

Controller *John Chiang*

California State Controller's Office

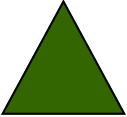
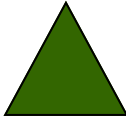
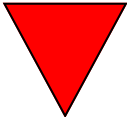
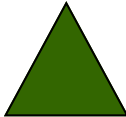
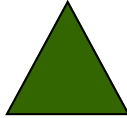





April 10, 2013

Summary Analysis

Volume 7, Issue 4

State Finances in March 2013

March 2013 compared to monthly estimates in the 2013-14 Governor's Budget	March 2013 monthly totals compared to March 2012
 <p>Total Revenues: \$395.5 million (7.2%)</p>	 <p>Total Revenues: \$528.5 million (9.8%)</p>
 <p>Sales Tax: -\$132.1 million (-8.0%)</p>	 <p>Sales Tax: \$74.6 million (5.1%)</p>
 <p>Income Tax: \$324.1 million (14.8%)</p>	 <p>Income Tax: \$216.5 million (9.4%)</p>
 <p>Corporate Tax: \$81.9 million (5.8%)</p>	 <p>Corporate Tax: \$95.6 million (6.8%)</p>

What the Numbers Tell Us

California's fiscal lamp continued to glow brighter in March. The economy's rebound, voter-approved tax increases, and some signs of restraint on the spending side combined to narrow the deficit.

March revenues surpassed estimates provided in January as part of the Governor's 2013-14 Budget by \$395 million, or 7.2%. (See table at left.) California's economy, key to its fiscal position, is again expanding. In terms of jobs, as measured by nonfarm payrolls, the state is outperforming the nation. (See Figure 1.)

Although the state's dependence on the personal income tax makes its fiscal condition particularly vulnerable to economic downturns, income tax receipts are now driving California's positive revenue numbers. In March, income tax receipts outshined estimates by 14.8%. Corporate tax receipts are also finally reviving and they beat projections by 5.8%. Retail sales were the only major shadow on last

Tax Tracker: More Drama Than March Madness?

Nationwide, personal income tax collections have been running ahead of estimates. Commentators believe this may be because state economies — and taxable income — have increased faster than expected. It may be because taxpayers increased their withholding and estimated payments in anticipation of federal tax increases. In California, personal income tax collec-

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What the Numbers Tell Us

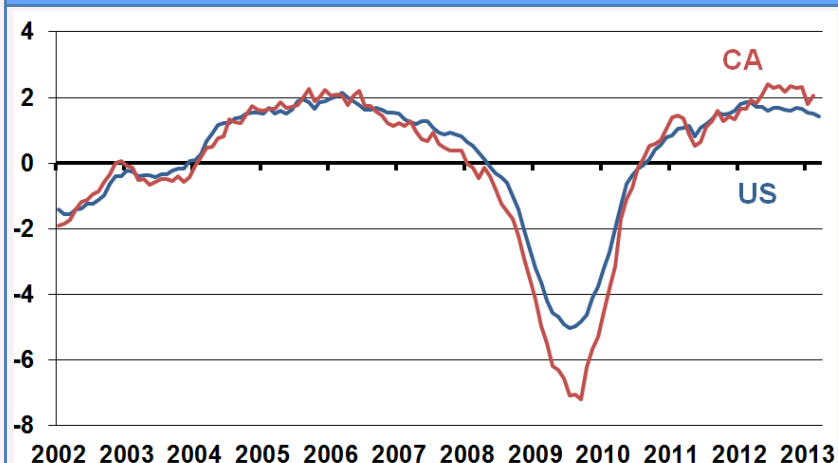
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month's results. Despite an increase in the sales tax rate, retail tax receipts were 8% shy of estimates. This may reflect the January 1 federal payroll tax increase's effect on consumer spending.

Looking at the first three quarters of the fiscal year beginning last July 1, the budget picture is casting a much better hue. The nine-month cash deficit (expenditures minus receipts) now stands at \$5.6 billion versus the \$11.4 billion projection contained in the most recent estimates, and the \$13.4 billion shortfall recorded during the first nine months of the prior fiscal year. Because of the \$9.6 billion deficit carried forward from June 30, 2012, the state is still having to finance a midyear cash borrowing (either from outside sources or internal funds) of \$15.2 billion, but this is still down substantially from the \$21.5 billion borrowing requirement of a year ago.

For the first three quarters of the current fiscal year, total receipts have surpassed estimates by \$5.0 billion, or 8.0%. (See Table 1.) Spending is running \$873 million, or 1.2%, below estimates.

Figure 1: California's Job Growth Overtakes the Nation's
(Non-farm employment, percent change over prior year)



As California looks to the final three months of the fiscal year, there are reasons to be both optimistic and cautious. It will be vital that the economic recovery in jobs, income, and profits continue and it will be important to see a pickup in consumer spending. At the same time, the upswing in revenues cannot be taken for granted.

Table 1: General Fund Receipts

July 1, 2012 – March 31, 2013 (in Millions)

Revenue Source	Actual Revenues	2013-14 Governor's Budget		2011-12 Year-To-Date	
		Estimate	Actual Over (Under)	Actual	Actual Over (Under)
Corporation Tax	\$3,793.7	\$3,674	\$119.7	\$4,751.5	(\$957.8)
Personal Income Tax	\$43,304.5	\$38,667.9	\$4,636.6	\$33,638	\$9,666.4
Retail Sales and Use Tax	\$14,488	\$14,840.6	(\$352.6)	\$14,478.2	\$9.8
Other Revenues	\$3,070.6	\$2,794.4	\$276.3	\$3,101.9	(\$31.3)
Total General Fund Revenue	\$64,656.7	\$59,976.8	\$4,679.9	\$55,969.6	\$8,687.2
Non-Revenue	\$2,281.5	\$1,984.7	\$296.8	\$3,520.3	(\$1,238.8)
Total General Fund Receipts	\$66,938.2	\$61,961.5	\$4,976.7	\$59,489.9	\$7,448.3

Tax Tracker: More Drama Than March Madness?

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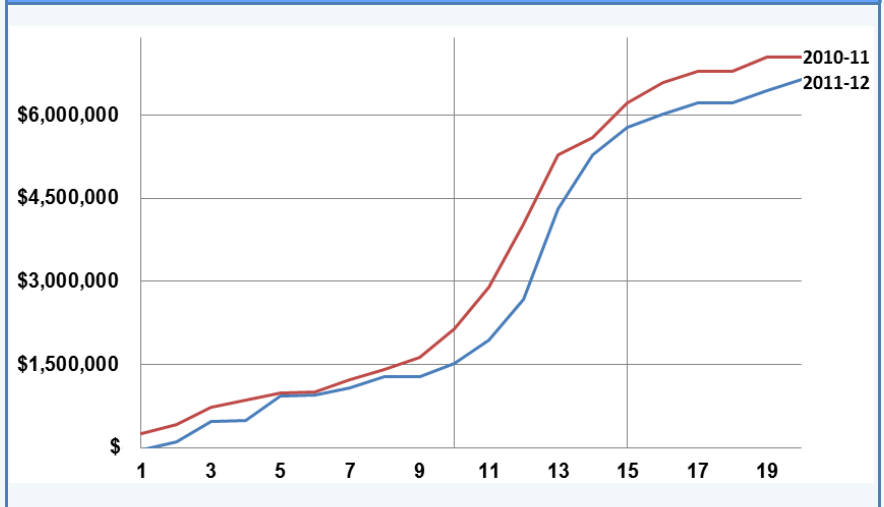
tions may have increased due to the retroactive increase in taxes authorized by voters approving Proposition 30 in the last election. What do these higher-than-expected collections mean for the budget?

By April 15, most taxpayers will make their final income tax payment for the 2012 tax year. If their higher withholding and estimated payments are an accurate reflection of an increased tax-year liability, the state General Fund would experience a dramatic increase in tax collections over the Governor's budget forecast. Not only will this plump up the 2012-13 General Fund balance, but to the extent staff at the Department of Finance believe the current-year increase is permanent, it could adjust commensurately the budget-year estimate.

(It is also possible that when taxpayers increased their withholding and estimated payments in December, they may have over-reacted to imminent tax-law changes. If that is true, the state might expect lower-than-estimated final payments or higher refund claims in April.)

Because the State relies so heavily on the April tax collections, there is a certain drama to tracking the month's tax collections. Beginning on April 16, staff at the Franchise Tax Board keep a frenetic pace to open and process final tax returns. For the ensuing five working days

Figure 2: Daily Income Tax Collections 2010 and 2011 Tax Years By Working Day in April



the cumulative deposits will often be decisive in assessing the state's two-year fiscal condition. Figure 2 shows the cumulative collections for the 2010 and 2011 tax years. April 15 or 16 is typically the tenth business day of the month.

To monitor this year's collection activity, visit the Controller's "Tax Tracker," which is devoted to April's daily receipts (http://www.sco.ca.gov/april_2013_personal_income_tax_tracker.html). Last year, the tracker received more than 8,000 views, mostly within the last two weeks of April.

Table 2: General Fund Disbursements

July 1, 2012 – March 31 2013 (in Millions)

Recipient	Actual Disbursements	2013-14 Governor's Budget		2011-12 Year-To-Date	
		Estimates	Actual Over (Under)	Actual	Actual Over (Under)
Local Assistance	\$54,694.7	\$54,958.4	(\$263.7)	\$54,414.1	\$280.5
State Operations	\$17,127.7	\$17,656.4	(\$528.7)	\$18,430.7	(\$1,303)
Other	\$700.6	\$781.4	(\$80.8)	\$4	\$696.6
Total Disbursements	\$72,523	\$73,396.2	(\$873.2)	\$72,848.9	(\$325.9)

California's Position in State Technology and Science Index

Kevin Klowden, Director, California Center
Michael Wolfe, Senior Research Analyst

The Milken Institute's State Technology and Science Index looks at each state's technology and science capabilities and their impact on regional economic growth. The purpose is not only to provide a method for comparing states' performance but also to help states see the trends that will affect their future economies. This is the fifth edition of the State Technology and Science Index since it was first released in 2002.

Overall Findings

This year's index clearly demonstrates the resurgence of the technology and science fields in the United States economy. In the 2010 index, performance was down across the board, even in economically strong regions such as Silicon Valley, as the nation coped with economic uncertainty brought on by the downturn.

Although the economy is still fragile, the science and technology sectors are storming back and will likely lead any economic renaissance. This is most noticeable in the Risk Capital and Entrepreneurial Infrastructure Composite Index. The total score for all states is much higher than in 2010 as competition for venture capital is heating up.

States that are traditionally strong in technology are again dominant with only minor shakeups in this year's index. Massachusetts has cemented its position at the top, and states such as New York and Pennsylvania are gradually improving their science and tech assets. A few states improved their scores but either fell or stagnated in ranking. This reflects the increasing competition states are facing in science and technology industries.

California

California moved back into the top three after idling at fourth since the 2008 index. The state scored 75.70, an improvement from 2010 but far from its pinnacle of 80.37 in 2002. California advanced in every category except the research and development inputs composite index (held steady at fourth) and risk capital and infrastructure (slid two spots to fourth). It is worth noting that the slip in risk capital is due to increased competition instead of a decline in performance.

A comeback in the tech sector played a big role in California's improved status. Patents jumped 30 percent from 2009 to 2010, and venture capital was up 17 percent over the same period. (Again, the state's slip in the risk capital composite index is due to other states' stellar performances.)

Since the 2010 index, Jerry Brown has replaced Arnold Schwarzenegger as governor, taking office amid significant economic turmoil and budgetary uncertainty. Although Brown has taken steps to address the state's fiscal woes, it is too soon to tell how they will impact California's science and tech performance. But the good news includes no tuition increases this year at the University of California and California State University systems, which have seen student fees triple since 2000; support for innovations such as high-speed rail and renewable energies; and the Governor's intention to create a foreign trade office in China (after our last index lamented California's complete lack of foreign trade offices). These are positive developments and could be a sign that California is returning to an even more dominant position in science and technology.

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.

California Economic Snapshot

New Car Registrations	304,324 4 th Quarter 2011	371,403 4 th Quarter 2012
Median Home Price (for Single-Family Homes)	\$239,000 In February 2012	\$289,000 In February 2013
Single-Family Home Sales (Houses and Condos)	29,630 In February 2012	28,719 In February 2013
New Monthly Mortgage Payment	\$901 In February 2012	\$1,042 In February 2013
Payroll Employment (Non-Farm Seasonally Adjusted)	14,276,600 In February 2012	14,570,400 In February 2013
Newly Permitted Residential (Single and Multifamily) Units	3,367 In January 2013	6,516 In February 2013

Data Sources: New Car Dealers Association, DataQuick, California Employment Development Department, Census Bureau