California Fiscal Focus

A Monthly Report from State Controller Betty T. Yee

July 2018

CA Controller Reports State Revenues Beat Expectations for June and the 2017-18 Fiscal Year

State Controller Betty T. Yee reported California received more tax revenue than expected during the month of June and for the 2017-18 fiscal year, which ended June 30.

Total revenues of $19.91 billion for June were greater than anticipated in the budget signed in June 2017 by $2.30 billion or 13.1 percent. All of the "big three" revenue sources came in higher than projected.

Overall revenues for FY 2017-18 of $135.29 billion were $1.53 billion more than estimates in the May budget revision and $6.82 billion higher than expected in the 2017-18 Budget Act. Total fiscal year revenues were $13.38 billion higher than in FY 2016-17.

For June, personal income tax (PIT) receipts of $12.57 billion were $691.8 million, or 5.8 percent, higher than estimated in the budget proposal released in May. For the fiscal year, PIT receipts of $93.48 billion were $4.34 billion, or 4.9 percent, more than projected in the 2017-18 Budget Act.

June corporation taxes of $3.23 billion were $577.2 million, or 21.7 percent, above assumptions in the governor's May budget proposal. For the fiscal year, total corporation tax receipts were 14.8 percent above assumptions in the enacted budget.

Sales tax receipts of $3.15 billion for June were $759.0 million, or 31.8 percent, more than anticipated in the governor's FY 2018-19 amended budget proposal. For the fiscal year, sales tax receipts were 2.0 percent higher than expectations in the 2017-18 Budget Act.

At the conclusion of FY 2017-18, the state's General Fund had $10.38 billion more in receipts than disbursements, and $4.84 billion were used to repay outstanding loans from the previous fiscal year. At the end of June, there were $39.93 billion available for internal borrowing from the state's own funds, which was more than anticipated in the May budget proposal by $1.81 billion. For more details, read the monthly cash report.

In this newsletter...

New State Budget Prioritizes Saving for Next Downturn, Begins to Address Some Persistent Inequities

California now is the fifth-largest economy in the world, yet it remains home to the highest effective poverty rate among the 50 states. These polarizing statistics beg the question of spending priorities in the state budget, but more so what the budget says about government's ability to make long-term decisions.

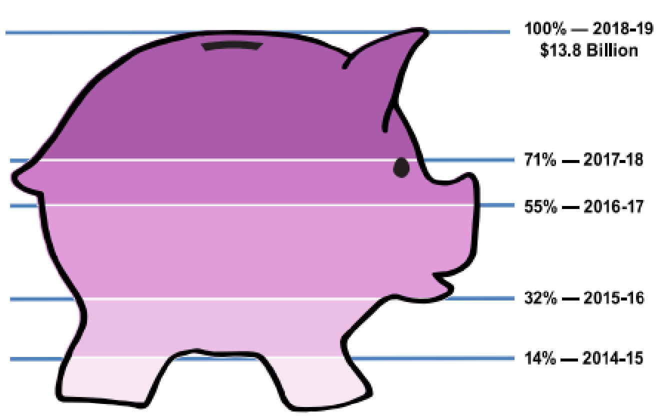
There is a common belief that the funding plan can neither capture all of the state's opportunities nor meet all of its challenges. That belief belies the short-term nature of the annual budgeting and lawmaking in general.

Governor Jerry Brown signed the state budget on June 27, which totals nearly $200 billion: $138.6 billion for the general fund; $57.1 billion for special funds; and $3.9 billion for bond debt.

Many parts of the plan continue a prudent approach to spending and saving, most notably the state's heightened focus on building reserves. The 2018-19 state budget contains three reserves:

- Close to $2 billion in the Special Fund for Economic Uncertainties, the annual reserve.
- $200 million in a newly created Safety Net Reserve to safeguard against cuts to certain health and human services programs during the next recession.
- $13.8 billion in the Rainy Day Fund, established by voters statewide in 2014 and facilitated by supplemental payments into it from the newly created Budget Deficit Savings Account.

Filling the Rainy Day Fund Before Next Recession



Source: Governor's Department of Finance

Robust State Budget Underscored by Job Growth

California's economic recovery since the Great Recession led that of the nation.

Hiring – From 2011 to 2017, 2.36 million workers were hired statewide, the most workers added among the states. That equals 17 percent of all new workers nationwide in that timeframe. (California's 14.8 million workers represent 12 percent of all U.S. jobs.)

Job growth – California's hiring spree equaled a 19 percent growth rate from 2011 to 2017, seventh nationwide and outpacing the average 12 percent hiring pace among other states. (Utah was first by this metric.)

Salaries – Private employers in California paid an average weekly wage of $1,354 in the fourth quarter of 2017, 26 percent higher than other states. California wages rose 23 percent from 2011 to 2017, the second-largest hike nationwide and larger than the 15 percent average growth in other states. (Washington state was number one.)

Payrolls – The growing number of jobs and rising wages added up to 47 percent growth in what private employers collectively paid Californians from 2011 to 2017. That payroll growth is second-largest, again behind Washington. Nationwide, total pay grew by only 29 percent.

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Gross Domestic Product – This broadest measure of business output confirms California's economic oomph. From 2011 to 2017, the state's GDP grew 22 percent after inflation, fourth-best among the states.

Major Disparities Remain Unaddressed

The 2018-19 state budget, with its prudent focus on building reserves, contains several provisions to address the widening disparities among Californians:

Homeless Programs – There is $600 million in increased funding for homeless programs in the state's 10 largest cities.

Higher Education – An online public college will be created to help millions of working adults learn new skills that could help them get better-paying jobs.

California Earned Income Tax Credit (CalEITC) – The state will fund this tax credit for working Californians to reflect lowering the age of eligibility to 18 and allow households with higher income levels to qualify in an effort to increase utilization of the credit.

However, the state budget stops short of addressing some of the inequities that persist. Broader policy work will be necessary to tackle, for example:

Housing Affordability – California experienced a 60 percent home price increase between 2011 and 2017. As coastal regions like the San Francisco Bay Area experience skyrocketing home prices, such that a $117,000 in earnings for a family of four now is considered low-income, inland regions are being challenged as migration to these communities grows in search of housing affordability. Affordability now relates to housing for lower-income households, workforce housing, student housing, renters, and homeowners. The Legislature (and the voters) will be continuing to address housing policies ranging from financing new housing construction and the costs to build new housing units to rent control and eviction policies.

Poverty – The Supplemental Poverty Measure from the U.S. Census Bureau calculates poverty using cost-of-living factors such as income, taxes, housing, and medical costs. In California, a two-adult, two-child family would need to make an average of $30,000 each year to meet this threshold. Using this measure, California had the highest poverty rate, 20.6 percent, according to the most recent Census. Four in 10 Californians live at or near the federal unadjusted poverty level of $24,000 a year, and more than 14 percent of Californians could not afford basic needs in 2017, according the Public Policy Institute of California.

As we continue our work to confront these inequities, policymakers must consider two economic disruptors that have the potential of exacerbating the state's current inequities if left unaddressed: the changing nature of work and climate change. For example, as California tackles the housing crisis, policymakers must ask to what extent housing needs will change as the nature of work changes with a growing gig economy and as the effects of climate change continue to test the resiliency and sustainability of structures and infrastructure.

U.S. Supreme Court Rules on Online Sales Taxation and Union Fair-Share Fees

In the final days of its 2018 session, the Supreme Court of the United States (SCOTUS) issued a number of decisions with wide-ranging implications. Two SCOTUS decisions in particular bring major and immediate impacts on government operations here in California.

South Dakota v. Wayfair, Inc. — By a vote of 5-4, SCOTUS ruled that states may require out-of-state retailers to collect sales tax from customers whether or not the retailer has a physical presence (such as a store or salespersons) in the customer's state. The ruling overturned a standard established by the 1992 decision in Quill Corp. v. North Dakota. For the majority opinion, retiring Justice Anthony Kennedy noted the prior ruling was not made with today's internet storefront in mind and it had resulted in a "judicially created tax shelter." The change is expected to help level the playing field between online retailers and brick-and-mortar stores.

Janus v. AFSCME — SCOTUS ruled by a vote of 5-4 that requiring government employees to pay a fee to the union representing them in collective bargaining violates the employees' First Amendment right to free speech. California is one of 22 states with so-called "fair-share" deductions, where those employees who opt out of contributing to the political activities of a union pay a fee equal to their share of expenses related to contract negotiations and similar nonpolitical union activities from which they benefit. Controller Yee's staff processes payroll for all state civil service and California State University employees. Nearly 47,000 state civil service employees (27 percent of rank-and-file) and 23,000 CSU employees (40 percent of staff) had been paying the fair-share fee, totaling approximately \$3.5 million per month. The Controller halted the deduction immediately on June 27 after the SCOTUS ruling.

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