

# Controller *John Chiang*

## California State Controller's Office

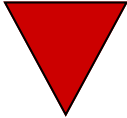

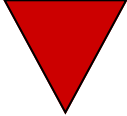
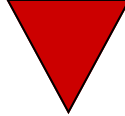

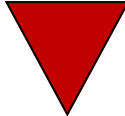
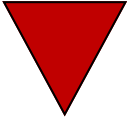
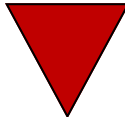


March 12, 2012

Summary Analysis

Volume 6, Issue 3

## State Finances in February 2012

February 2012 compared to <i>monthly estimates</i> in the Governor's proposed budget	February 2012 compared To last February (2011)
 <b>Total Revenues:</b> <b>-\$146.3 million</b> (-3.2%)	<b>Total Revenues:</b>  <b>-\$1.28 billion</b> (-22.6%)
 <b>Income Tax:</b> <b>-\$99.9 million</b> (-5.7%)	<b>Income Tax:</b>  <b>-\$327.9 million</b> (-16.5%)
 <b>Sales Tax:</b> <b>+\$282,000</b> (0%)	<b>Sales Tax:</b>  <b>-\$812.5 million</b> (25.1%)
 <b>Corporate Tax:</b> <b>-\$48.1 million</b> (-36.2%)	<b>Corporate Tax:</b>  <b>-\$51.2 million</b> (-37.6%)

## What the Numbers Tell Us

Total General Fund revenue came in \$146 million below the 2012-13 Governor's Budget projection for the month – with most revenues tracking Governor's Budget estimates. The personal income taxes shortfall of \$99 million was probably caused by an increase in tax refunds, which were \$253 million over the estimates and \$428 million higher than last February.

If Californians are filing taxes early or making a shift from paper to electronic filing, this shortfall could be offset in the coming months. While this month's totals appear lackluster, February is typically a poor indicator of tax receipts collected later in the fiscal year.

Though they exceeded expectations, sales tax revenues are well below last year due to a

### 'Cash' and 'Budget' Problems Are Not Synonymous

Again this year, California addresses an episodic cash shortfall with expedited legislation. Last month, the Assembly adopted SB 95 — which provides nearly \$900 million in short-term cash relief — and noted the bill has no budgetary impact, but eases cashflow.

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## What the Numbers Tell Us

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lower statewide tax rate. Personal income and corporate taxes came in below the Governor's estimates.

Corporate taxes continue to fall short despite healthy earnings reports coming from Wall Street and rising corporate profits numbers being reported by the Bureau of Economic Analysis. To date, corporate taxes have fallen short of expectations by almost \$196 million.

Still, the broader economic context suggests that both California and the nation continue to heal. Recently revised GDP figures from the Bureau of Economic Analysis placed real economic growth at 3% during the fourth quarter of 2011.

In addition, the U.S. added 243,000 jobs during

January and initial indications from California's Employment Development Department show that total nonfarm employment in the state will be revised upward during the annual March 9th employment benchmark. Although construction activity remains tepid, most other aspects of the economy have either stabilized or started the recovery process: the housing market has flattened out, auto sales are up relative to last year, exports are still doing well, and commercial real estate has seen rents begin to rise and vacancies start to come down.

Things continue to move forward, but more action is needed over the short term to solve the state's chronic cash and budgetary position so that California can focus on the long-term infrastructure- and human-capital needs that will be critical to maintaining a vibrant economy in the future.

**Table 1: General Fund Receipts**

July 1, 2011 – February 29, 2012 (in Millions)

Revenue Source	Actual Revenues	2012-13 Governor's Budget		2010-11 Year-To-Date	
		Estimates	Actual Over (Under)	Actual	Actual Over (Under)
Corporation Tax	\$3,346	\$3,542	(\$196)	\$4,146	(\$800)
Personal Income Tax	\$31,345	\$32,040	(\$695)	\$31,838	(\$492)
Retail Sales and Use Tax	\$13,028	\$12,968	\$60	\$17,745	(\$4,717)
Other Revenues	\$2,883	\$2,893	(\$10)	\$3,413	(\$530)
<b>Total General Fund Revenue</b>	<b>\$50,603</b>	<b>\$51,442</b>	<b>(\$840)</b>	<b>\$57,142</b>	<b>(\$6,539)</b>
Non-Revenue	\$3,458	\$3,156	\$302	\$1,833	\$1,625
<b>Total General Fund Receipts</b>	<b>\$54,061</b>	<b>\$54,599</b>	<b>(\$538)</b>	<b>\$58,974</b>	<b>(\$4,914)</b>

## 'Cash' and 'Budget' Problems Are Not Synonymous

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The state's cash problem may stem from:

- ⇒ **Annual Deficits.** If expenditures exceed revenues over the entire year, the state may have to borrow temporarily to meet daily expenses.
- ⇒ **Timing.** Revenues flow to the state around tax due dates, like April 15. Disbursements flow more evenly throughout the year. Because the state receives more of its revenue later in the year, it borrows to cover its early bills.
- ⇒ **Accounting Changes.** The state sometimes "recognizes" revenues before receiving them. When it does so, the change widens differences between inflow and outflow, necessitating a cash bridge.



The state meets shortfalls with proceeds from short-term notes or special-fund loans. The State ended last fiscal year with a cash deficit of \$8.2 billion. The combined current-year cash deficit stands at \$21.6 billion. Those deficits are being covered with \$15.2 billion of internal borrowing (temporary loans from special funds) and \$6.4 billion of external borrowing.

### Table 2: General Fund Disbursements

July 1, 2011 – February 29, 2012 (in Millions)

Recipient	Actual Disbursements	2012-13 Governor's Budget		2010-11 Year-To-Date	
		Estimates	Actual Over (Under)	Actual	Actual Over (Under)
Local Assistance	\$51,228	\$52,691	(\$1,462)	\$49,714	\$1,514
State Operations	\$16,281	\$16,572	(\$291)	\$17,643	(\$1,362)
Other	\$4	(\$34)	\$39	\$886	(\$882)
<b>Total Disbursements</b>	<b>\$67,513</b>	<b>\$69,228</b>	<b>(\$1,715)</b>	<b>\$68,243</b>	<b>(\$730)</b>

**California Economic Snapshot**

<b>New Auto Registrations</b> (Fiscal Year to Date)	<b>452,490</b> Through October 2010	<b>484,919</b> Through Through Nov. 2011
<b>Median Home Price</b> (for Single-Family Homes)	<b>\$239,000</b> In January 2011	<b>\$236,000</b> In January 2012
<b>Single-Family Home Sales</b>	<b>27,706</b> In January 2011	<b>28,111</b> In January 2012
<b>Foreclosures Initiated</b> (Notices of Default)	<b>69,799</b> In 4 <sup>th</sup> Quarter 2010	<b>61,517</b> In 4 <sup>th</sup> Quarter 2011
<b>Total State Employment</b> (Seasonally Adjusted)	<b>13,958,700</b> In December 2010	<b>14,199,000</b> In December 2011
<b>Newly Permitted Residential Units</b> (Seasonally Adjusted Annual Rate)	<b>47,649</b> In January 2011	<b>38,498</b> In January 2012

Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance

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