# Revenue Estimates

The May Revision estimates that major General Fund revenues will be higher than at the Governor's Budget by $2.8 billion in 2010-11 and by $3.5 billion in 2011-12. When changes in accruals and other revenues is taken into account, the total baseline revenue increase projected in the May Revision is $6.6 billion.

Given the increased revenues, the May Revision proposes to reduce taxes by $2.9 billion and shift revenues from realignment for a net change of $2.6 billion. Specifically, the May Revision proposes to reform, instead of eliminate, enterprise zones. The May Revision also no longer proposes to extend the personal income tax surcharge in effect in 2010 into 2011. The May Revision reflects revenue proposals that will yield estimated General Fund revenue of $4 billion. These revenues also reflect a baseline accrual adjustment that generates a negative $2.5 billion prior year adjustment, additional revenue of $900 million in 2010-11 and additional revenue of $1.4 billion in 2011-12.

Figure REV-01 displays the forecast changes for tax revenues between the 2011 Governor's Budget and the May Revision.

## Solutions and Policy Proposals

Tax revenue fell significantly further in the recession than did personal income. Although the economy is beginning to recover, baseline revenues are not expected to return to the 2007-08 level until 2013-14. Revenue performance associated with spikes in asset prices, as we saw in the late 1990's and mid 2000's, is highly volatile and difficult to forecast.

Figure REV-01

**2011-12 Governor's Budget**
**General Fund Tax Revenue Forecast**
**Summary Table**
**Reconciliation with the 2011-12 Governor's Budget Forecast**
(Dollars in Millions)

| Source | Governor's Budget | May Revision: May Revision with Governor's Budget Solutions | May Revision: Change From Governor's Budget | May Revision: May Revision with New Solutions | May Revision: Change From Governor's Budget | |
|---|---|---|---|---|---|---|
| **Fiscal 09-10** | | | | | | |
| Personal Income Tax | $44,848 | $44,852 | $4 | $44,852 | $4 | 0.0% |
| Sales & Use Tax | 26,741 | 26,741 | 0 | 26,741 | 0 | 0.0% |
| Corporation Tax | 9,115 | 9,115 | 0 | 9,115 | 0 | 0.0% |
| Insurance Tax | 2,002 | 2,002 | 0 | 2,002 | 0 | 0.0% |
| Vehicle License Fees | 1,380 | 1,380 | 0 | 1,380 | 0 | 0.0% |
| Estate Tax | 0 | 0 | 0 | 0 | 0 | --- |
| Alcoholic Beverage | 311 | 311 | 0 | 311 | 0 | 0.0% |
| Cigarette | 96 | 96 | 0 | 96 | 0 | 0.0% |
| **Total** | **$84,493** | **$84,497** | **4** | **$84,497** | **4** | **0.0%** |
| **Fiscal 10-11** | | | | | | |
| Personal Income Tax | $47,784 | $51,505 | $3,721 | $51,945 | $4,161 | 8.7% |
| Sales & Use Tax | 26,709 | $26,740 | 31 | 26,740 | 31 | 0.1% |
| Corporation Tax | 11,509 | $10,467 | -1,042 | 9,408 | -2,101 | -18.3% |
| Insurance Tax | 1,838 | $2,016 | 178 | 2,016 | 178 | 9.7% |
| Vehicle License Fees | 1,473 | $1,360 | -113 | 1,360 | -113 | -7.7% |
| Estate Tax | 0 | $0 | 0 | 0 | 0 | --- |
| Alcoholic Beverage | 318 | $318 | 0 | 318 | 0 | 0.0% |
| Cigarette | 93 | 93 | 0 | 93 | 0 | 0.0% |
| **Total** | **$89,724** | **$92,499** | **$2,775** | **$91,880** | **$2,156** | **2.4%** |
| Change from Fiscal 09-10 | $5,231 | $8,002 | | $7,383 | | |
| % Change from Fiscal 09-10 | 6.2% | 9.5% | | 8.7% | | |
| **Fiscal 11-12** | | | | | | |
| Personal Income Tax | $49,741 | $54,190 | $4,449 | $54,329 | $4,588 | 9.2% |
| Sales & Use Tax | 24,050 | 23,915 | -135 | 23,915 | -135 | -0.6% |
| Corporation Tax | 10,966 | $10,265 | -701 | 10,160 | -806 | -7.3% |
| Insurance Tax | 1,974 | 1,893 | -81 | 1,893 | -81 | -4.1% |
| Vehicle License Fees | 162 | 150 | -12 | 420 | 258 | 159.3% |
| Estate Tax | 0 | 0 | 0 | 0 | 0 | --- |
| Alcoholic Beverage | 326 | 326 | 0 | 326 | 0 | 0.0% |
| Cigarette | 90 | 91 | 1 | 91 | 1 | 1.1% |
| **Total** | **$87,309** | **$90,830** | **$3,521** | **$91,134** | **$3,825** | **4.4%** |
| Change from Fiscal 10-11 | -$2,415 | -$1,669 | | -$746 | | |
| % Change from Fiscal 10-11 | -2.7% | -1.8% | | -0.8% | | |
| **Three-Year Total** | | | **$6,300** | | **$5,985** | |

Total General Fund revenues include revenues from other non tax sources and transfers. See Summary Charts for totals of these revenues.

Two of the Governor's Budget revenue proposals have been adopted already: the Franchise Tax Board (FTB) Financial Institution Data Match, and the FTB Tax Shelter Amnesty. In addition, the refundable portion of the Personal Income Tax (PIT) child care credit was eliminated and a use-tax lookup table was adopted in the budget trailer bills already enacted.

The May Revision proposes to maintain the level of current tax rates for Sales and Use Tax (SUT) and Vehicle License Fee (VLF) for five years and the dependent exemption credit for five years. It also proposes to reinstate the Personal Income Tax surcharge adopted in 2009 for four years beginning in 2012. These revenue extensions will be subject to voter approval.

In addition to extending current tax rates, the Governor's May Revision proposes the following changes in the tax code to encourage job growth and economic development:

- The adoption of mandatory single sales factor apportionment, which was also in the Governor's Budget.
- Reform, rather than repeal, of the Enterprise Zone tax provisions to make them more efficient in creating incentives for economic development.
- An expansion of the new jobs credit.
- A partial sales tax exclusion for purchase of manufacturing equipment.

**Mandatory Single Sales Factor (SSF) Apportionment —** This proposal would require that all corporations (except those corporations engaged in qualified agricultural, extractive, or banking activities) use sales in and out of state to apportion their income for corporate tax purposes. Requiring mostly "in-state" firms to use SSF removes a disincentive that they face under apportionment using double-weighted sales, property and payroll, from moving economic activity into California. Requiring "out-of-state" firms to use SSF accomplishes the exact same thing. It removes a disincentive that they face, under double-weighted sales property and payroll apportionment, from moving economic activity into California. Elective SSF creates an inequity between multi-state firms and those that operate wholly within California. This inequity allows taxpayers who operate in more than one state, two different ways to calculate their income. One is likely to produce a much smaller tax than the other. Businesses that operate wholly inside California have no such option. This different treatment puts the wholly in-state businesses (which tend to be smaller businesses) at a competitive disadvantage to multi-state businesses.

**Reform Enterprise Zones —** The purpose of enterprise zones is to encourage economic activity for particular geographic regions. However, there are two significant failings in the way the current tax incentives are structured. First, the Enterprise Zone hiring credit encourages the hiring of employees. It does not encourage the creation of new jobs. A business that lays off five employees and hires one at $50,000 per year, gets the same credit as a business that expands its number of employees and hires an employee at $50,000 per year. In fact, if the employee in the first case meets one of the vouchering criteria—they live in the area—and the employee in the second case meets none of the vouchering criteria, the firm in the first case will receive a credit while the employer in the second case will not. Enterprise Zone programs should reward employers for creating new jobs. Second, employers can benefit from Enterprise Zone credits even when it is demonstrable that the existence of the credit had nothing to do with the fact that they have hired a new employee. This is evident by the existence of a phenomenon referred to as "retro-vouchering". "Retro-vouchering" typically occurs when a private tax consultant makes contact with a business located in the zone and offers that business their services, on a contingency-fee basis, to determine if any of the employees hired by this firm within the last several years qualifies to be vouchered for the hiring credit. When this happens, clearly the hiring firm did not act based on the Enterprise Zone hiring credit as they were not even aware of the credit when they did the hiring.

Instead of repealing state tax benefits for Enterprise Zones, the May Revision proposes to reform Enterprise Zone hiring credits so that credits are only available to firms which actually increase their level of employment. Taxpayers would be eligible for a $5,000 credit for each incremental full-time equivalent employee that they hire. These credits would only be allowed if claimed on the taxpayer's original return. Additionally, the May Revision proposal would not allow any new vouchers to be granted for tax years prior to 2011 when the application for that voucher was made more than 30 days after the date that the employee first begins employment. Additionally, to ensure that credits are creating incentives for relatively profitable, tax-paying businesses, the Enterprise Zone credits will be limited to a five-year carry-forward period.

**Expand the Current Jobs Credit**—In 2009, as part of the 2009-10 Budget Act, the Legislature allocated $400 million for a new jobs credit for small businesses. The purpose of the credit was to stimulate job creation by small businesses, and to do so during the recession and at the early part of the recovery. Unfortunately, the credit appears to be substantially underutilized. It is likely that the credit will continue to be available for at least the next five years, beyond the time that the recession-driven unemployment is projected to persist. The primary reasons for this underutilization are

that businesses are not aware of the credit, and the documentation requirements on eligible small business are too onerous to warrant seeking the credit.

To make this credit more usable to businesses when it will be more valuable for stimulating economic growth, the May Revision proposes three changes to the Jobs Credit:

- Increase the credit from $3,000 to $4,000 per new employee,
- Offer the credit to employers with fewer than 50 employees (as opposed to fewer than 20 employees under current law), and
- Sunset the credit at the end of 2012. In addition to these changes, the May Revision includes a public awareness effort by the Business, Transportation, and Housing Agency, so that businesses will be aware of and actually take advantage of the credit.

**Sales and Use Tax Exemption (SUT) for Purchases of Manufacturing Equipment** — The current SUT requires a sales tax to be paid on purchases of tangible property that are used in manufacturing. This leads to double-taxation because the output of the manufacturing will also be subject to the sales tax when sold. This double-taxation creates a disincentive for locating manufacturing capital equipment in California. To stimulate investment and economic development in the manufacturing sector, the May Revision proposes a limited SUT exemption for manufacturing equipment. In general, manufacturing firms would be eligible for a 1-percent exemption from the General Fund SUT for equipment purchases. Start-up firms would be eligible for a full 5 percent exemption of the General Fund SUT. For example, most corporations would get a $10,000 tax reduction for the purchase of $1 million of manufacturing equipment. A start-up, a type of firm that typically has a limited ability to raise capital, would receive a $50,000 tax reduction for the same purchase. This exemption would take effect in 2012-13, would remain in effect for four years, and would only take effect during periods when the sales and use tax rate is at 6 percent. If the single sales factor is not made mandatory, even this partial exemption would not be affordable. This exemption will help stimulate investment, job growth, and economic development in the manufacturing sector, while giving particular help to firms that are starting up and are most likely to need assistance.

The revenue impact of the proposals not yet enacted is shown in Figure REV-02.

Figure REV-02

**Net Benefit Of Tax Solutions**

(Benefit to General Fund - Dollars in Millions)

| | 2010-11 | 2011-12 |
|---|---|---|
| **Direct General Fund Impact** | | |
| Personal income tax surcharge: Maintain the 0.25-percent PIT surcharge for four years, from 2012 through 2015. | $0 | $1,343 |
| Personal income tax dependent exemption credit: Maintain the current dependent exemption credit, which is aligned to equal the personal exemption credit amount for five years. | 799 | 1,371 |
| Mandatory Single Sales Factor: Modify current law to make this multi-state/national corporate income apportionment method mandatory instead of elective. Under current law, the opportunity to elect begins with the 2011 tax year. | 470 | 950 |
| Reform Enterprise Zones: Make the hiring credit a credit for net increase in the number of jobs, eliminate retro-vouchering, limit carryovers to five years. | 23 | 70 |
| Vehicle License Fee: Maintain 1.15 percent (VLF) rate, with 0.1 percent dedicated to General Fund. | 0 | 270 |
| Expand Jobs Credit: Provide $4,000 credit, available to firms with fewer than 50 employees, sunsets after 2012. | -29 | -65 |
| Partial SUT exemption for manufacturing equipment: Begin exemption in 2012-13. | 0 | 0 |
| Revenue Driven Increase in Propostion 98 Expenditures | 0 | -1,652 |
| **Realignment Revenues - Local Revenue Fund 2011** | | |
| Maintain 6-percent state sales tax, with 1 percent dedicated to realignment. | 0 | 4,520 |
| Maintain 1.15 percent (VLF) rate, with 0.4 percent dedicated to realignment. | 0 | 1,079 |
| **Other Special Fund Revenues That Offset General Fund Costs** | | |
| Extend the Hospital Fee for Medi-Cal to June 30, 2012 | 0 | 320 |
| Continue Managed Care Organization Taxes for Medi-Cal and Healthy Families | 0 | 103 |
| **Total Net Benefit Of Revenue Solutions** | $1,263 | $8,309 |

## Accrual change

The Governor's 2011-12 Budget adopted a methodology for accruing the revenue impacts of proposed law changes that is required by Section 13302 of the California Government Code, as amended by Chapter 92, Statutes of 2008. This code section states that that "revenues at the end of the fiscal year (should be accrued) if the underlying transaction has occurred as of the last day of the fiscal year, the amount is measurable, and the actual

collection will occur either during the current period or after the end of the current period but in time to pay current year-end liabilities".

The May Revision completes this change in accounting approach by applying the "net final payments" accrual methodology to baseline revenue. This change involves analyzing the actual and expected cash flow for PIT and the Corporation Income Tax (CIT) as it relates to particular liability years and then shifting revenue between fiscal years so as to match the pattern that would be required based on the due dates for estimated payments and withholding. This approach is referred to as the "payment-due-date" standard for accruing revenue. This standard is in contrast to a pure Generally Accepted Accounting Principles (GAAP) standard, which, instead of focusing on when tax payments are due, would focus on when the income giving rise to the tax liability is earned.

The reason for using the "payment due-date" standard instead of the "income earned" standard is that using the "income-earned" standard would be inconsistent with changes in law enacted in 2008 and 2009.

While this approach shifts a large amount of gross revenue – in the form of estimated payments, withholding, final payments, refunds, and extension payments – between fiscal years, the net impact on revenue in the budget window is relatively modest.
In particular, the net impact of this accrual method for the current budget window is a reduction in revenue of $170 million. This change is the sum of a prior-year adjustment of -$2.5 billion, a 2010-11 adjustment of $900 million, and 2011-12 adjustment of $1.4 billion. Additionally, this baseline accrual methodology is expected to cause revenue shifts that would generally be in the range of -$500 million to $500 million for each subsequent year.

## Long- term forecast

Figure REV-03 shows the forecast for major general fund revenues from 2009-10 through 2014-15. Total General Fund revenue is expected to grow from $84.5 billion in 2009-10 to $112.5 billion in 2014-15. The average year-over-year growth rate over this period in General Fund revenue is 5.9 percent.

The May Revision economic forecast is calling for modest but steady growth over the next 5 years. National Gross Domestic Product (GDP) over the past twenty years has grown at about 2.5% percent per year. Ignoring recession years, the average growth rate is about 3.2 percent. The projected growth rate in GDP over the next five years is in the

Figure REV-03
**Long-Term Revenue Forecast**
(General Fund Revenue, except where noted - Dollars in Billions)

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | average year over year growth |
|---|---|---|---|---|---|---|---|
| Personal Income Tax | $44.9 | $51.9 | $54.3 | $58.7 | $59.2 | $65.0 | 7.8% |
| Sales and Use Tax | $26.7 | $26.7 | $23.9 | $26.0 | $28.1 | $29.7 | 2.4% |
| Corporation Tax | $9.1 | $9.4 | $10.2 | $10.5 | $12.0 | $12.8 | 7.2% |
| Other | $3.8 | $3.8 | $2.8 | $3.6 | $4.8 | $5.0 | 7.9% |
| Total General Fund Major Revenue | $84.5 | $91.9 | $91.2 | $98.8 | $104.0 | $112.5 | 5.9% |
| Realignment Revenue | $0.0 | $0.0 | $5.6 | $6.2 | $6.6 | $7.0 | 7.8% |
| Total General Fund Major Revenue plus Realignment Revenue | $84.5 | $91.9 | $96.8 | $105.0 | $110.6 | $119.5 | 7.3% |

range of 2.7 percent to 2.9 percent, steady growth, but slightly slower than normal for an economic expansion.

General Fund revenue since 1987 has grown at an average year-over-year rate of 5 percent. However, growth coming out of a recession tends to be a bit more robust. In the five years following the previous two recessions, General Fund revenue has grown at an average rate of 6.9 percent. The first post-recession period contains a lead-up to and the very beginning of the technology stock bubble. The second post-recession period contains most of the housing bubble. Therefore, the growth in those two periods may overstate what we would expect in the next five years.

One reason that the May Revision forecast is slightly stronger than would be expected based on historical growth rates is that the California economy is coming out of a very deep recession. The economy fell further and now has to climb more rapidly to get anywhere near a normal trend line for revenues. It appears that capital gains income grew very strongly in 2010 and that most of the wage growth in 2010 came from the portion of the population that is already highly compensated. Thus, much of the income growth that is occurring is coming in the top income brackets where the marginal tax rates are highest. Both the strong growth in capital gains and growing concentration of income cause revenue to grow faster than would be expected by looking at economic aggregates such as GDP. While this is to be expected given the stock market recovery and the good

earnings of California's top performing companies, such recovery rates of growth are not likely to be sustained.

There are clear downside risks to the May Revision long-term forecast. While not considered likely, it is possible that the economy could suffer a double-dip recession or very slow growth. Some of the growth in wages for 2010 and 2011 at the top end of the income distribution may be delayed executive compensation that was paid in 2006 or 2007 (often, portions of executive compensation may only be realized by the executive several years after it is paid). Those compensation amounts for 2008 and 2009 that are realized in 2012 and later could be significantly lower than what was realized in 2010. Capital loss carryforwards, at $141 billion, are more than double what they were in 2007. It appears that, in 2010, very little of these carryforwards were used to offset capital gains income. To the extent future gains are earned by taxpayers who have large stocks of capital loss carryforwards, PIT revenue could be significantly weakened.

The long-term revenue forecast includes about $2 billion per year from the estate tax starting in 2013-14. Under current law, the federal estate tax returns to its pre-2001 condition at the beginning of 2013. However, if the law is changed at all, a very likely outcome, California may receive nothing from the estate tax.

## Personal Income Tax (PIT)

The PIT forecast has been increased by $4.2 billion in 2010-11 and by $4.6 billion in 2011-12. Through April, PIT receipts were up just under $3 billion from the Governor's Budget forecast. There are two economic explanations for both the increase in actual receipts and the forecast of revenues from Governor's Budget. First, although overall 2010 wage growth was muted at less than 1 percent, it appears from withholding receipts and anecdotal evidence that wage growth among higher income groups that pay a higher tax rate far outstripped the growth in lower income levels. The higher tax rates associated with these high earners resulted in much larger monthly withheld receipts than one would expect given the overall wage picture. Thus far, this withholding pattern has continued into 2011 and the May Revision forecast has been adjusted accordingly. Second, during 2010 the state saw stronger than forecasted quarterly estimated payments (again generally associated with higher income earners), but there was uncertainty as to whether the strength in these receipts was due to timing or growth in the underlying liability. Recent changes in tax law and payment requirements have made deciphering taxpayer payment behavior difficult. With April complete, we are better able to analyze the overall 2010 tax year picture. Based on these receipts, the overall

economic forecast, and recent strength in equity markets, the forecast growth in capital gains income has been increased. Capital gains reported by taxpayers plunged 48.9 percent in 2009 but are now estimated to increase 60 percent in 2010 followed by 45 percent growth in 2011.

This forecast also reflects the Governor's May Revision proposals. In particular, the reinstatement of the quarter-percent surcharge in 2012 through 2015, the maintenance of the dependent exemption credit at the same level as the personal exemption credit, the Enterprise Zone reform proposal and the expanded Jobs Credit are expected, on net, to increase revenue by $789 million in FY 2010-11 and by $2.7 billion in FY 2011-12. Finally, the baseline accrual change generated a prior-year adjustment of -$2.1 billion, an adjustment to FY 2010-11 of $1.8 billion, and an adjustment to FY 2011-12 of $1.2 billion.

## Sales and Use Tax

The sales and use tax (SUT) forecast has been increased by $31 million in the current year and decreased by $135 million in the budget year.

The forecast is relatively unchanged from the Governor's Budget as a higher inflation forecast, which had a positive impact on taxable sales including gasoline, was offset by higher gasoline prices. Higher gasoline prices result in a greater percentage of taxable sales going to gasoline, which is exempt from the General Fund portion of the sales tax due to the gas tax swap enacted last year.

The May Revision proposes an extension of the 6-percent SUT for 5 years, from 2011-12 through 2015-16. The revenue from 1 percent of this rate is dedicated to fund realignment. This tax rate maintenance is expected to generate $4.520 billion in 2011-12. Additionally, the May Revision proposes a partial exemption from the SUT for manufacturing equipment for 2012-13 through 2015-16. Although outside the budget window, this exemption is expected to generate a revenue loss of $261 million in 2012-13.

## Corporation Tax

The corporation tax forecast has been decreased by $2.1 billion in the current year and by $806 million in the budget year.

The decline in corporation tax revenues in 2010-11, and a lower estimate for 2011-12 since the Governor's Budget forecast reflects mainly technical changes in the forecast. These estimates were further impacted by two changes in the policy relative to the Governor's Budget. The proposed expansion of the jobs credit and a proposal to reform the Enterprise Zone program rather than repeal it are the largest changes. These proposed law changes, along with mandatory single sales factor (which was also included in the Governor's Budget) are expected to generate, on net, $465 million in 2010-11 and $948 million in 2011-12. Finally, the baseline accrual change generated a prior-year adjustment of -$420 million, an adjustment to FY 2010-11 of -$900 million, and an adjustment to FY 2011-12 of $200 million.

## Insurance Tax

The insurance tax forecast has been increased by $178 million in the current year and decreased by $81 million in the budget year. The revenue changes are due in large part to a delay in refunds associated with a previous Board of Equalization decision on the accounting method used by insurers.

## Vehicle License Fees

Vehicle License Fee (VLF) revenues are reduced $113 million in the 2010-11 year due primarily to the prospective delay in billing associated with recent legislation to allow the VLF rates to be extended. In 2011-12, the May Revision includes a proposal to shift 0.1% of the proposed maintenance of the 0.5 percent rate to the General Fund instead of allocating those funds to the realignment program as proposed in the Governor's Budget. This reflects some adjustments in what will be included in that program. This change transfers $270 million into the General Fund. Other than that, realignment revenue estimates are little changed from the Governor's Budget forecast.

## Other Revenues and Transfers

The recent cancellation of the plan to sell and then lease back 11 state-owned properties, which was estimated to generate about $1.2 billion reduced other revenue relative to the Governor's Budget but not compared to the revenues used when the Legislature recently took action on many budget proposals. The Legislature has already adopted additional loans of $441 million in 2010-11 and $464 million in 2011-2 to offset much of this. In the May Revision, significant changes include Tidelands Oil receipts increased by over

$138 million in 2010-11 and $148 million in 2011-12, and $744 million in loans from special funds to the General Fund are proposed to be repaid early in 2011-12 reducing revenues and out-year debts.

## Property Tax

Article XIIIA of the State Constitution (Proposition 13) provides that property is assessed at its 1975 fair market value until it changes ownership. When ownership changes, the assessed value is redetermined based on the property's current market value. New construction is assessed at fair market value when construction is completed. A property's base year value may be increased by an inflation factor, not to exceed 2 percent annually.

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools offset General Fund expenditures. Assessed value growth is estimated based on twice-yearly surveys of county assessors and evaluation of real estate trends. Continued declines in sales volumes and prices, coupled with declines in property values and failures to remit property tax payments as a result of mortgage defaults and foreclosures, continue to negatively impact assessed values and property tax levies. Property tax collections are estimated to decrease 2.5 percent from 2009-10 to 2010-11, significantly better than the 5.0 percent decline forecast in the Governor's Budget. This reduces General Fund costs in K-14 budgets by $512 million in 2010-11. As the process of foreclosing on properties with delinquent mortgages accelerates in 2011-12, and those properties are resold, the decline in property tax revenues is expected to end. However, no positive growth in revenues is anticipated, leading to a forecast of zero percent growth for 2011-12. It is expected that property values will begin to increase in 2012-13 by about 1 percent. As the pace of property assessment work begins to pick up, the state should consider restoration of its participation in funding this work to ensure maximum revenues.