

State of California

***General Fund
Cash Basis Report***

For the Fiscal Year Ended June 30, 2011



Controller *John Chiang*
California State Controller's Office



JOHN CHIANG
California State Controller

January 20, 2012

**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, 2011. The General Fund ended the 2010-11 fiscal year with a cash deficit before loans of \$8.2 billion, which was \$1.7 billion less than the \$9.9 billion deficit at the end of the prior year.

CASH MANAGEMENT STRATEGIES

The state entered fiscal year 2010-11 on July 1, 2010 with General Fund cash and unused borrowable resources of approximately \$8.8 billion, but without an enacted budget, the state was prevented from making payments to a variety of suppliers of goods and services to the state and for many programs which did not have continuing appropriations or constitutionally mandated payment obligations. This allowed the state to conserve its cash resources, and, unlike the previous year, no registered warrants had to be issued.

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 \$10.0 billion of short-term debt in Revenue Anticipation Notes (RANs) on November 23, 2010 to meet cash flow needs during the 2010-11 fiscal year. The RANs were repaid with interest by June 28, 2011.

On March 1, 2010, Chapter 1 (ABX8 5) was enacted, authorizing 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. Additionally, on October 19, 2010, Assembly Bill 1610 (Stats.2010, c.724) was enacted, deferring certain fiscal year 2010-11 principal apportionment payments until fiscal year 2011-12. Both were effective until September 1, 2011.

The state's cash position improved in fiscal year 2010-11 as a result of the cash deferral legislation described above and continued heavy reliance on internal borrowing by the General Fund from various Special Funds which totaled up to \$20 billion at certain times during the year. The state's fiscal officers closely monitored developments throughout the fiscal year and were able to successfully manage the state's cash.

CONTINUED SPECIAL FUND WARNING

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 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. 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

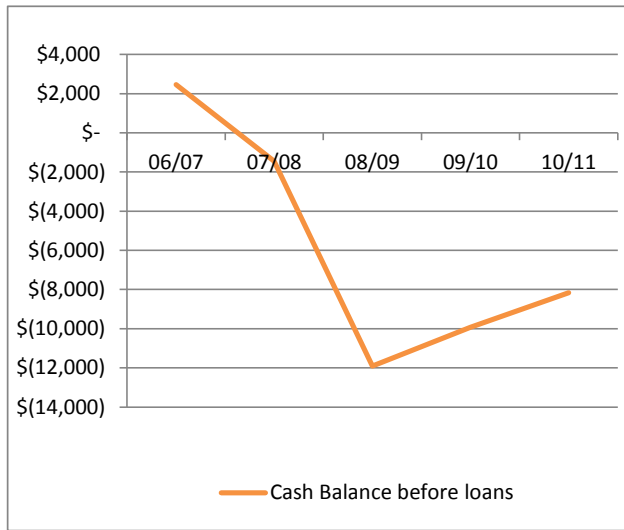
(Amounts in thousands)

	Year Ended June 30,	
	2011	2010
General Fund Beginning Cash Balance Before Loans, July 1	\$ (9,922,136)	\$ (11,908,086)
Receipts (Note 1)		
Revenues.....	93,232,854	86,589,547
Nonrevenues.....	2,303,525	2,065,394
Total Receipts.....	95,536,379	88,654,941
Disbursements		
State Operations.....	26,898,481	23,541,235
Local Assistance.....	65,433,215	60,583,449
Capital Outlay.....	42,813	1,860,643
Nongovernmental (Note 1)	1,404,198	683,664
Total Disbursements.....	93,778,707	86,668,991
Receipts Over(Under) Disbursements.....	1,757,672	1,985,950
General Fund Ending Cash Balance Before June 30	(8,164,464)	(9,922,136)
Loans		
From Special Fund for Economic Uncertainties	1,190,811	435,896
From Special Funds and Accounts (Note 2)	6,973,653	9,486,239
Total Loans.....	8,164,464	9,922,135
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	\$ 1,190,811	\$ 435,896
From Special Funds and Accounts	17,002,442	18,244,658
Total Available Resources.....	18,193,253	18,680,554
Total Loans.....	8,164,464	9,922,135
Unused Resources.....	\$ 10,028,789	\$ 8,758,419

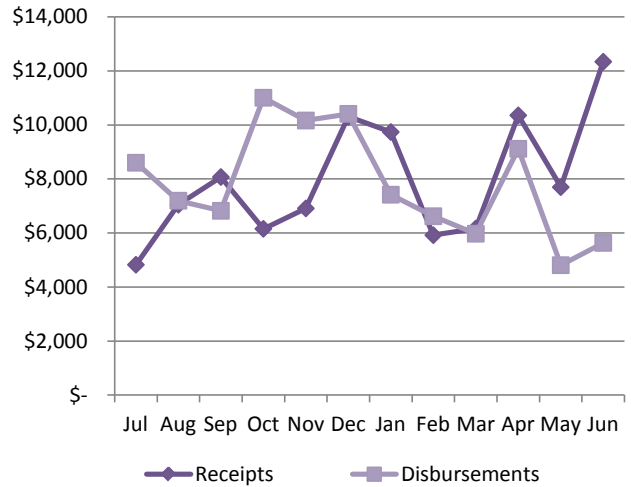
Charts of Cash Receipts, Disbursements, and Balances

(Amounts in millions)

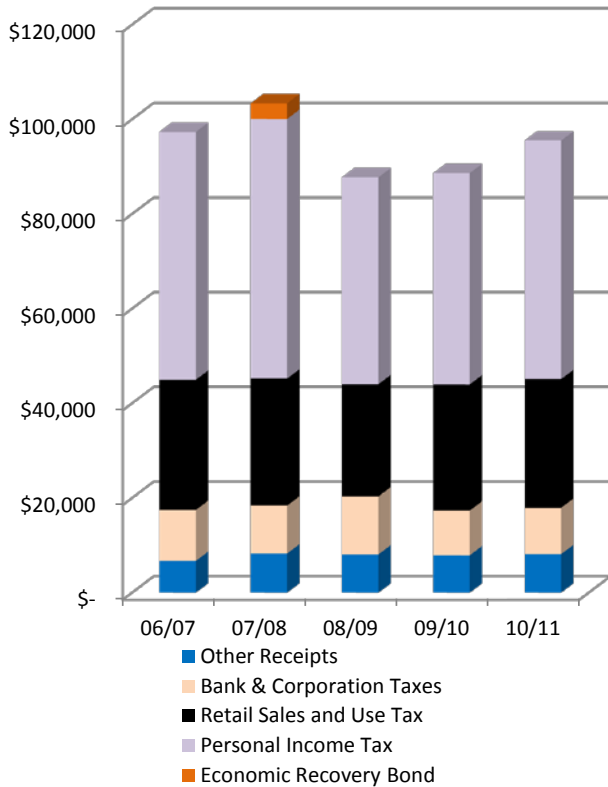
Ending Cash Balances Before Loans Last Five Fiscal Years



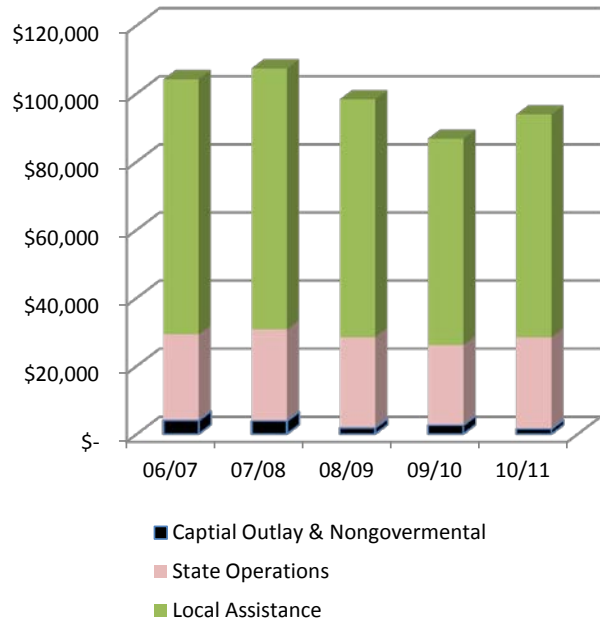
Monthly Cash Receipts and Disbursements Fiscal Year Ended June 30, 2011



Cash Receipts Last Five Fiscal Years



Cash Disbursements Last Five Fiscal Years



Schedule of Cash Receipts

(Amounts in thousands)

	Year Ended June 30,	
	2011	2010
RECEIPTS		
REVENUES		
Major Taxes and Licenses (Note 4)		
Personal Income Tax (Note 5).....	\$ 50,401,571	\$ 44,629,412
Retail Sales and Use Taxes (Note 5).....	27,171,866	26,659,015
Corporation (Income) Taxes	9,804,193	9,446,013
Insurance Gross Premiums Tax	2,061,933	2,015,489
Excise Tax on Distilled Spirits.....	175,484	169,605
Excise Tax on Beer and Wine	158,149	153,978
Estate, Inheritance, and Gift Tax.....	8,243	7,008
Cigarette Tax.....	95,691	96,213
Total Major Taxes and Licenses	89,877,130	83,176,733
Minor Revenues		
Pooled Money Investment Income.....	38,461	26,025
Abandoned Property.....	125,343	326,133
Receipts for Child Support Services.....	219,513	211,938
State Lands Royalties.....	362,646	270,882
Trial Court Revenues.....	60,530	63,670
Health Care Deposit Fund Receipts.....	1,166	11,805
Private Rail Car Tax.....	6,203	5,814
Liquor License Fees.....	2,850	2,777
Horse Racing (Parimutuel) License Fees.....	1,357	1,381
Vehicle License Fees (Note 5)	1,352,875	1,370,059
Miscellaneous.....	1,184,780	1,122,330
Total Minor Revenues.....	3,355,724	3,412,814
Total Revenues.....	93,232,854	86,589,547
NONREVENUES		
Transfers from Special Fund for Economic Uncertainties (Note 3)	180,291	1,103,675
Transfers from Other Funds	1,442,803	301,034
Miscellaneous.....	680,431	660,685
Total Nonrevenues.....	2,303,525	2,065,394
TOTAL RECEIPTS.....	\$ 95,536,379	\$ 88,654,941

Schedule of Cash Disbursements

(Amounts in thousands)

	Year Ended June 30,	
	2011	2010
DISBURSEMENTS		
STATE OPERATIONS		
Legislative/Judicial/Executive	\$ 1,382,862	\$ 1,467,820
Resources	925,538	1,115,364
State and Consumer Services	538,237	489,950
Business, Transportation, and Housing	412,017	417,389
Environmental Protection	59,212	52,162
Health and Human Services		
Mental Health Hospitals	1,169,480	1,082,781
Health Services	192,898	209,271
Other Health and Human Services	590,688	511,050
Total Health and Human Services	1,953,066	1,803,102
Corrections and Rehabilitation (Note 6)	9,161,540	8,111,662
Education		
University of California	2,912,074	1,801,720
State Universities and Colleges	2,577,665	1,630,282
Other Education	166,748	160,544
Total Education	5,656,487	3,592,546
Debt Service	4,757,649	4,703,924
General Government	1,864,586	1,516,442
Interest on Loans	210,494	254,988
Public Employees Retirement System	(23,207)	15,886
Total State Operations.....	26,898,481	23,541,235
LOCAL ASSISTANCE		
Judicial/Executive (Note 6)	1,694,574	525,048
Resources.....	467	6,669
Business, Transportation, and Housing	5,687	5,301
Health and Human Services		
Health Service (Note 6)	12,548,960	10,516,229
Social Services	8,806,510	8,037,452
Developmental Services (Note 6).....	2,503,708	1,895,351
Mental Health Services	470,221	677,190
Other Health and Human Services (Note 6)	572,020	677,788
Total Health and Human Services	24,901,419	21,804,010

Schedule of Cash Disbursements

(Amounts in thousands)

	Year Ended June 30,	
	2011	2010
Corrections and Rehabilitation	\$ 202,475	\$ 203,469
Education		
K-12 Education (Note 4).....	29,796,246	29,151,614
Community Colleges.....	3,945,758	3,757,261
Teachers' Retirement System.....	1,257,341	1,248,045
Other Education.....	3,125,702	3,351,573
Total Education.....	38,125,047	37,508,493
Tax Relief		
Homeowners Property Tax Relief	438,081	438,724
Senior Citizens Renter's Assistance.....	-	260
Senior Citizens Property Tax Deferral and Assistance.....	2	740
Subventions for Open Space.....	-	1
Miscellaneous Tax Relief.....	-	-
Total Tax Relief.....	438,083	439,725
General Government.....	65,464	90,734
Total Local Assistance.....	65,433,216	60,583,449
CAPITAL OUTLAY		
Total Capital Outlay.....	42,813	1,860,643
NONGOVERNMENTAL		
Transfer to Special Fund for Economic Uncertainties.....	935,206	-
Transfer to Other Funds (Note 5)	400,613	733,986
Transfer to Revolving Fund.....	(17,455)	(55,061)
Advances		
Counties for Social Welfare.....	8,532	(13,658)
Social Welfare Federal Fund.....	103,687	(33)
State-County Property Tax Administration Program.....	(26,385)	18,430
Total Nongovernmental.....	1,404,198	683,664
TOTAL DISBURSEMENTS.....	\$ 93,778,708	\$ 86,668,991

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 for the 2009-10 fiscal years, and ongoing.

In the November 2010 election, the voters approved Proposition 22, which prohibited the State from borrowing funds used for transportation, redevelopment or local government projects, which consequently offset some of the additional available internal borrowable resources.

External sources of funds to meet short-term borrowing needs are obtained by issuing Revenue Anticipation Notes (RANs). On October 23, 2010 Interim RANs of \$6.7 billion were issued and repaid on November 23, 2010 at which time the State was able to issue \$10.0 billion in RANs to meet cash flow needs for the remainder of the fiscal year. These RANs were repaid on May 25 and June 28, 2011, \$2.25 billion and \$7.75 billion, respectively. The State ended the 2010-11 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 2010-11 fiscal year with a \$436 million balance. In January of 2011, the SFEU's balance was legislatively increased to \$1.37 billion, of which \$180 million was transferred to the General Fund to help fund the State's CalGrants program.

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 settlement funds.

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.

In March of 2010, ABX8 5 authorized deferral of certain payments, including \$2.9 billion K-12 principal apportionment from February 2009 to July 2010. Assembly Bill 1610 (Stats.2010, c.724) authorized additional cash deferrals of certain payments to K-12 and Community Colleges (including \$4.6 billion from 2010-11 to early 2011-12 fiscal year), certain local government social services, transportation payments and Proposition 63 mental health payments higher education, CalSTRS payment modifications and trial court operations (not including payroll).

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

The 2009-10 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.