

## REVENUE ESTIMATES

General Fund revenues before solutions are expected to be \$86.521 billion in 2009-10 and \$89.814 billion in 2010-11. These current revenue estimates are below the Governor's Budget by \$1.562 billion in 2009-10 and above by \$492 million in 2010-11. The Governor's Budget revenue forecast had been based on data through November 2009. Since that time, actual cash receipts and the revised economic outlook have been incorporated in this forecast.

Additionally, the May Revision reflects \$1.637 billion in proposed loans and transfers from state special funds. With these additional resources, 2010-11 revenues total \$91.451 billion.

Figure REV-01 displays the forecast changes between the 2010 Governor's Budget and the May Revision.

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### PERSONAL INCOME TAX

The personal income tax forecast has been reduced by \$2.619 billion in 2009-10 and by \$617 million in 2010-11. Through March, Personal Income Tax receipts were up \$1.1 billion from the Governor's Budget forecast. However, April receipts fell short of forecast by \$3.1 billion due to the weakness of final payments tied to 2009 tax year liabilities.

Figure REV-01  
**2010-11 May Revision Estimate**  
**General Fund Revenue Forecast**  
**Summary Table**  
**Reconciliation with 2010-11 Governor's Budget**  
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
<b>Fiscal 08-09</b>				
Personal Income Tax	\$43,376	\$43,376	\$0	0.0%
Sales & Use Tax	23,753	23,753	0	0.0%
Corporation Tax	9,536	9,536	0	0.0%
Insurance Tax	2,054	2,054	0	0.0%
Vehicle License Fees	216	216	0	0.0%
Estate Tax	0	0	0	---
Alcoholic Beverage	324	324	0	0.0%
Cigarette	107	107	0	0.0%
Other Revenues	2,380	2,380	0	0.0%
Transfers	<u>1,026</u>	<u>1,026</u>	<u>0</u>	0.0%
<b>Total</b>	<b>\$82,772</b>	<b>\$82,772</b>	<b>\$0</b>	<b>0.0%</b>
<b>Fiscal 09-10</b>				
Personal Income Tax	\$46,640	\$44,021	-\$2,619	-5.6%
Sales & Use Tax	26,036	26,852	816	3.1%
Corporation Tax	9,407	9,386	-21	-0.2%
Insurance Tax	1,952	2,027	75	3.8%
Vehicle License Fees	1,386	1,386	0	0.0%
Estate Tax	0	0	0	---
Alcoholic Beverage	332	332	0	0.0%
Cigarette	102	99	-3	-2.9%
Other Revenues	1,800	1,971	171	9.5%
Transfers	<u>428</u>	<u>447</u>	<u>19</u>	4.4%
<b>Total</b>	<b>\$88,083</b>	<b>\$86,521</b>	<b>-\$1,562</b>	<b>-1.8%</b>
Change from Fiscal 08-09	\$5,311	\$3,749		
% Change from Fiscal 08-09	6.4%	4.5%		
<b>Fiscal 10-11</b>				
Personal Income Tax	\$46,862	\$46,245	-\$617	-1.3%
Sales & Use Tax	25,851	26,967	1,116	4.3%
Corporation Tax	10,052	9,779	-273	-2.7%
Insurance Tax	1,897	1,967	70	3.7%
Vehicle License Fees	1,472	1,472	0	0.0%
Estate Tax (a)	892	892	0	---
Alcoholic Beverage	354	354	0	0.0%
Cigarette	101	97	-4	-4.0%
Other Revenues	2,367	2,562	195	8.2%
Transfers	<u>-526</u>	<u>1,116</u>	<u>1,642</u>	-312.2%
<b>Total</b>	<b>\$89,322</b>	<b>\$91,451</b>	<b>\$2,129</b>	<b>2.4%</b>
Change from Fiscal 09-10	\$1,239	\$4,930		
% Change from Fiscal 09-10	1.4%	5.7%		
<b>Three-Year Total</b>			<b>\$567</b>	

(a) The Federal estate tax, to which the state's pick-up tax is tied, is scheduled to be re-instated for deaths occurring on and after January 1, 2011. Federal estate tax law may be changed to modify or eliminate the state pick-up tax, modifying or eliminating estate tax revenues in the forecast.

There are several explanations for the April 2010 revenue shortfall. First, more people than predicted carried 2008 investment losses into the 2009 tax year. Preliminary 2008 tax return data, which were not available at the time the Governor's Budget forecast was prepared, revealed that taxpayers incurred an unprecedented stock of capital losses that were carried forward. Since capital losses can be carried forward to offset capital gains in subsequent years, it is assumed that these losses had a significant dampening impact on 2009 capital gains, which largely accrue to taxpayers subject to the top tax rate. Small-business owners also had less income in 2009 than had been realized at the time of the Governor's Budget. Lastly, analysts underestimated the timing impact of 2009 tax year payments related to the increase in marginal rates and reduction of the dependent credit. It appears that many quarterly filers paid more in their estimated payments prior to April 2010 than was predicted at the time of the Governor's Budget, thus reducing final payments in April.

The current estimate for 2010-11 is for a 5-percent increase over 2009-10 due to the moderate recovery as reflected in the May Revision economic outlook and an estimate of higher capital gains in 2010 due to higher stock prices and, in part, to a shifting in gains to 2010 from 2011 when the federal preferential rates are due to sunset.

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## **SALES AND USE TAX**

The sales and use tax forecast has been increased by \$816 million in the current year and \$1.116 billion in the budget year.

The higher forecast is primarily due to a moderately stronger economic outlook and the recent strength in sales and use tax cash receipts. The budget year forecast reflects the \$1.6 billion impact of the fuel tax swap, which eliminated the General Fund portion of the sales and use tax on motor vehicle gasoline sales.

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## **CORPORATION TAX**

The corporation tax forecast has been decreased by \$21 million in the current year and \$273 million in the budget year.

Corporation tax revenues in 2009-10 are tracking closely with the Governor's Budget forecast. The \$273 million decline in corporation tax revenues in 2010-11 reflects the weaker-than-expected first estimated payment for the 2010 tax year and a California economy that is improving at a slower pace than the rest of the nation.

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## **INSURANCE TAX**

The insurance tax forecast has been increased by \$75 million in the current year and by \$70 million in the budget year. The revenue increases are due primarily to slightly stronger cash receipts and to an expected delay in refunds associated with a previous Board of Equalization decision on the accounting method used by insurers.

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## **OTHER REVENUES AND TRANSFERS**

The forecast for all other revenues and transfers has been increased by \$187 million in 2009-10 and by \$1.833 billion in 2010-11. This includes \$1.637 billion of new loans, loan repayment extensions and transfers from special funds. More information on this is provided in the Significant Changes by Major Program Areas section. This forecast includes Vehicle License Fees, Alcoholic Beverage Taxes, Tobacco Taxes, the Estate Tax, which is scheduled to be re-instated in 2011 under current federal law, and all minor revenues and transfers.

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## **PROPERTY TAX**

Statewide property tax revenues are forecast to decline by 4.1 percent in 2009-10, and decline by 3.1 percent in 2010-11. The 2010-11 Governor's Budget forecast the respective growth rates at -2.9 percent and -2.2 percent.

Input from county assessors throughout the state was solicited when developing these revised estimates. Consideration also was given to the approximately 30 percent decline in median sales prices for residential properties in 2009 (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 2009 sales prices will drive reductions in the 2010-11 assessed values of neighboring properties. Moderating somewhat the decline in property tax revenues from 2009-10 to 2010-11 is the fact that existing home sales increased by 1.4 percent from 2008 to 2009.

The state budget reflects about 36 percent of property taxes as a funding source for K-14 education.

Property tax of \$2.0 billion from Proposition 1A borrowing and \$1.7 billion of redevelopment funds are continued to be reflected as offsets to various state programs.