

REVENUE ESTIMATES

General Fund revenues are expected to be \$101.190 billion in 2007-08 and \$102.987 billion in 2008-09. This represents a decrease of \$40 million in 2007-08 and an increase of \$83 million in 2008-09 compared to the Governor's January Budget. These revenues include \$11.7 billion in revenue solutions proposed to close the budget gap – \$3.3 billion in 2007-08 from the sale of authorized Economic Recovery Bonds, \$1.9 billion from a change in accrual accounting, \$5.1 billion of lottery proceeds in 2008-09 from the proposed fund transfer from the Revenue Stabilization Fund to the General Fund, and \$1.4 billion in other initiatives. In the absence of these revenue solutions, 2007-08 revenues would be \$97.7 billion and 2008-09 revenues would be \$94.8 billion. Thus, revenues would grow by 2.4 percent in 2007-08 and decline by 3.0 percent in 2008-09.

Figure REV-01 displays the forecast changes between Governor's Budget and May Revision.

PERSONAL INCOME TAX

The personal income tax forecast has been increased by \$1.407 billion in 2007-08 and decreased by \$2.725 billion in 2008-09. The 2007-08 increase is due to strong payments, primarily tied to 2007 tax year liabilities. The reduction in 2008-09 is due to a lowered forecast of personal income and capital gains. This forecast estimates that capital gains income will decline by 18 percent in 2008 and grow by 3 percent in 2009. Capital growth rates reflect weakness in 2008 real estate prices and sales, and a lower forecast for stock market gains. Personal income reductions reflect softness in U.S. and California economic growth.

Figure REV-01

General Fund Revenue Forecast
Reconciliation with the 2008-09 Governor's Budget
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
<u>Fiscal 06-07</u>				
Personal Income Tax	\$51,943	\$51,941	-\$2	0.0%
Sales & Use Tax	27,445	27,445	\$0	0.0%
Corporation Tax	11,158	11,158	\$0	0.0%
Insurance Tax	2,178	2,178	\$0	0.0%
Alcoholic Beverage	334	334	\$0	0.0%
Cigarette	115	115	\$0	0.0%
Other Revenues	2,261	2,261	\$0	0.0%
Transfers	<u>-19</u>	<u>-19</u>	<u>\$0</u>	<u>0.0%</u>
Total	\$95,415	\$95,413	-\$2	0.0%
<u>Fiscal 07-08</u>				
Personal Income Tax	\$52,681	\$54,088	\$1,407	2.7%
Sales & Use Tax	27,689	27,100	-\$589	-2.1%
Corporation Tax	10,675	10,135	-\$540	-5.1%
Insurance Tax	2,075	2,171	\$96	4.6%
Alcoholic Beverage	334	334	\$0	0.0%
Cigarette	116	114	-\$2	-1.7%
Other Revenues	6,440	6,036	-\$404	-6.3%
Transfers	<u>1,220</u>	<u>1,212</u>	<u>-\$8</u>	<u>-0.7%</u>
Total	\$101,230	\$101,190	-\$40	0.0%
Change from Fiscal 06-07	\$5,815	\$5,777		
% Change from Fiscal 06-07	6.1%	6.1%		
<u>Fiscal 08-09</u>				
Personal Income Tax	\$56,458	\$53,733	-\$2,725	-4.8%
Sales & Use Tax	29,215	27,361	-\$1,854	-6.3%
Corporation Tax	11,937	11,039	-\$898	-7.5%
Insurance Tax	2,276	2,029	-\$247	-10.9%
Alcoholic Beverage	341	341	\$0	0.0%
Cigarette	119	114	-\$5	-4.2%
Other Revenues	2,501	2,534	\$33	1.3%
Transfers	<u>57</u>	<u>5,836</u>	<u>\$5,779</u>	<u>10138.6%</u>
Total	\$102,904	\$102,987	\$83	0.1%
Change from Fiscal 07-08	\$1,674	\$1,797		
% Change from Fiscal 07-08	1.7%	1.8%		
Three-Year Total			\$41	

SALES AND USE TAX

The sales and use tax forecast has been reduced by \$589 million in the current year and \$1.854 billion in the budget year. Through April, sales tax receipts are \$646 million below the Governor's Budget estimate.

The current year reduction is due primarily to the effects of a soft housing market on taxable sales. The budget year reduction is due to a reduced forecast for disposable income and housing permits, and increased "spillover" from the General Fund.

"Spillover" is the transfer of gasoline and diesel fuel sales tax revenues from the General Fund to the Public Transportation Account (PTA) and the Mass Transportation Fund (MTF). The May Revision increases the forecast for 2008-09 spillover transfers from \$909 million to \$1.177 billion due to significantly higher gas prices in 2008.

CORPORATION TAX

The Corporation tax forecast has been decreased by \$540 million for the current year and \$898 million for the budget year. The current year has been reduced by \$715 million for weakness in cash receipts, and increased by \$175 million for a change in accrual accounting. For the budget year, the Corporation tax forecast has been reduced by \$1.083 billion for weaker corporate profits, reduced by \$175 million for a change in accrual accounting, and increased by \$360 million for a change in the due date for Limited Liability Companies (LLC) fee payments.

INSURANCE TAX

The Insurance tax forecast has been increased by \$96 million in the current year and decreased by \$247 million in the budget year. The current year increase and budget year decrease are in part due to a delay in refunds from a Board of Equalization ruling (BOE). BOE ruled that the gross premiums tax be calculated on a cash basis, rather than the accrual method used by the Department of Insurance.

OTHER REVENUES AND TRANSFERS

With the recent withdrawal of the state's sale advisor for the EdFund transaction, tightening of the Wall Street credit market, as well as potential changes in the student lending industry, the sale of the EdFund is being postponed. It is anticipated that a

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sale will be pursued and completed in 2009-10. This reduces 2007-08 revenues by \$500 million.

The state's lottery is an underperforming asset because of numerous restraints on its operation. The May Revision proposes to place a measure on the November 2008 ballot to modernize the state's lottery, providing operational flexibility similar to lotteries in most other states. With this modernization in place, it is anticipated that bonds can be issued against increased lottery revenues to capitalize the Revenue Stabilization Fund (RSF) proposed to be created as a part of the Governor's Budget Reform proposal. When capitalized, the RSF would be available to provide \$5.122 billion in revenue for the state budget in 2008-09.

To provide for a prudent reserve, the May Revision proposes a total of \$75 million of transfers and \$574 million of loans from various special funds.