Controller John Chiang
California State Controller's Office
September 2007 Summary Analysis Volume 1, Issue 7

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 September Summary Analysis covers actual receipts and disbursements for August 2007. Data is shown for total cash receipts and disbursements, the three largest categories of revenue and the two largest categories of expenditures. This analysis compares actual figures to revenue performance last year at this time. Normally, this report provides the state's latest revenue projections (i.e., from the Budget Act, the Governor's January Budget or May Revise proposals) as points of comparison. However, the projections in the January and May budget proposals are now outdated, and the final monthly revenue projections from the 2007-08 Budget Act have not yet been released. Once the 2007-08 Budget Act cash flows are finalized, those projections will be included in the October Summary report.

At the close of the 2006-07 fiscal year on June 30, 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 contributed 54.7% of General Fund revenue, sales tax receipts added 28.8%, and corporate taxes provided 11.3%.

Tax Revenue in August 2007

Total General Fund revenue in August 2007 was $174 million below (-2.4%) receipts for August 2006. Income taxes were below August 2006 by $111 million (-3.6%), and corporate taxes were below by $44 million (-21.6%). Sales tax receipts were above last August by $93 million (2.7%).

For the components of income taxes, only withholding taxes were above last year's level, $166 million (6.2%) above August 2006. Estimated taxes were the same as last August.

Estimated taxes for corporations fell below estimated taxes paid in August 2006 by $22 million (-14%). September will give a better picture of the trend in corporate tax receipts once quarterly taxes are received.

(Continued on page 2)

(Continued from page 1)

Tax Revenue Fiscal Year-to-Date

For the fiscal year-to-date, General Fund revenue is $42 million below last year at this time (-0.4%). Corporate taxes are $54 million below last year (-10.6%), income taxes are $119 million above last year (2.1%), and sales taxes are $59 million above the level in 2006 at this date (1.3%). The big three taxes together are 1.2% higher than this time in 2006. But that increase has been exceeded by declines in certain other revenue sources outside of the three major taxes.

Revenue Trends

Table 1 (below) shows the year-over-year revenue growth for the three largest taxes in bi-monthly periods from fiscal year 2002-03 through the July/August period of this fiscal year.

Revenue growth for the largest three tax sources peaked in fiscal year 2004-05. In both 2003-04 and 2004-05 the economy was growing but revenue growth was also aided by some special circumstances. In 2003-04 and 2004-05, the state initiated two tax amnesty programs that boosted certain tax revenues. But even discounting the revenue spikes from the amnesty programs, it is clear from Table 1 that revenue growth has been trending lower over the past two years.

Summary of Net Cash Position as of August 31, 2007

In August, the State spent $2.2 billion more than it received in revenue. Expenditures were $9.9 billion and receipts totaled $7.7 billion.

For the year-to-date, the State has spent $8.3 billion more than it has received in revenue. Total receipts have been $11.9 billion and expenditures have been $20.2 billion.

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

(Continued on page 3)

Table 1: Year Over Year Change in Revenue Receipts
For the Big Three Revenue Sources - Bi-Monthly Totals

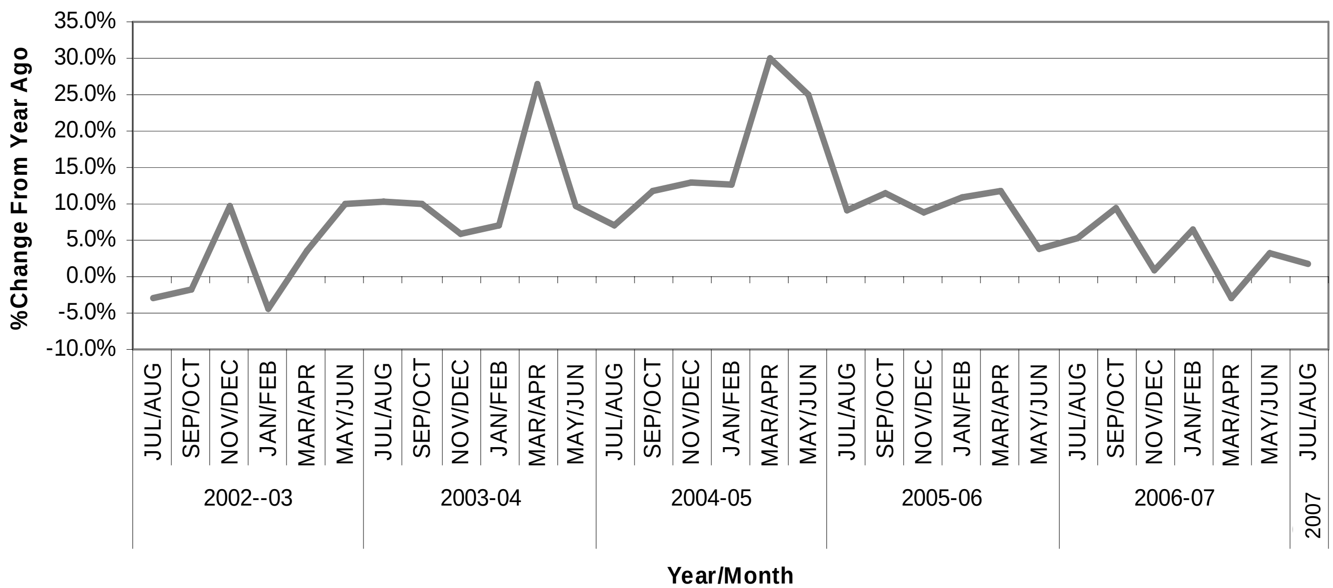


Table 2: General Fund Receipts, July 1-August 31, 2007 (in Millions)

Revenue Source	Actual Receipts To Date
Bank And Corporation Tax	$453
Personal Income Tax	$5,870
Retail Sales and Use Tax	$4,468
Other Revenues	$380
Total General Fund Revenue	$11,171
Non-Revenue	$710
Total General Fund Receipts	$11,882

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

(Continued from page 2)

year, while a large percentage of disbursements occur in the first eight months.

Of the largest expenditures, $14.4 billion have gone to local assistance and $4.8 billion to State operations.
The State began the fiscal year with a cash balance of $2.5 billion. The net cash deficit at the end of August is $5.8 billion, which has been covered by internal borrowing. The State still has $9.6 billion in unused borrowable resources that it can use until a Revenue Anticipation Note is issued later this fall.

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

www.sco.gov.

(Continued on page 4)

Table 3: General Fund Disbursements, July 1-August 31, 2007 (in Millions)

Recipient	Disbursement
Local Assistance	$14,411
State Operations	$4,825
Other	$945
Total Disbursements	$20,181

Table 4: General Fund Cash Balance, July 1-August 31, 2007 (in Millions)

Cash Position	Actual
Beginning Cash Balance July 1, 2007	$2,462
Receipts Over (Under) Disburse-ments to Date	($8,299)
Cash Balance August 31, 2007	($5,837)

Borrowable Resources

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

(Continued from page 3)

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.

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 below for an article by C.-Y. Cynthia Lin, Member, Controller's Council of Economic Advisors and Assistant Professor, University of California at Davis.

California's Gasoline Tax

By C.-Y. Cynthia Lin[1]
Member, Controller's Council of Economic Advisors and Assistant Professor, University of California at Davis

With landmark legislation including the Global Warming Solutions Act of 2006 (AB 32) and air quality standards that are more stringent than those at the federal level, California is renowned for leadership nationally and internationally in implementing environmental regulation at the vanguard. To round out its portfolio, the state should set an example for the rest of the nation and world by raising the gas tax.

There are many reasons to have a higher gas tax. I will focus on two primary objectives. The first and foremost objective is environmental protection, with particular regard to air pollution, global climate change and our dependence on fossil fuels. According to Greg Mankiw, professor of economics at Harvard University and former chairman of President Bush's Council of Economic Advisors, who has also proposed a raise in the gas tax, higher gasoline taxes are "the most direct and least invasive policy to address environmental concerns."[2]

Air pollution is a particularly critical environmental issue for California: in the American Lung Association State of the Air 2007 report,[3] California has an alarming 16 out of the 25 most ozone-polluted counties in the nation, including all of the top six. Negative effects of air pollution have been extensively documented, and include impairment of human lung function, degradation of materials, and injury to plants. In addition to adverse health effects, the high ambient ozone levels found in Southern California and the San Joaquin Valley also cause yield reductions up to 30% for some crops.[4]

Global climate change is a critical issue for California as well. California is the world's 12th largest source of carbon dioxide, and the most

(Continued on page 6)

(Continued from page 5)

devastating consequences of global warming potentially include a 90% loss of California's Sierra snowpack.[5]

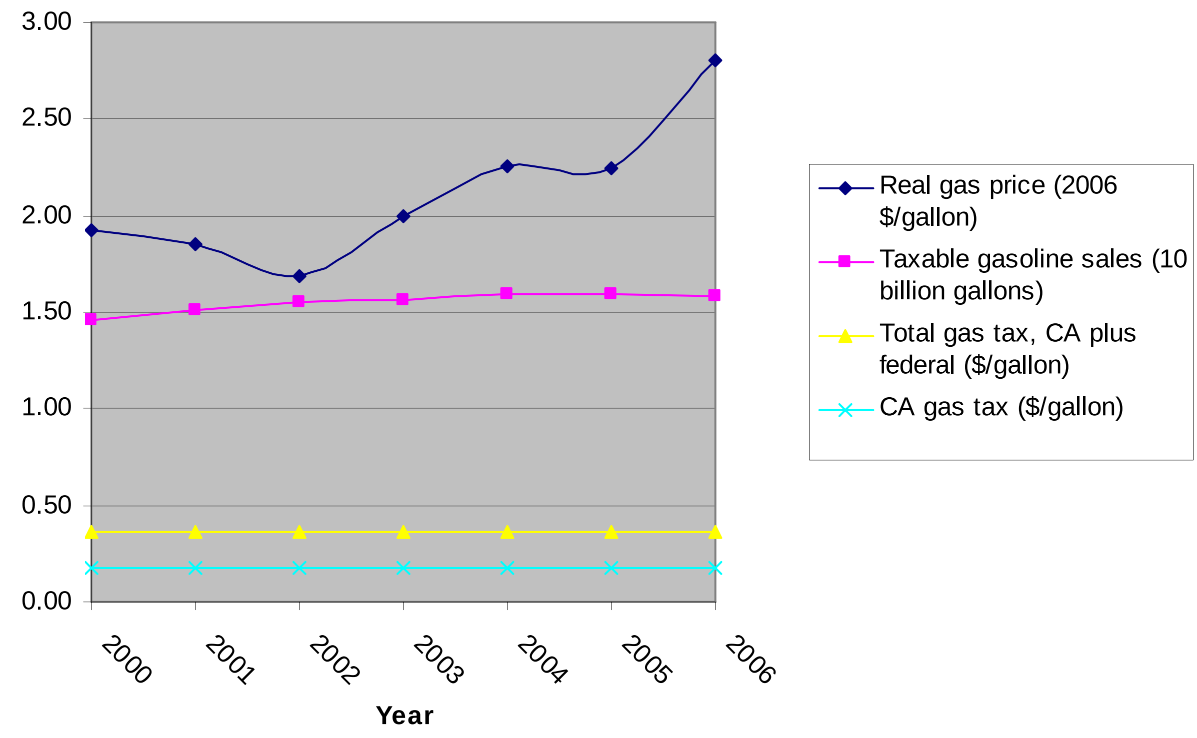
A higher gas tax would discourage oil consumption, reducing our dependence on fossil fuels, particularly oil imported from OPEC, and increase the demand for fuel-efficient vehicles and alternative means of transportation. A higher gas tax would also spur research and development in alternative energy sources and energy efficient technology.

In addition to environmental protection, a second objective for raising the gas tax is to reduce road congestion and traffic-related accidents. Congestion is a particularly acute problem in California. According to 2000 statistics from RAND, California's congestion costs due to delay and wasted fuel alone are 1.88 times higher than the national average.[6]

A higher gas tax is likely the best policy for meeting the objectives of environmental protection and congestion mitigation. It is a better policy than CAFE standards, for example, whose less stringent standards for light trucks are partly responsible for

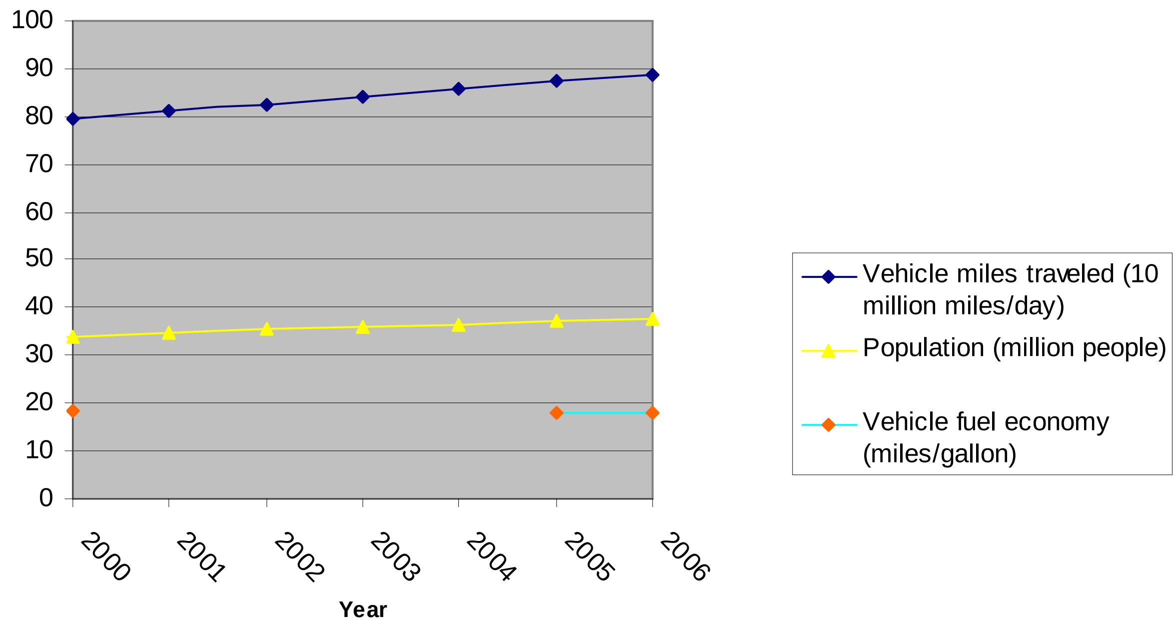
(Continued on page 7)

Figure 1. Gasoline Prices, Sales and Taxes in California



Data sources: California Energy Commission (gas price), California State Board of Equalization (gas sales), California Department of Transportation (CA gas tax), William Buechner (federal gas tax).

Figure 2. Transportation-related statistics for California



Data sources: California Air Resources Board (VMT and population), California Department of Transportation (fuel economy).

(Continued from page 6)

the increase in SUV ownership. CAFE standards may also lower the cost per mile of driving and therefore increase vehicle miles traveled and, hence, congestion. In contrast, higher gasoline taxes encourage development of more fuel-efficient vehicles, discourage people from buying and driving fuel inefficient vehicles, and discourage driving altogether.

Gas taxes also provide government revenue, which can then be used to reduce the income tax, or, better yet, to fund research and development in alternative energy sources.

Figure 1 (see previous page) plots gasoline prices, sales and taxes in California over the years 2000-2006.[7] While the real gas price has trended upwards, especially since 2005, taxable gasoline sales have remained relatively unchanged, suggesting that a higher gas tax would be needed before changes in gasoline consumption take place. Similar conclusions are suggested by the statistics plotted in Figure 2 (above), which show that even though the state population has remained relatively constant over the past five years, the vehicle miles traveled has been steadily increasing. Moreover, vehicle fuel economy has not improved.

How high should the gasoline tax in California be?

(Continued on page 8)

(Continued from page 7)

In a paper published in the top economics journal, economists Ian Parry and Kenneth Small calculated the optimal gasoline tax for the United States.[8] The formula they use is comprised of three components: (1) a Pigouvian tax on the marginal external cost of fuel use, which includes the marginal damage from pollution and marginal congestion, accident and distance-related pollution costs; (2) a Ramsey tax, which accounts for the government's need to optimally raise revenue; and (3) a congestion feedback tax.

We used Parry and Small's formula to calculate the optimal gasoline tax for California using state-specific data. The optimal gas tax for California is likely to be different than the optimal gas tax for the entire United States because California has a higher congestion cost, a lower accident cost, worse air quality, and tighter environmental regulations than the national average.

According to the our latest analysis, the optimal gasoline tax in California should be at least $1.06/gallon,[9] which means that the gas tax needs to be raised by at least 70 cents per gallon. A raise of 70 cents per gallon is likely to be a conservative estimate of what is needed because Parry and Small's formula does not account for such considerations as the costs associated with the dependence on imported oil, considerations that we hope to incorporate as we continue to refine our analysis.

The health of Californians, our environment, society, and the planet are at stake. It is time for California to take the lead once again and raise the gas tax to its optimal level.

NOTES:

[1] I thank Lea Prince for excellent research assistance. All opinions expressed are my own and not necessarily those of the Controller or his office.

[2] Mankiw, G. (2006). The Pigou Club manifesto. Web blog. http://gregmankiw.blogspot.com/2006/10/pigou-club-manifesto.html

[3] http://lungaction.org/reports/sota07_cities.html

[4] Hall, J.V., Winer, A.M., Kleinman, M.T., Lurmann, F.W., Brajer, V., & Colome, S.D. (1992). Valuing the health benefits of clean air. Science, 255, 812-817.

[5] Nuñez, F. & Pavley, F. AB 32: Global warming solutions act. Accessed 1 September 2007. http://www.law.stanford.edu/program/centers/enrlp/pdf/AB-32-fact-sheet.pdf

[6] http://ca.rand.org/stats/statlist.html

[7] The gas tax plotted excludes the sales tax.

[8] Parry, I. & Small, K. (2005). Does Britain or the United States have the right gasoline tax? American Economic Review, 95, 1276-1289.

[9] This is 5 cents higher than what Parry and Small calculated to be the optimal gas tax for the entire United States.

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

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

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

Web: *www.sco.ca.gov*