



California Fiscal Focus

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CA Controller Reports State Revenues Top March Projections

California revenues of \$7.63 billion for March beat projections in the governor’s proposed 2017-18 budget by \$1.73 billion, or 29.2 percent, State Controller Betty T. Yee reported. March revenues were just \$56.5 million above estimates in the 2016-17 Budget Act signed last summer.

For the first nine months of the 2016-17 fiscal year that began in July, total revenues of \$80.91 billion are \$607.3 million below last summer’s budget estimates, but \$837.1 million ahead of January’s revised fiscal year-to-date predictions.

March personal income tax (PIT) receipts of \$3.93 billion topped projections in the governor’s proposed budget by nearly \$1.09 billion, or 38.2 percent. In the current fiscal year, California has collected total PIT receipts of \$54.90 billion, or 1.1 percent more than January’s revised estimate. Controller Yee has launched an [online tracker](#) to show daily PIT receipts through April, the busiest filing period. Corporation tax receipts of \$1.37 billion

for March were 29.1 percent higher than assumptions in the proposed 2017-18 budget. Fiscal year-to-date corporation tax receipts of \$5.19 billion are 9.0 percent above projections in the proposed budget.

March sales tax receipts of almost \$2.00 billion exceeded expectations in the governor’s proposed 2017-18 budget by \$266.8 million, or 15.4 percent. For the fiscal year to date, sales tax receipts of \$18.29 billion are \$346.7 million below the revised estimates released in January—the only one of the “big three” General Fund revenue sources to miss the mark.

The state ended March with unused borrowable resources of \$22.50 billion, which was \$3.53 billion more than predicted in the governor’s proposed budget. Outstanding loans of \$17.87 billion were \$304.3 million lower than projected in early January. This loan balance consists of borrowing from the state’s internal special funds.

For more details, read the [cash report](#).

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Three Studies Show Affordable Care Act Creates Jobs in California

In 2016, national health expenditures comprised almost \$3.4 trillion, or 18 percent, of the United States Gross Domestic Product (GDP). From 2014 through 2016, key expansion years under the Affordable Care Act (ACA), national health expenditures as a share of GDP grew by two-thirds of a percentage point as overall health care spending expanded at twice the rate of the national economy.

During these years, expansion of health coverage under the ACA—through broader Medicaid eligibility and exchanges such as Covered California—substantially contributed to this growth.

California and the Act

In California, the ACA resulted in a major shift in the number of residents with coverage. During the first three years of ACA implementation, California’s rate of uninsured dropped by half, resulting in 3 million more Californians becoming insured.

These coverage gains are the result of substantial investments. The nonpartisan [Legislative Analyst’s Office](#) (LAO) estimates the federal share of ACA resources to cover Californians for Fiscal Year 2017-18 will amount to \$23.7 billion. This investment directly affects jobs in the health care sector, but the effect can be seen much more broadly.

Projected Job Loss and Current Unemployment Rate in California and Select Counties* under Partial ACA Repeal

Job impacts rounded to the nearest 1,000 jobs

	Projected Net Job Loss	October 2016 Unemployment Rate
California total	-209,000	5.3%
Fresno County	-6,000	9.2%
Kern County	-5,000	9.1%
Los Angeles County	-63,000	5.1%
San Bernardino County	-12,000	5.8%
San Joaquin County	-4,000	7.6%
Stanislaus County	-3,000	7.9%
Tulare County	-3,000	10.8%

**Analysis includes medium and large counties (population over 400,000) with more than 10% of the county population enrolled in the Medi-Cal expansion. Source: UC Berkeley Center for Labor Research and Education (December 2016)*

New Studies Cite Economic Impacts

Three new studies detail the overall economic impact of the ACA, finding employment impacts beyond the health care sector. Studies by George Washington University’s (GWU) [Milken School of Public Health](#) and the [Economic Policy Institute](#) (EPI) are national in scope with detailed state data. The third, by the [UC Berkeley Labor Center](#) (UCB), is California-specific.

The ACA is complex, with numerous provider, market, and tax reforms. These studies focus on the most important economic impacts from income-based tax credit subsidies for exchange-based health coverage and Medicaid expansion. Using various forms of dynamic

economic modeling, all three find that repealing the ACA would lead to substantial job losses nationally and in California. Each study measures lost job growth in 2019, a key year for Congressional Budget Office (CBO) analyses.

Jobs Impact

GWU finds 334,000 lost jobs (121,300—or 36 percent—from the health care sector), and UCB projects 209,000 lost jobs, of which 135,000 (64 percent) would be from the health care sector. Moreover, UCB has California [county breakdowns](#), predicting the most negative impact on the [San Joaquin Valley](#). EPI’s analysis projects less of an employment

(See ACA Economics, page 4)

Overview of the Medical and Nonmedical Cannabis Industry



With the passage of Proposition 215 in 1996, California became the first state to allow the use of medical marijuana. Now, 28 states and the District of Columbia have laws that provide for medical cannabis programs. Under these programs,

there are no criminal penalties for medicinal use of cannabis. However, the personal possession limit varies greatly by state: one ounce in Alaska and Montana, six ounces in Delaware and New Mexico, eight ounces in California and Washington, and 24 ounces in Oregon.

Medical Cannabis and Taxes

Most states impose various taxes on medical cannabis transactions. These include sales, excise, gross receipts, and grower/processor taxes, as well as surcharges. In addition, there are various application and registration fees. With the November 2016 passage of Proposition 64 (the Adult Use of Marijuana Act), certain California sales of medical cannabis products are exempt from sales tax. The exemption applies to the retail sale of medical cannabis, medical cannabis concentrate, edible medical cannabis products, and topical cannabis. To obtain the exemption, qualified patients or their primary caregiver must furnish their valid Medical Marijuana Identification Card issued by the California Department of Public Health and a valid government-issued identification card at the time of purchase. The exemption applies to sales on or after November 9, 2016.

In California, medical cannabis businesses operate as nonprofit cooperatives or collectives. Although some medical cannabis businesses formally incorporate as nonprofit mutual benefit corporations or nonprofit mutual benefit cooperatives, they do not meet the requirements for income tax exemption. Therefore, incorporated cooperatives, incorporated collectives, and unincorporated collectives must report income by filing an annual income tax return.

Adult Use of Nonmedical Cannabis

In November 2012, voters in Colorado and the state of Washington were the first to approve legal adult use of nonmedical cannabis. In 2014, Alaska, Oregon, and the District of Columbia approved similar nonmedical cannabis measures. Actual retail sales of nonmedical cannabis in Colorado and Washington started in 2014.

Colorado levies a 2.9 percent retail and medical cannabis sales tax, 10 percent retail cannabis special sales tax, 15 percent cannabis excise tax, and retail medical cannabis application and license fees. Washington levies a 37 percent excise tax on all taxable sales of cannabis, cannabis concentrates, and cannabis-infused products. In Washington there is a combined state and local retail sales tax on cannabis starting at 7 percent and a business and occupation tax based on gross receipts that varies by business classification.

In November 2016, voters in three states in addition to California—Maine, Massachusetts, and Nevada—approved adult use of nonmedical cannabis. Actual retail sales of nonmedical cannabis in California will start January 1, 2018. The retail sales will be subject to state and local sales tax. An excise tax of 15 percent also will be imposed on all cannabis and cannabis products, including medical cannabis. In addition, there will be a cultivation tax of \$9.25 per dry weight ounce for cannabis flowers and \$2.75 per dry weight ounce for cannabis leaves.

Federal Law Unchanged

Cannabis is a Schedule I drug under federal law. As such, its use, possession, and sale remains a federal crime. Therefore, it is difficult for the cannabis industry to obtain banking and other services regulated by federal laws. California officials are looking into ways to resolve this problem as the Proposition 64 implementation deadline approaches. The inability to obtain bank accounts complicates tax administration and compliance for the marijuana industry.

(ACA Economics, continued from page 2)

impact than the other two studies, projecting 141,676 lost jobs in California by 2019. EPI did not break down job losses by industry sectors.

The private models used by GWU and UCB use multiplier effects to measure direct health care job losses, indirect job losses from other sectors, and induced effects such as state and local revenue losses.

In contrast, EPI's macroeconomic methodology measures overall economic output, translating dollars into jobs using standard methods. The [source data](#) include tax stimulus initiatives from the two prior federal administrations and additional data on expanded Medicaid spending. (However, the author's Medicaid spending data observed the employment impact of small Medicaid changes from the 2009 economic stimulus was heavily weighted toward non-health care jobs.)

Tax Impacts

The GWU model shows the starkest effects from losing ACA-related health care investments, projecting non-health care job losses at twice the percentage of the UCB study. GWU's national measure of 2.6 million lost jobs also is more than double the EPI projection of 1.2 million. GWU does not measure the positive impact of tax cuts from rolling back ACA's revenue provisions, but it does quote the UCB offset analysis, noting the relative impact is substantially less given California's large ACA-related investments.

The EPI analysis places greater weight on the distributional impact of ACA revenue provisions, noting 54.7 percent of taxes cut by repealing ACA would benefit the top one percent of income earners. Therefore, the EPI analysis gives greater weight to benefits received by California's relative number of higher-income earners, offsetting more of the positive impact of the state's strong investments. For this reason, GWU projects California job losses as relatively high compared to other states, while EPI predicts California's relative job losses as much lower.

Nevertheless, all three studies agree that tax stimulus from the ACA's focus on lower-income Americans results in greater economic output than cutting the taxes on higher-earning Americans that would result from repealing ACA.

Positive Economic Impact

Each of these studies measures employment demand from increased economic output attributable to ACA. As such, they do not follow CBO's analysis of [labor supply](#), which has been routinely [misrepresented](#). Contrary to claims, CBO has not found significant shifts to part-time employment. CBO [analyses](#) also reflect increased economic demand from exchange subsidies and Medicaid expansion. Although measuring the extent of ACA expansion of health care services is challenging, there is strong evidence its impact on the economy has been positive overall.



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A MONTHLY REPORT FROM STATE CONTROLLER BETTY T. YEE

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