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California State Controller's Office

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State Finances in July 2012

July 2012 compared to monthly estimates in the **2012-13 Budget Act**	July 2012 monthly totals compared to **July 2011**
Total Revenues: -$475 million (-10.1%)	**Total Revenues:** -$468.8 million (-10%)
Income Tax: $12 million (0.4%)	**Income Tax:** $156.2 million (5%)
Sales Tax: -$295 million (-33.5%)	**Sales Tax:** -$390.7 million (-40%)
Corporate Tax: $57.1 million (27.4%)	**Corporate Tax:** -$26.4 million (-9.1%)

It's All About Timing

Timing is critical in the State's cash management, because neither tax collections nor program disbursements flow at a constant rate. While most taxes are paid from March through June, the state spends much earlier in the year and at a much faster rate. As noted in this report, only 5.6% of all revenues

(Continued on page 3)

What the Numbers Tell Us

Typically, July is a month when California revenues go on vacation, as the month accounts for about one dollar of every $20 deposited in the General Fund. (Only October has lower revenue volume.)

Despite those low expectations, July's revenues were $475 million, or 10.1%, below estimates.

Some of that variance may be due to timing, as a fund transfer expected in July will now be made in August (in the range of $100 million). Most of the shortfall was attributable to sales tax, which dropped $295 million, or 33.5%, below estimates.

Partially offsetting these revenue losses, the state's other major revenue sources — income and corporate taxes — performed above estimates.

Corporate taxes rose $57.1 million (27.4%) above estimates. This reverses an eight-month trend of corporate tax revenue underper-

(Continued on page 2)

What the Numbers Tell Us

(Continued from page 1)
forming estimates. This could have been helped by a drop in corporate refunds in July, $54.6 million below July of last year.

Personal income taxes came in just above estimates by $12 million in July. The stability of this month's personal income tax could be attributed to the modest recovery being made in the labor markets. California added 38,300 nonfarm payroll jobs in June, which followed a gain of 45,900 jobs in May.

July's sales tax performance is harder to explain as it is unclear whether consumer activity has slowed or if this is an issue of timing. The missed amount this month can certainly be made up in the near future. While sales taxes were only projected to hit $882 million in July, the Budget expects the State to collect $2.3 billion in sales tax in August.

Total General Fund Disbursements also went out faster than originally projected. Table 2 shows Local Assistance payments in July totaling $1.7 billion over the budget's estimates. Most of that was caused by a $1.5 billion school payment scheduled for September, but instead issued in July.

Table 1: General Fund Receipts

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

Revenue Source	Actual Revenues	2012-13 Budget Act		2011-12 Year-To-Date	
		Estimate	Actual Over (Under)	Actual	Actual Over (Under)
Corporation Tax	$265	$208	$57.1	$291.5	($26.4)
Personal Income Tax	$3,311	$3,299	$12	$3,155	$156.2
Retail Sales and Use Tax	$587	$882	($295)	$977.6	($390.7)
Other Revenues	$79.7	$329	($249)	$287.7	($208)
Total General Fund Revenue	**$4,243**	**$4,718**	**($475)**	**$4,711.8**	**($468.8)**
Non-Revenue	$274.5	$523.4	($248.9)	$766.7	($492.2)
Total General Fund Receipts	$4,517.5	$5,241	($724)	$5,478	($961)

It's All About Timing

(Continued from page 1)
were expected in the month of July.

Many people are familiar with the highs and lows of our revenue patterns, but do they expect our spending patterns to be irregular, too? If the state were to spend at a constant daily rate, each month would represent about 8% of total spending. In practice, instead of spending 8.3% of its budget in July, it spends about 12%. By September 30, when a constant rate of disbursement suggests the state would spend about one-quarter of its budget, it in fact typically spends about one-third. Over the course of the fiscal year, the state spends at a faster rate in the first six months of the year than it does in the second half. The figure on the right maps this spending pattern.

The figure's blue line, based on historical patterns, shows the estimated disbursement totals by month for 2012-13. The red line, drawn for comparison, shows a constant daily disbursement rate over the course of a year. As seen in the figure, estimated disbursement rates are above the red line for most of the year. Disbursements slow significantly in the spring, so that the actual disbursement pattern begins to align with the red-lined constant-rate pattern in February and March. By March 31, 2013 — at the end of the third quarter — the Controller expects the state to have disbursed three-quarters of its budget. For April and May, the state spends below the constant-rate line, but increases disbursements dramatically in June.

Comparison of Cumulative General Fund Disbursements 2012-13

Estimated Disbursement Pattern Compared to a Constant Daily Disbursement Pattern

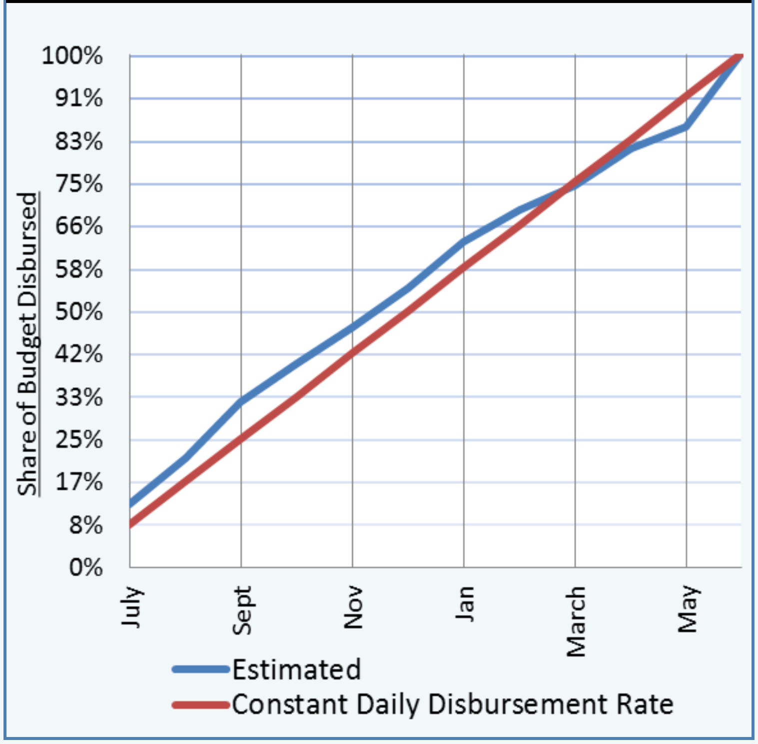

Table 2: General Fund Disbursements

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

Recipient	Actual Disbursements	2012-13 Budget Act		2011-12 Year-To-Date	
		Estimates	Actual Over (Under)	Actual	Actual Over (Under)
Local Assistance	$11,453	$9,728	$1,726	$6,682	$4,772
State Operations	$1,492	$1,940	($448)	$1,988	($496)
Other	$36	$69	($33)	($268)	$304
Total Disbursements	**$12,981**	**$11,736**	**$1,245**	**$8,402**	**$4,580**

Fighting Production Flight: What Makes Incentives Work

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The entertainment industry holds a special place in the California economy, with an impact that belies its overall size. Filmed entertainment remains not only one of the most visible industries in the state, but also contributes significant numbers of high paying jobs in a high-tech, high profile environment. Although it accounts for just 1.1 percent of employment in the state, it accounts for nearly twice that percentage in wages. Since the state's overall share of filmed production last peaked in 1997, increasing levels of competition from rival state and national governments has seen not only a movement of individual productions out of the state, but more importantly, a movement of permanent jobs to other parts of the country. California's concentration of film employment has slipped from 4.4 times the national average in 1997 to 3.7 times the average now.

In order to combat the flight of both productions and jobs, the California Legislature passed the Film and Tax Credit program in 2009 on a limited five-year basis, with a one-year extension passed last year. Due to the fact that the California Film Commission was allowed to concentrate two years' worth of funding in the first calendar year of the program, the effective run of the initial program was just four years. The goal of the program has been to focus on retaining productions that otherwise would have left the state. Productions unlikely to leave such as television comedies were excluded (as they need the local writing staff), but other productions that could have contributed significantly such as blockbuster movies with budgets of more than $75 million and network television dramas and miniseries were also blocked from funding.

Of note is the fact that during the period of mid-2010 to mid-2011, filmed production added nearly 20,000 jobs during a period where the state's total employment actually shrank on a year-over-year basis. Even counting the overall recovery of the industry, this employment growth in the state is still impressive — and can be at least partially attributed to the incentives.

In analyzing the first two years of the program, we were able to determine that the most effective type of production in actually concentrating spending in qualified areas (below the line and in the state) were television shows and independent mini-series, with feature films in third.

In each year of the program, the incentives have been fully subscribed within days, strongly suggesting a high

(Continued on page 5)

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.

(Continued from page 4)

level of demand for the program well beyond its current funding limitations.

Our examination of both the results of the first two years of the incentives and the results of best practices in key competing states, has led us to issue the following recommendations that would address many of the initial limitations in the current program. For those who consider raising the limit from $100 million per year to be frivolous, it is worth noting that New York has a pool of more than $400 million, and recently voted to not only extend their program, but expand it as well.

⇒ **Eliminate unnecessary contingencies** to attract productions that create the most jobs and to facilitate producers' long-term planning.

⇒ **Deepen and broaden California's entertainment industrial base** to create an environment that attracts future productions.

⇒ **Encourage local job creation and keep workers' skills up to date** to enhance the state's supply and quality of production crew.

⇒ **Target television production** to grow, or at least maintain, current production levels with their consistent employment and steady cash flow.

⇒ **Attract foreign and international productions** to capture demand for production locales, facilities and crews from the fast-growing global entertainment industry.

⇒ **Expand the credit pool** from the current $100 million annual fund to a level that can accommodate demand. A separate fund for television productions would allow more-targeted use of money.

Qualified spending and credit allocated, FY 2009-10 and FY 2010-11

Type of production	Number of projects	Qualified wage expenses (millions)	Qualified non-wage expenses (millions)	Total production (millions)	Credit allocation (millions)	Credit distribution	Total qualified expenses as share of total production	Total production over credit allocated
Feature film	41	$466.2	$452.8	$1,413.2	$181.3	60.3%	64.1%	7.79
Indie feature film	41	$64.4	$55.0	$222.2	$31.2	10.4%	56.3%	7.13
Movie of the week	7	$15.0	$13.7	$7.1	$6.1	2.0%	62.2%	5.61
Indie movie of the week	15	$7.7	$13.9	$34.8	$5.6	1.9%	64.5%	6.20
TV Series	17	$176.0	$127.6	$36.4	$60.8	20.2%	80.4%	5.98
Relocating TV Series	3	$29.4	$27.6	$118.2	$14.2	4.7%	48.1%	8.31
Indie mini-series	1	$1.5	$2.9	$441.7	$1.3	0.4%	68.3%	7.26
Grand Total	**125**	**$760.2**	**$693.3**	**$2,273.6**	**$300.5**	**100.0%**	**63.6%**	**7.57**