



## Early budget warning sign

### Personal income-tax payments are \$1 billion less than was predicted.

**By Clea Benson - Bee Capitol Bureau**

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Estimated personal income-tax payments, a key predictor of California's financial situation for the year ahead, are significantly down from expectations in recent weeks, the Legislature's nonpartisan budget adviser said Wednesday.

In December and January, Californians paid about 15 percent less on income from investments and other non-salary earnings than Gov. Arnold Schwarzenegger predicted earlier this month when he proposed a state budget. Overall, the state has earned about \$1 billion less than expected since December.

The drop was offset by an uptick in corporate tax payments, which were about \$350 million above projections.

Legislative Analyst Elizabeth Hill cautioned lawmakers about the apparent slowdown in personal incomes at a hearing on the governor's spending plan for the fiscal year that begins July 1.

"Unfortunately, it's not very good news," Hill told the Senate Budget Committee. The data, she said, are "an early warning sign that we want to be really cautious" about budgeting.

The Legislative Analyst's Office says there is a strong correlation between the estimated tax payments Californians make at the end of the year and the amount of tax revenue that the state receives at the time of the April filing deadline.

But the governor's Finance Department, which has had a rosier outlook on the budget than the legislative analyst this year, said it was too early to draw any conclusions about the state's overall financial picture.

Finance Department spokesman H.D. Palmer said a variety of factors could throw off tax receipts during any relatively short time period, and the shortfall could be made up later.

"Are we watching this? Yes," he said. "Are we changing our forecast? No."

Schwarzenegger in January proposed a \$103 billion general fund spending plan. He predicted state revenues would continue to increase, though at a slower pace than

last year, when the state earned a windfall of about \$8 billion in unanticipated tax revenue, thanks to a strong economy.

Hill last week took issue with some of the calculations the Republican governor used to balance his proposed fiscal year 2007-08 budget. Among other things, she said the plan relied too heavily on revenue from expansions of gambling at tribal casinos that might not occur.

Finance Department officials said they were confident the plan was sound.

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