A MONTHLY REPORT FROM STATE CONTROLLER BETTY T. YEE

California Fiscal Focus

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CA Controller Reports November Revenues Exceed Expectations as Retail Sales Remain Strong

State Controller Betty T. Yee reported California's total revenues of $8.31 billion for November were $449.8 million above expectations, powered by strong retail sales. Personal income tax (PIT), the largest state revenue source, fell short by nearly $200 million.

For the first five months of the 2017-18 fiscal year, total revenues of $40.96 billion are outpacing budget projections by 2.5 percent, with retail sales and use taxes and corporation tax beating expectations.

Sales tax receipts of $3.30 billion for November were $538.1 million higher than anticipated in the budget. For the fiscal year, sales tax receipts of $10.16 billion are $733.4 million above budget estimates.

Corporation taxes for November came in at negative $18.9 million as refunds outpaced receipts. That is not unusual, as there also was a negative for corporation taxes last November and the Department of Finance estimated negatives for the month in both years. However, this year's shortfall was better than expected, leading total corporation tax receipts for the month to beat budget estimates by $89.2 million, or 83 percent. For the fiscal year to date, total corporation tax receipts of $1.79 billion are $233.1 million above assumptions in the 2017-18 Budget Act.

PIT receipts for November totaled $4.64 billion, 4.0 percent below projections. For the fiscal year, PIT receipts of $27.60 billion are under budget estimates by 0.1 percent.

Unused borrowable resources through November exceeded projections by $2.37 billion, or 12.3 percent. Outstanding loans of $20.15 billion at the end of November were $294.4 million less than 2017-18 Budget Act estimates. This loan balance consists of borrowing from the state's internal funds.

For more details, read the cash report.

Inside this issue

New Year Rings in New Laws for Californians

It was 19th century politician and newspaperman Gideon J. Tucker who once wryly observed, "No man's life, liberty, or property are safe while the legislature is in session."

Tucker's cynicism aside, much of what is legislated in Congress and in California's state capitol is likely to affect taxpayers financially.

In Washington, lawmakers spent the first part of the year debating the nation's Affordable Care Act, while now they are consumed with proposals to alter the nation's tax structure.

Here in California, a number of measures likely to affect bank accounts in the long term will take effect on January 1:

► The price of completing certain real estate transactions, such as refinancing a home loan, could go up by as much as $225. In the long run, a package of 15 housing-related laws should increase the supply of homes in the state, which may drive down the cost of buying a new home.

► The New Parent Leave Act will let people who work for companies with 20 or more employees take up to 12 weeks of leave in order to bond with a child recently born, adopted, or taken in as a foster care placement. While the leave is unpaid, the measure ensures that moms and dads who want to take this family time will have a job to which they can return.

► Employers will no longer be allowed to ask about prior salary, compensation, or benefits. The idea is that pay should be based on the requirements of the position, along with experience and skills, not salary from a prior job. While this change affects everyone, it likely will help women the most, since study after study shows that women—and particularly women of color—are frequently paid less than men for performing the same job.

► On November 1, the price for a gallon of gas increased by 12 cents to help fund road construction and repairs. On January 1, the cost of registering a car will jump $25 to $175 a year, depending on the value of the vehicle. In exchange for the resulting $5.4 billion annual increase in fuel tax revenues and registration fees, road repair and new construction should accelerate markedly. This should help reduce the amount of time spent stuck in traffic and drive down the amount of gas consumed.

► Increased access to subsidized child care will be available to low-income parents who are going to school to acquire the skills needed to land a job in California's fast-growing and changing labor market.

► The prices for prescription drugs hopefully will rise more

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Uptick Expected for Federal Funds Rate

The Federal Reserve is expected to increase its federal funds rate—the rate at which banks can borrow money—to 1.50 percent when the Board meets December 12 and 13. If this action is taken, it will be the fourth rate increase within 12 months, starting with a 0.25-percent bump to 0.75 percent in December 2016.

The federal funds rate was 5.25 percent at the start of 2007. At that time, the Federal Reserve had increased the interest rate to try to slow an overheated stock market and let some air out of the housing bubble. The Fed began decreasing the rate later that year as the housing market cooled.

The federal bailout of Bear Stearns in early 2008 coincided with a 0.75 percent rate drop. After Lehman Brothers failed and the federal government bailed out other large banks, the Fed began dramatically cutting the federal funds rate in an effort to lessen the impact of the recession. Finally, the Board cut the federal funds rate to 0.25 percent, the lowest ever.

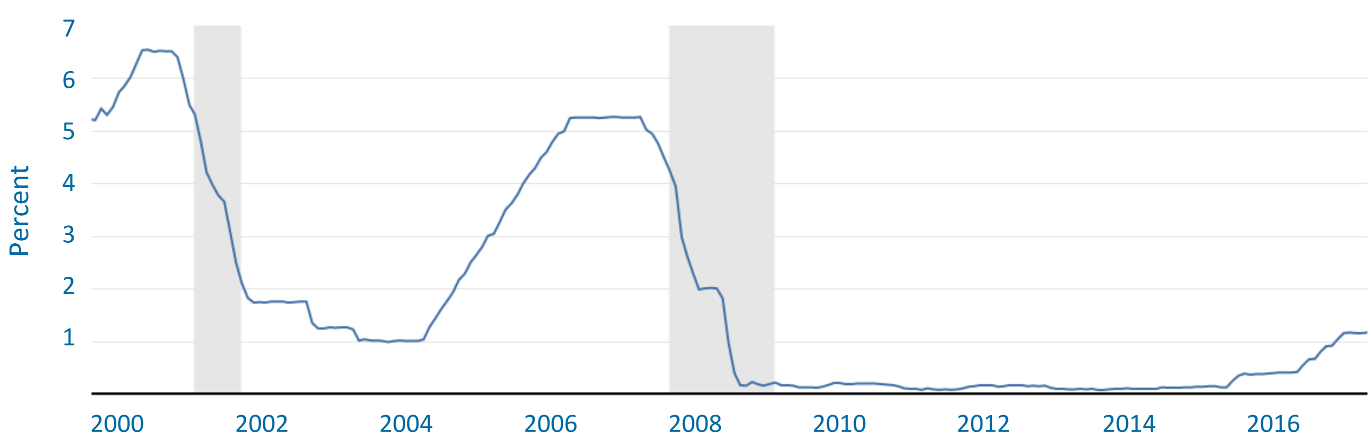
The Federal Reserve maintained this rate over the next seven years as the inflation rate remained historically low, only increasing the rate to 0.5 percent in December 2015 as economic growth stabilized. The Fed continued the upward trend over the past year as economic growth remained steady, despite historically low inflation rates.

A recent Reuters poll of economists showed a majority believe there will be another 0.25 percent increase in December, followed by three more rate increases in 2018. Likewise, the Federal Reserve has projected rate increases for next year, which typically are implemented to tamp down inflation as the economy grows. However, the inflation rate still is expected to remain at or below

(See FED RATE, page 4)

Federal Funds Rate, 2000 to Present

(Shaded areas represent periods of U.S. recession)



Data Source: Board of Governors of the U.S. Federal Reserve System

(NEW LAWS, continued from page 2)

slowly—or even begin to come down—under a new law that requires drug makers to notify buyers well in advance of planned price increases and provide justification for their prices and increases.

All eyes are on Washington, D.C., now, waiting to see what Congress and the president enact on tax reform. Their actions—or inaction—could affect every single California taxpayer and business.

Controller Yee remains actively involved in discussions to advance comprehensive tax reform in California, to ensure more sound fiscal management, encourage economic development, and sustain economic growth.

(FED RATE, continued from page 3)

2 percent, even as the U.S. stock market reaches record high levels and the economy is moving into the ninth year of growth.

About 40 percent of the Reuters poll respondents believe the Federal Reserve is raising rates now to give it room to help blunt the next recession. Economists surveyed were almost unanimous in their view that Jerome Powell, who was nominated to be the next Federal Reserve Board Chair, would not change the expected course of rate hikes. Instead, they believe he will focus on changing financial regulations.

At the same time, the Fed is planning to pull back on purchases of short-term treasuries and mortgage-backed bonds to reduce holdings in its $4.5 trillion reserve fund by $10 billion a month. (The Federal Reserve bought an unprecedented volume of these securities starting in 2009 to stabilize markets, keep rates low, and stimulate the economy.)

Now that the economy has enjoyed a lengthy recovery, the Federal Reserve Board has decided to gradually reduce its repurchase allocation by $50 billion a month, which will help to smooth the process and avoid affecting other investors. Although it will take the Fed several years to reach its target reserve, this step also will help preserve options to address a future recession.

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