

Controller John Chiang State of California



May 2007 Summary Analysis

Volume 1, Issue 3

Statement of General Fund Cash Receipts and Disbursements

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 report on the State's actual cash balance by the 10th of each month.

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

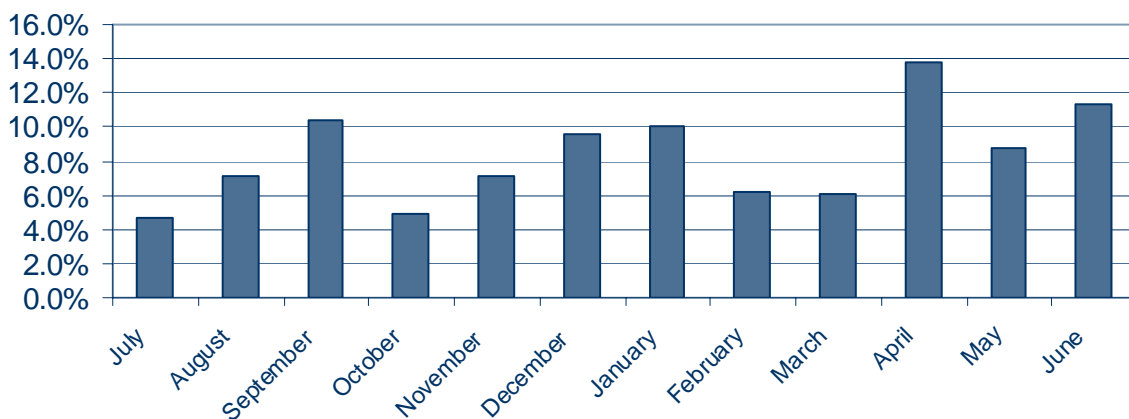
The May Summary Analysis covers actual receipts

and disbursements from July 1, 2006, through April 30, 2007. Data is shown for total cash receipts and disbursements, the three largest categories of revenue and the two largest categories of expenditures. The analysis compares actual figures to two projections: Estimates in the Budget Act approved by the Legislature by June 15 for the upcoming fiscal year that starts July 1, and estimates in the Governor's January budget, which will be revised May 14 based on updated revenue projections.

Based on the 2006-07 Budget Act, Personal Income Taxes (income taxes), Retail Sales and Use Taxes (sales taxes) and Bank & Corporation Taxes

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Monthly Share of Total Revenue, 5 year average



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(corporate taxes) comprise 95% of General Fund revenues. Of these, income tax receipts are by far the largest, contributing 53.3% of General Fund revenue. Receipts from the sales tax add another 32.3% and corporate taxes provide 9.4%.

Table 1 April 2007 Personal Income Tax Receipts	
Personal Income Tax Revenues	Percent Growth from Prior Year
Backward-Looking	7.3%
Forward-Looking	3.8%

Personal Income Tax Revenue In April 2007

Historically, the state receives the largest amount of monthly revenue from all sources in April (see chart on Page 1). This year, revenues broke state records, with more than \$15 billion pouring into the General Fund in April. More than \$12 billion in income tax revenue made up the bulk of those receipts – a welcome event given the tepid growth of estimated tax payments seen in January.

April income tax revenues exceeded the Budget Act estimate by \$1.1 billion and exceeded the Governor’s January budget estimate by \$1.3 billion. The record income tax receipts also boosted April’s General Fund revenue to \$1.18 billion above the Budget Act estimate and \$1.24 billion above the Governor’s January budget estimate.

Although the increase in income tax revenue is good news for the current fiscal year, there are indications that revenue growth may slow as we enter the 2007-08 fiscal year. April income tax revenues reflect both the final payments due for the 2006 tax year, as well as the first estimated taxes for the 2007 tax year. In April, we saw more revenue coming in to pay off 2006 taxes (backward-looking) and less in

estimated taxes for 2007 (forward-looking), which indicates slowing revenue growth as we enter the new fiscal year. The second estimated tax payments, due in June, will provide further information on income tax revenues for 2007-08.

Income tax revenue has five components. Three tell us about the strength of income taxes in the 2006 calendar year, for which final taxes were paid in 2007 (backward-looking), and two about how they will perform in the current year, in which final taxes will be paid in April 2008 (forward-looking).

The backward-looking components, which tell us about the 2006 tax year, are:

- Final payments, which are the checks taxpayers send in with their April tax return.
- Miscellaneous payments, which in April are primarily payments made on what taxpayers believe they will owe in state taxes if they are filing their returns late. Other miscellaneous payments include withholding on real estate sales and non-resident partners.
- Refunds, which are requests from taxpayers who overpaid in the prior tax year.

Forward-looking components are more indicative of what we can expect in 2007, or the current tax year:

- Withholding taxes, which refer to taxes that employers hold back from the pay of current employees.
- Estimated taxes, paid by the self-employed and individuals who pay taxes on capital gains, such as the sale of stock.

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Looking Beneath the Surface

Personal income tax payments in April include tax payments for the last tax season and estimated payments for the current tax season. In April 2007, “backward-looking” payments for 2006 tax liabilities were stronger than the “forward-looking” payments for 2007, indicating slower revenue growth as we enter the new fiscal year.

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In April 2007, the backward-looking tax sources performed best and provided most of the unexpected income. As shown in Table 1, the forward-looking components showed less growth over last year, indicating that growth of personal income tax receipts may be slower in the 2007 tax year, and the 2007-08 fiscal year.

Other April Revenue

In April, sales tax receipts came in \$82 million below the Budget Act and \$192 million below the Governor's January budget – but that may simply be a matter of timing.

While the majority of sales taxes are due to the Board of Equalization (BOE) by the last day of the month, there may be a day or two lag before the BOE transfers them to the State Controller's Office

(SCO). Because of that lag, some of April's revenues might not be recorded until May. In the first three days of May this year, \$2.9 billion – mostly from April sales taxes – was transferred from the BOE to the SCO. The lag likely contributed to the lower-than-expected April sales taxes, and possibly higher-than-expected May sales taxes.

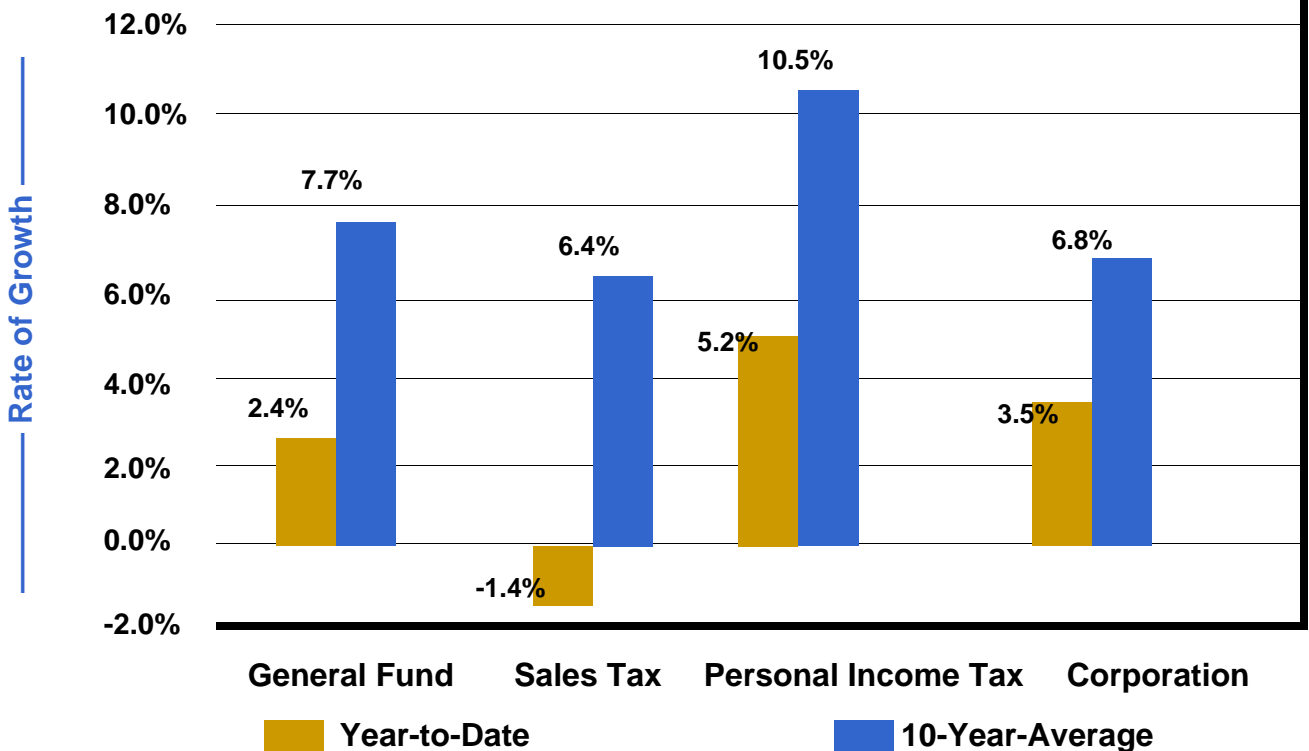
Corporate taxes continued to perform above expectations. In April, corporate taxes were \$65 million above the Budget Act estimate and \$13 million above the January Governor's Budget.

Fiscal Year Revenue Through April 30, 2007

Despite the record-breaking personal income tax receipts in April, the growth in General Fund revenue has actually been slower this fiscal year. Over

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Year-to-Date Annual Growth in Taxes Compared to 10-Year Average



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the past 10 years, the average year-over-year increase has been 7.7%. For the fiscal year through April, General Fund revenue is 2.4% higher than at this date last year. Income tax receipts are 5.2% higher than last year at this time, compared to 10.5% on average over the past 10 years. Corporate taxes are 3.5% above last year, compared to the 10-year historical average of 6.8%. Sales taxes, however, are 1.4% below last year's level, significantly lower than the 6.4% average increase over the past 10 years.

General Fund Revenue is \$1.1 billion above the Budget Act estimate for the year-to-date and \$256 million above the Governor's January budget estimate as of the end of April. The revenue breakdown is as follows:

- Income tax revenues are \$1.3 billion (3%) above the Budget Act estimate and \$270 million (0.6%) below the Governor's January budget projection.

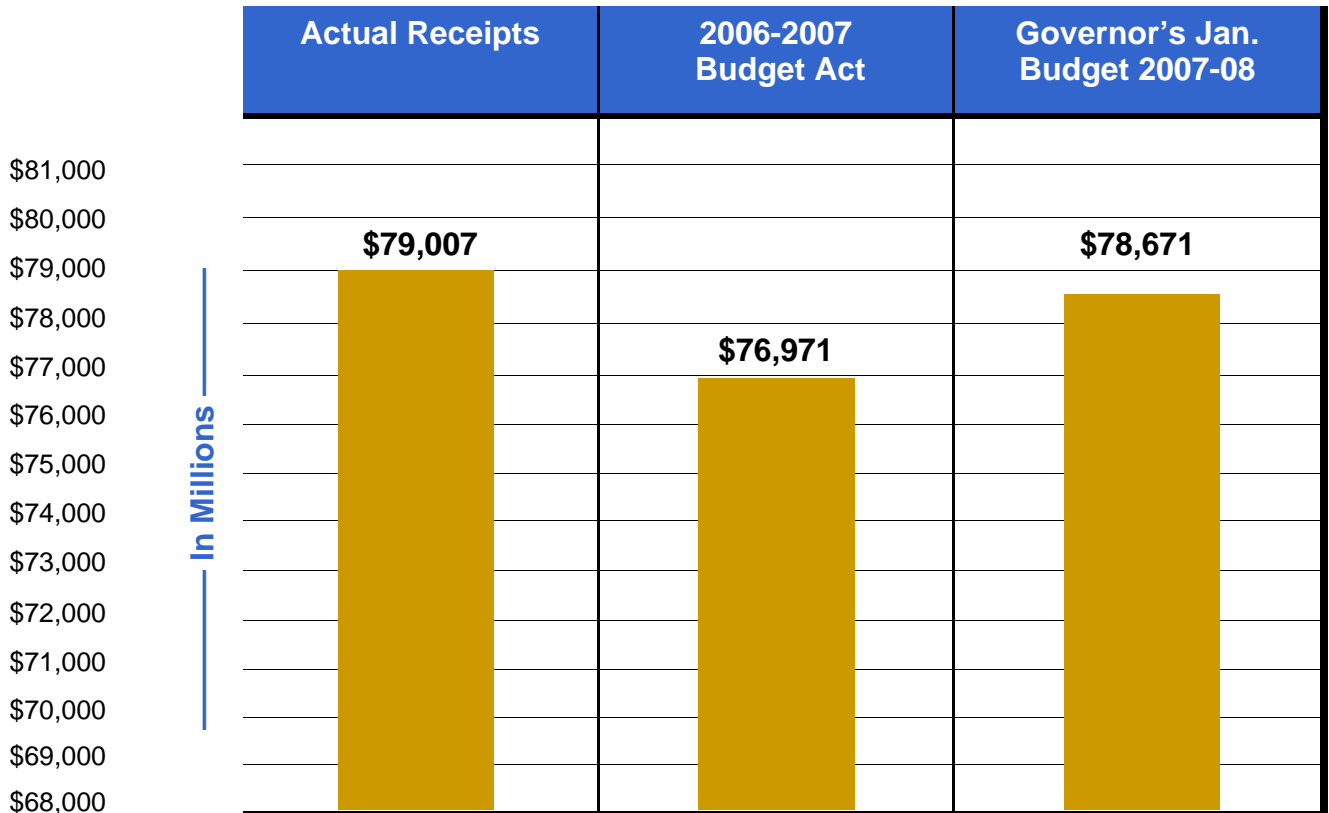
- Corporate taxes are exceeding the Budget Act estimate by \$337 million (4%) and the January budget estimate by \$432 million, (5.2%).
- Sales taxes are \$630 million below (-2.9%) the Budget Act estimate. The Governor's January budget lowered the sales tax projections and sales taxes are now \$167 million (0.8%) above that projection.

Summary of the Net Cash Position as of April 30, 2007

Through April 30, the State spent \$13.7 billion more than it received in revenue; expenditures were \$92.7 billion while revenues totaled \$79 billion. Of the largest expenditures, \$67.3 billion went to schools and local agencies, while state operations received \$22.4 billion.

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General Fund Receipts: July 1, 2006 - April 30, 2007



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The State started the year with a \$9.2 billion cash balance, leaving a cash deficit of \$4.4 billion as of April 30. April traditionally is the month the State makes the biggest stride toward closing its cash deficit. At the end of March, the state had a cash deficit of \$11.38 billion. In both May and June, revenue is expected to surpass expenditures, allowing the State to finally close the gap. The current \$4.4 billion gap is covered by internal borrowing and the issuance of Revenue Anticipation Notes (RAN). Currently the State has an out-

standing \$1.5 billion RAN and internal borrowing of \$2.9 billion.

Introducing the Controller's Council of Economic Advisors

Starting in June, the Summary Analysis will include a monthly article from members of the newly-formed Controller's Council of Economic Advisors. The Council members will provide insight and a better understanding of how today's economic news will

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Table 2: General Fund Receipts, July 1, 2006-April 30, 2007 (in Millions)

Revenue Source	Actual Receipts To Date	Projected		Variance From	
		Budget Act	January Budget	Budget Act	January Budget
Bank And Corporation Tax	\$8,702	\$8,365	\$8,270	\$337	\$432
Personal Income Tax	\$44,608	\$43,313	\$44,878	\$1,295	(\$270)
Retail Sales and Use Tax	\$20,763	\$21,393	\$20,596	(\$630)	\$167
Other Revenues	\$4,090	\$3,997	\$4,163	\$94	(\$73)
Total General Fund Revenue	\$78,163	\$77,068	\$77,907	\$1,095	\$256
Non-Revenue	\$845	(\$97)	\$764	\$942	\$81
Total General Fund Receipts	\$79,007	\$76,971	\$78,671	\$2,036	\$336

Table 3: General Fund Disbursements, July 1, 2006-April 30, 2007 (in millions)

Recipient	Actual Disbursement	Projected		Variance From	
		Budget Act	January Budget	Budget Act	January Budget
Local Assistance	\$67,292	\$68,783	\$69,750	(\$1,491)	(\$2,458)
State Operations	\$22,370	\$20,767	\$21,963	\$1,603	\$407
Other	\$3,001	\$3,031	\$3,115	(\$30)	(\$114)
Total Disbursements	\$92,663	\$92,581	\$94,828	\$82	(\$2,165)

Table 4: General Fund Cash Balance, July 1, 2006-April 30, 2007 (in Millions)

Cash Position	Actual	Projected		Variance From:	
		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	(\$13,656)	(\$15,609)	(\$16,157)	\$1,953	\$2,501
Cash Balance April 30, 2007	(\$4,423)	(\$6,376)	(\$6,924)	\$1,953	\$2,501

*Note: Some variances and totals may not add, due to rounding

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impact tomorrow's economy and the State's finances.

In inviting economists to participate in the Council, Controller Chiang sought a wide range of economic specialties, as well as regional diversity.

Chair of the Council is Nancy Bolton, who has worked as a consultant with the Controller's Office for more than 10 years, where she has tracked and forecast California's tax revenues. Bolton received her Ph.D at the University of Southern California's Department of Urban Planning with an emphasis on urban economics. Prior to consulting with the Controller's Office, she worked for the UCLA Anderson Forecast, writing articles on the impact of demographics on the California economy.

The advisors are:

- Esmael Adibi, director of the A. Gary Anderson Center for Economic Research and Anderson Chair of Economic Analysis at Chapman University in Orange County. Adibi is an often-quoted economic forecaster, and his interests focus on regional economies and financial markets.
- Julie Berry Cullen from the University of California, San Diego. Cullen is an Associate Professor of Economics at UC San Diego as well as a

Faculty Research Fellow at the National Bureau of Economic Research. Her research interests have focused on social insurance programs.

- Ross DeVol, Director of Regional Economics at the Milken Institute in Santa Monica. DeVol's interests in regional economics include not only forecasting but economic development and job creation.
- Robert H. Edelstein, Co-Chairman and Professor at the Fisher Center for Real Estate and Urban Economics at the University of California at Berkeley. Edelstein is a well-known expert in real estate economics as well as public finance, property taxation, energy and environmental economics.
- Edward E. Leamer, Professor of Economics and Statistics at the Anderson Graduate School of Management. Leamer is also the Director of the UCLA Anderson Business Forecast and a well-known forecaster for the California and national economies.
- Cynthia Lin, Assistant Professor in the Department of Agricultural and Resource Economics at the University of California, Davis. Lin has written extensively on environmental and natural resource economics.

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The Statement of General Fund Cash Receipts and Disbursements for April 2007 is available on the State Controller's Web site at

www.sco.ca.gov.

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

California State Controller John Chiang:

**300 Capitol Mall, Suite 1850
Sacramento, CA 95814**

**P.O. Box 942850
Sacramento, CA 94250**

**Telephone: (916) 445-2636
Fax: (916) 445-6379**

**660 S. Figueroa Street, Suite 2050
Los Angeles, CA 90017**

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

Web: www.sco.ca.gov