

State of California

***General Fund
Cash Basis Report***

For the Fiscal Year Ended June 30, 2010



Controller *John Chiang*
California State Controller's Office



JOHN CHIANG
California State Controller

February 18, 2011

**To the Citizens, Governor, and Members
of the Legislature of the State of California:**

I am pleased to submit to you the *General Fund Cash Basis Report* for the fiscal year ended June 30, 2010. The General Fund ended the 2009-10 fiscal year with a cash deficit before loans of \$9.9 billion, which was \$2 billion less than the \$11.9 billion deficit at the end of the prior year.

CONTINUING CASH CRISIS

Traditionally, the State manages General Fund cash shortages through a combination of reasonable internal and external borrowing. California utilized the latter when it issued a total of \$8.8 billion of short-term debt in Revenue Anticipation Notes (RANs) on September 29, 2009 to meet cash flow needs during the 2009-10 fiscal year. The RANs were repaid with interest by June 23, 2010.

On July 2, 2009, the State Controller's Office began issuing Registered Warrants (IOUs), to pay for General Fund obligations, other than those required by the Constitution, federal law or court order, to manage the State's cash crisis. A total of \$2.6 billion in Registered Warrants, earning interest at a rate of 3.75% as determined by the State Pooled Money Investment Board, were authorized for redemption on September 4, 2009.

Additionally, on March 1, 2010, Chapter 1 (ABX8 5) was enacted, effective until September 1, 2011, to authorize the Controller, Treasurer, and Director of Finance to defer certain General Fund payments for up to 60 or 90 days, or to make payments timely if sufficient cash is available. This cash deferral bill provided flexibility in managing the State's cash during February and March 2010.

SPECIAL FUND WARNING

California law allows the State to temporarily borrow from certain special funds in order to meet its General Fund payment obligations. The law is clear that those funds, which total more than \$18.6 billion, are available to cover temporary cash shortages to the extent that doing so does not interfere with operations supported by those funds.

The Governor and Legislature should continue to be concerned that the General Fund has not had a positive cash balance since July of 2007, and that the State relies heavily on these special funds and other external borrowing to meet its obligations.

This report is published to provide authoritative information, using the cash basis of accounting, concerning the financial status of the General Fund as close to the end of the fiscal year as possible. This report does not, however, provide a complete picture of the State's operations or financial position. After the State Auditor completes the audit of the State's finances, I will issue the *Comprehensive Annual Financial Report*, prepared in conformity with accounting principles generally accepted in the United States of America. I will also issue the *Budgetary/Legal Basis Annual Report*, which contains an accounting of all fund activity in compliance with state law, state accounting procedures, and the state budget.

This report is available on the Internet at the State Controller's homepage at http://sco.ca.gov/ard_state_genfundcashbasis.html.

Sincerely,
Original signed by:

JOHN CHIANG
California State Controller

Statement of Cash Receipts, Disbursements, and Balances

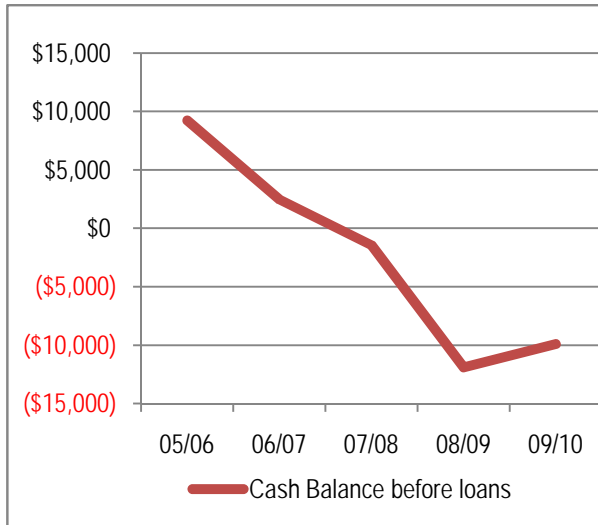
(Amounts in thousands)

	Year Ended June 30,	
	2010	2009
General Fund Beginning Cash Balance Before Loans, July 1	\$ (11,908,086)	\$ (1,451,759)
Receipts (Note 1)		
Revenues.....	86,589,547	85,179,154
Nonrevenues.....	2,065,394	2,595,798
Total Receipts.....	88,654,941	87,774,952
Disbursements		
State Operations.....	23,541,235	26,668,214
Local Assistance.....	60,583,449	69,825,334
Capital Outlay.....	1,860,643	1,202,612
Nongovernmental (Note 1)	683,664	535,119
Total Disbursements.....	86,668,991	98,231,279
Receipts Over(Under) Disbursements.....	1,985,950	(10,456,327)
General Fund Ending Cash Balance Before June 30	(9,922,136)	(11,908,086)
Loans		
From Special Fund for Economic Uncertainties	435,896	1,539,572
From Special Funds and Accounts (Note 2)	9,486,239	10,368,514
Total Loans.....	9,922,135	11,908,086
General Fund Ending Cash Balance After Loans, June 30	-	-
Special Fund for Economic Uncertainties, June 30 (Note 3).....	-	-
Total Cash, June 30 (Note 1).....	\$ -	\$ -
<hr/>		
Borrowable Resources		
Available Resources (Note 2)		
From Special Fund for Economic Uncertainties	\$ 435,896	\$ 1,539,572
From Special Funds and Accounts	18,244,658	17,498,140
Total Available Resources.....	18,680,554	19,037,712
Total Loans.....	9,922,135	11,908,086
Unused Resources.....	\$ 8,758,419	\$ 7,129,626

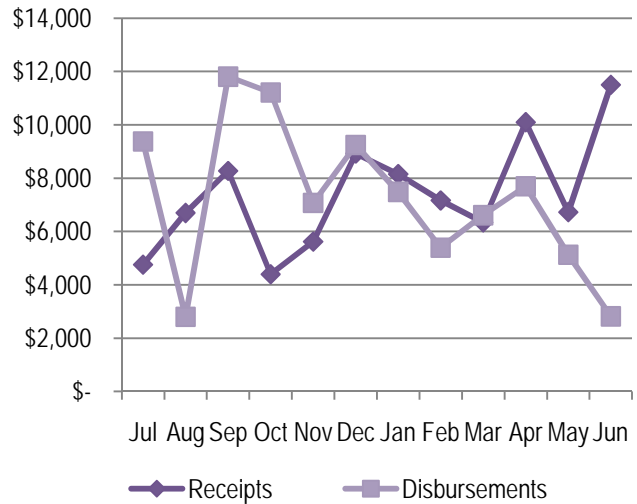
Charts of Cash Receipts, Disbursements, and Balances

(Amounts in millions)

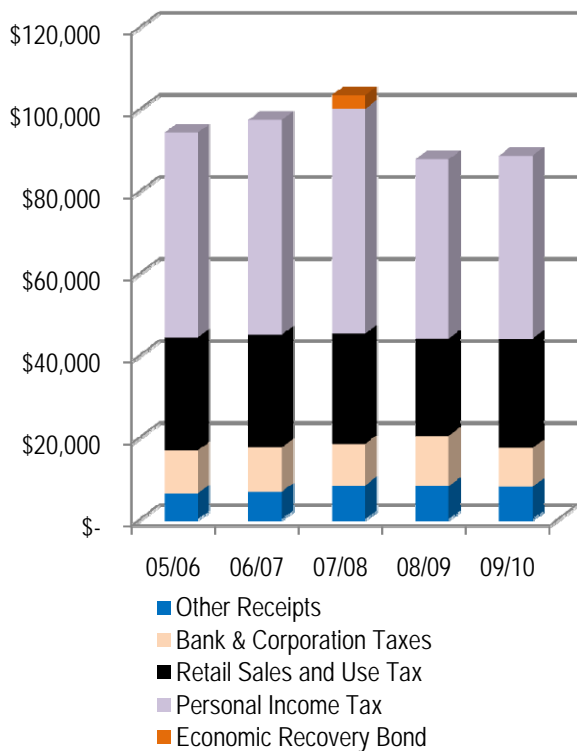
Ending Cash Balances Before Loans Last Five Fiscal Years



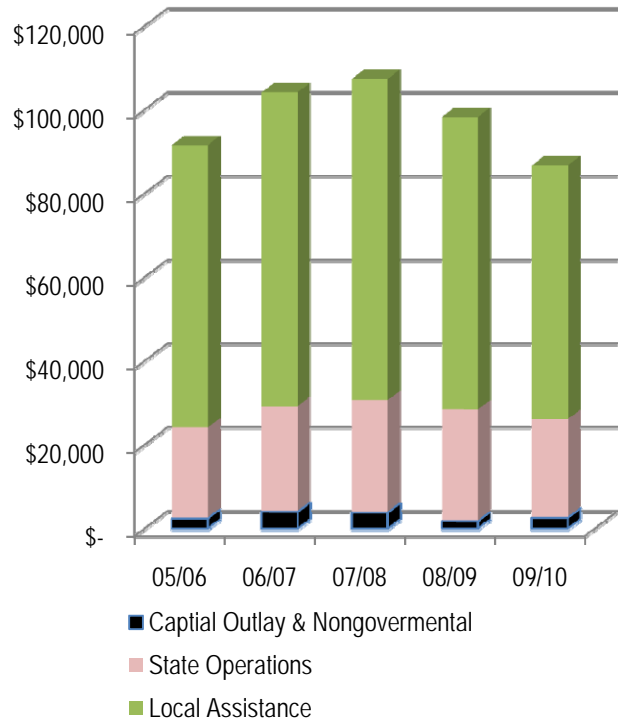
Monthly Cash Receipts and Disbursements Fiscal Year Ended June 30, 2010



Cash Receipts Last Five Fiscal Years



Cash Disbursements Last Five Fiscal Years



Schedule of Cash Receipts

(Amounts in thousands)

	Year Ended June 30,	
	2010	2009
RECEIPTS		
REVENUES		
Major Taxes and Licenses (Note 4)		
Personal Income Tax (Note 5)	\$ 44,629,412	\$ 43,701,844
Retail Sales and Use Taxes (Note 5).....	26,659,015	23,702,413
Corporation (Income) Taxes	9,446,013	12,260,536
Insurance Gross Premiums Tax	2,015,489	2,059,909
Excise Tax on Distilled Spirits.....	169,605	172,255
Excise Tax on Beer and Wine	153,978	161,180
Estate, Inheritance, and Gift Tax.....	7,008	18,275
Cigarette Tax.....	96,213	107,415
Total Major Taxes and Licenses	83,176,733	82,183,827
Minor Revenues		
Pooled Money Investment Income.....	26,025	226,399
Abandoned Property.....	120,785	558,208
Receipts for Child Support Services.....	211,938	238,526
State Lands Royalties.....	270,882	374,167
Trial Court Revenues.....	63,670	67,260
Health Care Deposit Fund Receipts.....	11,805	13,616
Private Rail Car Tax.....	5,814	6,045
Liquor License Fees.....	2,777	3,771
Horse Racing (Pari-mutuel) License Fees.....	1,381	2,534
Vehicle License Fees (Note 5)	1,370,059	187,405
Miscellaneous.....	1,327,678	1,317,396
Total Minor Revenues.....	3,412,814	2,995,327
Total Revenues (Note 4)	86,589,547	85,179,154
NONREVENUES		
Transfers from Special Fund for Economic Uncertainties (Notes 3)	1,103,675	837,902
Transfers from Other Funds	301,034	1,081,352
Miscellaneous.....	660,685	676,544
Total Nonrevenues.....	2,065,394	2,595,798
TOTAL RECEIPTS.....	\$ 88,654,941	\$ 87,774,952

Schedule of Cash Disbursements

(Amounts in thousands)

	Year Ended June 30,	
	2010	2009
DISBURSEMENTS		
STATE OPERATIONS		
Legislative/Judicial/Executive	\$ 1,467,820	\$ 1,471,734
Resources	1,115,364	1,567,600
State and Consumer Services	489,950	537,149
Business, Transportation, and Housing	417,389	4,695
Environmental Protection	52,162	61,400
Health and Human Services		
Mental Health Hospitals	1,082,781	1,204,252
Health Services	209,271	210,754
Other Health and Human Services	511,050	626,695
Total Health and Human Services	1,803,102	2,041,701
Corrections and Rehabilitation (Note 6)	8,111,662	9,016,603
Education		
University of California	1,801,720	3,206,579
State Universities and Colleges	1,630,282	2,875,470
Other Education	160,544	167,672
Total Education	3,592,546	6,249,721
Debt Service	4,703,924	3,995,754
General Government	1,516,442	1,496,416
Interest on Loans	254,988	205,634
Public Employees Retirement System	15,886	19,807
Total State Operations.....	23,541,235	26,668,214
LOCAL ASSISTANCE		
Judicial/Executive (Note 6)	525,048	2,249,099
Resources.....	6,669	16,178
Business, Transportation, and Housing	5,301	6,297
Health and Human Services		
Health Service (Note 6)	10,516,229	13,029,554
Social Services	8,037,452	9,378,187
Developmental Services (Note 6).....	1,895,351	2,338,766
Mental Health Services	677,190	840,415
Other Health and Human Services (Note 6)	677,788	994,054
Total Health and Human Services	21,804,010	26,580,976

Schedule of Cash Disbursements

(Amounts in thousands)

	Year Ended June 30,	
	2010	2009
Corrections and Rehabilitation.....	\$ 203,469	\$ 276,343
Education		
K-12 Education (Note 4).....	29,151,614	31,186,076
Community Colleges.....	3,757,261	4,068,798
Teachers' Retirement System.....	1,248,045	1,133,088
Other Education.....	3,351,573	3,623,193
Total Education.....	37,508,493	40,011,155
Tax Relief		
Homeowners Property Tax Relief	438,724	433,385
Senior Citizens Renter's Assistance.....	260	1,218
Senior Citizens Property Tax Deferral and Assistance.....	740	13,552
Subventions for Open Space.....	1	33,916
Miscellaneous Tax Relief.....	-	-
Total Tax Relief.....	439,725	482,071
General Government.....	90,734	203,215
Total Local Assistance.....	60,583,449	69,825,334
CAPITAL OUTLAY		
Total Capital Outlay.....	1,860,643	1,202,612
NONGOVERNMENTAL		
Transfer to Special Fund for Economic Uncertainties.....	-	-
Transfer to Other Funds.....	733,986	567,538
Transfer to Revolving Fund.....	(55,061)	12,778
Advances		
Counties for Social Welfare.....	(13,658)	(3,522)
Social Welfare Federal Fund.....	(33)	2,681
State-County Property Tax Administration Program.....	18,430	(44,356)
Total Nongovernmental.....	683,664	535,119
TOTAL DISBURSEMENTS.....	\$ 86,668,991	\$ 98,231,279

Notes to Statements and Schedules

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The *General Fund Cash Basis Report* presents cash reported to and recorded in the records of the State Controller's Office. Amounts reported may differ from amounts in other reports to the extent that there are timing differences in the recording of in-transit items between agencies, the State Treasury, and the State Controller's Office. The cash basis of accounting does not reflect accruals.

The "Statement of Cash Receipts, Disbursements, and Balances" does not include cash in the Special Fund for Economic Uncertainties (SFEU) in the report's balances, except for the balance titled "Total Cash, June 30."

Nonrevenue receipts are transfers or miscellaneous receipts from other funds that do not represent revenues of the General Fund. "Transfers from Other Funds" are legally authorized movements of money into the General Fund from other funds that are responsible for the initial receipts of the money. "Miscellaneous" nonrevenue receipts include reimbursements that are not credited to a specific appropriation, and certain other receipts that are not defined as revenue.

Nongovernmental disbursements are transfers or advances to other funds that do not represent expenditures of the General Fund. "Transfers to Other Funds" are legally authorized movements of money from the General Fund, which is responsible for the initial receipt of the money, to other funds that are responsible for the actual expenditure. "Advances" include certain legally authorized loans to other funds and governmental entities, and the repayments of those loans. Negative balances are the result of repayments received that are greater than disbursements made during the fiscal year.

NOTE 2: BORROWABLE RESOURCES

Government Code Section 16310 and 16418 authorize transfers to the General Fund from other funds in the State Treasury and Government Code Section 17300 authorizes borrowing from internal sources to meet the State's short-term borrowing needs. In February 2009, an 18-month Budget was enacted which included several solutions to reduce the impact of the cash crisis as a result of economic pressures in the Fall of 2008. One of these solutions reclassified 37 special funds as borrowable which increased the available borrowable resources by approximately \$4.0 billion dollars.

External sources of funds to meet short-term borrowing needs are obtained by issuing Revenue Anticipation Notes (RANs). On August 27, 2009 an Interim RAN of \$1.5 billion was issued and repaid on September 29, 2009 at which time the State was able to issue \$8.8 billion in RANs to meet the cash flow needs for the remainder of the fiscal year. These RANs were repaid on May 25 and June 23, 2010, \$2.8 billion and \$5.97 billion, respectively. The State ended the 2009-10 fiscal year with no short-term external loans.

NOTE 3: SPECIAL FUND FOR ECONOMIC UNCERTAINTIES

The Special Fund for Economic Uncertainties (SFEU) was created by Chapter 139, Statutes of 1985, and is funded with General Fund revenues. Commonly known as the State's "rainy day fund," it provides the moneys for necessary expenditures throughout the year that have not been anticipated or provided for in the annual budget. It also provides relief, to the amount of its available funds, for any budgeted shortfalls. The SFEU began the 2009-10 fiscal year with a \$1.5 billion balance, of which \$1.1 billion which was transferred to the General Fund in February 2010 to cover a portion of the State's cash shortfall.

NOTE 4: REVENUE SHORTFALLS AND DISBURSEMENT REDUCTIONS

In February 2009, an early Budget for the 2009-10 fiscal year was enacted, which projected \$98.2 billion in cash receipts and \$94.1 billion in projected cash disbursements. This Budget included several solutions to reduce the continued cash shortage. For example, quarterly corporate tax reporting was changed from a 25%-25%-25%-25% estimated tax reporting structure to a 30%-30%-20%-20% structure which resulted in increased receipts during the last half of the 2008-09 fiscal year.

Included in this early Budget were several reductions to appropriations, which mostly impacted Local Assistance disbursements. The February 2009 Budget Act redesignated \$1.1 billion in revenue limits for K-12 as coming from Proposition 98 setleup funds. Also, \$2.9 billion of payments for the K-12 principal apportionment were deferred from February 2010 to July 2010.

Federal funds provided through the American Recovery and Reinvestment Act (ARRA) also offset approximately \$1.2 billion Medi-Cal expenditures in March 2009, as well as \$198 million of University of California and \$270 million of California State University expenditures in October 2009.

Due to continued revenue shortfalls in latter months of the 2008-09 fiscal year, the State Controller commenced issuing Registered Warrants on July 2, 2009 to preserve cash for General Fund priority payments required under the Constitution, federal law or court order. Once the Amended 2009 Budget Act was enacted on July 21, 2009, the State was able to secure external borrowing, and issuance of Registered Warrants ceased and redemption commenced on September 4, 2009, earlier than the original maturity date of October 3, 2009.

NOTE 5: VEHICLE LICENSE FEES (VLF), PERSONAL INCOME TAX, RETAIL SALES TAX INCREASES

Chapter 18, Statutes of 2009, (ABX3 3), increased various taxes to provide revenues to the General Fund. The annual Vehicle License Fee was increased from 0.65% of the market value of the vehicle to 1.0% effective from May 19, 2009 until June 30, 2011, and another 0.15% was added to the Vehicle License Fee to be deposited in the General Fund and transferred to the Local Safety and Protection Account.

This statute also impacted Personal Income Taxes by decreasing the amount allowable as a credit for personal exemption for dependents, increasing the tax rates by 0.375%, and adjusting the alternative minimum tax rate effective for tax years 2010 and 2011.

Additionally, this statute increased the State Retail Sales and Use Tax rate by 1%, from April 1, 2009 until June 30, 2011.

NOTE 6: PROPOSITION 1A RECEIVABLE AND THE SHIFT OF REDEVELOPMENT AGENCY MONIES

These amounts reflect the receipt of funds authorized by Proposition 1A of 2004 from County Offices of Education and the shift of redevelopment agency monies pursuant to Revenue and Tax Code Section 100.06, as added by Chapter 14, Statutes of 2009 (ABX4 15) as offsets to General Fund expenditures in accordance with Control Section 15.45 of the Budget Act of 2009.

Nonrevenue Proposition 1A receipts totaling \$2.1 billion were applied to the following State expenditures: \$895 million to Administrative Office of the Courts, \$385 million to California Department of Corrections and Rehabilitation, \$816 million to Health Care Services Medi-Cal Assistance, \$190 thousand to Department of Child Support Services, and \$9 million to Department of Developmental Services.

Nonrevenue redevelopment agency receipts of \$1.4 billion were applied to the following expenditures: \$428 million to Administrative Office of the Courts, \$203 million to California Department of Corrections and Rehabilitation, \$766 million to Health Care Services Medi-Cal Assistance, \$240 thousand to Department of Child Support Services, and \$12 million to Department of Developmental Services.