

CONTROLLER JOHN CHIANG STATE OF CALIFORNIA



Vol. 1, Issue 2

SUMMARY ANALYSIS

Statement of General Fund Cash Receipts and Disbursements

April 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. The *Statement of General Fund Cash Receipts and Disbursements* is reported to the public by the 10th of each month.

This Summary Analysis supplements the cash report and is intended to provide California policymakers and taxpayers context in which to view the most current financial information on the State's fiscal condition.

The April Summary Analysis covers actual receipts and disbursements from July 1, 2006, to March 31, 2007. Data is shown for total cash receipts and disbursements, the three largest categories of revenue and the two largest categories of expenditures.

Based on the 2006 Budget Act, Personal Income Taxes (income taxes), Retail Sales and Use Taxes (sales taxes) and Bank & Corporation Taxes (corporate taxes) comprise 95% of General Fund revenue. Of these, income tax receipts are by far the largest revenue source, estimated to contribute 53.3% of General Fund revenue. Sales taxes comprise 32.3% of General Fund revenue, and corporate taxes add 9.4%.

Revenue in March 2007

In March, General Fund revenue came in \$160 million above the Budget Act projection for the month. Revenue from all three of the major tax categories was also above the Budget Act estimate for the month. Income taxes were \$178 million higher

(11.9%) than the Budget Act estimate, corporate taxes were \$152 million higher (10.8%), and sales taxes were \$33 million more (1.5%) than projected.

Corporate Taxpayers

Although incorporated businesses file Bank & Corporation Taxes each month or quarter, those that use a calendar year accounting period must pay their year-end tax bill in March. In 2004, 75.5% of the state's 344,456 corporate taxpayers used a calendar year accounting period.

March generally brings in a large portion of corporate tax revenue, as businesses on a calendar year schedule must pay taxes by March 15. In the last fiscal year, California received 32% of all corporate taxes paid in March and April alone. March corporate tax receipts exceeded the Governor's Budget estimate by \$204 million. Sales taxes came in \$58 million higher than the Governor's Budget estimate.

However, income tax receipts came in \$596 million lower than the Governor's Budget projections. With all tax receipts included, General Fund revenue in March was \$524 million below the Governor's Budget projections.

Difference Between the Budget Act and the Governor's Budget

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

The Legislature approves a Budget Act by June 15 for the new fiscal year that starts July 1. The Budget Act, when enacted, sets state disbursements and expenditures based on projected revenues for the fiscal year.

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Fiscal Year Revenue through March 31, 2007

Sales tax receipts show the slowest revenue growth of the three major taxes through the nine months of this fiscal year. Receipts for sales tax are up 0.1% compared to the same time last fiscal year, while income tax receipts are 4.8% higher, and corporate tax receipts are 6% higher. In total, revenue from the three major taxes is 3.3% higher than it was in July through March last year.

Overall, General Fund revenue is 2.5% higher than revenues over the same period last year, but \$84 million (0.1%) below the Budget Act estimate. Year to date General Fund revenue through March is \$986 million (1.5%) below the 2007 Governor's Budget projection. (As of the end of February, General Fund revenue was \$462 million below the Governor's Budget estimate).

Personal Income Tax Revenue is Very Dependent on High-Income Taxpayers
 In 2005, the 13.5% of taxpayers with adjusted gross incomes above \$100,000 paid 83% of income tax revenues.

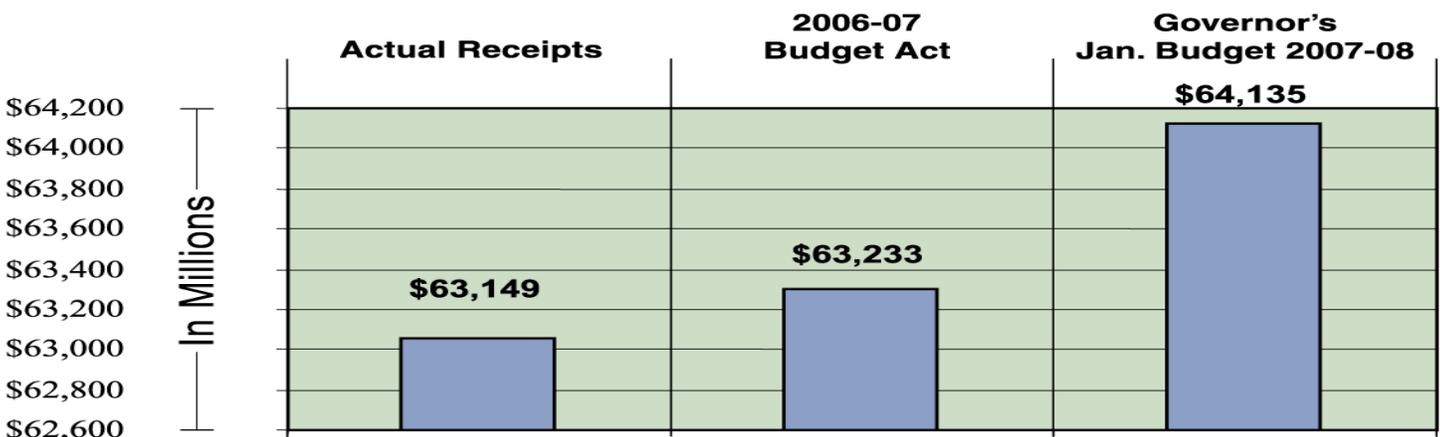
Personal Income Tax Refunds Peak in March
 Taxpayers who owe taxes tend to file later, while those expecting a refund tend to file early. In March, the state paid \$2.1 billion of the \$5.85 billion in refunds paid to date.

The most recent Governor's Budget proposal anticipated a surge of income taxes in early 2007 that has not occurred. Income tax revenue is now \$1.57 billion below the January projection. Higher than expected corporate and sales taxes partially offset the income tax shortfall. Income tax revenue is lower than expected primarily because estimated tax revenues, often associated with high-income taxpayers, are \$1.1 billion below projections. Refunds to individual taxpayers also are higher than expected. Because income tax returns are due April 17, next month's receipts will be a critical indicator of the State's fiscal health. However, historical trends linking April income tax receipts to those received in January suggest that this gap may not close by the end of April.

Summary of the Net Cash Position as of March 31, 2007

On a cash basis from July 1, 2006, to March 31, 2007, the State has spent \$20.6 billion more than it received in revenues. Of the \$84.6 billion spent, \$20 billion was spent on State operations and \$61.6 billion went to schools and local agencies. The State began the year with a cash balance of \$9.2 billion. With actual receipts and expenditures through March, an \$11.4 billion cash deficit exists. A deficit at this point is not unusual as a disproportionate share 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.

General Fund Revenues | July 1, 2006 - March 31, 2007



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The \$11.4 billion shortfall is addressed by internal borrowing and the issuance of Revenue Anticipation Notes (RANs). Currently, the State has an outstanding \$1.5 billion RAN and internal borrowing of \$9.9 billion. The RAN is required to be repaid by the end of the fiscal year.

The following tables compare actual 2006-07 receipts and expenses with the estimates made in the Budget Act and the 2007 Governor's Budget.

Table 1: General Fund Receipts, July 1, 2006-March 31, 2007 (in millions)

Receipts	Actual Receipts	Projected		Variance	
	To Date	Budget Act	January Budget	Actual-Budget Act	Actual -January Budget
Bank and Corporation Tax	\$7,072	\$6,800	\$6,653	\$272	\$419
Personal Income Tax	\$32,429	\$32,210	\$33,995	\$219	(\$1,566)
Retail Sales and Use Tax	\$20,198	\$20,747	\$19,840	(\$549)	\$358
Other Revenues	\$3,450	\$3,476	\$3,647	(\$26)	(\$197)
Total General Fund Revenues	\$63,149	\$63,233	\$64,135	(\$84)	(\$986)
Non -Revenues	\$825	(\$99)	\$736	\$924	\$89
Total Revenues and Non-Revenue	\$63,974	\$63,134	\$64,871	\$840	(\$897)

Table 2: General Fund Disbursements, July 1, 2006-March 31, 2007 (in millions)

Disbursements	Actual Disbursements	Projected		Variance	
	To Date	Budget Act	January Budget	Actual-Budget Act	Actual-January Budget
State Operations	\$20,027	\$18,544	\$19,690	\$1,483	\$337
Local Assistance	\$61,564	\$63,763	\$64,551	(\$2,199)	(\$2,987)
Other Disbursements	\$3,001	\$2,942	\$2,693	\$59	\$308
Total Disbursements	\$84,592	\$85,249	\$86,934	(\$657)	(\$2,342)

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Table 3: General Fund Cash Balance, July 1, 2006-March 31, 2007 (in millions)

Cash Position	Actual	Projected		Variance	
		Budget Act	January Budget	Budget Act	January Budget
Beginning Cash Balance July 1, 2006	\$9,233	\$9,233	\$9,233	0	0
Receipts Over / (Under) Disbursements to Date	(\$20,618)	(\$22,115)	(\$22,064)	\$1,497	\$1,446
Cash Balance March 31, 2007	(\$11,385)	(\$12,882)	(\$12,831)	\$1,497	\$1,446

The Statement of General Fund Cash Receipts and Disbursements for March 2007 is available on the State Controller's Web site 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 Analysis may be directed to Hallye Jordan, Deputy Controller for Communications, at (916) 445-2636.

California State Controller's Office:

300 Capitol Mall, Suite 1850
Sacramento, CA 95814

P.O. Box 942850
Sacramento, CA 94250

Telephone: (916) 445-2636

Fax: (916) 445-6379

Web Address: www.sco.ca.gov