A MONTHLY REPORT FROM STATE CONTROLLER BETTY T. YEE

California Fiscal Focus

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CA Controller Reports Revenues $2.68 Billion Short of 2016-17 Budget Act

California total revenues of $16.63 billion for June fell short of projections in the governor's revised budget released in May by 2.5 percent, State Controller Betty T. Yee reported.

The 2017-18 fiscal year began July 1. For the fiscal year that ended June 30, total revenues of $121.91 billion missed May Revision estimates by $295.7 million, or 0.2 percent. The fiscal year total was $2.68 billion lower than anticipated in the 2016-17 budget signed last summer, with all of the "big three" revenue sources missing the mark.

For June, personal income tax (PIT) receipts of $10.94 billion were $161.0 million shy of May estimates, or 1.5 percent. For the fiscal year, PIT receipts of $82.72 billion were $1.05 billion lower than projections in the FY 2016-17 Budget Act, but lagged May estimates by just $196.3 million, or 0.2 percent.

June corporation tax receipts of $2.42 billion were $344.4 million lower than anticipated in the May Revision, or 12.5 percent. The fiscal year total of $10.11 billion in corporation taxes was $885.6 million lower than FY 2016-17 Budget Act projections and $283.1 million less than expected in the May Revision.

Retail sales and use tax receipts of $2.32 billion for June were $57.2 million, or 2.5 percent, higher than May estimates. For FY 2016-17, total sales tax receipts of $24.71 billion missed the original Budget Act projections by $1.03 billion; they topped May Revision assumptions by $126.7 million, or 0.5 percent.

California has not pursued external borrowing since FY 2014-15. The state ended last fiscal year with unused borrowable resources of $36.98 billion, which was $3.99 billion more than predicted in the governor's May Revision. Outstanding loans of $4.84 billion were $1.64 billion lower than the Department of Finance's May estimates. This loan balance consists of borrowing from the state's internal special funds.

For more details, read the cash report.

Inside this issue

Putting a Price on Carbon: California's Cap-and-Trade Program to Reduce Greenhouse Gas Emissions

The state's Global Warming Solutions Act of 2006 (often referred to as AB 32) established the goal of reducing greenhouse gas (GHG) emissions statewide to 1990 levels by 2020 and allowed for a market-based system to help achieve that goal by setting a price on carbon. The California Air Resources Board (ARB) adopted a regulation to establish a cap-and-trade program that places a limit on the aggregate GHG emissions from entities responsible for roughly 85 percent of the state's GHG emissions.

For the "trade" portion of the program, ARB conducts quarterly auctions of emission allowances. The nonpartisan Legislative Analyst's Office estimates that—with no changes in the current structure—the auctions could generate roughly $20 billion in revenue for the program through 2020. This is a significant revenue stream to invest in new technologies, reduce GHG emissions, and assist communities in adapting to impacts of climate change such as sea-level rise.

The legislature adopted laws to direct how cap-and-trade revenues are spent, requiring at least 25 percent of expenditures to be invested in disadvantaged communities. More than a dozen agencies administer the numerous programs that make up these California Climate Investments. The legislature has tasked the governor's Department of Finance with developing an expenditure plan and reporting on how those funds have been allocated.

To date, nearly $3.4 billion in cap-and-trade revenues has been appropriated by the legislature. Of that amount, $1.4 billion has been awarded to community-based programs and projects. The California High-Speed Rail Authority has received $800 million, the highest single amount appropriated. More than 140,000 projects totaling $1.2 billion have been implemented, half of which benefit disadvantaged communities.

Highlights of the 2017 report to the legislature on California's Climate Investments include: nearly 30,000 projects to install efficiency measures in homes; 105,000 rebates issued for zero-emission and plug-in hybrid vehicles;

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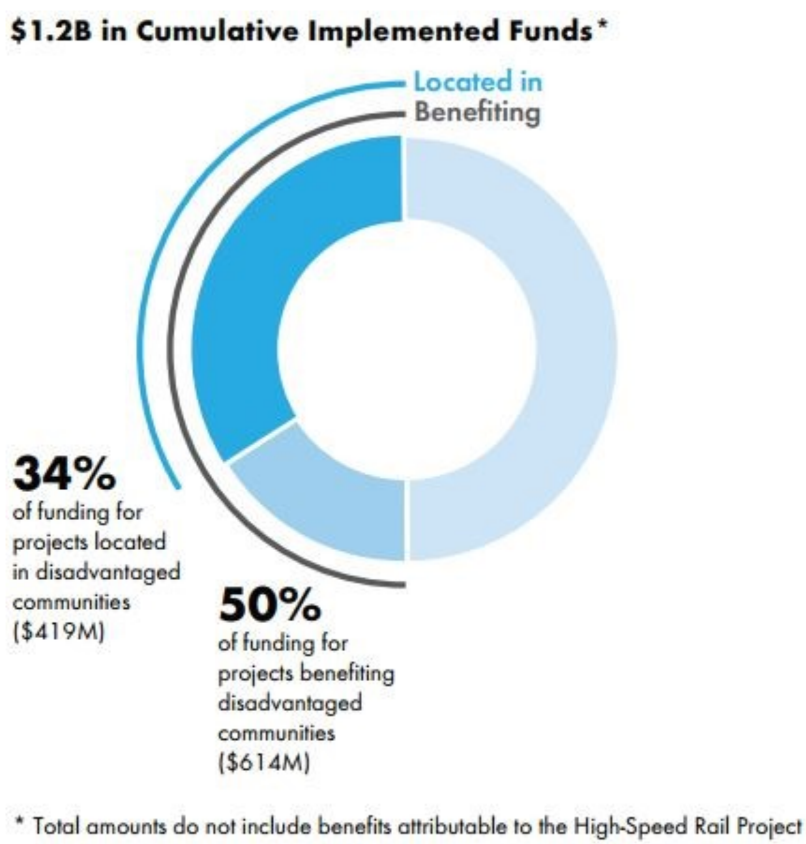
Investments Benefiting Disadvantaged Communities



Source: CA Climate Investments 2017 Annual Report

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more than 16,000 acres of land preserved or restored; 6,200-plus trees planted in urban areas; more than 200 projects to expand transit options; and 1,100-plus new affordable housing units under contract to be built.

The legislature is considering the merits of extending the cap-and-trade program beyond 2020 and debating modifications to the program based on outcomes to date. Uncertainty about the future of the program has affected participation, driving down revenues from auction sales earlier this year. Litigation contending the program is an unconstitutional tax was recently turned away by the California Supreme Court.

For cap-and-trade to continue beyond 2020, the legislature must agree on how, where, and what kind of investments should be made. Legislators also must agree on the desired level of investment in disproportionately impacted communities, establish metrics for the success of investments, and secure enactment of a cap-and-trade extension by a two-thirds vote.

The practice of putting a price on carbon to invest in reducing GHG emissions is unique to the United States, although other states and Canadian provinces have joined or are considering joining the California program. Given California's strong commitment to reducing GHG emissions and the governor's international leadership on the issue, continuation of the program in some form is likely. Cap-and-trade should continue to evolve beyond 2020 as California leaders learn what has worked and how the program can be improved.

Source: CA Climate Investments 2017 Annual Report

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