The FISCAL REPORT an informational update

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State Revenues Down Again

State tax revenues fell $415 million short of budgeted levels for the month of March 2009, bringing year-to-date revenues $737 million below projections. The March shortfall follows weak collections in February that were $898 million below expectation.

The Department of Finance's (DOF's) April 2009 *Finance Bulletin* indicates that revenue shortfalls were recorded in each of the three major taxes (personal income tax, sales and use tax, and corporation tax). The report notes that, while personal income tax receipts were off almost 22% for the month, this shortfall is measured against the adjusted forecast, which accounts for delayed distributions of tax refunds, thus rendering the percentage shortfall somewhat misleading. Year-to-date personal income tax receipts are tracking the budget forecast through March. The sales and use tax and the corporation tax, however, are running 3.4% and 3.0% short, respectively, accounting for $831 million of the accrued shortfall, while the other minor revenue sources are up slightly at $94 million for the fiscal year.

April will be the key month, not only for the current fiscal year, but also for 2009-10, because personal income tax liabilities for 2008 are due this month. If April revenues fall significantly below projections, there is a greater likelihood that the DOF will lower its forecast of revenues for 2009-10. It is important to note that the Legislative Analyst's Office has already projected a $8 billion shortfall for 2009-10, when measured against the 2009 Budget Act assumptions.

On the economic front, the *Finance Bulletin* highlights the rise in the state's unemployment rate to 10.5% in February, the highest unemployment rate since April 1983. The report also notes that 116,000 jobs were lost in February, with losses occurring in all but one industrial sector (information). Compared to one year ago, the state has lost 605,900 jobs, which rivals the job losses of the recession of the early 1990s.

The construction industry continues to suffer. New home permitting for the first two months of 2009 was off 60% from the same period in 2008. Similarly, nonresidential construction fell 52% from year-ago levels.

Finally, the median price of an existing single-family home was $247,600 in February, off 40.8% from February 2008. This drop in home prices has no doubt spurred home sales, with the state experiencing significantly better sales volume than one year ago.

-Robert Miyashiro

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