

State cautious on estimating tax revenue

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California's coffers are filling faster than expected as residents cash in stocks and stock options in these bullish times on Wall Street, but Gov. Arnold Schwarzenegger is understandably cautious in counting on that trend to continue.

All he needs to do is look at his predecessor, Gray Davis, whose administration counted on such money and built it into the budget - a mistake that helped topple him in the recall election.

State spending boomed at the peak of the dot-com boom in 2000, as capital gains and stock options accounted for one-fourth of the state's general fund, Finance Department officials say. That fell to just 7 percent in 2002 as tech stocks melted down, creating a huge budget deficit that the state is still trying to fix.

"As a matter of course, we will budget in a conservative manner," said H.D. Palmer, spokesman for Schwarzenegger's finance department. "We have all learned the painful lesson from the beginning of this decade when capital gains and stock options were riding the rocket."

State Controller John Chiang echoed that concern Monday. "You want to be very, very fiscally prudent. I wouldn't count the chickens until they hatch."

The state raked in more than \$15 billion in revenue in April, including a record \$12 billion in personal income tax payments. That pushed the general fund to \$79 billion through April, more than the governor or state budgeters had anticipated.

But Schwarzenegger's finance team say it will be months before state analysts will be able to tease out how much of April's windfall was related to capital gains and options. Though Californians mailed in their tax payments, many have yet to file their actual tax returns. Likewise, payroll records don't break out how much of an employee's income comes from volatile stock options gains.

There are certainly reasons for budgeters to be upbeat, however. Over the past year, the Dow Jones industrial average and tech-stock heavy Nasdaq index have climbed 21 percent and 18 percent, respectively, giving investors more reasons to sell their stocks - and pay taxes on the gains.

And a Mercury News analysis in April indicated that employees at 10 of Silicon Valley's largest companies were sitting on an estimated \$7 billion in stock option profits. That's even as nearly 700 executives at Silicon Valley's 150 biggest companies pocketed nearly \$1.5 billion in gains last year, according to Equilar, an executive compensation research firm in San Mateo.

That was down from \$1.8 billion the previous year, but Richard Carlson, who heads Spectrum Economics in Palo Alto, figures that many executives held onto their options because they saw better days ahead.

"I think they're licking their chops," he said.

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