

Controller *John Chiang*

California State Controller's Office



October 2009 Summary Analysis

Volume 3, Issue 10

Statement of General Fund Cash Receipts and Disbursements

State Finances in September 2009

- ⇒ The State Controller's Office was forced to begin issuing Registered Warrants (or IOUs) on July 2 to General Fund payments not protected by the State Constitution, federal law or court decision. Registered Warrants issued in July through September totaled \$2.6 billion, and were redeemable starting on September 4, 2009. In addition to Registered Warrants, various accounting transactions totaling \$1 billion were delayed during July and August to preserve cash in the General Fund. These were also paid in September. To present a true picture of cash activity in the month of September, the current month's revenues are adjusted to account for payments made in September that would have been paid in July and August but for the delays.
- ⇒ Compared to the amended 2009-10 Budget Act enacted on July 28, 2009, total General Fund revenues were down \$842 million (-8.7%) from the estimates. This was driven by personal income tax revenues that were \$934 million below (-17.3%) the estimates and corporate taxes that were \$183 million lower (-10.5%) than the estimates. Sales taxes were

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Budget vs. Cash

The State's budget is a financial plan based on estimated revenues and expenditures for the State's fiscal year, which runs from July 1 through June 30.

Cash refers to what is actually in the State Treasury on a day-to-day and month-to-month basis.

Monitoring the amount of cash available to meet California's financial obligations is the core responsibility of the State Controller's office. On average, the Controller's office issues 182,000 payments every day.

The State Controller's Office is responsible for accounting for all State revenues and receipts and for making disbursements from the State's General Fund. The Controller also is required to issue a report on the State's actual cash balance by the 10th of each month.

As a supplement to the monthly Statement of General Fund Cash Receipts and Disbursements, the Controller issues this Summary Analysis for California policymakers and taxpayers to provide context for viewing the most current financial information on the State's fiscal condition.

This Summary Analysis covers actual receipts and disbursements for September 2009 and year to date for the first three months of Fiscal Year 2009-10. Data are shown for total cash receipts and disbursements, the three largest categories of revenues, and the two largest categories of expenditures.

This report compares actual receipts against historical figures from 2008. A statement of estimated cash flows for the Amended 2009-10 Budget Act enacted on July 28, 2009 is used as a basis of comparison.

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\$99.8 million below the estimate (-4.5%). The total for the three largest taxes was below the estimates by \$1.22 billion (-13.0%).

- ⇒ Compared to September 2008, General Fund revenue in September 2009 was down \$1.23 billion (-12.2%). The total for the three largest taxes was below 2008 levels by \$1.33 billion (-14.1%). Personal income taxes came in \$1.1 billion below (-19.8%) last September and corporate taxes were down by \$256 million (-14.1%) from last September. Sales taxes were \$20.0 million higher (1.0%) than last year.

Tax Revenue Fiscal Year to Date

- ⇒ Compared to the amended 2009-10 Budget Act, General Fund revenues are below the year-to-date estimate by \$1.08 billion (-5.3%). The three largest sources of revenue were lower than the estimates by \$1.62 billion (-8.3%).
- ⇒ Sales tax collections year to date are \$285 million under (-4.3%) the amended 2009-10 Budget Act estimates. Income taxes were \$1.18 billion (-11.0%) lower than expected, and corporate taxes also came in lower than expected by \$155 million (-7.4%). Because the amended 2009-10 Budget Act estimates contained actual revenue through its passage, this revenue deterioration occurred primarily in August and September.
- ⇒ Compared to this date in September 2008, revenue receipts are down by \$2.08 billion (-9.7%).

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What The Numbers Tell Us

We're not out of the woods yet...

The State's General Fund continued to deteriorate in September. Year to date, both corporate and personal income tax revenues were down by double-digit percentages over last year (13% and 16%, respectively). Additionally, the numbers indicate that Californians are still feeling the pinch of this recession in a very real way. For example, withholdings on personal income are down by 7.1% this year. Estimated tax payments for both personal income and corporations are down even more sharply, falling by 34.9% and 11.0%, respectively, compared to last year.

Given the loss of 971,400 jobs from California's nonfarm payroll from peak levels and the hit to corporate profits, it is not surprising to see these reductions in personal income and corporate taxes. Perhaps more telling is the substantial increase in those unable to meet their tax liabilities. According to the Franchise Tax Board (FTB), the number of cases in which people were unable to meet either their self-reporting or assessed-tax debt was up 28% over the past 24 months (16% in 2007-08 and another 12% in 2008-09). The dollar amounts owed have risen even more dramatically — 50% over the same period (28% in 2007-08 and another 22% in 2008-09). The FTB currently estimates that their year-to-date receivables on these accounts have grown by \$1.6 billion compared to the balances at the end of last August. Although these represent assets on the State's balance sheet, they do not provide the cash needed to fund operations. The drastic reduction in tax revenues and the increase in the number of Californians unable to meet their tax liabilities starkly illustrate the recession's impact on the State.

...But California Is Seeing Some Indicators Stabilize

Still, the fact that some indicators are stabilizing provides some reasons to be positive about the State's economy. Compared to 2008, sales and use taxes are up for the second month in a row. Although these are small gains, they signal that the consumer spending is reaching for a bottom. In addition, residential building permits have leveled off in recent months, and home prices, though still below last year, stabilized in June and July. This should decelerate the losses in the State's construction employment, which has been especially hard hit. There also are indications that the nation's gross domestic product will grow modestly in the third quarter of 2009. An important question for California is how the expiration of the federal income tax cut and temporary payroll tax cuts will impact the State's economy in 2010.

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This was driven by personal income taxes, which came in \$1.8 billion below (-16.1%) the same time last year.

- ⇒ Year-to-date collections for the three major taxes were \$1.98 billion below (-10.0%) last year at this time and corporation taxes were \$297 million lower (-13.3%). However, retail sales taxes were up \$148 million (2.4%) from last year's total at the end of September.

Summary of Net Cash Position as of September 30, 2009

- ⇒ Through September, the State had total receipts of \$19.7 billion (Table 1) and disbursements of \$24.0 billion (Table 2).
- ⇒ The State ended last fiscal year with a deficit of

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Borrowable Resources

State law authorizes the General Fund to internally borrow on a short-term basis from specific funds, as needed.

Payroll Withholding Taxes

"Payroll Withholdings" are income taxes that employers send directly to the State on their employees' behalf. Those amounts are withheld from paychecks during every pay period throughout the calendar year.

Revenue Anticipation Notes

Traditionally, the State bridges cash gaps by borrowing money in the private market through Revenue Anticipation Notes (RANs). RANs are repaid by the end of the fiscal year.

Non-Revenue Receipts

Non-revenue receipts typically are transfers to the General Fund from other state funds.

Table 1: General Fund Receipts, July 1, 2009 - September 30, 2009 (in Millions)*

Revenue Source	Actual Receipts to Date	Amended 2009-2010 Budget Act Estimate	Actual Over (Under) Estimate
Corporation Tax	\$1,941	\$2,097	(\$155)
Personal Income Tax	\$9,573	\$10,754	(\$1,181)
Retail Sales and Use Tax	\$6,395	\$6,680	(\$285)
Other Revenues	\$1,490	\$948	\$543
Total General Fund Revenue	\$19,399	\$20,478	(\$1,079)
Non-Revenue	\$323	\$444	(\$121)
Total General Fund Receipts	\$19,723	\$20,922	(\$1,200)

*Note: Some totals on charts may not add, due to rounding

Table 2: General Fund Disbursements, July 1, 2009-September 30, 2009 (in Millions)

Recipient	Actual Disbursements	Amended 2009-10 Budget Act Estimate	Actual Over (Under) Estimate
Local Assistance	\$18,452	\$18,272	\$181
State Operations	\$4,444	\$5,442	(\$998)
Other	\$1,089	\$940	\$150
Total Disbursements	\$23,986	\$24,654	(\$667)

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\$11.9 billion, so the combined current year deficit stands at \$16.2 billion (Table 3). Those deficits are being covered with \$7.3 billion of internal borrowing and \$8.8 billion in external borrowing.

- ⇒ Of the largest expenditures, \$18.5 billion went to local assistance and \$4.4 billion went to State operations (See Table 2).
- ⇒ Local assistance payments were \$181 million higher (1.0%) than the Amended 2009-10 Budget Act estimates and State Operations were \$998 million below (-18.3%).

How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for September 2009 is available on the State Controller's Web site at www.sco.ca.gov.

To have the monthly financial statement and summary analysis e-mailed to you directly, sign up at: http://www.sco.ca.gov/ard_monthly_cash_email.html

Any questions concerning this Summary Analysis may be directed to Hallye Jordan, Deputy Controller for Communications, at (916) 445-2636.

Table 3: General Fund Cash Balance As of September 30, 2009 (in Millions)

	Actual Cash Balance	Amended 2009-2010 Budget Act Estimate	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2009	(\$11,908)	(\$11,908)	\$0
Receipts Over (Under) Disbursements to Date	(\$4,264)	(\$3,731)	(\$533)
Cash Balance September 30, 2009	(\$16,172)	(\$15,640)	(\$533)

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California Economic Snapshot

New Auto Registrations (Fiscal Year to Date)	1,312,090 Through April 2008	898,948 Through April 2009
Median Home Price (for Single Family Homes)	\$301,000 In August 2008	\$249,000 In August 2009
Single Family Home Sales	37,988 In August 2008	39,811 In August 2009
Foreclosures Initiated (Notices of Default)	121,673 In 2nd Quarter 2008	124,562 In 2nd Quarter 2009
Total State Employment (Seasonally Adjusted)	14,973,391 In August 2008	14,232,973 In August 2009
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	56,148 In August 2008	35,647 In August 2009
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance		