Controller John Chiang
State of California

July 2007 Summary Analysis Volume 1, Issue 5

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 July Summary Analysis covers actual receipts and disbursements from July 1, 2006, through June 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 2006-2007 Budget Act, and estimates in the May Revision to the January 2007 proposed Governor's budget projections (May Revise).

At the close of the 2006-07 fiscal year, Personal Income Taxes (income taxes), Retail Sales and Use Taxes (sales taxes) and Bank & Corporation Taxes (corporate taxes) comprised 94.8% of General Fund revenues. Of these, income tax receipts were by far the largest, contributing 54.7% of General Fund revenue. Receipts from the sales tax added another 28.8%, and corporate taxes provided 11.3%.

Tax Revenue In June 2007

General Fund revenue in June was $125 million above the May Revise estimate for the month, and $15 million above the Budget Act estimate. Compared to June 2006, General Fund Revenue was up by $368 million (3.6%).

June income taxes were above the estimate in the May Revise by $237 million and above the Budget Act estimate by $614 million. Compared to June of 2006, income tax receipts were higher by $499 million (10%).

Corporate taxes in June were $18 million above the May Revise estimate for the month and $203 million below the projection given in the Budget Act. Corporate taxes for June were $54 million (3.2%) higher than in June 2006.

Sales taxes in June lagged the May Revise estimate by $83 million. Sales taxes were $81 million below the Budget Act estimate. Sales tax receipts in June 2007 were $191 million (-6.7%) below June 2006.

Both payroll withholding and estimated taxes were above the May revise estimate for June.

(Continued on page 2)

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That is good news since both withholding and estimated taxes are indicators of expected tax liability for the year. These two important components of the income tax were collectively 3.7% above the May Revise projection and 7.7% above last year at this time.

Estimated taxes for corporations were $32 million below the May Revise estimate and $16 million (1%) above June 2006 receipts.

Estimated Taxes

Estimated income tax payments made in June 2007 were 11% higher than June 2006. This was a welcome increase from the 5.4% growth rate seen in April. This indicates that high income tax payers are seeing an improvement in their income outlook, and hopefully means solid growth for income taxes in the months ahead. Corporate estimated taxes, on the other hand, were almost 2% lower in June 2007 than in June 2006. In April the corporate tax growth rate was only 0.3%. This, plus sagging sales tax receipts, is pointing to overall slow revenue growth in the months ahead.

Fiscal Year Revenue Through June 30, 2007

June is the final month of the fiscal year. General Fund revenue for the 2006-07 fiscal year through June is $14 million above the May Revise estimate. Income taxes are below the May estimate by $295 million while corporate taxes were above the May estimate by $44 million. Retail sales taxes came in $318 million above the May estimate, which was lowered in anticipation of sagging retail sales. While sales tax receipts are 1.9% lower than expected in the Budget Act enacted last summer, receipts were somewhat higher than the May estimate (1.2%).

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Table 1: General Fund Revenues: July 1, 2006 - June 30, 2007

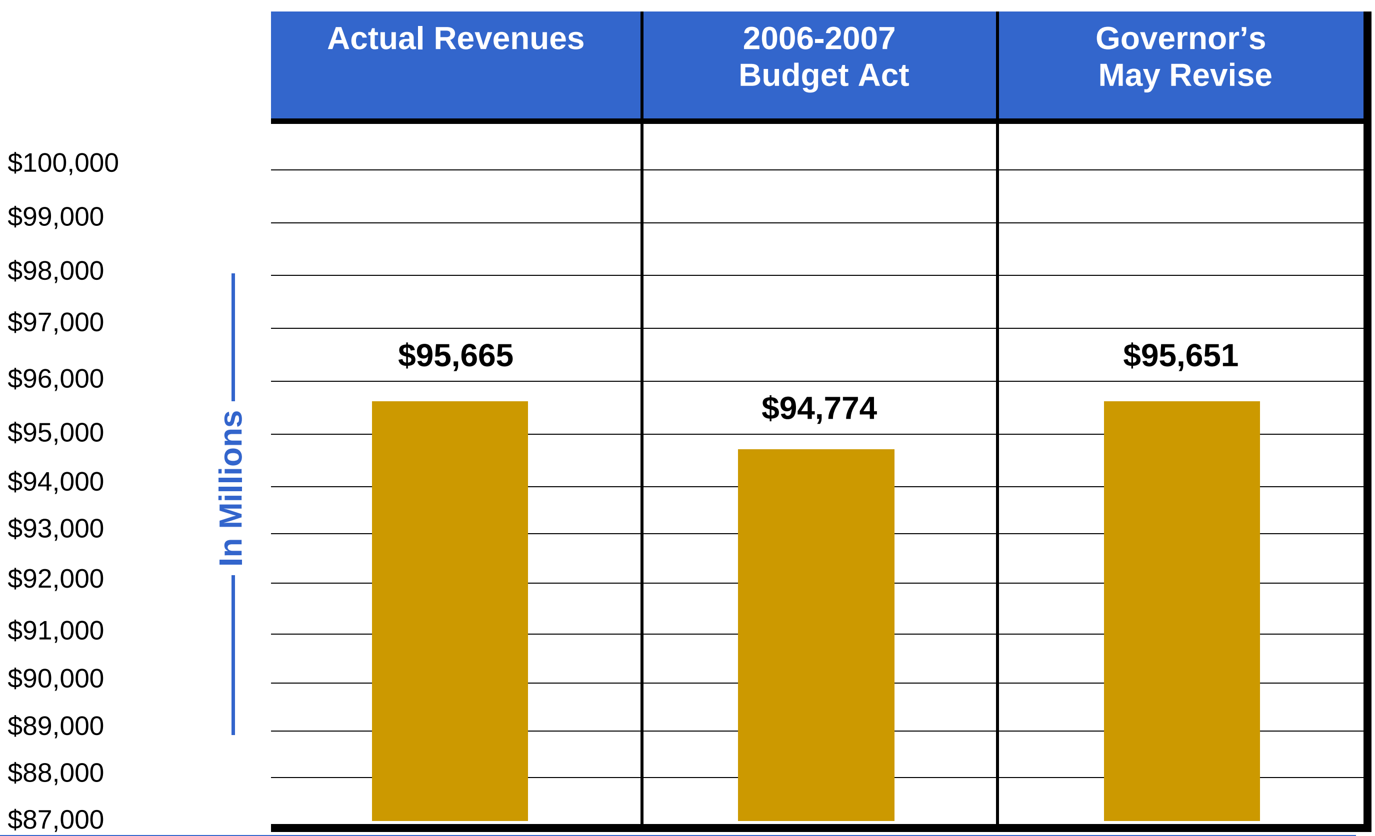

Table 2: General Fund Receipts, July 1, 2006-June 30, 2007 (in Millions)					
Revenue Source	Actual Receipts To Date	Projected		Variance From	
		Budget Act	May Revise	Budget Act	May Revise
Bank And Corporation Tax	$10,767	$10,554	$10,723	$213	$44
Personal Income Tax	$52,353	$50,855	$52,648	$1,498	($295)
Retail Sales and Use Tax	$27,515	$28,060	$27,197	($545)	$318
Other Revenues	$5,030	$5,305	$5,083	($275)	($53)
Total General Fund Revenue	$95,665	$94,774	$95,651	$891	$14
Non-Revenue	$1,692	$263	$1,614	$1,429	$78
Total General Fund Receipts	$97,357	$95,037	$97,265	$2,320	$92

Table 3: General Fund Disbursements, July 1, 2006-June 30, 2007 (in Millions)					
Recipient	Actual Disbursement	Projected		Variance From	
		Budget Act	May Revise	Budget Act	May Revise
Local Assistance	$74,906	$76,419	$75,174	($1,513)	($268)
State Operations	$25,243	$24,589	$25,637	$654	($394)
Other	$3,979	$4,291	$4,317	($312)	($338)
Total Disbursements	$104,128	$105,299	$105,128	($1,171)	($1,000)

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

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General Fund revenue for Fiscal Year 2006-07 was $891 million above the estimate made in the Budget Act of July 2006. The unexpected revenue was largely provided by income taxes, which, although lower than expected in the May Revise, still produced an extra $1.5 billion over the Budget Act estimates. That revenue, however, was partially offset by a $545 million shortfall in sales taxes.

General Fund revenue growth in fiscal 2006-07 was 2.5% more than the prior fiscal year. Personal income tax revenue grew by 4.8%, corporate tax receipts were 3.2% higher and sales taxes declined by 0.1%.

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

Through June 30, the State spent $6.8 billion more than it received in revenue. Expenditures were $104 billion while receipts totaled $97.4 billion. The State started the year with a $9.2 billion cash balance,

(Continued on page 4)

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leaving a cash balance of $2.5 billion as of June 30. However, of this $2.5 billion, approximately $1 billion budgeted in the 2006-07 fiscal year will be paid in the 2007-08 fiscal year.

Of the largest expenditures, $74.9 billion went to schools and local agencies, while state operations received $25.2 billion.

Revenue Anticipation Notes

Traditionally, to bridge cash gaps the state borrows money in the private market by issuing Revenue Anticipation Notes (RANs). The $1.5 billion RAN borrowed in October 2006 was paid in full June 29, 2007.

The Statement of General Fund Cash Receipts and Disbursements for June 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.

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

Cash Position	Actual	Projected		Variance From:	
		Budget Act	May Revise	Budget Act	May Revise
Beginning Cash Balance July 1, 2006	$9,233	$9,233	$9,233	$0	$0
Receipts Over (Under) Disbursements to Date	($6,771)	($10,262)	($7,863)	$3,491	$1,093
Cash Balance June 30, 2007	2,462	($1,029)	$1,369	$3,491	$1,093

Featured Articles From the Controller's Council of Economic Advisors

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. On a rotating basis, members of the Council will contribute an article to the monthly Summary Analysis.

The Controller has asked each author to give us the benefit of his or her expert opinion on issues regarding the California economy. The opinions in these articles therefore are presented in the spirit of spurring discussion and reflect those of the authors and not necessarily the Controller or his office.

Please see the following pages for articles by two members. Nancy Bolton is chair of the Controller's Council of Economic Advisors, and Dr. Esmael Adibi is director of the A. Gary Anderson Center for Economic Research at Chapman University and a member of the Controller's Council of Economic Advisors.

Revenue Growth Compared to Other States

By Nancy Bolton
Chair, Controller's Council of Economic Advisors

California's revenue growth slowed in Fiscal Year 2006-07, and there are indications that it may continue to lag behind the revenue growth experienced by most other states across the nation.

California revenue generated by the three largest taxes grew by 17.6% in Fiscal Year 2004-05, and by 9.2% in 2005-06. In the fiscal year that ended June 30, 2007, the revenue growth increased by only 3.1%.

The Rockefeller Institute of Government in Albany, New York, as part of its Fiscal Studies Program, tracks state revenue and legislative changes that affect revenue. The table below shows the growth rates of the three major taxes in the first quarter of 2007 for the five largest states, eight regions, and the national total. California trailed the national growth rate in all three major taxes.

(Continued on page 7)

Percent Change in Quarterly Tax Revenue by State
1st Quarter 2006 to 1st Quarter 2007
(From The Nelson A. Rockefeller Institute of Government Fiscal Studies Program)
(Excerpted from State Revenue Report #68, Table #3)

STATE	2006 Population	Personal Income Tax	Corporate Income Tax	Sales Tax	Total Taxes ^
United States	**299,398,484**	**6.8 ¶**	**14.3 ¶**	**2.8**	**4.8 ¶**
California	36,457,549	0.7	(2.6)	(0.6)	(0.6)
Texas	23,507,783	NA	NA	10.2	8.8 ¶
New York	19,306,183	17.1 ¶	16.3 ¶	(4.6) ¶	12.9 ¶
Florida	18,089,888	NA	(5.8)	(1.9)	(4.2) ¶
Illinois	12,831,970	11.4	12.6	(2.7)	5.7
REGIONS					
New England	14,269,989	1.2	66.8 ¶	3.7	3.3
Mid-Atlantic	46,940,567	13.8 ¶	13.1	4.1	9.6
Great Lakes	46,275,645	4.0 ¶	6.4 ¶	(0.9)	1.2 ¶
Plains	19,942,091	5.7 ¶	6.2	2.0 ¶	4.0 ¶
Southeast	74,946,024	8.5	10.3 ¶	1.5	3.8
Southwest	35,207,912	3.4 ¶	54.6 ¶	8.9	8.1 ¶
Rocky Mountain	10,229,541	12.6 ¶	6.0	9.5 ¶	10.5 ¶
Far West	51,005,185	0.2	0.7	1.4	1.7

^ - Total taxes equal sum of PIT, CIT, sales, and other taxes not shown.
¶ - Legislation or processing/accounting changes significantly decreased tax receipts.
NA - Not applicable.
Population Data from the U.S. Census Bureau

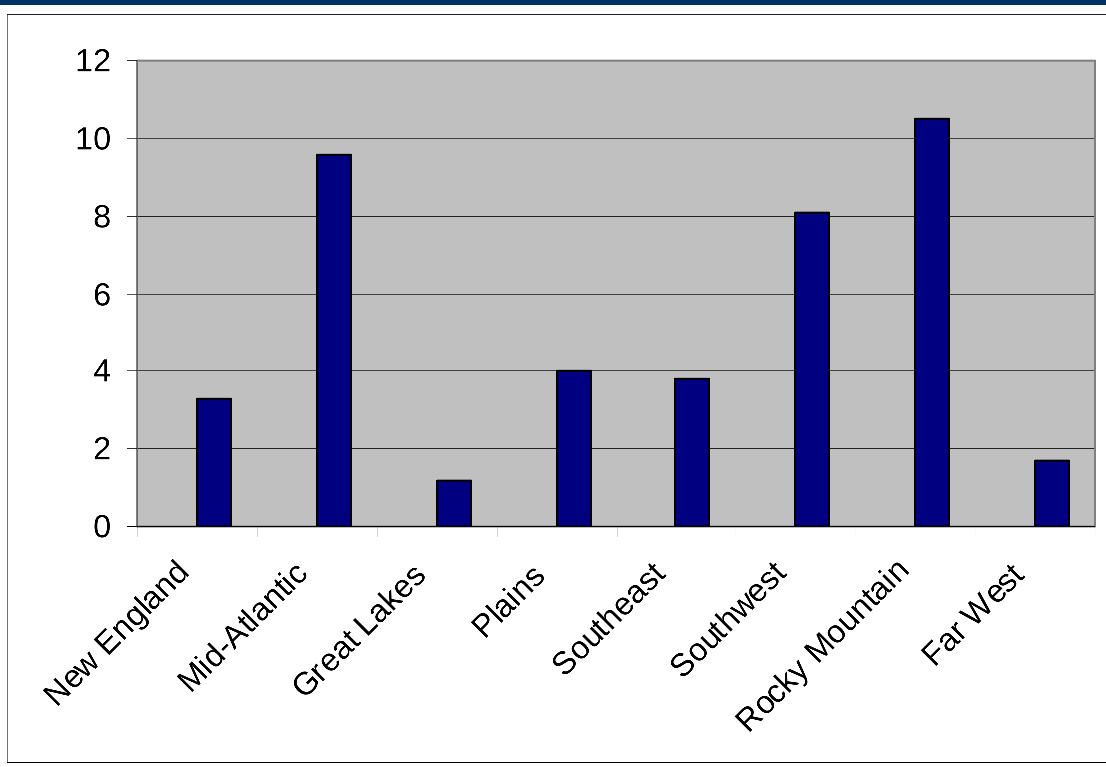
(Continued from page 6)

The first quarter of calendar year 2007 was the slowest of the year for California, and likely for the rest of the states because of the slow economic growth throughout the country. According to the most recent national data available, which covers only the first quarter of 2007, other states also are seeing reduced rates of growth. Of the five largest states in the nation, only California and Florida saw revenue growth decline in the first quarter. Florida's decline was larger than California's, but that is partly due to recent laws that reduced taxes. In California's case, the decline was entirely attributable to the economy.

Of the eight regions of the nation, the Great Lakes Region and the Far West, which includes California, experienced the weakest revenue growth. Within the Far West region, California and Oregon had the lowest overall growth rates, -0.6% and -4%, respectively. The Great Lakes region has been hard hit by the downturn in the U.S. auto industry.

The Mid-Atlantic and Rocky Mountain regions had the highest rates of revenue growth. New York, in the Mid-Atlantic region, experienced overall revenue growth of 12.9%, despite having enacted laws that reduced taxes. A healthy stock market as well as a rash of mergers, acquisitions and buy-outs on Wall Street have benefited not only financial firms, but their top executives, and likely contributed to New York's high rates of growth in personal and corporate income taxes. In the Rocky Mountain region, Colorado, Idaho and Montana all experienced double digit revenue growth.

Percent Change in Quarterly Tax Revenue by Region
1st Quarter 2006 to 1st Quarter 2007
(From The Nelson A. Rockefeller Institute of Government Fiscal Studies Program)
(Excerpted from State Revenue Report #68, Table #3)



California Employment Growth Moves to the Slow Lane

By Esmael Adibi
Member, Controller's Council of Economic Advisors and Director of the A. Gary Anderson Center for Economic Research at Chapman University

On an annual basis, California payroll employment grew 0.6 percent since the 2001 recession, compared to the U.S. average annual growth rate of 0.7 percent. The drag on California's economy was particularly dramatic in the manufacturing and services sectors.

On the bright side, construction and financial activity sectors experienced higher rates of job growth in California, versus the U.S., over the 2001-06 period. This should not be surprising. The strength of home sales activity, both new and resale, coupled with a surge in subprime mortgage lending and refinancing activity, boosted employment in the real estate-related financial activity sector.

With a meltdown of the subprime mortgage sector, slower housing sales activity and overall tightening of lending standards, the mortgage industry is going through downsizing.

The residential construction industry is also responding to this new reality. Homebuilders have sharply cut back drawing new residential permits. The weak level of construction spending is being propped up, however, by relatively strong nonresidential permit activity. As those nonresidential projects are completed, construction spending will continue to decline from current lows, placing even greater downward pressure on construction payroll employment.

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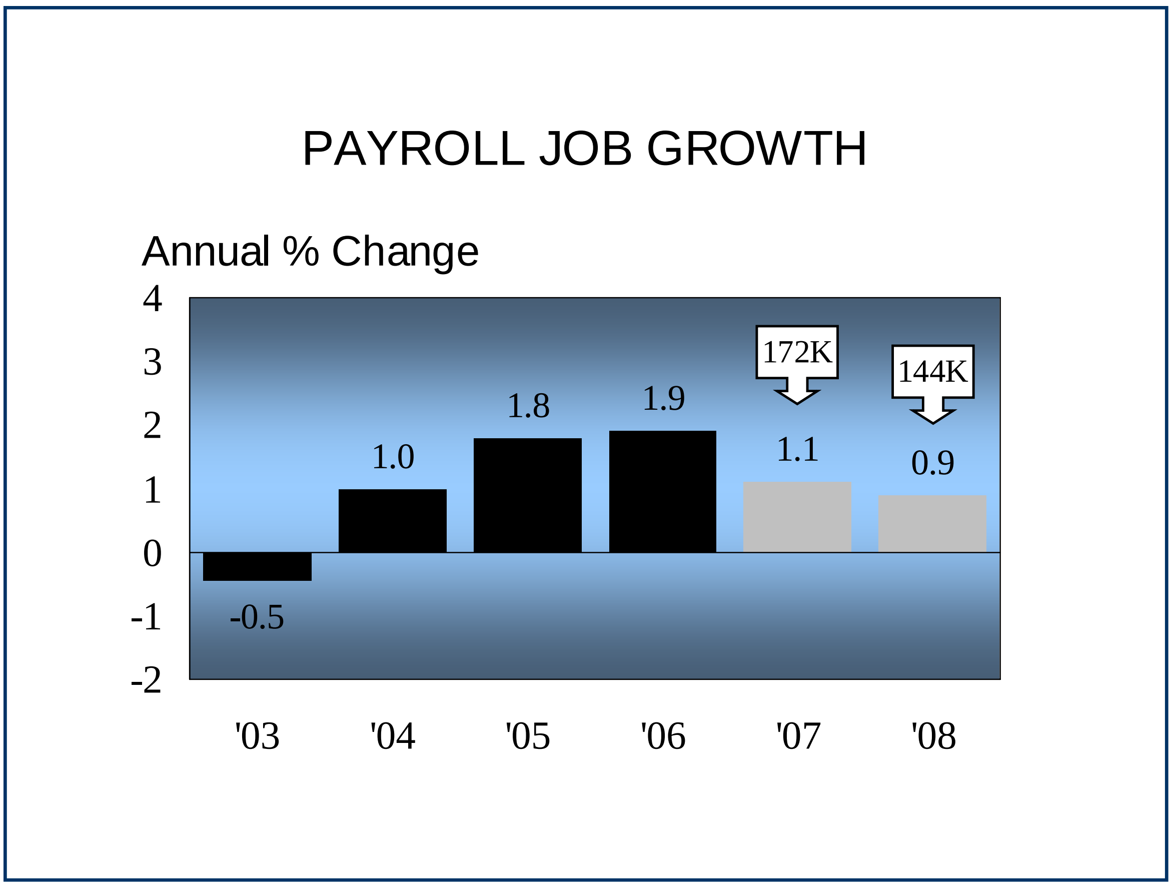

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Obviously, the construction spending slowdown will constrain overall economic growth in California, but national economic forces will also play a significant role in determining California's growth path.

Year-to-year percentage changes in real GDP are forecasted to trend down throughout 2007 and early 2008 and rebound by the end of 2008. A weaker value of the dollar and relatively stronger economies of our trading partners are positively influencing exports.

While the effect of increased exports on California's economy will be significant, it will not be sufficient to overcome the effects of lower growth in real GDP and construction spending. As a result, our projections call for a gradual drop in the rate of California employment growth beginning the third quarter of this year. On an annual basis, our forecast shows a gain of 172,000 (1.1 percent) payroll jobs in 2007, followed by a gain of 144,000 (0.9 percent) in 2008.

The housing slump also is negatively affecting the number of self-employed. Many real estate agents, mortgage brokers and owners of small construction firms are self-employed and the declines in home sales and refinancing are making some unemployed.

The slowdown in payroll job growth and increase in unemployment rate will be major factors leading to a slowing of personal income and taxable sales growth in 2007 and 2008. In addition, high debt levels as well as a weakening in home price appreciation that have already occurred will negatively affect taxable sales activity.

Total personal income is forecasted to increase at an annual rate of 5.2 percent in 2007 and 4.8 percent in 2008 compared to a growth rate of 6.4 percent in 2006.

Total taxable sales are forecasted to increase from $568.8 billion in 2006 to $596.3 billion in 2007 and $621.8 billion in 2008 – an increase of 4.8 percent and 4.3 percent, respectively. Significantly lower than average increases will occur in the furniture and appliances, building materials and new motor vehicles sectors.

The adjustment in the housing market that began in mid-2006 intensified in early 2007. Higher underwriting standards are shrinking the number of potential buyers. The inventory overhang, weaker growth in personal income, low housing affordability rate, and absence of creative financing will place downward pressure on housing prices through 2008.

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