

# Controller *John Chiang*

## California State Controller's Office

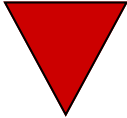

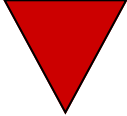
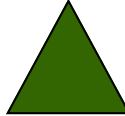
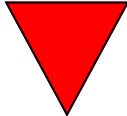
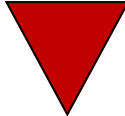
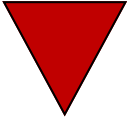
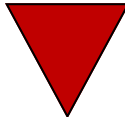


April 10, 2012

Summary Analysis

Volume 6, Issue 4

## State Finances in March 2012

March 2012 compared to <i>monthly estimates</i> in the Governor's proposed budget	March 2012 compared to last March (2011)
 <b>Total Revenues:</b> <b>-\$233.5 million</b> (-4.2%)	<b>Total Revenues:</b>  <b>-\$657 million</b> (-10.9%)
 <b>Income Tax:</b> <b>-\$41.4 million</b> (-1.8%)	<b>Income Tax:</b>  <b>+\$215 million</b> (+10.3%)
 <b>Sales Tax:</b> <b>-\$25.7 million</b> (-1.7%)	<b>Sales Tax:</b>  <b>-\$623.4 million</b> (-30.1%)
 <b>Corporate Tax:</b> <b>-\$125.8 million</b> (-8.2%)	<b>Corporate Tax:</b>  <b>-\$170.1 million</b> (-10.8%)

## What the Numbers Tell Us

General Fund revenues fell short of the Governor's Budget expectations in March 2012. At roughly \$5.4 billion, total receipts were below the estimates by \$233.5 million. This was largely driven by weaker than anticipated corporate tax revenues, which were \$125.8 million lower than the Governor's Budget estimates. Personal income tax and sales and use taxes also came in below the estimates, but each by less than 2%.

Given that the improvement in the economy has yet to bring a major resurgence in revenue – which underperformed over the last few months – the problem is likely to persist into the near future. This means that many tough decisions remain for policymakers in Sacramento.

Still, there are signs that the economic recovery continues to

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## Looking Ahead: Why April Tax Receipts Matter

What does a half-billion dollars look like? If you visit the Franchise Tax Board's campus this month, you'll see, because the agency processes millions of personal income tax returns in April, when personal income taxes come due. If history repeats itself, the busiest days will be in the last half of this month,

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## What the Numbers Tell Us

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move forward and that the worst is behind California. Employment has continued to grow, though the pace has slowed slightly in 2012, according to the Employment Development Department's latest reports. Taxable-sales growth accelerated during the fourth quarter of 2011, which shows that consumers are gaining enough confidence to increase their spending. Additionally, the residential real estate market has seen increased sales activity and more stable prices over the past six months.

Corporate taxes continue to lag behind estimates, and with a lower sales tax rate during the current fiscal year as compared with 2010-11, sales tax revenues have continued to fall short of last year at this time. Yet even within the General Fund, there are positive signs below the surface of the disappointing revenues:

- ⇒ Personal income taxes in March were \$215 million higher, or 10.3 percent, than they were in March 2011.
- ⇒ According to estimates from the Franchise Tax Board, gross receipts of personal income taxes actually exceeded the Governor's Budget estimates — rising by \$110 million above the Governor's Budget estimates.
- ⇒ The negative total in March's personal income tax receipts is explained by \$305 million in tax refunds going out sooner than expected.

Year-to-date expenditures are tracking nearly \$986 million lower than expected. While March figures show a \$729 million increase in disbursements, most of that increase comes from repayment of bills deferred in February.

**Table 1: General Fund Receipts**

July 1, 2011 – March 31, 2012 (in Millions)

Revenue Source	Actual Revenues	2012-13 Governor's Budget		2010-11 Year-To-Date	
		Estimate	Actual Over (Under)	Actual	Actual Over (Under)
Corporation Tax	\$4,751	\$5,073	(\$321)	\$5,721	(\$970)
Personal Income Tax	\$33,638	\$34,374	(\$736)	\$33,915	(\$277)
Retail Sales and Use Tax	\$14,478	\$14,444	\$34	\$19,819	(\$5,341)
Other Revenues	\$3,102	\$3,152	(\$50)	\$3,710	(\$608)
<b>Total General Fund Revenue</b>	<b>\$55,970</b>	<b>\$57,043</b>	<b>(\$1,073)</b>	<b>\$63,166</b>	<b>(\$7,196)</b>
Non-Revenue	\$3,520	\$3,208	\$313	\$1,975	\$1,545
<b>Total General Fund Receipts</b>	<b>\$59,490</b>	<b>\$60,251</b>	<b>(\$761)</b>	<b>\$65,141</b>	<b>(\$5,651)</b>

## Looking Ahead: Why April Tax Receipts Matter

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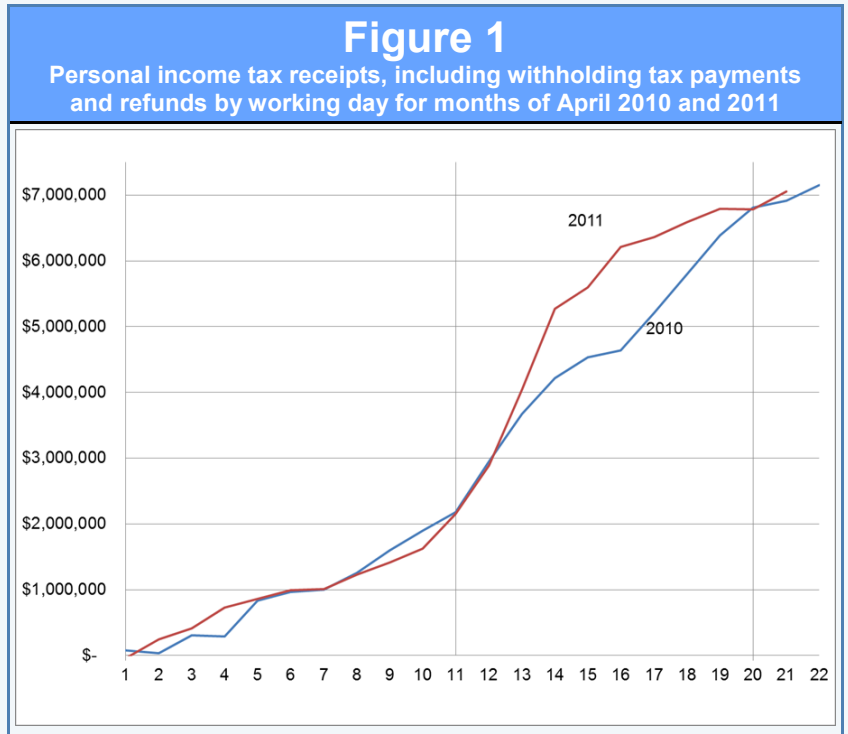
when the agency is projected to receive \$5 billion in income-tax payments.

During the last two years, the board reported daily income tax flows around \$200 million in the first 10 working days of April. Following the April 15 tax due-date, daily deposits rose to about \$550 million. Figure 1 displays personal income tax revenues reported by the board on each working day of April for 2010 and 2011. The figure includes receipts for withheld payroll and tax payments, minus refunds paid.

Budget staff watch the progress of April income-tax receipts with interest. As the largest source of General Fund revenue, the income tax looms large when measuring actual revenues against budgeted expectations. In addition, economists are likely to use the 2011-12 income tax results when re-estimating 2012-13 revenues. (The re-estimate could be a determinative factor in this year's May Revision.) To assist those interested in following the daily results, the Controller publishes a daily update of April receipts on his [website](#). In 2012, new procedures for processing tax payments may affect timing of tax collections.

Income tax receipts are only a piece of the revenue story, of course. When considering all General Fund flows, the state expects to collect

about \$12.1 billion in April, and a similar amount in June. Analysts expect these two months, when taken together, to account for nearly 30 percent of all General Fund resources. Because these two months occur in the last quarter of the fiscal year, many will closely monitor daily revenue performance.



**Table 2: General Fund Disbursements**

July 1, 2011 – March 31, 2012 (in Millions)

Recipient	Actual Disbursements	2012-13 Governor's Budget		2010-11 Year-To-Date	
		Estimates	Actual Over (Under)	Actual	Actual Over (Under)
Local Assistance	\$54,414	\$55,171	(\$757)	\$53,536	\$878
State Operations	\$18,431	\$18,669	(\$238)	\$19,688	(\$1,258)
Other	\$4	(\$5)	\$9	\$993	(\$988)
<b>Total Disbursements</b>	<b>\$72,849</b>	<b>\$73,834</b>	<b>(\$986)</b>	<b>\$74,217</b>	<b>(\$1,368)</b>

**California Economic Snapshot**

<b>New Auto Registrations</b> (Fiscal Year to Date)	<b>658,042</b> Through January 2011	<b>707,322</b> Through January 2012
<b>Median Home Price</b> (for Single-Family Homes)	<b>\$244,000</b> In February 2011	<b>\$239,000</b> In February 2012
<b>Single-Family Home Sales</b>	<b>27,320</b> In February 2011	<b>29,630</b> In February 2012
<b>Foreclosures Initiated</b> (Notices of Default)	<b>69,799</b> In 4 <sup>th</sup> Quarter 2010	<b>61,517</b> In 4 <sup>th</sup> Quarter 2011
<b>Total State Employment</b> (Seasonally Adjusted)	<b>14,057,200</b> In February 2011	<b>14,184,500</b> In February 2012
<b>Newly Permitted Residential Units</b> (Seasonally Adjusted Annual Rate)	<b>47,649</b> In January 2011	<b>38,498</b> In January 2012

Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance

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# California Economic Outlook: Improving But Fragile

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Fortunately, the Chicken Little forecasts claiming that “the sky is falling” as a pernicious aftermath of the subprime financial crisis appear to be overstated and apocryphal. The California economy is growing, albeit slowly, and the economic recovery appears to be both fragile and uneven.

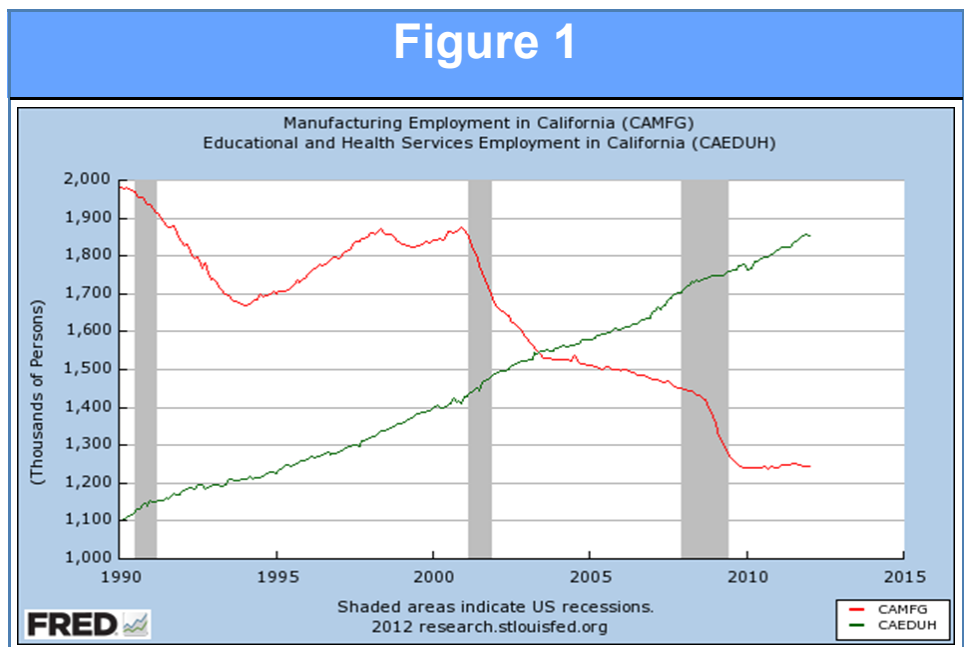
The key for a general upturn for economic growth in California (and the rest of the United States) will require increased confidence from both businesses and households about the future. Unfortunately, economic confidence as measured by most standard confidence indices, such as the Consumer Confidence Survey from the University of Michigan, has not returned to levels seen in 2007, before the pre-subprime crisis. Even with low levels of consumer and business confidence, California and other parts of the country are exhibiting a slow recovery from the recession that troughed in June 2009.

Continued growth of the economy will depend crucially on employment growth. To this point, the economic recovery has had dampened job growth. To place this in perspective, in the downturn from 2007 through 2009,

the U.S. economy lost eight million jobs, only half of which have been recovered. Much of the economic growth has been achieved through efficiency, involving cost reductions through layoffs.

The employment growth that has occurred has been quite uneven across various sectors in the state and national economy. For example, Figure 1 shows that one

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*The opinions in this article are presented in the spirit of spurring discussion and reflect those of the authors and not necessarily the Controller or his office.*

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of the most robust employment growth sectors for California (for two decades), has been education and health services. In California, this represents a stark contrast to manufacturing, which has shown a sharp employment decline; and now that sector's employment level is only 60 percent of what it was in 1990.

Unfortunately, two other employment sectors that have lagged in the recovery and remain stagnant are Finance Insurance and Real Estate (FIRE) and Professional and Business Services (PBSV). These sectors have not regained employment levels they achieved in 2007, and for both sectors, employment is below what it was 12 years ago. FIRE and PBSV are large sectors of the California economy with traditionally highly-paid professionals; without employment recovery in these sectors, the economic outlook for California will be dampened.

Finally, as illustrated in Figure 3, employment in the information sector (high-tech sectors) remains stunted. This is in spite of the fact that the high-tech sectors have experienced high earnings as well as sales growth; but unfortunately, this growth has not translated into new jobs. Construction employment has remained stagnant at historically-low levels, due to the depressed state of the real estate markets. The recent building upturn in the commercial and residential real estate markets provides hope that construction employment is likely to turn around in the near future.

Furthermore, the recovery of the real estate market is also uneven, doing best in places where there is buoyant economic activity, such as parts of the San Francisco Bay Area. Even with the apparent easing of housing credit, there is still a vast pool of housing owners with negative or near negative equity. This could remain a drag on the economy, and can only be fixed by a combination of improved access to mortgage lending and general growth in household income.

Finally, the State's budgetary positions inexorably depend upon employment growth for income taxes, and real estate price appreciation and development for property taxes and local fees. The recovery of the real estate market, in turn, depends upon household income growth.

In sum, the State's economy, as well as the financial health of the governmental sector will depend ultimately upon significant and sustained growth in employment in the State of California.

