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California State Controller's Office



February 2009 Summary Analysis

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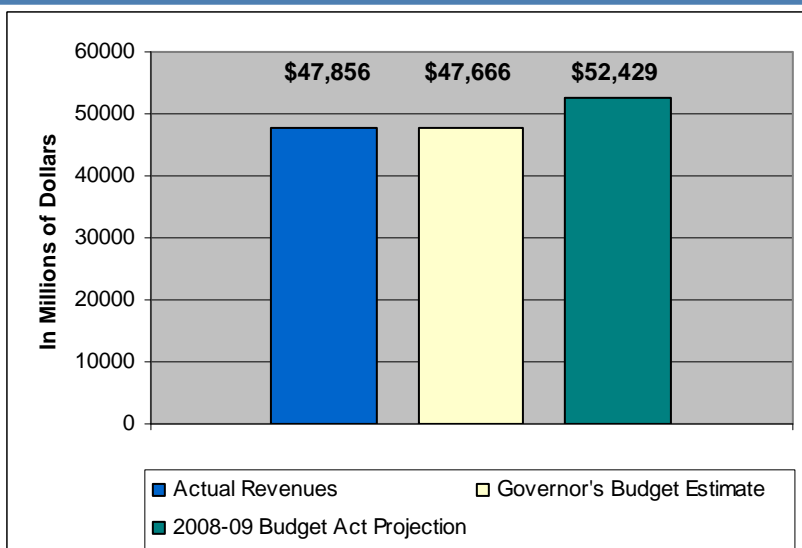
Statement of General Fund Cash Receipts and Disbursements

Tax Revenue in January 2009

- ⇒ In January 2009, General Fund revenue was \$223 million above (3%) the 2009-10 Governor's Budget estimate for the month. Personal income taxes were \$465 million above (7.5%) the Governor's Budget estimate, sales taxes lagged by \$136 million (-18.8%) and corporate taxes were \$22 million above (7.6%) the estimate. Together the three largest taxes (income, sales, and corporate) were \$351 million above (4.8%) the Governor's Budget estimate.
- ⇒ General Fund revenue was \$2.13 billion below (-21.7%) the 2008-2009 Budget Act estimate for the month. Personal income taxes were below the Budget Act estimate by \$1.91 billion (-22.2%), sales taxes were \$24 million above (4.3%) the Budget Act estimate, and corporate taxes fell short by \$14 million (-4.3%).

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Table 1: General Fund Revenues: July 1, 2008–Jan. 31, 2009 (in Millions)



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 January 2009 and year to date for the first seven months of Fiscal Year 2008-09. Data are shown for total cash receipts and disbursements, the three largest categories of revenues, and the two largest categories of expenditures. The final Budget was passed on September 23, 2008. The Budget Act cash flow numbers used as a comparison this month show actual revenue through September and projections for the remainder of the fiscal year. The Budget Act cash flows use the base revenue forecast in the May Revision with updates to reflect revenue accelerations that were part of the Budget Act legislation.

In January 2009, the Governor released updated projections for 2008-09 as part of his 2009-10 budget proposals and revenue and expenditure was revised, and this report incorporates those revisions. The 2009-10 Governor's Budget cash flow numbers used as a comparison this month show actual revenue through November and projections for the remainder of the fiscal year. This report will incorporate new or updated cash flows as they become available.

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Together the three largest taxes (income, sales, and corporate) were \$1.9 billion below (-20%) the Budget Act estimate.

⇒ Compared to January 2008, General Fund revenue in January 2009 was down by \$2.18 billion (-22.1%). The total for the three largest taxes was below 2008 levels by \$2.07 billion (-21.4%). Corporate taxes were below 2008 levels by \$43.3 million (-12.2%). Personal income taxes were down by \$1.62 billion (-19.5%) due to lower estimated tax payments (-30.3%) and withholding taxes that dropped (-10.4%) from last year.

**Table 2: General Fund Receipts,
July 1, 2008-January 31, 2009 (in Millions)**

Revenue Source	Actual Receipts To Date	Governor's Budget Estimate	Actual Over (Under) Estimate	2008-2009 Budget Act Projection	Actual Over (Under) Estimate
Bank And Corp. Tax	\$4,099	\$4,216	(\$116)	\$4,632	(\$532)
Personal Income Tax	\$27,873	\$27,432	\$441	\$30,802	(\$2,929)
Retail Sales and Use Tax	\$12,817	\$12,958	(\$141)	\$13,676	(\$859)
Other Revenues	\$3,067	\$3,060	\$6	\$3,318	(\$251)
Total General Fund Revenue	\$47,856	\$47,666	\$190	\$52,429	(\$4,572)
Non-Revenue	\$1,264	\$1,727	(\$462)	\$1,563	(\$299)
Total General Fund Receipts	\$49,120	\$49,393	(\$272)	\$53,991	(\$4,871)

⇒ Sales taxes were \$403.4 million below (-40.7%) last January. Although primarily due to the downturn, sales tax receipts were also negatively affected by timing issues associated with the month-end falling over a weekend and pushing the balance of these tax receipts into early February.

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

Tax Revenue Fiscal Year to Date

⇒ For the fiscal year to date, General Fund revenue was \$190 million (0.4%) above the 2009-10 Governor's Budget estimate. The three largest taxes were over the Governor's Budget estimate by \$184 million (0.4%). Sales tax collections year to date were down by \$141 million (-1.1%) from the 2009-10 Governor's Budget, income taxes were higher than the estimate by \$441 million (1.6%), and corporate taxes lagged the Governor's Budget estimate by \$116 million (-2.8%). Because the 2009-10 Governor's Budget contained actual revenue through November 2008, this revenue deterioration occurred between the months of December and January.

⇒ Compared to the 2008-2009 Budget Act, General Fund revenue was under the year-to-date estimate by \$4.57 billion (-8.7%). The three largest taxes were below the Budget Act estimate by \$4.32 billion (-8.8%). Sales taxes were under the year-to-date estimates by \$859 million (-6.3%), income taxes lagged behind by \$2.93 billion (-9.5%), and corporate taxes were under the Budget Act estimate by \$532

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million (-11.5%). Because the Budget Act contained actual revenue through September 2008, this revenue deterioration occurred between the months of October through January. This deterioration is primarily due to the consumer spending downturn, but was also affected by timing issues which will push some sales tax receipts into early February.

- ⇒ Compared to this date in January 2008, revenue receipts are \$4.06 billion (-7.8%) lower. The “Not Otherwise Classified” was the only category to post significant growth (\$867 million) on a year-over-year comparison. That category is higher primarily because it contains unclaimed property collections that were virtually halted last year as new rules for locating owners were instituted.
- ⇒ Year-to-date collections for the three major taxes were \$4.77 billion (-9.6%) below last year at this time. Retail sales were down \$1.37 billion (-9.6%), corporate taxes fell by \$839 million (-17.0%), and income taxes were \$2.57 billion lower (-8.4%) than last year’s total at the end of January. Both personal income taxes and corporate taxes saw lower than anticipated estimated tax payments.

Table 3: General Fund Cash Balance As of January 31, 2009 (in Millions)

	Actual Cash Balance	Governor’s Budget Estimate	Actual Over (Under) Estimate	2008-2009 Budget Act Projection	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2008	(\$1,452)	(\$1,452)	\$0	(\$1,452)	\$0
Receipts Over (Under) Disbursements to Date	(\$18,006)	(\$17,003)	(\$1,004)	(\$13,267)	(\$4,739)
Cash Balance January 31, 2009	(\$19,458)	(\$18,454)	(\$1,004)	(\$14,719)	(\$4,739)

Summary of Net Cash Position as of January 31, 2009

- ⇒ Through January, the State’s total receipts were \$49.1 billion (Table 2) and its disbursements were \$67.1 billion (Table 4). The current year deficit of \$18 billion (Table 3) is covered by \$5 billion in Revenue Anticipation Notes (RANs) and

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Estimated Taxes

Estimated tax payments are generally filed quarterly to pay taxes due on income not subject to withholding. This can include income from self-employment, interest, dividends, gains from asset sales, or if insufficient income tax is being withheld from a salary, pension, or other income.

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.

Borrowable Resources

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

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\$14.5 billion of internal borrowing.

⇒ Of the largest expenditures, \$49 billion went to local assistance and \$17.1 billion went to State operations (See Table 4).

⇒ Total receipts were \$4.9 billion lower (-9.0%) than anticipated in the Budget Act. Revenue receipts were down \$4.6 billion (-8.7%), and nonrevenue receipts were under by \$299 million (-19.1%). Nonrevenue receipts are primarily transfers from other funds.

⇒ Disbursements through January were \$131 million (-0.2%) below the Budget Act estimate. Local assistance payments were \$1.03 billion less (-2.1%) than expected, primarily because of timing issues associated with school payments. Those payments are expected to be made in future months. Local assistance was \$956 million higher (2%) than anticipated in the 2009-10 Governor's Budget.

⇒ Payments for State operations for the fiscal year to date were \$849 million higher (5.2%) than estimated in the Budget Act. Some of the unexpected costs were related to debt service and firefighting expenses. State operations were \$225 million below (-1.3%) the Governor's Budget estimates.

⇒ The State ended last fiscal year with a net cash deficit of \$1.45 billion. That deficit was covered by internal borrowing. The total year-to-date deficit of \$19.5 billion (\$1.45 from last year and \$18 billion from this year) is covered by internal borrowing and RANs. RANs totaling \$5 billion were issued in October. Loans from internal sources now total \$14.5 billion. At the end of January, the State had \$2.7 billion remaining in borrowable resources. Internal loans will be repaid according to cash management procedures as resources are available.

Table 4: General Fund Disbursements, July 1, 2008-January 31, 2009 (in Millions)

Recipient	Actual Disbursements	Governor's Budget Estimate	Actual Over (Under) Estimate	2008-2009 Budget Act Projection	Actual Over (Under) Estimate
Local Assistance	\$48,996	\$48,040	\$956	\$50,024	(\$1,027)
State Operations	\$17,066	\$17,291	(\$225)	\$16,217	\$849
Other	\$1,065	\$1,064	\$1	\$1,018	\$47
Total Disbursements	\$67,127	\$66,396	\$732	\$67,259	(\$131)

How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for January 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 www.sco.ca.gov/ard/cash/email-sub.shtml.

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

California Economic Snapshot

New Auto Registrations (Fiscal Year to Date)	690,140 Through Nov. 2007	513,660 Through Nov. 2008
Median Home Price (for Single Family Homes)	\$402,000 In Dec. 2007	\$249,000 In Dec. 2008
Single Family Home Sales	25,585 In Dec. 2007	37,836 In Dec. 2008
Foreclosures Initiated (Notices of Default)	81,550 In 4th Quarter 2007	75,230 In 4th Quarter 2008
Total State Employment (Seasonally Adjusted)	15,565,200 In Dec. 2007	15,309,800 In Dec. 2008
Newly Permitted Residential Units (Seasonally adjusted Annual Rate)	92,318 In Dec. 2007	60,942 In Dec. 2008
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board		

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Featured Articles on California's Economy

The opinions in these articles are presented in the spirit of spurring discussion and reflect those of the authors and not necessarily the Controller or his office. This month's article is by J. Fred Silva, Senior Fiscal Policy Advisor, California Forward, and Fiscal Affairs Advisor, Beacon Economics.

Thinking Ahead About the Future – The Roadmap to Long-Term Fiscal Reform in California

*By J. Fred Silva
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The failure of California lawmakers to reach a reasonable compromise on the state budget dangerously erodes the confidence Californians have in their government.

It is important to remember that even before the stock market peaked, state officials were hounded by a budget gap that they could not resolve. Before the housing bubble burst, government in California struggled to serve a growing and aging population. And before the global financial meltdown, the Golden State had a national reputation for smoke and mirror budgets.

California's current budget crisis is the consequence of two conditions: First, the recession and the burst of the housing bubble have brought about an estimated 20% drop in state tax revenue that otherwise would have been produced by normal economic growth. Second,

over the last 15 years California policy makers on a bipartisan basis have built-in tax reductions and new spending obligations that could not be financed over the long term with the current revenue base. The current economic conditions have magnified the effects of these decisions.

At the heart of this problem is the way in which the state goes about making expenditure plans for state obligations. The state current budget process was developed 50 years ago with an emphasis on one year forecasts, a focus on marginal cost increases and expenditures based on all resources available. In short, it avoids a long term perspective, is not focused on gaining value for money spent and does not match program initiatives with resources to pay for them.

Budget process reforms cannot fill the estimated two-year \$42 billion budget gap. That will require the difficult arithmetic of cutting programs, raising taxes and borrowing money. But the reforms are a way for Democrats and

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Republicans to send a clear message to Californians: We have learned our lesson and we are going to fix the system to prevent bad decisions that got us into this mess and to make it easier to deal with inevitable downturns in the future. Because right now, if we've learned anything, it's that our current budget-making process is part of the problem.

In recent decades, California's fiscal system has evolved in ways that have frustrated the ability of state and local agencies to consistently provide high quality services and proficiently respond to complex problems. The fiscal system does not suffer from a single ailment, and many of its infirmities are the unintended consequences of previous efforts to "fix" the system or respond to the imperative of the moment. For California to achieve its economic, social and environmental goals, government agencies must manage revenues to continuously improve the quality and efficiency of education, transportation, public safety and other programs. This will require comprehensive changes to the fiscal system and how key decisions are made.

The significant gap between revenues and spending is a symptom of this dysfunction. Given the size and complexity of the issues, strategic and incremental changes are more likely to succeed. A logical first step is to improve the state's annual budget process – the central venue for fiscal choices that then ripple through thousands of public agencies statewide. Five major problems and principles for solutions follow.

1. **Look to the future.** A multi-year budgeting system would focus fiscal choices on long-term implications and discourage short-term solutions that push liabilities and difficult decisions into the future. Under a multiyear fiscal planning model, the Governor's proposed budget would include five-year projections for recommended expenditures and the resources available to finance them. If necessary, the Governor would be required to propose a way to raise the resources needed to match



anticipated expenditures. That proposal would include an explanation of the impact the proposal would have on the California economy.

2. **Focus on priorities and outcomes.** The budget also would include performance standards as a way to focus legislative debate on priorities and results and to demonstrate value to the public. A results-based process would enable leaders to assess whether to increase, continue, or alter policies and programs, rather than letting budgets grow on auto-pilot, regardless of their impact on the lives of Californians.
3. **Create a culture of accountability.** The Legislature needs to dedicate adequate time to reviewing whether programs are achieving their goals and what must change for programs to improve. Systematic reviews also would enable program managers and legislative leaders to continuously find ways to reduce costs without reducing services, as is done in

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all successful organizations, public and private. A multi-year budget system would enable the Legislature to take one year to develop a spending plan and use part of the next year to evaluate it. This also would give lawmakers the opportunity to tell the Governor what they expect to see in the next budget in terms of priorities and program improvement efforts.

4. **Pay our own way.** Create a process so policy changes that substantially increase costs or reduce revenue must also provide the financing by identifying new revenue, efficiencies or expenditure reductions. This system would prevent spending obligations from growing faster than revenues. Some have proposed a spending cap as a way to control spending. But a pay-go provision would not prevent the state from making investments that the public supports, and it would provide equal discipline against tax breaks or tax cuts that are politically satisfying but fiscally frustrating.

5. **Create stability.** A new budget process would identify nonrecurring revenue and hold it for times when economic downturns reduce tax revenue. Since 1990, revenues have fluctuated wildly – from a decrease of 5 percent to an increase of 23 percent, which makes it difficult for state leaders to effectively manage resources. An annual process for determining “one-time” or nonrecurring revenue would be established so that agreement between the executive and legislative branches could be reached and one-time funds transferred to the reserve or spent for one-time purposes.

This set of budgetary reform proposals is based in large part on the best management practices from state and local governments around the nation and on conversations with thousands of Californians. For more information on California Forward and its governance and fiscal reform agenda please visit www.caforward.org.