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heap of excess cash.

Jan. 23, 2013

After years of budget agony, California is seeing something strange this month: a heap of excess cash.

The state is poised to finish January about \$4 billion ahead of what forecasters expected in income taxes, according to the Legislative Analyst's Office — the biggest one-month overage that state fiscal experts can recall in recent memory.

California also set a single-day record Jan. 16 when the Franchise Tax Board received \$2.2 billion in taxes, mostly in payments from the 6 percent of filers who pay quarterly rather than have money deducted from paychecks.

But state leaders shouldn't get too giddy.

The one-month boom likely comes from a perfect storm of tax changes at the state and federal level, and budget experts urge restraint because a dollar received today could simply mean a dollar less tomorrow. This comes on top of an already volatile tax system that relies heavily on wealthy residents whose income is hard to predict.

With fiscal experts unsure whether the tax burst is real, Gov. Jerry Brown and state lawmakers will be hard-pressed to have serious budget conversations until after his May budget proposal. The extra January money is roughly 4 percent of what the governor expects the state general fund to receive this fiscal year.

Some Democratic allies representing low-income Californians have called for more spending on health and welfare programs, but lawmakers so far have tried to limit spending talk.

“I think the best advice is be patient,” said Jason Sisney, chief forecaster at the

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Taxes on year-end income typically show up this month because final-quarter payments are due Jan. 15.

If the boom is coming from accelerated tax payments, the state could ultimately see less money than expected in the next fiscal year.

“I suspect the single biggest element is the acceleration of dividend and capital gains payments in order to avoid the increases taking effect under federal law,” said Brad Williams, a former revenue forecaster with the Legislative Analyst's Office who now works as a private consultant.

The Department of Finance and Sisney suspect a second factor could be at play — an unconventional retroactive tax hike on high-income earners that voters approved in November at Brown's urging.

That left top earners paying higher taxes for the entire 2012 year, but getting their heftier bill only after the Nov. 6 election. Because of the late bill, high-income earners can wait until April 15 to pay their extra taxes.

State forecasters assumed that those filers would simply wait an extra three months to pay the remaining taxes, since most people procrastinate or prefer to earn monthly interest as long as they can. But Sisney and Finance officials say it's also possible those taxpayers just wrote a big check in January instead.

If that is the case, the state would see less money than expected in April.

“We're not going to have a precise answer for a year or more, but by May we can begin to form better judgments,” Sisney said. “This is just one data point in a complex series. It might be the harbinger of very good news or it might be a periodic blip that disappears later.”

A final possibility is that the economy and financial markets performed better than

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Brown and Democratic lawmakers burned themselves before after momentary blips in revenues. Desperate for a compromise after a Brown budget veto, they projected that California would receive \$4 billion extra in 2011-12. They felt comfortable with that estimate based on \$1.2 billion in excess cash in May and June 2011.

But that money never came, forcing some midyear trigger cuts and additional reductions in the next budget.

Brown this month proposed a budget that increases spending for education while mostly holding the line for other state programs.

“As we always caution, you can't drive a long-term trend off of one month of data, good or bad,” said Department of Finance spokesman H.D. Palmer.

Senate President Pro Tem Darrell Steinberg has said earlier that any extra money the state receives should be split between a rainy-day reserve, paying off debt and expanding state programs. The Senate leader has talked specifically about restoring dental benefits for low-income adults, which were cut during the recession.

“There's no question that California is back in the black, and this is all good news,” Steinberg, D-Sacramento, said. “I think the question is how good is this news? My reaction, on behalf of my caucus, is to still be relatively cautious until we get more information.”

Los Altos-based California Common Sense issued a report Monday that showed annual revenue projections made by governors in January were inaccurate by a median error of 4.7 percent.

If the state continues to see excess revenues, Williams said lawmakers should consider creating a large reserve as a buffer in case today's big payments result in

shortfalls later. Like others, Williams has warned for years about the dangers of tax

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