

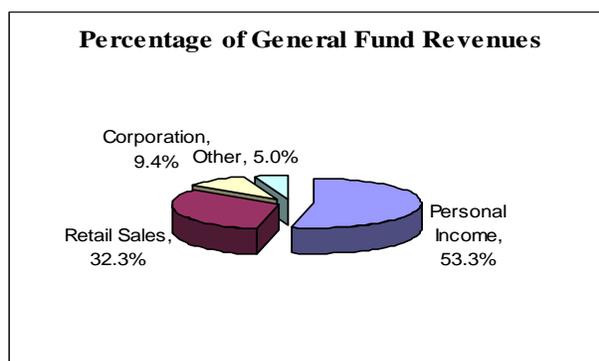
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Summary Analysis of the Statement of General Fund Cash Receipts and Disbursements February 2007

The State Controller's Office is responsible for collecting all state revenues and receipts, and making disbursements from the state's General Fund. The Controller also is required to issue a monthly report on the state's actual cash balance. This *Statement of General Fund Cash Receipts and Disbursements* is reported to the public by the 10th of each month.

Starting this month, Controller Chiang is providing a summary analysis of the latest, actual cash transactions made by the state and comparing those numbers to projections made in the Budget Act and the Governor's Proposed Budget. The intent is to provide taxpayers context in which to view the most current financial information on the state's fiscal condition.

The Controller's report issued this month covers actual receipts and disbursements from July 1, 2006, to February 28, 2007. Data is shown for total cash receipts and disbursements; the three largest categories of receipts and the two largest categories of disbursements are highlighted.



Based on the 2006-07 Budget Act, Personal Income Taxes (PIT), Retail Sales and Use Taxes (sales taxes) and Bank & Corporation taxes (corporation taxes) comprise 95% of General Fund Revenues. Of these, PIT receipts are by far the largest, contributing 53.3% of General Fund Revenue. Receipts from sales tax add another 32.3% and corporation taxes provide 9.4%.

On the expenditure side, since July 1, 2006, the state has spent \$17.9 billion of its revenue on state operations. Slightly more than \$55 billion has been spent toward schools and local assistance.

**Difference in the Budget Act and
The Governor's Budget.**

The Legislature enacts a Budget Act by June 15 for the upcoming fiscal year that starts July 1. The Budget Act sets state disbursements and expenditures based on projected revenues for the fiscal year.

In January, the Governor unveils a budget proposal for the new fiscal year and, based on updated revenue projections, revises it in May.

Revenue through February 2007

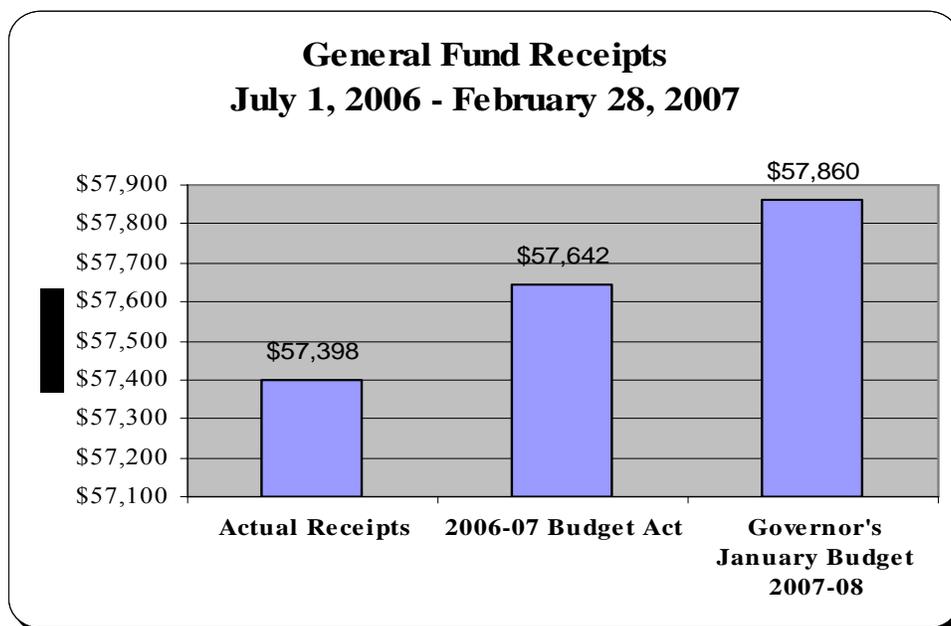
Holiday Sales Realized in February

The sales tax is the state's major source of tax revenue in the month of February, when tax receipts from holiday sales usually are realized.

As of the end of February, General Fund revenue was \$244 million below the Budget Act estimate, primarily because of lower-than-expected retail sales tax receipts. In his January Budget proposal, the Governor lowered the retail sales tax revenue estimate. Because retail sales tax receipts came in higher than the adjusted estimate, revenues exceeded the Governor's Budget projection by \$300 million.

Through February, sales tax shows the slowest revenue growth of the three major taxes. Receipts for sales tax are up 3.6% compared to the same time last fiscal year, while PIT receipts are 6.1% higher, and corporation tax receipts are 8.2% higher. In total, the three major tax revenue sources are 5.5% above where they were last year at this time. Other revenue sources, such as insurance, tobacco, and gift taxes, are lower.

Overall, the General Fund revenue is 4.5% higher than the same time last year, but \$244 million (0.4%) below the Budget Act estimate and \$462 million (0.8%) below the January Governor's Budget estimate.



The Governor's Budget projected a surge of PIT revenue during January, but that did not occur. Although January 15 is the due date for final estimated tax payments, high-income taxpayers who are anticipating a large federal and state tax obligation tend to mail those final payments in late December to maximize their federal deductions for the tax year. Because January PIT revenues did not meet the projections in the Governor's Budget, it is unclear whether projected PIT receipts for the fiscal year are reachable. As a result, March corporation tax receipts and/or April PIT payments will most likely be the definitive factors in determining the state's fiscal condition for fiscal year 2006-07.

Why are January receipts significant?

January 15 is the due date for the final estimated tax payments, but some high-income taxpayers make their final payments late in the calendar year to maximize deductions. The tax receipts obtained in January may reflect what the state can expect.

Why are March receipts important?

Tax returns from corporations that use a calendar year schedule are due March 15. In March and April of 2006, California received 32% of all Bank and Corporation taxes paid in Fiscal Year 2005-06.

Why are April receipts important?

Personal income taxes are due April 17. In April 2006, the state received 23% of personal tax revenues generated for Fiscal Year 2005-06.

Summary of the Net Cash Position as of February 28, 2007

On a cash basis for the period ending February 28, 2007, the state has spent \$17.2 billion more than it has in General Fund receipts. Specifically, receipts totaled \$58.2 billion, and disbursements totaled \$75.4 billion. The state started the year with a cash balance of \$9.2 billion, leaving an \$8 billion cash deficit. A deficit at this point is not unusual as a majority of the state's revenues come in during the last four months of the fiscal year, while a large percentage of disbursements occur in the first eight months.

This \$8 billion shortfall is addressed by internal borrowing and the issuance of Revenue Anticipation Notes (RAN). Currently, the state has an outstanding \$1.5 billion RAN and internal borrowing of \$6.5 billion. The RAN is required to be repaid by the end of the fiscal year.

Short-Term Borrowing

In the first eight months of the 2006-07 fiscal year, the state expected to receive 60% of its revenue, and make 75% of its expenditures. In the last four months, that pattern reverses, with revenue exceeding expenditures. These are typical cycles. To bridge the cash gap, the state borrows money in the private market by issuing Revenue Anticipation Notes (RANs), which are to be paid by the end of the fiscal year. State law authorizes the General Fund to internally borrow on a short-term basis from special funds, as needed.

Table 1 compares actual receipts to date for the 2006-07 fiscal year to estimates published in the January 2007-08 Governor's Budget and the 2006-07 Budget Act. Table 2 compares actual disbursements to date for the 2006-07 fiscal year to estimates prepared by the Department of Finance based on the 2006-07 Budget Act. Table 3 depicts the current cash position of the state's General Fund.

Table 1: General Fund Receipts, July 1, 2006-February 28, 2007 (in millions)

Receipts	Actual Receipts To Date	Projected		Variance	
		Budget Act	January Budget	Budget Act	January Budget
Bank and Corporation Tax	\$5,516	\$5,396	\$5,301	\$120	\$215
Personal Income Tax	\$30,759	\$30,718	\$31,729	\$41	(\$970)
Retail Sales and Use Tax	\$18,005	\$18,587	\$17,705	(\$582)	\$300
Other Revenues	\$3,118	\$2,941	\$3,125	\$177	(\$7)
Total General Fund Revenues	\$57,398	\$57,642	\$57,860	(\$244)	(\$462)
Non -Revenues	\$764	(\$93)	\$714	\$857	\$50
Total Revenues and Non-Revenue	\$58,162	\$57,549	\$58,574	\$613	(\$412)

Table 2: General Fund Disbursements, July 1, 2006-February 28, 2007 (in millions)

Disbursements	Actual Disbursements To Date	Projected		Variance	
		Budget Act	January Budget	Budget Act	January Budget
State Operations	\$17,974	\$16,787	\$17,858	\$1,187	\$117
Local Assistance	\$55,109	\$58,123	\$58,742	(\$3,013)	\$3,633
Other Disbursements	\$2,309	\$2,544	\$2,676	(\$235)	(\$367)
Total Disbursements	\$75,392	\$77,454	\$79,276	(\$2,062)	(\$3,884)

Table 3: General Fund Cash Balance, July 1, 2006-February 28, 2007 (in millions)

Cash Position	Actual	Projected		Variance	
		Budget Act	January Budget	Budget Act	January Budget
Beginning Cash Balance July 1, 2006	\$9,232	\$9,232	\$9,232	0	0
Receipts Over / (Under) Disbursements to Date	(\$17,230)	(\$19,906)	(\$20,701)	(\$2,676)	(\$3,471)
Cash Balance February 28, 2007	(\$7,997)	(\$10,674)	(\$11,469)	(\$2,676)	(\$3,471)

Source: California State Controller's *Statement of General Fund Cash Receipts and Disbursements*

The Statement of General Fund Cash Receipts and Disbursements for February 2007 is available on the Internet at the State Controller's website at <http://www.sco.ca.gov/ard/state/index.shtml> under the category Monthly Statement of General Fund Cash Receipts and Disbursements. Any questions concerning this summary of the report may be directed to Hallye Jordan, Deputy Controller for Communications, at (916) 445-2636.