

# Controller *John Chiang*

## California State Controller's Office

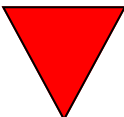



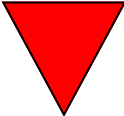

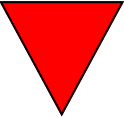
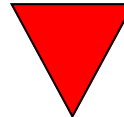


October 10, 2012

Summary Analysis

Volume 6, Issue 10

## State Finances in September 2012

September 2012 compared to monthly estimates in the 2012-13 Budget Act	September 2012 monthly totals compared to September 2011
 <b>Total Revenues:</b> <b>-\$162.5 million</b> <b>(-2.2%)</b>	<b>Total Revenues:</b> <b>\$173.3 million</b> <b>(2.5%)</b> 
 <b>Income Tax:</b> <b>\$112.3 million</b> <b>(2.6%)</b>	<b>Income Tax:</b> <b>\$30.9 million</b> <b>(0.7%)</b> 
 <b>Sales Tax:</b> <b>-\$87.5 million</b> <b>(-5.6%)</b>	<b>Sales Tax:</b> <b>\$384.3 million</b> <b>(35.4%)</b> 
 <b>Corporate Tax:</b> <b>-\$74.8 million</b> <b>(-8.8%)</b>	<b>Corporate Tax:</b> <b>-\$150.5 million</b> <b>(-16.3%)</b> 

### What the Numbers Tell Us

September's numbers on California's financial condition were somewhat mixed. Total revenues of \$7.2 billion were \$162.5 million, or 2.2%, below estimates contained in the 2012-13 State Budget, although they were 2.5% above last year's monthly total.

Personal income taxes, which are California's most important revenue source, were above expectations and modestly above levels seen last year.

Sales tax receipts were less than expected for this month although they exceeded last year's total.

Corporate taxes continue to be a major source of disappointment, with large shortfalls relative to both this year's projections and last year's total.

### Considering Historical Spending Patterns

Since 1979 — at the start of Governor Brown's second term — California's constitution has capped annual General Fund appropriations. The spending control, often called the "Gann Limit," is intended to "freeze" per-capita spending at its 1979 level, after accounting for the cost of living. If revenues exceed the cap, the excess must be rebated to taxpayers or allocated to education.

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## What the Numbers Tell Us

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How have revenues for the first quarter of the 2012-13 fiscal year, which began July 1, performed? As shown in the accompanying table, General Fund revenues totaled \$18.0 billion. This trailed expectations by about \$200 million, or a relatively small 1.1%.

The growth in personal income taxes has somewhat cushioned shortfalls in taxes on corporate profits, retail sales, and a variety of other sources, including insurance company earnings, alcoholic beverage sales, and cigarette purchases.

Typically, the first quarter of the fiscal year accounts for only about one-fifth of the year's revenue, which means that economic performance in

coming months will be critical.

Spending during the first three months of the fiscal year totaled \$31.8 billion, which exceeded Budget projections by \$1.2 billion, or 3.8%.

While the cost of state operations was significantly below expectations, the funding assistance to various local entities was substantially above estimates. Spending during the first three months of the fiscal year typically accounts for about one-third of the year's total. California's total General Fund disbursements exceeded total receipts by about \$12.7 billion during the fiscal year's first quarter. Because of differences in the timing of tax receipts and spending obligations, a sizable divergence was expected.

**Table 1: General Fund Receipts**

July 1, 2012 – Sept. 30, 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	\$1,080.0	\$1,200.0	(\$120.0)	\$1,353.9	(\$273.9)
Personal Income Tax	\$11,361.0	\$11,014.0	\$347.0	\$10,795.8	\$565.3
Retail Sales and Use Tax	\$4,560.7	\$4,756.0	(\$195.3)	\$5,200.4	(\$639.6)
Other Revenues	\$1,042.4	\$1,277.7	(\$235.3)	\$1,374.4	(\$332.0)
<b>Total General Fund Revenue</b>	<b>\$18,044.2</b>	<b>\$18,247.7</b>	<b>(\$203.5)</b>	<b>\$18,724.5</b>	<b>(\$680.3)</b>
Non-Revenue	\$976.0	\$1,134.8	(\$158.8)	\$1,871.9	(\$896.0)
<b>Total General Fund Receipts</b>	<b>\$19,020.2</b>	<b>\$19,382.5</b>	<b>(\$362.3)</b>	<b>\$20,596.4</b>	<b>(\$1,576.2)</b>

## Considering Historical Spending Patterns

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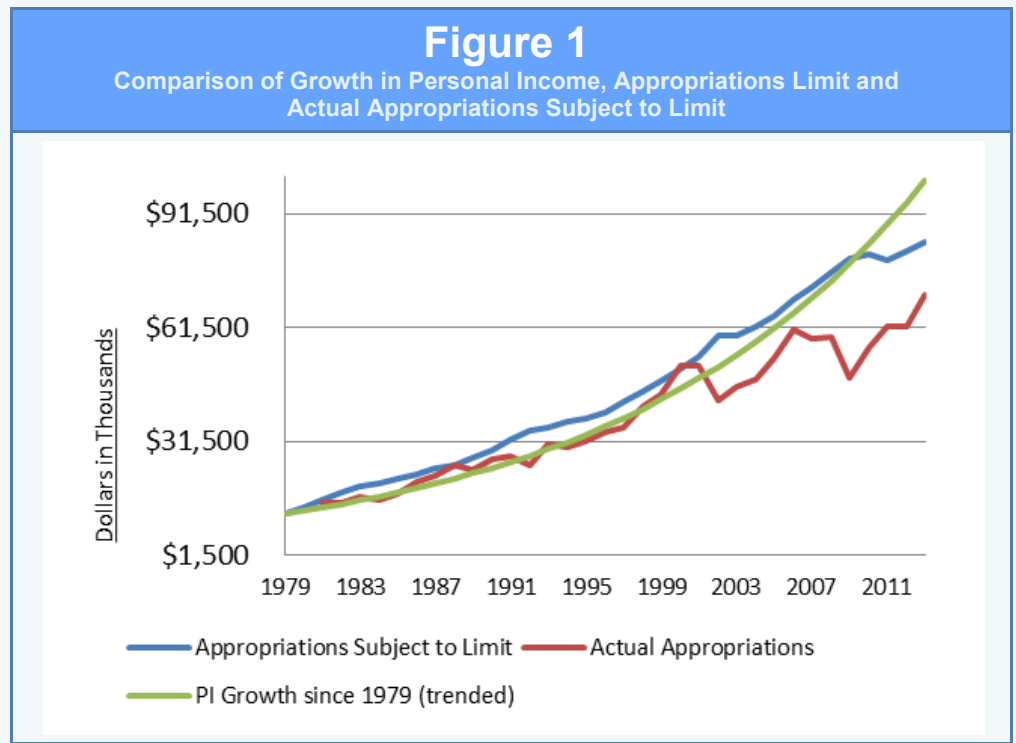
The Department of Finance has calculated the limit every year since 1980-81. In that time, state appropriations exceeded the limit only twice, in 1987-88 and 2000-01. The blue line in Figure 1 maps DOF's calculated limit. Because this limit adjusts 1979 spending levels for demographic and price changes, it measures a level of government held constant for population and inflation.

The appropriations limit grew at about a 5.7% annual rate. With actual appropriations (drawn in red) growing at about 4.7%, the red line is below the blue line in 28 of 33 years. Historical spending patterns suggest that real General Fund appropriations have steadily fallen since 1979.

The appropriations pattern can also be measured against growth in the state's economy. Figure 1's green line measures growth in personal income since 1979, at the average annual rate of about 6.3 percent. General Fund appropriations have not kept pace with the economy.

Spending relative to economic growth is only one way of contextualizing spending. External events, such as changes in federal and

local spending patterns, have affected the General Fund. At the same time, the state expanded its use of earmarked funds. Nevertheless, had General Fund appropriations kept pace with growth in personal income since 1979, General Fund appropriations would have been significantly higher over the years, perhaps as much as \$30 billion in recent years.



**Table 2: General Fund Disbursements**

July 1, 2012 – Sept. 30, 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	\$26,027.0	\$24,416.0	\$1,611.0	\$23,498.3	\$2,528.6
State Operations	\$5,534.1	\$6,076.6	(\$542.6)	\$6,673.7	(\$1,139.5)
Other	\$189.9	\$97.6	\$92.3	(\$178.9)	\$368.9
<b>Total Disbursements</b>	<b>\$31,750.9</b>	<b>\$30,590.2</b>	<b>\$1,160.7</b>	<b>\$29,993.0</b>	<b>\$1,757.9</b>