

Tax revenue creates surplus for California

By Chris Megerian, Los Angeles Times

SACRAMENTO – California has been flooded with revenue this tax season and is on track to finish the fiscal year with a surplus of billions of dollars, according to officials.

State coffers contain about \$4.5 billion more than expected in personal income tax payments. Nearly \$2.8 billion of it arrived April 17, the third-highest single-day collection in California history, according to government figures.

Business taxes have also rebounded and are likely to be \$200 million ahead of projections.

Gov. Jerry Brown will reveal his latest spending plans this month. State law may require much of the surplus to go to schools and community colleges.

After years of budget cuts, and after voters approved Brown's tax hike in November, the pressure on the governor will be intense from lawmakers and advocates eager to restore money to programs that were sliced to close deficits. But Brown has already cautioned that there may not be much cash to spread around after education funding requirements are met.

"Depending upon how the money flows, it may not be as available as many people are now thinking," he said recently.

Brown, whose administration has projected that tax revenue will rise for the next four years, has also said he wants to use the opportunity to pay billions of dollars in debt. The tab for various borrowings during years of budget crisis is expected to be almost \$28 billion by the end of June, according to state officials, and will take years to erase.

California relies heavily on income taxes to pay state bills. Last year, April taxes fell far short of expectations, widening the budget deficit. The new figures show a dramatic change in Sacramento's fortunes.

Assembly Budget Chairman Bob Blumenfield, D-Woodland Hills, said he's thrilled.

"We're not framing the debate around what to cut," he said. "We're making choices about what kind of investments we want to make."

The tax surplus is partly a sign that California's economy is on the mend, with housing prices on the rise and unemployment dropping. The stock market has also been climbing, pumping more money into the state treasury.

"It's almost certain that 2013 will be a very good year," said Steve Levy, director of the Center for Continuing Study of the California Economy in Palo Alto.

Brown's plan for raising taxes temporarily was intended as a "holding action" to keep state books balanced while the economy rebounds, Levy said. A strong recovery could help vindicate that approach. Brown's measure added a quarter-cent to the state sales tax for four years and increased income taxes on high earners for seven.

Meanwhile, lawmakers, state officials and financial experts have cautioned that the spike in revenue may not hold.

It's possible that Californians, fearing federal income tax hikes stemming from the budget standoff in Washington, cashed out investments late last year. Jerry Nickelsburg, senior economist at the UCLA Anderson School of Management, said federal statistics suggest many people did so.

"If you had a choice of taking income in January or December, and you will pay less taxes in December, why wouldn't you do

that?" he said.

That could account for some of the current surplus – and state income could fail to keep pace in the next fiscal year, which begins July 1.

Chris Thornberg, a founding partner at Beacon Economics in Los Angeles, said he is concerned that lawmakers will use the spike in revenue as an excuse to abandon efforts to rein in public-worker benefits or stabilize the state's tax system. California's reliance on income taxes makes its finances somewhat unpredictable and has led to cycles of boom-and-bust budgeting.

"Maybe they will shock me and do the right thing," he said. "But I'm not holding my breath."