

STATEMENT BY THE LEGISLATIVE ANALYST  
TO THE CONFERENCE COMMITTEE ON AB 2313

JUNE 6, 1984

LEGISLATIVE ANALYST

STATE OF CALIFORNIA

925 L STREET, SUITE 650

SACRAMENTO, CALIFORNIA 95814

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TO THE CONFERENCE COMMITTEE ON AB 2313

MR. CHAIRMAN AND MEMBERS:

WE HAVE REVIEWED THE GENERAL FUND REVENUE AND EXPENDITURE ESTIMATES RELEASED MONDAY BY THE COMMISSION ON STATE FINANCE. BASED ON OUR REVIEW, WE DO NOT BELIEVE ANY CHANGE IS WARRANTED IN THE ESTIMATES WE PRESENTED TO THE TWO FISCAL COMMITTEES DURING THE WEEK OF MAY 14. THOSE ESTIMATES INDICATED THAT THE UNAPPROPRIATED BALANCE IN THE GENERAL FUND ON JUNE 30, 1985 WOULD BE \$678 MILLION, ASSUMING (1) ENACTMENT OF THE GOVERNOR'S BUDGET AND (2) APPROPRIATION OF \$951 MILLION TO THE RESERVE FOR ECONOMIC UNCERTAINTIES. (IN CONTRAST, THE COMMISSION PROJECTS AN UNAPPROPRIATED BALANCE OF \$904 MILLION.)

TABLE 1 COMPARES OUR ESTIMATES OF THE GENERAL FUND CONDITION WITH THOSE OF THE COMMISSION. IT SHOWS THAT MOST OF THE \$226 MILLION DIFFERENCE BETWEEN OUR ESTIMATES IS ON THE REVENUE SIDE. THE DIFFERENCE ON THE EXPENDITURE SIDE--\$35 MILLION--IS PRIMARILY DUE TO THE FACT THAT OUR ESTIMATE OF UNIDENTIFIED SAVINGS IN THE CURRENT YEAR IS \$25 MILLION LOWER THAN THE COMMISSION'S.

THE COMMISSION'S LATEST ECONOMIC FORECAST FOR 1985 IS SOMEWHAT LESS OPTIMISTIC THAN ITS PREVIOUS FORECAST (MARCH). THUS, IT IS CLOSER TO THE DEPARTMENT OF FINANCE'S LATEST FORECAST.

TO ANALYZE THE COMMISSION'S REVENUE FORECAST, WE APPLIED OUR OWN ESTIMATING TECHNIQUES FOR THE STATE'S THREE LARGEST REVENUE SOURCES TO THE COMMISSION'S ECONOMIC PROJECTIONS. IN DOING SO, WE USED THE SAME BASIC ASSUMPTIONS ABOUT HOW ECONOMIC VARIABLES AFFECT REVENUES THAT WE USED IN ANALYZING THE DEPARTMENT OF FINANCE'S MAY REVENUE FORECAST. GIVEN THESE



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ASSUMPTIONS AND PAST TRENDS IN THE RELATIONSHIP BETWEEN ECONOMIC VARIABLES SUCH AS PERSONAL INCOME AND TAXABLE SALES, WE ESTIMATE THAT GENERAL FUND REVENUES FOR 1983-84 AND 1984-85, COMBINED, WOULD BE ABOUT \$235 MILLION LESS THAN WHAT THE COMMISSION ESTIMATES.

THIS \$235 MILLION IS THE NET RESULT OF THREE DIFFERENCES IN THE ESTIMATES:

- o PERSONAL INCOME TAX - OUR ESTIMATE IS \$175 MILLION LOWER.
- o SALES AND USE TAX - OUR ESTIMATE IS \$270 MILLION LOWER.
- o BANK AND CORPORATION TAX - OUR ESTIMATE IS \$210 MILLION HIGHER.

WE ARE NOT ABLE TO PINPOINT THE EXACT REASONS FOR THESE DIFFERENCES. WHEN THE COMMISSION'S FINAL REPORT CONTAINING ADDITIONAL BACK-UP INFORMATION IS RELEASED, WE MAY BE ABLE TO DO SO. AT THIS POINT, HOWEVER, WE CONCLUDE THAT THE COMMISSION'S FORECAST DOES NOT PROVIDE A CONVINCING BASIS FOR INCREASING THE DEPARTMENT OF FINANCE'S REVENUE ESTIMATE BY MORE THAN \$140 MILLION.

WE AGREE WITH THE COMMISSION'S STAFF THAT SALES TAX REVENUES COULD BE CONSIDERABLY HIGHER THAN WHAT WE ARE ESTIMATING IF THE EXTREMELY STRONG PERFORMANCE OF TAXABLE SALES DURING THE FIRST QUARTER IS NOT COUNTERBALANCED DURING THE OTHER THREE QUARTERS OF 1984. BASED ON PAST TRENDS IN THE RATIO OF TAXABLE SALES TO PERSONAL INCOME, HOWEVER, WE EXPECT THERE TO BE SOME OFFSET DURING THIS 9-MONTH PERIOD. CONSEQUENTLY, OUR SALES TAX ESTIMATE, THOUGH STILL ABOVE THE DEPARTMENT OF FINANCE'S, IS CONSIDERABLY LESS THAN THE COMMISSION'S.

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IN SUM, WE CONTINUE TO BELIEVE THAT THE MARGIN BETWEEN GENERAL FUND EXPENDITURES IN THE GOVERNOR'S BUDGET AND GENERAL FUND REVENUES IS \$1.6 BILLION. IF \$951 MILLION OF THIS AMOUNT IS SET ASIDE IN THE RESERVE FOR ECONOMIC UNCERTAINTIES, THE UNAPPROPRIATED BALANCE WOULD BE \$678 MILLION. THIS IS \$265 MILLION MORE THAN THE DEPARTMENT OF FINANCE'S MAY 10 ESTIMATE, AND \$226 MILLION LESS THAN THE COMMISSION ON STATE FINANCE'S JUNE 4 ESTIMATE. (TABLE 2 PROVIDES THE DETAIL ON EACH OF THESE ESTIMATES.)

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Table 1

Condition of the General Fund on June 30, 1985  
As Estimated by the Department of Finance,  
the Legislative Analyst's Office, and the  
Commission on State Finance  
(in millions)

	Legislative Analyst's Office	Commission on State Finance <sup>a</sup>	COSF versus LAO
Balance on June 30, 1985, as estimated by DOF	\$1,363	\$1,363	--
Differences attributable to revenue estimates:			
1983-84	70	117	\$47
1984-85	<u>70</u>	<u>214</u>	<u>144</u>
Total, revenue differences	(\$140)	(\$331)	(\$191)
Differences attributable to expenditure estimates: <sup>b</sup>			
1983-84	\$100	\$125	\$25
1984-85	<u>25</u>	<u>35</u>	<u>10</u>
Total, expenditure differences	(\$125)	(\$160)	(\$35)
Balance on June 30, 1985, as estimated by LAO and COSF:			
Total balance	\$1,628	\$1,854	\$226
Reserve for Economic Uncertainties	<u>951</u>	<u>951</u>	<u>--</u>
Amount available for appropriation	\$678	\$904	\$226

a. The COSF figures have been adjusted to maintain comparability with the DOF and LAO treatment of the \$28 million transfer from SAFECO to the General Fund, pursuant to the provisions of AB 1xx (Ch 1xx/84).

b. Lower expenditure estimates do not have minus signs.



Table 2

Components of the General Fund Revenue and Expenditure Estimates:  
Department of Finance, Legislative Analyst's Office,  
and Commission on State Finance  
(in millions)

	<u>DOF</u>	<u>LAO</u>	<u>COSF</u>
Carryover from 1983-84:			
May revision estimate	\$465	\$465	\$465
Differences:			
Revenues	--	70	117
Expenditures	<u>--</u>	<u>100</u>	<u>125</u>
Total, carryover	\$465	\$635	\$707
Revenues:			
Personal Income Tax	\$10,000	\$10,075	\$10,180
Sales and Use Tax	9,710	9,725	9,880
Bank and Corporation Tax	3,920	3,900	3,725
All other	<u>2,129</u>	<u>2,129</u>	<u>2,188</u>
Total revenues	\$25,759	\$25,829	\$25,973
Expenditures:			
May revision estimate	\$24,857	\$24,857	\$24,857
Differences:			
Medi-Cal	--	\$24	\$27
K-12 supplemental roll	--	36	21
Tax relief	--	10	10
Unallocated	--	-93	-93
Other	<u>--</u>	<u>-2</u>	<u>--</u>
Total expenditures	\$24,857	\$24,832	\$24,822