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UPDATE
CALIFORNIA
LEGISLATIVE ANALYST'S OFFICE

Federal Awards for California's Defense Conversion

Federal Program. The Technology Reinvestment Project (TRP) is a major part of President Clinton's $1.7 billion Defense Reinvestment and Conversion Initiative. Emphasizing partnerships among industry, government, and universities, the TRP reflects a new strategy for integrating defense and commercial technologies. The Clinton Administration has announced 162 awards to partnerships nationwide and has encumbered $415 million of the $472 million of federal funds available for this first round of TRP awards. (It is uncertain as to when the administration will encumber the remaining dollars to complete the first round.)

California's share in the TRP. Figure 1 summarizes how California has fared in this first round of TRP grants. As the figure shows, 44 proposals involving California government, industry, and academic institutions received funding under the TRP. These 44 proposals represent 27 percent of the 162 proposals approved nationwide (as of December 3, 1993). Furthermore, 25 (about 15 percent of the nationwide total) of these proposals have been led by California government, industry, or academic institutions. (Proposals can include out-of-state partners, but the leading partner receives the greatest share of the award.) These 25 proposals received about 28 percent of the federal matching grants awarded as of December 3, 1993.

Figure 1

TRP Awards Going to Proposals Involving California

(Dollars In Thousands)

	Number of Proposals	TRP Funding[c]	Total Project Costs
California led[a] (with state funding)	9	$48,950	$97,900
California led[a] (no state funding)	16	69,050	138,100
California involvement[b]	19	Unknown	Unknown
Totals	**44**	**Unknown**	**Unknown**

[a] Most of the TRP award received by a California-based partnership.
[b] Most of the TRP award received by a partnership based outside of California.
[c] Assumes cost-sharing of 50 percent per proposal.

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Gains Overstated But Revenues Still On-Track

General Fund revenues in November were $402 million, or 14 percent, above the Department of Finance's most recent forecast published last May. The majority of this gain, however, is attributable to cash flow issues which distort the comparison. After adjustment for these issues, November's revenue performance still slightly outperformed the May forecast by approximately $50 million.

Cash flow issues dominate the cumulative performance as well. Including November's performance, approximately $500 million of the year-to-date gain of $605 million is attributed to cash flow issues.

Cash Flow Distortions

The Department of Finance forecasts tax and nontax revenues on both a fiscal year and monthly basis. Fiscal year forecasts are estimates of *how much* tax taxpayers will owe the state. Monthly forecasts are estimates of *when* taxpayers will pay these taxes, and how quickly tax agencies will process these payments during the year.

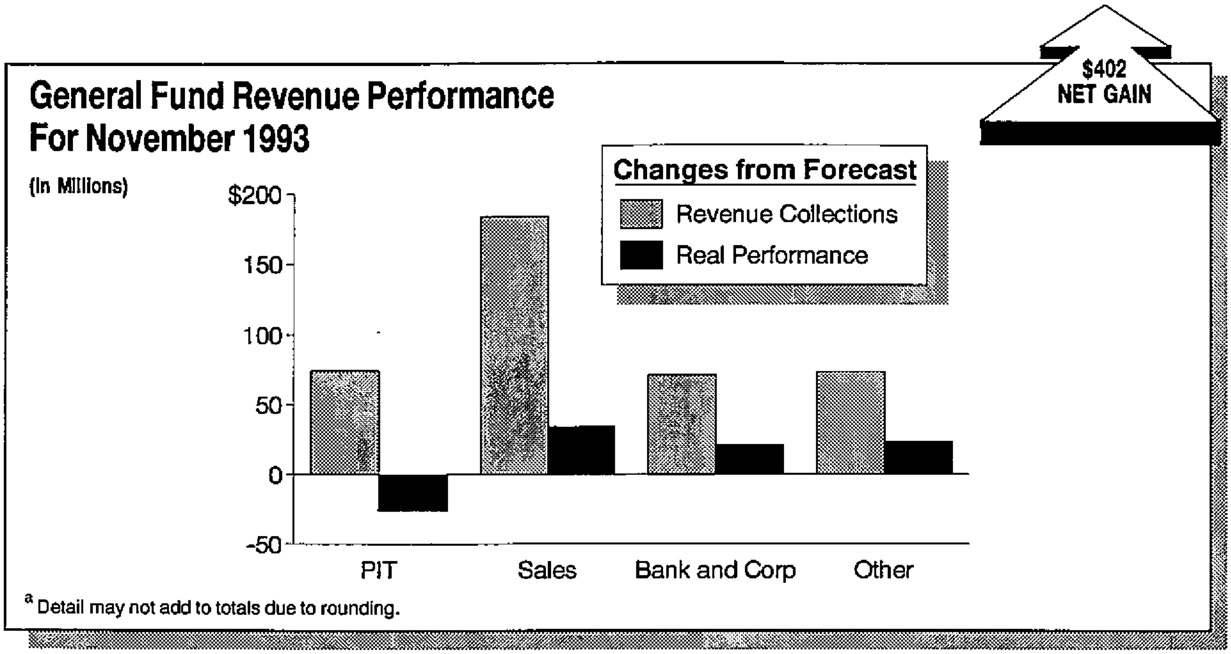
Cash flow gains or losses occur when taxpayers make tax payments weeks or months earlier or later than the department expects. These distortions also occur when tax agencies process payments more quickly or slower than anticipated. In either case, a cash flow gain or loss is not a change in the *amount* of tax owed relative to the forecast, but a change in the *timing* of the payment.

Cash Flow Gains Significant in November

The figure on page 3 shows revenue gains over forecast as reported by the Department of Finance in each of the major revenue categories, and the actual gains adjusted for cash flow distortions. As the figure shows, there were relatively significant cash flow gains for each of the four categories.

Personal Income Taxes. Revenues from the personal income tax, adjusted for cash flow gains, were actually below the forecast. Although income tax revenues were $74 million above the department's estimate of approximately $1 billion, the gain can be attributed to earlier-than-anticipated withholding payments of approximately $100 million. These payments will be offset by lower payments in later months. As a result, personal income tax revenues were approximately $25 million below the department's estimate.

Refund payments for personal income taxes were slightly below forecast. This gain is the result of continued delays in refund processing by the Franchise Tax Board. On a cumulative basis, refunds are below forecast by $160 million, at least $110 million of which is attributable to processing delays and will be offset by higher-than-expected refunds in December and January.



Sales Taxes. Sales tax receipts in November were $184 million above the forecast of $1.5 billion. According to department staff, up to $150 million of this gain is the result of an acceleration of tax payments from December into November. As a result, most of this gain should be offset by losses in December.

Bank and Corporation Taxes. Bank and corporation revenues in November were $71 million above the department's forecast of $67 million. The majority of this gain (approximately $45 million) can be attributed to continued processing delays of refund payments at the Franchise Tax Board, and should be offset by greater-than-forecast refunds in December and January.

Implications and Outlook

November's revenue receipts continue a trend for on-target performance relative to the forecast. This performance is somewhat encouraging given recent news regarding state employment conditions and retail sales.

The department expects that revenue receipts in December will be about $4.6 billion, making December the year's third largest revenue month. December is an important revenue month this year for several reasons. First, it is likely that much of the cash flow gains in November should be offset with revenue losses in this month.

In addition, most corporations make income tax payments associated with their earnings in the past three months on December 15. Finally, many individuals make payments on their 1993 income tax obligations from nonwage income, like pension income and capital gains earnings. These payments will provide strong clues as to how revenues from business and personal income taxes will perform for the rest of the fiscal year.

Contact—Glen Lee—445-6442

Federal Awards

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State Funded Proposals. Nine of the 25 California-led proposals involve state funding. As part of the TRP process, businesses, laboratories, and academic institutions could submit proposals to state agencies to obtain state matching funds. Each of these state agencies set its own criteria for approving a "defense-conversion" proposal and set its own limit on the amount of funding it would provide for a proposal. Then, a contract was negotiated between that state agency and the other organizations involved and the proposal was sent to the TRP.

Figure 2 summarizes the effort by state agencies to commit state matching funds for proposals requesting TRP awards.

As Figure 2 shows, most of the proposals approved for state funding did not receive TRP awards. The California Defense Conversion Council will meet on January 20, 1994 to discuss potential uses of the remaining "committed" state funds.

Contact—Meg Svoboda—322-8402

Figure 2

State Participation in the Technology Reinvestment Project

(Dollars In Thousands)

Source	Proposals Submitted	Proposals Approved by the TRP	State Funding Committed[a]	State Funding for TRP Awards	TRP Funding[b]	Total Cost of TRP Approved Proposals
Cal Trans	64	—	$3,518	—	—	—
Cal EPA	4	1	840	$50	$250	—
Employment Training Panel	11	—	14,222	300[c]	—	$500
Job Training Partnership Act	17	2	6,000	735	7,950	15,900
California Energy Commission	6	—	4,000	—	—	—
Trade and Commerce						
Defense Adjustment Matching Grant	—	—	1,500	—	—	—
Sudden and Severe Economic Dislocation	—	—	3,200	—	—	—
Strategic Technology Office	107	6	12,500	1,500	40,750	81,500
Totals	**209**	**9**	**$45,780**	**$2,585**	**$48,950**	**$97,900**

[a] Amounts shown represent funds committed by state agencies in 1993-94. Each state agency decides its own share—ranging from 12.5 percent to 25 percent—of the total proposal cost. The Trade and Commerce programs also set maximums—$100,000 or $500,000 per proposal—to their cost-sharing if these amounts are lower than 12.5 percent or 25 percent, respectively, of total costs.

[b] Amounts shown assume cost-sharing of 50 percent per proposal. This assumption is based on the statutory requirement that all TRP awards require cost-sharing of at least 50 percent. Contracts could be negotiated so that the TRP funds less than 50 percent of the total proposal cost.

[c] This $300,000 from the Employment Training Panel contributed to one of the Job Training Partnership Act proposals approved for TRP funding.

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The Legislative Analyst's Office is located at 925 L Street, Suite 1000, Sacramento, CA 95814.