

REVENUE ESTIMATES

General Fund revenues are expected to be \$85.947 billion in 2008-09 and \$92.218 billion in 2009-10. The 2009-10 revenue estimate includes \$3.413 billion in revenue solutions - \$610 million from accelerating personal income tax and corporation tax estimated payments, \$2.8 million from revising veteran homes member fees, \$100 million from the approval of the Tranquillon Ridge oil lease, and \$1.0 billion from the sale of a portion of State Compensation Insurance Fund (SCIF) operations. If the budget balancing measures on the May 19 ballot are defeated, revenue solutions would be augmented with \$1.7 billion from increasing personal income tax wage withholdings by 10 percent.

Baseline General Fund revenues are expected to be below the 2009 Budget Act by \$3.4 billion in 2008-09 and \$8.9 billion in 2009-10. Additionally, prior year revenues are adjusted down by \$52 million for a three-year decrease of \$12.4 billion. The Budget Act revenue forecast had been based on data through November 2008. Since that time, the global, national, and state economies have weakened substantially and revenue collections have reflected these negative conditions. Preliminary agency cash collections through April were \$2.6 billion – or 3.5 percent – below forecast. Thus, revenues are now expected to decline by 3.8 percent in 2008-09, and another 9.1 percent in 2009-10.

Figure REV-01 displays the forecast changes between 2009 Budget Act and May Revision.

PERSONAL INCOME TAX

The baseline personal income tax forecast has been reduced by \$1.5 billion 2008-09 and by \$4.4 billion in 2009-10. The 2008-09 decrease is due to weakness in the final payments tied to 2008 tax year liabilities as well as the first estimated payment for the 2009 tax year. Through April, net General Fund cash receipts were \$1.2 billion below the 2009 Budget Act forecast. The May Revision forecast estimates that capital gains income declined by 60 percent in 2008 and will fall by another 30 percent in 2009, which reflects weakness in stock market and real estate prices. In addition, personal income reductions reflect softness in across-the-board U.S. and California economic growth – in particular, wages, interest, dividends, and business income.

The personal income tax forecast for 2009-10 includes \$1.95 billion in revenue solutions - \$250 million from increasing the estimated payment requirement for the second estimated payment from 30 percent to 40 percent and, if budget balancing measures on

Figure REV-01 2009-10 May Revision General Fund Revenue Forecast Summary Table Reconciliation with the 2009-10 Budget Act (In millions)						
Source	Budget Act	Baseline Forecast	Change Between Forecasts	Policy Proposals		Total
Fiscal 07-08						
Personal Income Tax	\$54,234	\$54,182	-\$52	-0.1%	0	\$54,182
Sales & Use Tax	26,613	26,613	0	0.0%	0	\$26,613
Corporation Tax	11,849	11,849	0	0.0%	0	\$11,849
Insurance Tax	2,173	2,173	0	0.0%	0	\$2,173
Alcoholic Beverage	327	327	0	0.0%	0	\$327
Cigarette	110	110	0	0.0%	0	\$110
Other Revenues	6,031	6,031	0	0.0%	0	\$6,031
Transfers	<u>1,237</u>	<u>1,237</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>\$1,237</u>
Total	\$102,574	\$102,522	-\$52	-0.1%	\$0	\$102,522
Fiscal 08-09						
Personal Income Tax	\$46,792	\$45,275	-\$1,517	-3.2%	0	\$45,275
Sales & Use Tax	26,332	24,612	-1,720	-6.5%	0	\$24,612
Corporation Tax	10,197	9,783	-414	-4.1%	0	\$9,783
Insurance Tax	1,831	2,041	210	11.5%	0	\$2,041
Vehicle License Fees	346	360	14	4.0%	0	\$360
Alcoholic Beverage	355	326	-29	-8.2%	0	\$326
Cigarette	113	104	-9	-8.0%	0	\$104
Other Revenues	2,326	2,398	72	3.1%	0	\$2,398
Transfers	<u>1,081</u>	<u>1,048</u>	<u>-33</u>	<u>-3.1%</u>	<u>0</u>	<u>\$1,048</u>
Total	\$89,373	\$85,947	-\$3,426	-3.8%	\$0	\$85,947
Change from Fiscal 07-08	-\$13,201	-\$16,575				
% Change from Fiscal 07-08	-12.9%	-16.2%				
Fiscal 09-10						
Personal Income Tax	\$51,237	\$46,886	-\$4,351	-8.5%	\$1,950 *	\$48,836
Sales & Use Tax	30,221	27,583	-2,638	-8.7%	0	\$27,583
Corporation Tax	10,445	8,439	-2,006	-19.2%	360	\$8,799
Insurance Tax	1,798	1,913	115	6.4%	0	\$1,913
Vehicle License Fees	1,692	1,657	-35	-2.1%	0	\$1,657
Alcoholic Beverage	370	332	-38	-10.3%	0	\$332
Cigarette	111	102	-9	-8.1%	0	\$102
Other Revenues	1,682	1,711	29	1.7%	1,103	\$2,814
Transfers	<u>172</u>	<u>182</u>	<u>10</u>	<u>5.8%</u>	<u>0</u>	<u>\$182</u>
Total	\$97,728	\$88,805	-\$8,923	-9.1%	\$3,413	\$92,218
Change from Fiscal 08-09	\$8,355	\$2,858				\$6,271
% Change from Fiscal 08-09	9.3%	3.3%				7.3%
Three-Year Total			-\$12,401		-\$8,988	

* Includes \$1.7 billion as an additional revenue solution if budget balancing measures on the May 19 ballot are defeated

the May 19 ballot are defeated, \$1.7 billion from increasing wage withholding payments by ten percent for tax years beginning on and after 2010. The estimated payment proposal would also reduce the number of required estimated payments from four to three. The third estimated payment would be due on the fifteenth day of the month

following the end of the tax year, generally January. This change in payment timing will be better for taxpayers in present value terms.

SALES AND USE TAX

The sales and use tax forecast has been reduced by \$1.7 billion in the current year and \$2.6 billion in the budget year. Through April, sales tax receipts are \$792 million below the 2009 Budget Act forecast.

The current year reduction is due primarily to lower disposable income, weakness in cash receipts and a higher transfer to transportation funds resulting from higher gasoline and diesel prices than expected. The budget year reduction is due to a reduced forecast for disposable income, higher unemployment, weak auto sales, and a higher transfer to transportation funds.

CORPORATION TAX

The baseline corporation tax forecast has been decreased by \$414 million for the current year and \$2 billion for the budget year. Through April, corporate agency cash was \$546 million below the 2009 Budget Act forecast. The weakness is primarily attributed to weaker-than-expected corporate profits.

The corporation tax forecast for 2009-10 includes \$360 million from increasing the estimated payment requirement for the second estimated payment from 30 percent to 40 percent. The estimated payment proposal would also reduce the number of required estimated payments from four to three. The third estimated payment would be due on the fifteenth day of the last month of the tax year.

INSURANCE TAX

The insurance tax forecast has been increased by \$210 million in the current year and by \$115 million in the budget year. The revenue increases are primarily due to 2008 liability being higher than a sample of insurance companies had indicated in a survey taken in the fall of 2008. At that time, it was estimated that 2008 premiums would decline by 7 percent. It now appears that premiums grew by about 0.5 percent. Thus, the higher level of premiums largely accounts for the increase in revenues over the two years.

OTHER REVENUES AND TRANSFERS

The baseline forecast for all other revenues and transfers has been increased by \$15 million in 2008-09 and decreased by \$43 million in 2009-10. This forecast includes vehicle license fees, Alcoholic Beverage Taxes, Tobacco Taxes, and all minor revenues and transfers.

The forecast for other revenues and transfers for 2009-10 includes \$1.103 billion in revenue solutions - \$2.8 million from revising veteran homes member fees, \$100 million from the approval of the Tranquillon Ridge lease, and \$1.0 billion from the sale of a portion of SCIF operations.

Additionally, the May Revision includes special fund fee increases to offset General Fund costs, including an increase of employer fees by \$40.1 million to fund the Occupational Safety and Health program and the Labor Standards Enforcement programs in the Department of Industrial Relations and a 4.8-percent surcharge on insurance premiums generating \$120 million in 2009-10 and \$480 million ongoing to offset of costs at Cal FIRE, Cal EMA and the Military Department.

PROPERTY TAX

Statewide property tax revenues are forecast to grow by 2.3 percent in 2008-09, and decrease by 4.1 percent in 2009-10. The 2009-10 Governor's Budget forecast the respective growth rates at 4.4 percent and 0.3 percent.

Input from county assessors throughout the state was solicited when developing these revised estimates. Consideration also was given to the steep declines in median sales prices for residential properties in 2008 (property tax revenue in a given fiscal year is based on the January 1 lien date which, in turn, derives value from activity in the preceding calendar year). These declines in 2008 sales prices will drive reductions in the 2009-10 assessed values of neighboring properties.

The state budget reflects about 35 percent of property taxes as a funding source for K-14 education. Current year allocations to school and community college districts have been reduced by \$303 million from the Governor's Budget forecast and 2009-10 allocations are projected to be reduced by \$1.006 billion.

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