

California feeling fallout from Facebook's stock plunge

August 3 2012, By Mike Rosenberg

Facebook stock plunged to an all-time low of nearly half its IPO price Thursday, but it's not just investors feeling the pinch: The state of California stands to lose "hundreds of millions of dollars" in the fallout, state analysts say.

Gov. Jerry Brown and state lawmakers in June approved a \$91 billion [budget](#) that included \$1.9 billion in expected tax revenue from [Facebook](#) employees striking it rich - a rare projection that helped stave off cuts to schools and programs for the sick, poor and disabled.

But Facebook's [stock price](#) dipped below \$20 a share for the first time Thursday before closing at \$20.04, the latest in a shocking fall from the company's initial stock price of \$38 in May. At the same time, the Legislative Analyst's Office reported this week that a big chunk of the extra state revenue resulting from the IPO won't materialize unless the stock turns around soon.

"If Facebook is on a roller coaster ride, we're on the roller coaster with them," said Democratic state Sen. Joe Simitian, whose district includes Menlo Park, where the social [media giant](#) is based.

The expected "Facebook Effect" on the state budget is unique since no other company has had such a massive, tightly scheduled public offering that allowed finance officials to pencil-in so much tax revenue ahead of time. While officials expected the Facebook revenue to make up less than 2 percent of California's general fund budget, the money is enough

to pay the salaries of 28,000 public school teachers.

About \$212 million in state revenue is already in the bag because of taxes Facebook founder and CEO Mark Zuckerberg paid when he purchased more than \$2 billion in stock during the IPO. But the bulk of the windfall will come in November, when most company employees can begin selling billions of dollars worth of long-held stock options, at a maximum state tax rate of 10.3 percent - higher if Brown's soak-the-rich tax initiative passes in November.

Though stock analysts agree that Facebook shares are now undervalued, they say a turnaround anytime soon seems unlikely.

"There's nothing that's going to happen between (now) and November that's going to cause the stock to double," said Wedbush Securities analyst Michael Pachter, who predicts that the stock will improve over the long term.

It won't be clear until November exactly how much red ink the Facebook stock drop will cause the budget. If the stock doesn't rebound and the rest of the state's books don't balance out, the lost revenue could help pile onto a list of "trigger cuts" that will hit K-12 classrooms the hardest.

"I'm really hoping we don't have to go there," said Democratic state Sen. Elaine Alquist, like Simitian a member of the Senate Budget Committee. "We were counting on so many dollars from Facebook - and the whole public was, the whole world was. The whole world was shocked with what happened."

The news could also impact the November vote on Brown's Proposition 30, a plan to balance the budget by increasing taxes on the wealthy and sales.

It depends on "where the stock market is going to be in November," Brown said Thursday. "Just know this: Our schools need the funds; the people we're asking for it can well afford it."

Shaun Bowler, a University of California, Riverside, voter-behavior expert and associate dean, thinks the Facebook tax drop may help voters realize there is no winning "lottery ticket" to save the budget, but isn't likely to persuade the masses.

Deputy Legislative Analyst Jason Sisney and state Finance Department spokesman H.D. Palmer said the state was right to put the projected revenue into the budget because the Facebook IPO was so unique: The company publicly scheduled dates of taxable transactions, allowing the state to budget IPO revenues on a scale never before seen - particularly useful as officials were desperate to balance the budget.

"If forecasters had omitted Facebook, it could have resulted in schools receiving less money," Sisney said.

State finance officials in May estimated Facebook's stock price would be \$35 in November. As a result, the Legislature in June approved a budget that included \$1.5 billion in new revenue through June 2013, plus an extra \$400 million by assuming voters approve Brown's tax measure.

"This is somewhat of an anomaly, to count on one company to balance your budget is dubious at best," said economist Scott Drenkard of the Tax Foundation, a research group based in Washington, D.C.

By comparison, Google, which officials said is the only comparably large IPO in recent memory, did not schedule its transaction dates when it went public in 2004. That made it too tricky for finance officials to estimate a Google windfall.

It's impossible to know how much Google helped the budget since employee tax filings are confidential. But officials say the company's success was a leading factor in the overall state income tax surge that helped Gov. Arnold Schwarzenegger and lawmakers increase spending by about \$20 billion in the two years following Google's IPO.

The same thing happened when employees of tech companies were getting rich selling stock during the dot-com boom. From 1998 to 2001, the state raised the budget from \$58 billion to \$78 billion.

In both cases, the one-time tax revenues tied to the [stock](#) sales eventually dried up, helping lead to steep cuts, though the most important factors were the economic declines that cut into the state's largest funding source - income taxes.

Republicans in the Legislature point to the Facebook drop as another example of using one-time "gimmicks" to balance a budget they say has a structural problem.

"This is probably the greatest over-expectation ever," said Jim Nielsen of Gerber, the ranking GOP member of the Assembly Budget Committee. "Now the piper has come to be paid."

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