6 percent lower than expected.

The state ended the month of August with unused borrowable resources of $30.97 billion, which was $2.45 billion more than predicted in the 2016-17 Budget Act. Outstanding loans of $5.61 billion were $421.4 million less than projected. This loan balance consists of borrowing from the state's internal special funds.

For more details, read the monthly cash report.

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How "Unpredictable" Is the State's General Fund Cash Flow?

Many believe tax systems should produce "predictable" revenue streams. If budget writers have a high certainty about their revenue estimates, they can more confidently plan for and invest with future budgets.

In the immediate wake of the collapsed technology-stock bubble in the early 2000s, budget experts warned that aspects of California's tax structure were difficult to forecast accurately.

After the bubble collapse, have our estimating models performed with more precision?

The governor's Department of Finance prepares two major revenue estimates for the coming fiscal year. The first, prepared in November and December, the department publishes in January. The second, prepared at the end of April, is published in May. Figure 1

(See PREDICTABILITY, page 3)

Figure 1

California General Fund Estimates by Fiscal Year and Major Tax

2012-13 through 2014-15

Dollars in Billions

	January Estimate	May Estimate	Five-Month Change: Average	Five-Month Change: Percentage
2012-13				
Income	$ 65.3	$ 63.9	-$1.4	-2.1%
Sales	20.5	20.2	-0.3	-1.5%
All Other	14.1	14.1	0.0	0.0%
Subtotal, 2012-13	$ 99.9	$ 98.2	-$1.7	-1.70%
2013-14				
Income	64.3	60.9	-3.4	-5.3%
Sales	22.9	23.0	0.1	0.4%
All Other	12.9	13.3	0.4	3.1%
Subtotal, 2013-14	$ 100.1	$ 97.2	-$2.9	-2.9%
2014-15				
Income	69.8	67.3	-2.5	-3.6%
Sales	24.1	24.2	0.1	0.4%
All Other	10.5	13.0	2.5	23.8%
Subtotal, 2014-15	$ 104.4	$ 104.5	$0.1	0.1%

Source of Data: California Department of Finance

Budget Spotlight: Higher Education Funding Since 2008

According to the Center on Budget and Policy Priorities, California's support for university education remains below pre-recession levels, after accounting for inflation. On a per-student basis, California reduced support by 3.2 percent between 2008 and 2016.

California is not alone. Only Montana, North Dakota, Wisconsin, and Wyoming have restored or exceeded pre-recession funding levels.

Per-student funding is at least 30 percent below 2008 levels in Alabama, Arizona, Idaho, Illinois, Kentucky, Louisiana, New Hampshire, Pennsylvania, and South Carolina.

Property Tax Assistance Available for Homeowners

Controller Yee this month announced the return of the Property Tax Postponement (PTP) Program, seven years after the assistance was suspended by the Legislature for lack of funds at the height of the Great Recession. From 1978 until 2009, eligible applicants could defer payment of residential property taxes under the program administered by the State Controller.

"Through sound fiscal management, California is once again in an economic position to offer this assistance to homeowners in need," said Yee, the state's chief fiscal officer. "The economic recovery has not reached every individual in every corner of our state, and this program is another tool to help address those inequalities."

PTP applies only to current-year taxes. Program participants must reapply each year. The Legislature narrowed the requirements to ensure the program's limited funds support California's most vulnerable residents, so not everyone who participated prior to 2009 will qualify.

To be eligible for PTP, a homeowner must be at least 62 years of age, or blind, or have a disability; have a household income of $35,500 or less; have at least 40 percent equity in the property; and occupy the home as the primary residence, among other requirements.

The interest rate for taxes postponed under PTP is seven percent per year. Postponed taxes and interest become due and payable under PTP when the homeowner moves or sells the property, transfers title, defaults on a senior lien, refinances, obtains a reverse mortgage, or passes away.

The program application and details are on Yee's website or by phone at (800) 952-5661. Funding for the program is limited and available on a first-come, first-served basis.

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summarizes the changes in estimates between January and May for three recent fiscal years, showing the department:

- Lowered its estimates of personal income tax revenues in each of the three years, by as much as $3.4 billion (about 5.3 percent).
- Made smaller adjustments in its sales tax revenue estimates, lowering its estimates by $300 million in FY 2012-13, and raising the estimate by $100 million in each of the subsequent years.
- Had greater changes when associated with all the other General Fund revenues, especially in FY 2014-15 when it raised its estimate by $2.4 billion (22.6 percent).

Taken together, these changes often were offsetting. When the income tax estimate dropped, the loss was often offset by gains in other revenues.

Overall, revenue estimates varied by less than 3.0 percent—hardly a sign of an erratic tax structure or poor estimating.

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