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California State Controller's Office



June 2009 Summary Analysis

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Statement of General Fund Cash Receipts and Disbursements

State Finances in May 2009

- ⇒ The State's revenues continued to deteriorate in May. Total General Fund revenues were down \$827 million (-13.5%) from estimates in the Governor's proposed 2009-10 May Budget Revision.
- ⇒ Personal income taxes were \$475 million below the May Revision estimate (-23.0%), corporate taxes were down \$84.4 million (-25.8%), and sales taxes lagged by \$109 million (-3.3%).
- ⇒ Compared to the 2009-10 Budget, General Fund revenue in May was \$1.75 billion below (-24.8%) the estimate for the month. Corporate taxes came in \$1.16 billion lower (-82.6%) than estimated, and sales and use taxes lagged by \$300 million (-8.7%). Personal income taxes fell short by \$218 million (-12.1%).
- ⇒ Compared to May 2008, General Fund revenue in May 2009 was down \$1.14 billion (-17.7%). The total for the

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Budget vs. Cash

The State's budget is a financial plan based on estimated revenues and expenditures for the State's fiscal year, which runs from July 1 through June 30.

Cash refers to what is actually in the State Treasury on a day-to-day and month-to-month basis.

Monitoring the amount of cash available to meet California's financial obligations is the core responsibility of the State Controller's office. On average, the Controller's office issues 182,000 payments every day.

The State Controller's Office is responsible for accounting for all State revenues and receipts and for making disbursements from the State's General Fund. The Controller also is required to issue a report on the State's actual cash balance by the 10th of each month.

As a supplement to the monthly Statement of General Fund Cash Receipts and Disbursements, the Controller issues this Summary Analysis for California policymakers and taxpayers to provide context for viewing the most current financial information on the State's fiscal condition.

This Summary Analysis covers actual receipts and disbursements for May 2009 and year-to-date totals for the first eleven months of Fiscal Year 2008-09. Data are shown for total cash receipts and disbursements, the three largest categories of revenues, and the two largest categories of expenditures.

This report compares actual receipts against historical figures from 2008, the 17-month spending plan adopted in February for the current and following fiscal years, and the Governor's proposed May Revision to that budget.

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three largest taxes was below 2008 levels by \$1.2 billion (-19.5%). Sales taxes were \$259 million lower (-7.6%) than last May, and personal income taxes were down \$1.03 billion (-39.3%). Corporate taxes were \$83 million above (52.1%) May 2008.

Tax Revenue Fiscal Year to Date

⇒ Compared to the 2009-10 May Revision Estimates, General Fund revenues are below the year-to-date estimate by \$827 million (-1.1%). The three largest sources of revenue were lower than the May Revision estimates by \$668 million (-1.0%). Because the 2009-10 May Revision estimates contained actual revenue through April 2009, this revenue deterioration occurred in May.

⇒ Sales tax collections year to date are down \$109 million (-0.5%) from the May Revision estimates. Income taxes were \$475 million lower (-1.2%) than expected, and corporate taxes also came in short by \$84.4 million (-1.1%). The State's other revenue streams were \$159 million (-3.4%) below the estimates.

⇒ Compared to the 2009-10 Budget Act, General Fund revenue is below the year-to-date estimate by \$3.81 billion (-5.0%). The three largest taxes were lower than the Budget Act estimate by \$3.44 billion (-4.8%).

⇒ Sales tax collections year to date are under the Budget Act by \$627 million (-2.9%). Income taxes were down \$871 million (-2.2%), and corporate taxes came in below expectations by

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What The Numbers Tell Us

Corporate Taxes in May

Corporate tax revenues were up 52% from May 2008, but this was still 26% under the May Revision estimate and 83% under the 2009-10 Budget estimate.

The Governor signed a bill in October that imposes a 20% *understatement penalty* on corporate tax. Companies were given the option to avoid the penalty by filing an amended return and paying their *actual* tax liability by May 31, 2009. As a result, miscellaneous corporate taxes saw sharp increases as firms moved to avoid the penalty. This number soared to over \$730 million by the end of May - an increase of over 650% from last May. Indications from the Franchise Tax Board also show that a large sum of payments related to this penalty came in on June 1. It is estimated that related payments could total \$1.9 billion.

**Table 1: General Fund Receipts,
July 1, 2008-May 31, 2009 (in Millions)**

Revenue Source	Actual Receipts To Date	2009-2010 May Revision Estimate	Actual Over (Under) Estimate
Corporation Tax	\$7,771	\$7,856	(\$84)
Personal Income Tax	\$39,196	\$39,671	(\$475)
Retail Sales and Use Tax	\$21,216	\$21,324	(\$109)
Other Revenues	\$4,443	\$4,601	(\$159)
Total General Fund Revenue	\$72,626	\$73,452	(\$827)
Non-Revenue	\$2,556	\$2,512	\$44
Total General Fund Receipts	\$75,182	\$75,964	(\$783)

Note: Some totals on charts may not add, due to rounding

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\$1.94 billion (-20.0%). The State's other revenue streams were \$372 million lower (-7.7%) than the estimates. Because the 2009-10 Budget Act contained actual revenue through February 2009, this revenue deterioration occurred between March and May.

- ⇒ Compared to May 2008, revenue receipts are down by \$12.9 billion (-15.1%). The "Not Otherwise Classified" category was the only one to post significant growth (\$1.07 billion) on a year-over-year comparison. That category is higher primarily because it contains unclaimed property collections that were virtually halted last year as new rules for locating owners were instituted.
- ⇒ Year-to-date collections for the three major taxes were down \$13.6 billion (-16.6%) below last year at this time. Retail sales were down \$2.8 billion (-11.8%), personal income taxes fell by \$10.2 billion (-20.7%), and corporate taxes were \$531 million lower (-6.4%) than last year's total at the end of May.

Summary of Net Cash Position as of May 31, 2009

- ⇒ Through May, the State had total receipts of \$75.2 billion (Table 1) and disbursements of \$93.5 billion (Table 2).
- ⇒ The State ended last fiscal year with a deficit of \$1.45 billion, and the combined current year deficit stands at \$19.8 billion (Table 3). Those deficits are

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Table 2: General Fund Disbursements, July 1, 2008-May 31, 2009 (in Millions)

Recipient	Actual Disbursements	2009-2010 May Revision Estimate	Actual Over (Under) Estimate
Local Assistance	\$67,393	\$67,859	(\$466)
State Operations	\$24,949	\$25,965	(\$1,016)
Other	\$1,173	\$1,186	(\$13)
Total Disbursements	\$93,516	\$95,010	(\$1,495)

Table 3: General Fund Cash Balance As of May 31, 2009 (in Millions)

	Actual Cash Balance	2009-2010 May Revision Estimate	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2008	(\$1,452)	(\$1,452)	\$0
Receipts Over (Under) Disbursements to Date	(\$18,334)	(\$19,046)	\$712
Cash Balance May 31, 2009	(\$19,786)	(\$20,498)	\$712

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being covered with \$4.3 billion in Revenue Anticipation Notes (RANs), and \$15.5 billion of internal borrowing.

- ⇒ Of the largest expenditures, \$67.4 billion went to local assistance and \$24.9 billion went to State operations (See Table 2).
- ⇒ Local assistance payments were \$466 million lower (-0.7%) than anticipated in the 2009-10 May Revision estimates. State operations were \$1.01 million below (-3.9%) the estimates.

How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for May 2009 is available on the State Controller's Web site at www.sco.ca.gov. To have the monthly financial statement and summary analysis e-mailed to you directly, sign up at:

http://www.sco.ca.gov/ard_monthly_cash_email.html

Any questions concerning this Summary Analysis may be directed to Hallye Jordan, Deputy Controller for Communications, at (916) 445-2636.

Borrowable Resources

State law authorizes the General Fund to internally borrow on a short-term basis from specific funds, as needed.

Payroll Withholding Taxes

"Payroll Withholdings" are income taxes that employers send directly to the State on their employees' behalf. Those amounts are withheld from paychecks during every pay period throughout the calendar year.

Revenue Anticipation Notes

Traditionally, the State bridges cash gaps by borrowing money in the private market through Revenue Anticipation Notes (RANs). RANs are repaid by the end of the fiscal year.

Non-Revenue Receipts

Non-revenue receipts typically are transfers to the General Fund from other state funds.



California Economic Snapshot

New Auto Registrations (Fiscal Year to Date)	816,127 Through Dec. 2007	589,250 Through Dec. 2008
Median Home Price (for Single Family Homes)	\$354,000 In April 2008	\$221,000 In April 2009
Single Family Home Sales	31,150 In April 2008	37,967 In April 2009
Foreclosures Initiated (Notices of Default)	113,809 In 1st Quarter 2008	135,431 In 1st Quarter 2009
Total State Employment (Seasonally Adjusted)	15,493,000 In April 2008	14,795,900 In April 2009
Newly Permitted Residential Units (Seasonally adjusted Annual Rate)	71,676 In April 2008	34,646 In April 2009
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance		

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Featured Articles on California's Economy

The opinions in these articles are presented in the spirit of spurring discussion and reflect those of the authors and not necessarily the Controller or his office. This month's report includes an article by Christopher Thornberg, Founding Principal, Beacon Economics, and Chair of the Controller's Council of Economic Advisors.



Economic Reality: California Being Hit From Two Directions



*By Christopher Thornberg
Founding Principal, Beacon Economics
Chair, Controller's Council of Economic Advisors*

The budget problems in California are currently some of the worst in the nation, leading many to ask how much the economy is to blame for the shortfall. In the short span of two years, California's General Fund budget has declined from \$102 billion to \$86 billion. Is California mired in a worse cycle than the rest of the nation, and is that in turn driving the worse-than-average state and local budget problems?

The answer is, yes, the state is facing a harsher economic crisis than most other areas of the nation. California is at the crossroads of the two primary drivers of the national downturn, feeling both the collapse in employment in traditionally cyclical industries such as construction and manufacturing, while also suffering from a greater-than-average decline in asset values, which drives down consumer spending faster than the national average.

Consider first the primary evidence of the state's economic downturn: California's low-

performing labor markets. While the peak in national payroll employment occurred in December of 2007 – roughly the time the recession began – California's payroll had already begun to drop six months earlier. The nation has shed just over 4% of its labor force to date, while California employment is down by almost 5%.

Unemployment also reflects the difference between California's and the national economy. In California, unemployment has risen by over 6.5 percentage points, compared to 4.5 percentage

points for the nation overall. At 11%, California's unemployment rate is the fourth highest in the U.S. It is hardly surprising that California has seen a sharp drop (down 7.5% as of April 2009) in its personal income tax collections, particularly given the progressive nature of its tax structure.

The severity of the economic impact is in part due to California's exposure to the housing bubble. Few other states saw the same rise and fall in prices, or the same degree of expansion and contraction in construction and related employment. California's housing market was thrown into a tailspin

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by the mortgage industry debacle that unfolded over the past three years. By our estimates over a third of all subprime and Alt-A lending (by value) took place in California, causing a huge surge in construction and home prices.

Now, at the back end of the real estate debacle, California is suffering worse than many other regions. The collapse in new construction has already taken a harder toll on the state: Permits for residential construction are off 86% from their peak, compared to 70% for the nation overall. Non-residential construction permits also fell sharply over the past year. Together, these two trends have caused the state to lose 26% of its construction jobs, compared to 16% for the nation overall.

As a result of the influx of subprime lending, the state is going through a severe foreclosure crisis that



makes a quick turnaround in this sector seem unlikely. Three percent of all households in the state have been foreclosed on, and another 600,000 to 800,000 homes could meet the same fate in the next two years. This not only displaces families,

but puts a strain on local authorities who must deal with empty structures, crime and blight.

The labor problem in California will continue to worsen in the coming months. The other major cyclical sectors – manufacturing and transportation – have held close to national trends. Yet while banking and housing have come close to a bottom, there has been a sharp collapse in both exports and imports in recent months. California's economy is closely tied to trade: More manufacturing exports come from this state compared to others, and Los Angeles County's two ports combined are some of

“Given California’s high home prices at the market’s peak, the asset loss can be three times greater for the California homeowner than it is for the average American.”

the largest in the world. This stress on trade will continue to add to the state's labor woes.

The other side of the nation's economic problem is consumer spending. Savings rates in the U.S. dropped from 9% percent in the early 1990s to nothing in 2005 as high asset price appreciation gave Americans a false sense of financial security. When assets lost value, Americans started to do what they should have done all along – save. Here again, California is finding itself hurt worse than other states.

Consider the most basic source of household wealth – homes. Prices in California have already fallen 40% from their peak, as opposed to slightly more than 25% for the nation. Given California's high home prices at the market's peak, the asset loss can be three times greater for the California homeowner than it is for the average American.

This large asset loss has affected the state's consumer spending. Taxable sales in California were down 11% in the fourth quarter of 2008, compared to just a 5% decline in nominal spending on all durable and non-durable goods and an 8% percent drop in retail sales nationwide. It is no surprise that California has lost 7% of its retail workforce, compared to an average 4% loss for the nation overall.

California has a fundamentally strong economy and will surely recover in the coming years, but the depth of its current problems cannot be underestimated. It will take a number of years for the economy to fully recover from this downturn and, as a result, so too will state revenues take time to recover.