



California Fiscal Focus

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CA Controller's January Cash Report Shows Revenues Falling Short of Estimates

January state revenues fell short of projections included in Gov. Jerry Brown's budget proposal by \$239.8 million, with both the personal income tax and the retail sales and use tax failing to meet projections, State Controller Betty T. Yee reported.

"The governor has emphasized the need to be alert to changes in the state's fiscal fortunes," said Yee, the state's chief fiscal officer. "While one month of faltering revenues does not make a trend, I will continue to closely monitor the state's cash position."

A month ago, as part of his proposed budget for the fiscal year that starts July 1, the governor estimated January revenues of about \$13.24 billion. In fact, collections were closer to \$13.0 billion, \$239.8 million less than expected.

The corporation tax brought in \$362.6 million, 81.1 percent more than estimated, largely the result of fewer refunds than expected.

However, this windfall was not enough to erase deficits in the state's two other major taxes. Personal income tax receipts of \$11.7 billion fell short of projections by 2.5 percent, while sales tax revenue of \$738.0 million was shy by 15.2 percent.

Collections also slipped compared to

estimates in the budget signed last July for the current fiscal year, falling short by \$353.8 million, or 2.7 percent. However, the total for the first seven months of the fiscal year still surpasses projections from last summer by \$530.8 million, or 0.8 percent. This surge can be attributed to personal income tax revenue \$888.5 million, or 2.0 percent, more than expected.

January revenues were \$386.3 million higher than the monthly total a year ago. For the fiscal year so far, revenues are \$4.1 billion higher than last year. Over the past few years, as the state's economy has strengthened, revenues generally have surpassed expectations. The last time they did not was in September 2015.

This month's edition of the Controller's *California Fiscal Focus* examines the governor's plan to deal with monthly cash deficits in the budget for the coming fiscal year.

The state ended the month of January with \$8.3 billion in outstanding loans, which was \$857.3 million less than expected in the governor's proposed budget and \$593.9 less than projected in the budget signed last July.

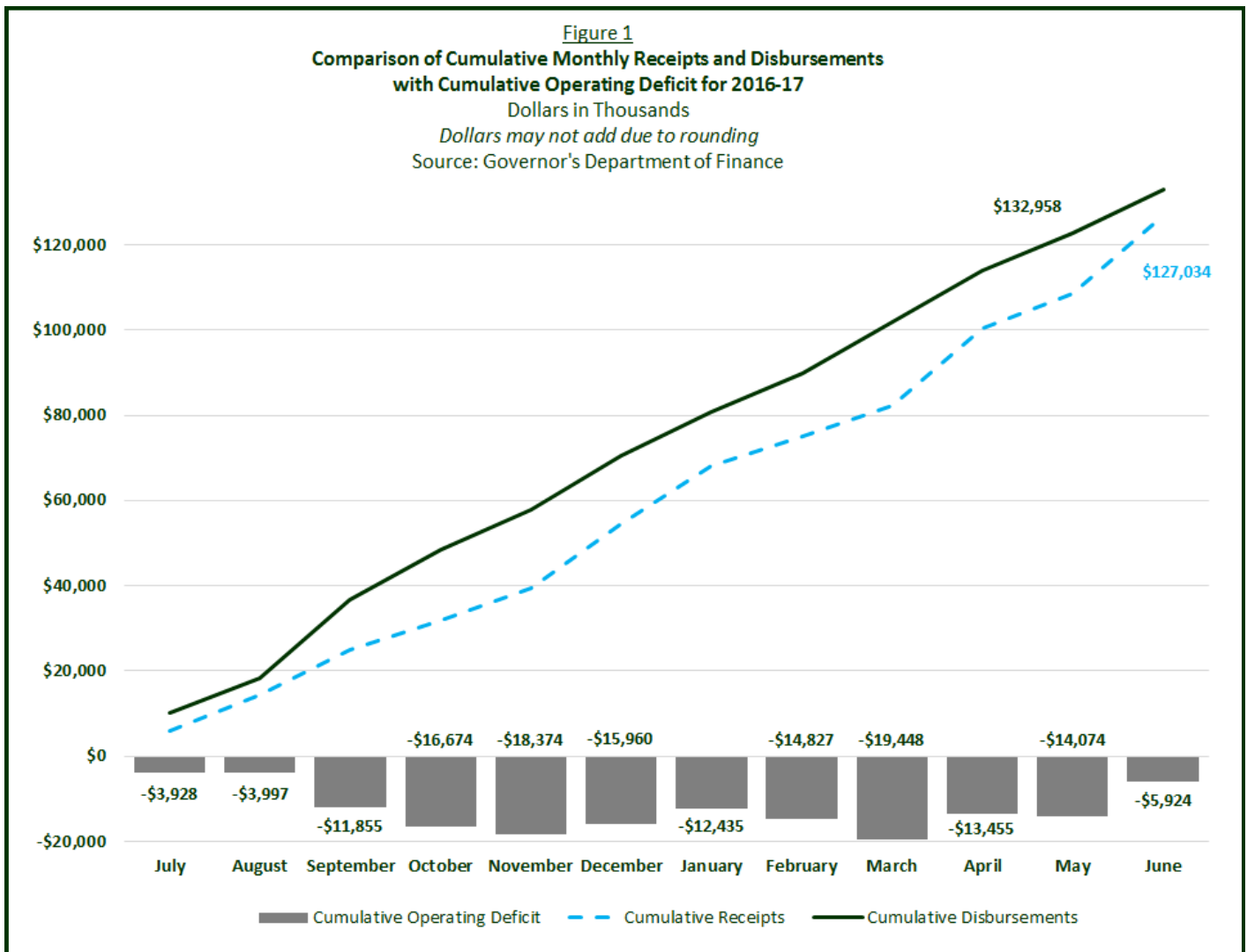
For more details, read the [cash report](#).

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Proposed Budget Would Run Monthly Cash Deficit



Governor Jerry Brown’s budget for the fiscal year that starts in July proposes average monthly disbursements of \$11.1 billion, but expects receipts to average about \$10.6 billion, leading to an end-of-year operating deficit of about \$6 billion.

As displayed in Figure 1, the state will start the year with a monthly cash deficit of \$3.9 billion and cumulative receipts will remain below cumulative disbursements throughout the 2016-17 fiscal year.

The cumulative deficit, shown by the gray bars, is expected to grow for most of the year, reaching its maximum in March 2017. In April, the cash deficit would shrink to \$13.5 billion and get steadily smaller thereafter. The average monthly deficit would run

about \$12.6 billion.

To cover the cash deficit, the governor expects to borrow heavily from internal sources and the Budget Stabilization Account (BSA), the rainy-day fund approved by voters in 2014. The amount borrowed from internal sources will peak in November 2016 at \$10.2 billion, and the BSA will lend \$8.0 billion for nine months starting in September 2016.

By the end of the year, the governor expects to repay all the internal loans, but plans to carry over a loan of roughly \$4.7 billion from the BSA and about \$2.2 billion from the Special Fund for Economic Uncertainties, the state’s budget reserve.

California Expecting Income and Sales Tax Growth to Keep Pace with National Median

The Rockefeller Institute of Government published two studies of revenue forecasts late last year, documenting how states expect their personal income tax (PIT) and sales tax revenues to perform in the 2015-16 and 2016-17 fiscal years. According to the studies:

- Most states expect income taxes to grow in the current year, led by Vermont at 8.2 percent. Three states project lower income tax revenues, including Ohio, which anticipates a 19.5 drop. For the coming fiscal year, income taxes may grow by as much as 8.0 percent (West Virginia). One state, Ohio, expects a slight drop of 0.1 percent.

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Figure 2
Estimated Growth Rates for Personal Income Taxes and Sales Taxes 2015-16 and 2016-17
 Source: Rockefeller Institute

	<u>2015-16</u>	<u>2016-17</u>	<u>Combined Years</u>
<u>Personal Income Tax Growth Rates</u>			
National Median	4.7%	4.2%	9.1%
California	3.1%	5.1%	8.4%
<u>Sales Tax Growth Rates</u>			
National Median	4.2%	3.9%	8.3%
California	6.6%	2.2%	8.9%

Estimating Revenues and Spending Over the Next Four Years

In November 2015, the Legislative Analyst’s Office (LAO), in its annual fiscal outlook, estimated the state’s General Fund condition for a five-year period starting on July 1, 2015. On the resources side, it showed the three major taxes increasing at an annual rate of between 2.8 and 3.2 percent. After accounting for all other General Fund sources and transfers, LAO estimated that net resources would rise from \$116.3 billion in 2015-16 to \$134.5 billion in 2019-20. This net figure would grow at a healthy rate of 3.7 percent per year on average during the estimate period (Figure 3).

Figure 3
Change in General Fund Resources by Major Fund Source 2015-16 through 2019-20
 Dollars in Millions
 Dollars may not add due to rounding
 Source: Legislative Analyst’s Office

	<u>2015-16</u>	<u>2019-20</u>	<u>Change from 2015-16</u>	
			<u>Amount</u>	<u>Average Annual</u>
Personal Income	\$ 81,676	\$ 91,122	\$ 9,446	2.8%
Sales	24,971	28,091	3,120	3.0%
Corporation	10,198	11,557	1,359	3.2%
All Other	4,587	4,993	406	2.1%
Total, Resources	\$ 121,432	\$ 135,763	\$ 14,331	2.8%
Transfers from General Fund	(5,117)	(1,273)		
Net, Resources	\$ 116,315	\$ 134,490	\$ 18,175	3.7%

LAO expects overall spending to rise from \$115.3 billion in 2015-16 to \$130.6 billion in 2019-20. This growth rate, at 3.2 percent per year, is slower than the net resources growth (Figure 4).

Given the differences in growth rates, LAO expects the General Fund annual

(See LAO, Page 4...)

(ROCKEFELLER, from Page 3)

Most states also expect sales tax revenues to grow, by as much as 15.2 percent (Ohio). Four states predicted declines, with Wyoming expecting a 14.2 percent drop. For the coming fiscal year, Ohio expects the fastest growth (7.1 percent), and Connecticut expects the biggest decline (0.9 percent).

The national median growth rates for the PIT are 4.4 percent and 4.6 for the current and subsequent fiscal year.

California is expecting PIT to grow by 3.1 percent and 5.1 percent for the current and subsequent fiscal year.

The national median for sales tax growth is 4.2 percent and 3.9 percent for the current and coming fiscal years. By comparison, California expects sales tax to grow 6.6 percent in 2015-16 and 2.2 percent in the following year (Figure 2).

(LAO, from Page 3)

balance to rise over the estimate period. As seen in Figure 5, LAO projects revenues and transfers to exceed spending in each of the five years, with the difference growing from \$1.1 billion to \$3.9 billion by the end of the period.

Figure 4
Estimated General Fund Spending by Major Program Area
2015-16 through 2019-20

Dollars in Millions
 Dollars may not add due to rounding
 Source: Legislative Analyst's Office

	2015-16	2019-20	Change from 2015-16	
			Amount	Average Annual
Prop 98 + Childcare	\$ 50,386	\$ 53,997	\$ 3,611	1.7%
Higher Education	7,738	9,362	1,624	4.9%
Medi-Cal	17,993	24,133	6,140	7.6%
All Other Health & Human Services	13,407	13,895	488	0.9%
CDCR + Judiciary	11,041	11,181	140	0.3%
CalSTRS	1,935	1,679	(256)	-3.5%
Infrastructure + Proposition 2 Debt Payments	5,580	7,057	1,477	6.0%
All Other Programs	7,183	9,272	2,089	6.6%
Total	\$ 115,263	\$ 130,576	\$ 15,313	3.2%

Figure 5
General Fund Revenues, Transfers, and Spending,
Including Transfers to Budget Stabilization Account
Assuming Legislative Analyst's Office (LAO) "Main" Forecast

Dollars in Millions
 Dollars may not add due to rounding
 2015-16 through 2019-20
 Source: LAO

	2015-16	2016-17	2017-18	2018-19	2019-20
Revenues and Transfers	\$ 116,315	\$ 123,183	\$ 128,789	\$ 131,337	\$ 134,490
Spending	115,262	121,119	123,804	127,345	130,575
Difference	\$ 1,053	\$ 2,064	\$ 4,985	\$ 3,992	\$ 3,915



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CALIFORNIA FISCAL FOCUS

A MONTHLY REPORT FROM STATE CONTROLLER BETTY T. YEE

To have Controller Yee's monthly cash report and newsletter delivered to your inbox, subscribe at www.sco.ca.gov/ard_state_cash_summaries.html