



Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

Revenue Update

October 16, 2014

Currently, the 2014-15 state budget plan assumes total General Fund revenues of \$107.1 billion. In its *Overview of the May Revision*, the Legislative Analysts' Office (LAO) suggested that the Administration underestimated the strength of revenues throughout its projections.

“Across the four fiscal years (2011-12 through 2014-15), our General Fund revenue forecast is \$2.5 billion higher than the administration’s.”

Increasing ongoing state expenditures in 2014-15 to consume the higher LAO revenue estimates as legislative Democrats proposed could have resulted in a new structural budget shortfall. To avoid repeating this fiscal mistake, the Governor negotiated two “trigger” mechanisms in the 2014 Budget Act that would allow for increased one-time spending in 2014-15, should the LAO’s higher revenue estimates materialize.

On or before May 14, 2015, both triggers require the Department of Finance to estimate the amount of General Fund proceeds of taxes that may be appropriated for 2013-14 and 2014-15, and compare those amounts to the amounts estimated by the Department of Finance on May 13, 2014. Revenues in excess of the May 13, 2014 estimates would be allocated pursuant to the following trigger mechanisms.

- General Fund Revenues for Education Deferrals. Chapter 32, Statutes of 2014 (SB 858/Budget) specifies that prior year education deferrals will get first call on any increase in the Proposition 98 minimum guarantee. This trigger has the potential to extinguish \$992 million of remaining education deferrals.
- General Fund Revenues for Mandates. The 2014 Budget Act specifies that any additional revenues that are not necessary to meet an increased Proposition 98 guarantee would be appropriated to reimburse cities, counties, and special districts for up to \$800 million of reimbursement claims that had accumulated prior to the passage of Proposition 1A in 2004.

First Quarter Revenues

The Department of Finance recently released its Monthly Cash Report through September, which is one of California's significant income tax collection months each year. This report reflects **net total General Fund collections through September to be about \$324 million higher than the**

Administration's estimates. While the "Big 3" revenue sources generated \$446 million of unanticipated revenues, these gains were offset by other "underperforming" revenue sources.

- Personal Income Tax revenues are about \$597 million **higher**.
- Corporation Tax revenues are about \$402 million **higher**.
- Sale and Use Tax revenues are about \$553 million **lower**.
- Other General Fund Revenues are about \$122 million **lower**. According to the Legislative Analyst's Office, higher than expected unclaimed property payments drove other General Fund revenues down by about \$130 million in the first quarter.

These estimates do not include the Public Utility Commission's \$1.4 billion penalty against Pacific Gas and Electric Company, which could result in a \$950 million payment to the state General Fund. If this payment occurs in 2014-15, General Fund revenues would be about \$650 million higher than the Administration's revenue estimates. If the payment is delayed until after 2014-15, General Fund revenues would be about \$300 million lower than the Administration's revenue estimates.

For more information, please contact Joseph Shinstock, Fiscal Consultant, at (916) 651-1501, or refer to our website at <http://republican.sen.ca.gov/pubs.asp>.