



## Statement of General Fund Cash Receipts and Disbursements

### State Finances in February 2009

- ⇒ The State faced an unprecedented cash crisis in February that forced the Controller to delay a variety of State payments in order to preserve cash for education, debt service, and other obligations deemed the State Constitution, federal law and court order as having first claim to available funds.
- ⇒ The figures reported in February's cash statement are distorted by those payment delays, which include \$2.2 billion in personal income and corporate tax refunds that would have otherwise offset revenues. To present a true picture of cash activity in the month of February, this report adjusts receipts and disbursements to account for payment delays.
- ⇒ The State's revenues continued to deteriorate in February. Total General Fund receipts were down \$973 million from the latest estimates found in the

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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 February 2009 and year to date for the first eight 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.

This report compares actual receipts against historical figures from 2008 and the Governor's 2009-10 Budget proposal, which uses actual figures through November 2008 projects revenues and expenditures through June 30 of 2010.

The State recently adopted a 17-month spending plan for the current and following fiscal years. The plan's details were not available in time to address in this summary, but next month's issue will include a detailed comparison between estimates from that spending plan and actual receipts.

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Governor's January Budget proposal.

⇒ Personal income taxes were \$741 million below (-53%) the estimate, sales taxes lagged by \$97.8 million (-3%) and corporate taxes were down \$141 million (-71%). Together the three largest taxes (income, sales, and corporate) were \$980 million under (-20.1%) the Governor's Budget estimate.

⇒ This month's sales tax receipts were bolstered by timing issues associated with January's month-end falling over a weekend, pushing the balance of those tax receipts into early February. Poor retail sales still drove those tax receipts below the Governor's January estimates by \$97.8 million (-3%).

⇒ Compared to February 2008, General Fund revenue in February 2009 was down \$1.5 billion (-26.1%). The total for the three largest taxes was below 2008 levels by \$1.5 billion (-27.4%). Sales taxes were \$374.9 million lower (-10.6%) than last February. Corporation taxes were under 2008 levels by \$113.8 million (-66.3%), and personal income taxes were down by \$976 million (-59.8%).

**Table 1: General Fund Receipts, July 1, 2008-February 28, 2009 (in Millions)**

Revenue Source	Reported Receipts To Date	Delayed Payments	Adjusted Receipts	Governor's Budget Estimate	Over (Under) Adjusted Figures
Bank And Corp. Tax	\$4,338	(\$181)	\$4,157	\$4,415	(\$258)
Personal Income Tax	\$30,567	(\$2038)	\$28,529	\$28,830	(\$300)
Retail Sales and Use Tax	\$15,990		\$15,990	\$16,229	(\$238)
Other Revenues	\$3,280		\$3,280	\$3,266	\$13
Total General Fund Revenue	\$54,175	(\$2,218)	\$51,957	\$52,739	(\$782)
Non-Revenue	\$1,428		\$1,428	\$2,128	(\$700)
Total General Fund Receipts	\$55,603	(\$2,218)	\$53,385	\$54,868	(\$1,483)

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

## Tax Revenue Fiscal Year to Date

⇒ Compared to the 2009-10 Governor's Budget, General Fund revenue is below the year-to-date estimate by \$782.9 (-1.5%). The three largest taxes are under the Governor's Budget estimate by \$796.3 million (-1.6%). Sales tax collections year to date are short by \$238.3 million (-1.5%) from the 2009-10 Governor's Budget. Income taxes were \$300.4 million shorter (-1%) than expected, and corporate taxes lagged the Governor's Budget estimate by \$257.5 million (-5.8%).

⇒ Compared to this date in February 2008, revenue receipts are down by \$5.5 billion (-9.6%). The "Not

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Otherwise Classified” category was the only one to post significant growth (\$910 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 \$6.2 billion below (-11.4%) last year at this time. Retail sales were down \$1.74 billion (-9.8%), corporate taxes fell by \$952.7 million (-18.6%), and income taxes were \$3.5 billion lower (-11%) than last year’s total at the end of February.

### Summary of Net Cash Position as of February 28, 2009

- ⇒ By February, the State had total receipts of \$53.4 billion (Table 1) and disbursements of \$74.1 billion (Table 2).
- ⇒ The State ended the last fiscal year with a deficit of \$1.45 billion, and the combined current year deficit stands at \$22.2 billion. Those deficits are being covered with \$5 billion in Revenue Anticipation Notes (RANs), \$14.2 in borrowing from special funds, and \$3 billion in delayed payments.
- ⇒ Of the largest expenditures, \$53.6 billion went to local assistance and \$19.4 billion went to State operations (See Table 2).
- ⇒ Local assistance payments were \$981 million greater (1.9%) than anticipated in the 2009-10 Governor’s Budget. State

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## What the Numbers Tell Us

### Withholdings

The reduction in personal income tax collections shows the strain this recession is putting on payrolls — a more than a \$1 billion drop in withholding on personal income taxes year to date. This is cutting across the income spectrum.

### Estimated Tax Payments

Despite representing less than a quarter of all personal income tax receipts, nearly two-thirds of the decline is in estimated tax payments — money collected on capital gains and the self employed. As asset prices have collapsed, so have capital gains on these investments, which has substantially reduced estimated personal income taxes. A similar decline was seen in the wake of the 2000 collapse of the state income tax revenue.

### Corporate Taxes

On corporate taxes, it is important to remember that corporations take their lead from the consumer. In the fourth quarter of 2008, consumer spending declined by more than 1.5% year-over-year for the second quarter in a row. This put a tremendous strain on corporate profits, which declined by more than 10% year-over-year in the third quarter of 2008. This reduction caused businesses to reduce their estimated tax payments at both the state and national levels. The reduction was accentuated by capital investment losses experienced by many local financial firms.

### Sales Taxes

The recession continues to impact the state’s collection of sales and use taxes. The consumer bonanza leading up to this recession was matched with zero or negative savings rates — over-inflated asset prices fueled an unsustainable surge in consumer spending that is now unwinding. Savings rates, which had been running at 0%, have surged to 5% over the last five months. The problem was magnified by the large reduction in spending on consumer durables — exemplified by vehicle sales taxes in California dropping by \$90 million (-25%) from this time last year.

Overall there has been a 7% reduction in sales taxes in California year to date. The good news is that the sharp decline is nearing an end — retail sales will likely stabilize once savings rates reach 8%, but a strong recovery will take considerably more time.

**Table 2: General Fund Disbursements,  
July 1, 2008-February 28, 2009 (in Millions)**

Recipient	Reported Disbursements	Delayed Payments	Adjusted Figures <i>Would have otherwise been paid</i>	Governor's Budget Estimate	Over (Under) Adjusted Figures
Local Assistance	\$53,380	\$232	\$53,612	\$52,630	\$981
State Operations	\$18,844	\$544	\$19,388	\$19,720	(\$332)
Other	\$1,080	\$9	\$1,089	\$1,074	\$15
<b>Total Disbursements</b>	<b>\$73,304</b>	<b>\$785</b>	<b>\$74,089</b>	<b>\$73,425</b>	<b>\$664</b>

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operations were \$332 million below (-1.7%) the Governor's Budget estimates.

- ⇒ At the end of February, the State had \$6.1 billion remaining in borrowable resources. Internal loans will be repaid according to cash management procedures as resources are available. The State Controller's office is working to issue all payments delayed in February as soon as possible.

## How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for February 2009 is available on the State Controller's Web site at [www.sco.ca.gov](http://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](http://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.

### Borrowable Resources

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

### Revenue Anticipation Notes

Traditionally, to bridge cash gaps the state borrows money in the private market by issuing Revenue Anticipation Notes (RANs). RANs are repaid by the end of the fiscal year.

**California Economic Snapshot**

<b>New Auto Registrations</b> (Fiscal Year to Date)	<b>690,140</b> Through Nov. 2007	<b>513,660</b> Through Nov. 2008
<b>Median Home Price</b> (for Single Family Homes)	<b>\$383,000</b> In Jan. 2008	<b>\$224,000</b> In Jan. 2009
<b>Single Family Home Sales</b>	<b>19,145</b> In Jan. 2008	<b>29,458</b> In Jan. 2009
<b>Foreclosures Initiated</b> (Notices of Default)	<b>81,550</b> In 4th Quarter 2007	<b>75,230</b> In 4th Quarter 2008
<b>Total State Employment</b> (Seasonally Adjusted)	<b>15,525,100</b> In Jan. 2008	<b>15,043,100</b> In Jan. 2009
<b>Newly Permitted Residential Units</b> (Seasonally adjusted Annual Rate)	<b>71,882</b> In Jan. 2008	<b>30,871</b> In Jan. 2009
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board		

**California State Controller John Chiang:**

300 Capitol Mall, Suite 1850  
Sacramento, CA 95814

777 S. Figueroa Street, Suite 4800  
Los Angeles, CA 90017

P.O. Box 942850  
Sacramento, CA 94250

Telephone (213) 833-6010  
Fax: (213) 833-6011

Telephone: (916) 445-2636

Fax: (916) 445-6379

Web: [www.sco.ca.gov](http://www.sco.ca.gov)



## Featured Articles on California's Economy

*Controller John Chiang's Council of Economic Advisors informs the Controller on emerging strengths and vulnerabilities in California's economy, major issues and trends that may affect the State's fiscal health, and how to make the best use of limited government revenues and resources.*

*The advisors also contribute monthly articles on issues regarding California's economy. The opinions in the 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 report includes an article by Esmael Adibi, Director, Anderson Center for Economic Research, Chapman University*

## Will Government Actions End This Recession?

*By Esmael Adibi  
Director, Anderson Center for Economic Research, Chapman University*

The U.S. economy experienced thirteen recessions since 1929, some very severe such as 1973-75 and 1981-83, and some shallow like the 2001 recession. In a market economy, recessions are unavoidable. After an extended period of growth and risk-taking behavior, consumers, businesses and the investment community revert to risk aversion. Spending declines, output falls, and lower demand leads to higher unemployment rates, higher vacancy rates for office and industrial space, and higher idle capital equipment.

Weak demand for goods and services places downward pressure on prices. Interest rates, lease rates, labor and other costs generally decline or show little upward pressure. The price adjustments ultimately induce demand and supply. Consumers slowly take advantage of bargain prices. Businesses and entrepreneurs facing higher demand and cheap input costs begin

utilizing the available resources thereby increasing output and employment, all of which set recovery in motion.

This recession is not really different from the others. The significant problems in the banking system caused this contraction to be so severe, leading some to compare it to the great depression of 1929.

There are many economists that strongly believe market adjustments via the price system will ultimately cure the problem and as a result do not support any government intervention. In principle, this premise is correct. The adjustment process, however, could be lengthy and could carry social and economic costs. That is why federal authorities intend to use monetary and fiscal policy to smooth out this business cycle. Is it going to work? Unfortunately, empirical evidence suggests that intervention may stabilize things in the short-run but do far more damage in the long-run.

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### Monetary Policy

The Federal Reserve used its traditional tool, lowering the federal funds and discount rates to lower market short-term interest rates to stimulate borrowings. The Fed also increased liquidity by lending cash or treasury securities to banks and expanded this program to non-bank institutions. Under a newly adopted program called Term Asset-backed Security Loan Facility (TALF), the Fed will purchase debts backed by car loans, credit cards and student loans. And, finally, the Fed is buying mortgage-backed securities held by federal agencies. This is only a short list of actions taken by the Fed. In this process, assets on the Fed's balance sheet have more than doubled, supported by printing money on the liability side.

Monetary policy is a powerful tool and, I believe, if Milton Friedman were alive today, he would have advocated some but not all of the Fed's initiatives to shore up liquidity. Over the long run, however, printing money could be highly inflationary. Once velocity of money and lending return to their historical norm, the Fed needs to find the appropriate time to sell those acquired assets and drain the system's excess reserves. If the Fed fails to do so — a very likely scenario based on its track record — inflation will become a serious problem down the road.

### Fiscal Policy

Stimulative fiscal policy actions, spending increases or temporary tax cuts financed by borrowing, boost aggregate spending in the short-run. The multiplier effect, however, is exaggerated and the economy will fall back to its natural correction path once the induced-spending is exhausted.

Last year, the Bush administration implemented \$168 billion of tax rebates and subsidies. The result was only a short-term boost in aggregate spending and the effects of the stimulus dissipated after two quarters.

The Obama administration's stimulus package of \$787 billion will do the same. California is expected to receive about \$26 billion, but about \$8 billion of this direct assistance will be offset by the reduction in state expenditures enacted by the new budget. The federal tax cut will provide a \$400 tax credit to workers with annual incomes up to of \$75,000 in 2009 and 2010. Couples earning up to \$150,000 would receive \$800.

Higher income tax payers would see smaller credits and there will be no tax credit for individuals making \$100,000 or couples making \$200,000.

The recent state budget, however, will more than offset the federal tax cut benefits. Additional sales and income taxes along with additional vehicle license fees and the loss in dependent tax credit will increase taxes by about \$900 for a family with an income of \$75,000 and by \$1200 for a family with an income of \$150,000. As a result the impact of the federal stimulus package on California will be significantly reduced from what many envisioned.

The real problem is the long-run negative impact of financing this package. The deficit and debt are ballooning and will be a huge burden on future generations. The interest rates on short-

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and long-term treasury borrowings are currently low because of the recession. As the economy improves, there will be significant increases in government borrowing costs that will lead to higher overall interest rates, negatively impacting the private sector.

### Treasury Department

In spite of the Fed's generous lending practices, many banks (large and small) are facing liquidity problems and capital shortfalls. Last year, Treasury Secretary Paulson introduced the Troubled Asset Relief Program (TARP) and Congress approved \$700 billion in two phases to fund the program. TARP funding was initially envisioned to be used to purchase toxic assets of troubled banks. This strategy was later replaced by directly infusing capital into the troubled banks in return for preferred shares with dividend payouts of at least five percent — potentially a good deal for the taxpayers. There were two reasons why purchases of troubled assets were shelved. First, there was no clear mechanism as to how the underperforming assets would be priced and, secondly, there was no clear understanding as to what the Treasury would do with the purchased toxic assets.

Now, Treasury Secretary Geithner wants to go back to the strategy of purchasing toxic assets and increase the remaining TARP funding from \$350 billion to as high as \$1 trillion. To make the plan different and/or attractive, he wants to get private investors involved, lending them

money to leverage purchases and guaranteeing their losses. This is good news to the bankers and private investors, but bad news to taxpayers.

The \$350 billion second half of the TARP funding should be used in the same manner as the first — injecting capital into weak banks in return for preferred shares with dividends. The Treasury, however, must stop funding a bank that, in spite of all past and future assistance, would eventually fail. In fact, the Treasury along with the FDIC should let some banks, no matter how big, fail. As an alternative, the Treasury should encourage mergers and takeovers among financial institutions.

Finally, President Obama is pledging up to \$75 billion dollars of direct spending and pumping an additional \$200 billion into Fannie and Freddie to slow down the wave of foreclosures. Although the details are not available, what is known so far suggests that this plan will not do much for California. The plan is supposed to help homeowners with loan-to-value up to 105 percent. But in California, home values have declined about 50 percent from their peak prices. Also many homeowners with stated income mortgages will not be able to show sufficient income to qualify for the new loan.

It is time for all policymakers to pause and breathe deeply. This economy needs time to get rid of excesses and that is painful. The sooner the adjustment process is completed, the sooner the recovery will begin.