

Controller *John Chiang*

California State Controller's Office

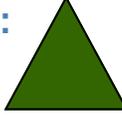
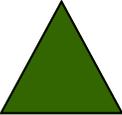
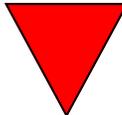


Nov. 9, 2012

Summary Analysis

Volume 6, Issue 11

State Finances in October 2012

October 2012 compared to monthly estimates in the 2012-13 Budget Act	October 2012 monthly totals compared to October 2011
 Total Revenues: \$207.9 million (4.4%)	Total Revenues:  \$790.2 million (19.0%)
 Income Tax: \$378.4 million (10.6%)	Income Tax:  \$890.4 million (29.2%)
 Sales Tax: \$28.8 million (4.4%)	Sales Tax:  -\$9.7 million (-1.4%)
 Corporate Tax: -\$131.3 million (-47.0%)	Corporate Tax:  -\$127.3 million (-46.3%)

What the Numbers Tell Us

October's numbers on California's financial condition showed the positive impact of the state's economic recovery, with tax receipts surpassing both expectations and last year's numbers. Total revenues of \$5.0 billion were \$208 million, or 4.4%, above estimates contained in the 2012-2013 State Budget and 19% above last year's actual figure.

Personal income taxes are California's most important revenue source and have also driven the recent positive inflow. Supported by an improving jobs market, personal income taxes significantly exceeded both expectations and last year's total.

Stronger consumer confidence and spending pushed sales taxes above expectations, although they modestly trailed the results of October 2011.

Corporate taxes remained the primary offset to a generally improving revenue picture. October's numbers showed them falling be-

The Cost of Deficits Past

When coming into office, Governor Schwarzenegger urged California's voters to authorize a loan for financing carryover deficits. The deficits emerged during the 2001 recession and reflected the cost of services rendered but for which revenues were insufficient. Voters, sympathetic to a multiyear financing schedule, approved issuances of up to \$15 billion in deficit-retirement bonds. The

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What the Numbers Tell Us

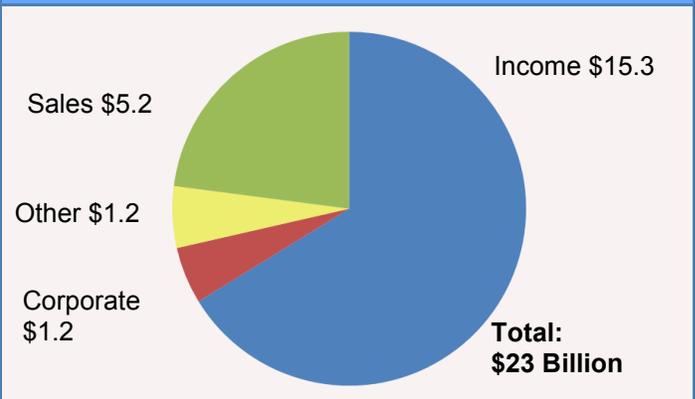
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low both expectations and the prior year's level.

With the recent pickup in overall tax receipts, revenue numbers for the first four months of fiscal year, beginning July 1, 2012, are now virtually on track with projections contained in the 2012-13 State Budget. (See accompanying table). General Fund revenues totaled \$23.0 billion over that period, with personal income taxes accounting for \$15.3 billion or about two-thirds of the total. (See chart.)

Spending from the General Fund totaled \$39.2 billion during the July 1-October 31, 2012 period. Funding for various state functions, including the University of California, State University system, corrections facilities, and public pensions, totaled \$8.7 billion. Local governments represent the largest recipient of State General Funds.

Personal Income Taxes 2/3 of Total Revenue Billions of dollars, July 1 – Oct. 31, 2012



Those disbursements summed to \$30.2 billion during the first four months of the fiscal year and funded K-12 schools, health care, and various social services.

Table 1: General Fund Receipts

July 1, 2012 – Oct. 31, 2012 (in Millions)

Revenue Source	Actual Revenues	2012-13 Budget Act		2011-12 Year-To-Date	
		Estimate	Actual Over (Under)	Actual	Actual Over (Under)
Corporation Tax	\$1,227.8	\$1,479	(\$251.2)	\$1,629	(\$401.2)
Personal Income Tax	\$15,302.4	\$14,577	\$725.4	\$13,846.8	\$1,455.6
Retail Sales and Use Tax	\$5,244.5	\$5,411	(\$166.4)	\$5,893.9	(\$649.3)
Other Revenues	\$1,222.9	\$1,526.2	(\$303.3)	\$1,517.9	(\$295.1)
Total General Fund Revenue	\$22,997.6	\$22,993.2	\$4.4	\$22,887.6	(\$110)
Non-Revenue	\$1,124.1	\$1,185.4	(61.3)	\$2,000	(\$875.9)
Total General Fund Receipts	\$24,121.7	\$24,178.6	(56.9)	\$24,887.6	(\$765.9)

The Cost of Deficits Past

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state used this authority to issue a \$10.9 billion bond in 2004 and an additional \$3.2 billion bond in 2008.

Under the terms of the authorization, the state earmarked a portion of the state General Fund for the exclusive use of paying the bond holders. Since issuing the bonds, the state has made regular payments on interest and principal. As of July 1, 2012, \$6.4 billion remained in principal.

Last month, in his annual debt report, State Treasurer Bill Lockyer published the estimated-payment schedules for the remaining debt service. Under the schedule, debt payments average \$720 million for the next 11 years. Figure 1 displays both the annual interest and principal payments through 2024.

- ⇒ Annual interest payments decline steadily from nearly \$280 million in the current year to about \$13 million in 2023.
- ⇒ Annual principal payments hover around \$500 million for the next five years, and then fluctuate between \$625 million and \$700 million in the five years starting in 2019.

These debt payments -- financed from the tax on retail purchases -- use revenue that would otherwise be

deposited in the General Fund and available for discretionary services or tax reductions. In effect, some of the sales tax generated by the purchase of the LOL Elmo doll will pay for services rendered a decade ago. Beginning in 2025, the earmarked sales tax revenue will return to the General Fund.

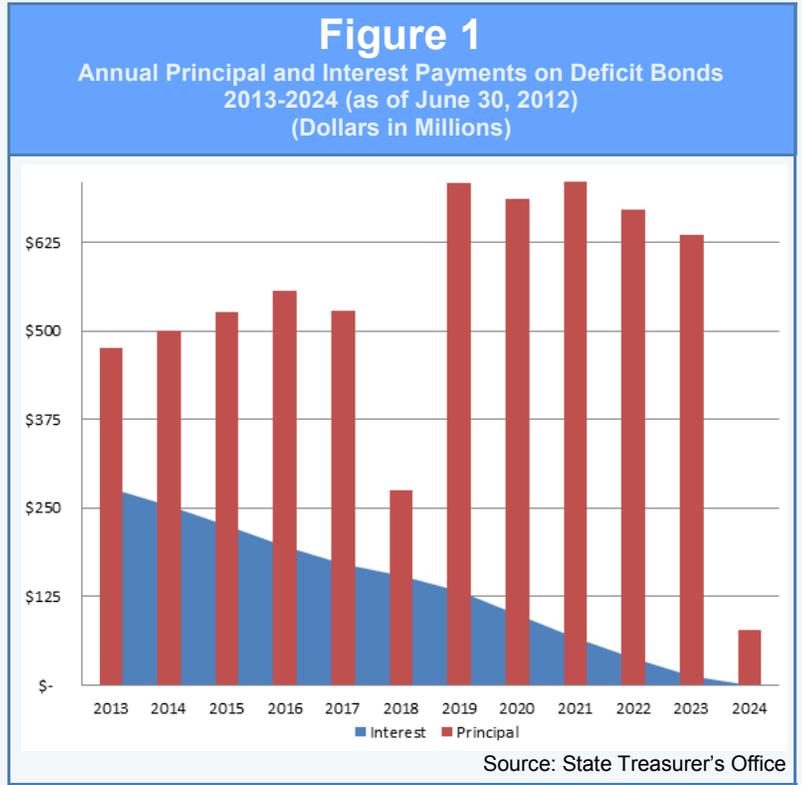


Table 2: General Fund Disbursements

July 1, 2012 – Oct. 31, 2012 (in Millions)

Recipient	Actual Disbursements	2012-13 Budget Act		2011-12 Year-To-Date	
		Estimates	Actual Over (Under)	Actual	Actual Over (Under)
Local Assistance	\$30,247.2	\$29,041.2	\$1,206	\$28,024.8	\$2,222.4
State Operations	\$8,722.3	\$8,707.1	\$15.2	\$9,098.9	(\$376.6)
Other	\$213.2	\$107.4	\$105.8	(\$92.9)	\$306.1
Total Disbursements	\$39,182.7	\$37,855.7	\$1,327	\$37,030.8	\$2,151.9

California Economic Snapshot

New Auto Registrations (Year to Date)	986,595 Through September 2011	1,245,700 Through September 2012
Median Home Price (for Single-Family Homes)	\$249,000 In September 2011	\$287,000 In September 2012
Single-Family Home Sales	35,404 In September 2011	34,453 In September 2012
Foreclosures Initiated (Notices of Default)	71,275 In 3rd Quarter 2011	49,026 In 3rd Quarter 2012
Total State Employment (Seasonally Adjusted)	18,407,000 In September 2011	18,333,000 In September 2012
Newly Permitted Residential Units (Year to Date)	32,852 In September 2011	43,292 In September 2012
Data Sources: New Car Dealers Association, DataQuick, California Employment Development Department, Census Bureau, State Department of Finance		