

# Controller *John Chiang*

## California State Controller's Office



December 2007 Summary Analysis

Volume 1, Issue 10

## Statement of General Fund Cash Receipts and Disbursements

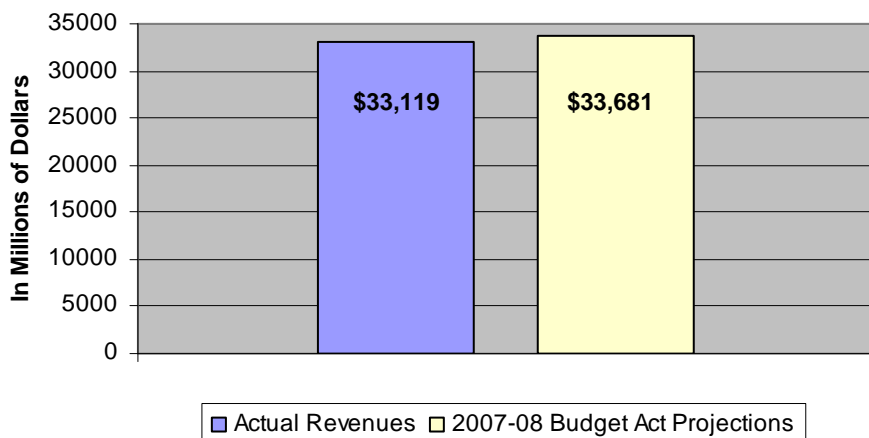
### Tax Revenue in November 2007

November revenue was far from a bonanza, but measured against expectations, it was the best month of the fiscal year to date.

- ⇒ General Fund revenue in November was \$62 million (1.0%) above the Budget Act estimate. Corporate taxes were the primary reason for the unexpected revenue, coming in \$113 million higher than the Budget Act estimate. The Budget Act projected corporate refunds would exceed corporate tax receipts by \$74 million. Instead, receipts were \$39 million more than the refunds – yielding a net gain of \$113 million. Retail sales had the largest shortfall, coming in \$155 million (-4.1%) below the Budget Act estimate. Income tax revenue was below the estimate by \$24 million (-0.9%). Together, the three largest taxes (income, corporate and sales taxes) were \$66 million (-1.0%) below the Budget Act estimate for November.
- ⇒ Total General Fund revenue for the month was \$604 million (10.1%) over the revenue seen in November 2006. Personal income taxes were \$188 million higher (7.8%). Corporate tax receipts were \$182 million more than last November, when the state saw a loss of \$143 million due to refunds exceeding payments. Sales taxes were \$128 million

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Table 1: General Fund Revenues: July 1–November 30, 2007 (in Millions)



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 10<sup>th</sup> 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 November 2007. Data are shown for total cash receipts and disbursements, the three largest categories of revenues, and the two largest categories of expenditures. This report also provides the state's latest revenue projections as points of comparison. Our current point of comparison is the 2007-08 Budget Act passed in August 2007.

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(3.6%) above the level of last November. The total for the three largest taxes exceeded November 2006 totals by \$498 million (8.6%).

## Tax Revenue Fiscal Year to Date

⇒ From July 1, 2007, through November 30, 2007, General Fund revenue was \$562 million (-1.7%) below the Budget Act estimate (see Table 2). Retail sales receipts were \$495 million (-4.3%) below the Budget Act year-to-date estimate, while income taxes were \$148 million lower (-0.9%) than estimated. Corporate taxes were above the year-to-date estimate by \$79 million (2.5%). In total, the three largest taxes were \$564 million below (-1.8%) the level expected in the Budget Act by November 30.

⇒ Compared to 2006, year-to-date General Fund revenue was \$751 million higher (2.3%). Of the three major taxes, sales tax receipts continued to be the weakest, coming in \$70 million (-0.6%) below the year-to-date total seen in November 2006. Income taxes were \$747 million (4.5%) higher than last year at this date, and corporate taxes were \$205 million (6.9%) higher than last year. In total, the three largest tax revenue sources were \$883 million (2.9%) higher than at the end of November last year.

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

Revenue Source	Actual Receipts To Date	Budget Act Projections	Actual Over (Under) Estimate
Bank And Corporation Tax	\$3,180	\$3,101	\$79
Personal Income Tax	\$17,281	\$17,429	(\$148)
Retail Sales and Use Tax	\$11,131	\$11,626	(\$495)
Other Revenues	\$1,527	\$1,525	\$2
Total General Fund Revenue	\$33,119	\$33,681	(\$562)
Non-Revenue	\$1,475	\$1,128	\$347
Total General Fund Receipts	\$34,594	\$34,809	(\$216)

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

### Non-Revenue

The “non-revenue” category of receipts includes transfers from existing funds and miscellaneous receipts.

### Estimated Taxes

Estimated tax payments are generally filed quarterly to pay taxes due on income not subject to withholding. This can include income from self-employment, interest, dividends, gains from asset sales, or if insufficient income tax is being withheld from a salary, pension, or other income. Estimated tax payments are one indication of future state revenues.

### Payroll Withholding Taxes

“Payroll Withholdings” are income taxes that employers send directly to the state on their employees’ behalf. Those amounts are withheld from paychecks during every pay period throughout the calendar year.

⇒ Estimated taxes for both individuals and corporations for the fiscal year-to-date were lower than Budget Act estimates. For corporations, estimated payments were 7.6% below estimates and personal income tax payments were 1.5% below the Budget Act estimate. In the case of corporate taxes, estimated payments were actually below (-0.1%) the levels seen during the same period in 2006. For individuals, estimated taxes were 8.1% above last year at this time.

⇒ December and January will be very important months for estimated taxes. January 15 is the due date for the final estimated tax payments, but some high-income taxpayers make their final payments late in the calendar year to maximize federal tax deductions. December and January will provide a preview of next April, the General

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Fund's "make or break" month when most income taxes are due.

⇒ Payroll withholding taxes for individuals were a bright spot in the budget numbers. Withholding for the fiscal year through November was \$185 million (1.4%) above the Budget Act estimate and \$1 billion (8.3%) above last year at the same time. Since, as of October, the year-over-year growth in non-farm jobs was only 0.7%, this could indicate that employment-based income is growing at a healthy rate.

**Table 3: General Fund Disbursements, July 1-November 30, 2007 (in Millions)**

Recipient	Actual Disbursement	Estimated Disbursement	Actual Over (Under) Estimate
Local Assistance	\$37,438	\$35,593	\$1,846
State Operations	\$12,483	\$12,311	\$172
Other	\$1,453	\$2,439	(\$986)
<b>Total Disbursements</b>	<b>\$51,374</b>	<b>\$50,342</b>	<b>\$1,032</b>

## Summary of Net Cash Position as of November 30, 2007

⇒ In November, State expenditures were \$779 million higher than receipts. Expenditures were \$7.82 billion and receipts totaled \$7.04 billion.

⇒ For the fiscal year-to-date, the State spent \$16.8 billion more than it received in revenue. Total receipts were \$34.6 billion, and expenditures were \$51.4 billion.

⇒ The State began the fiscal year with a cash balance of \$2.5 billion. The net cash deficit at the end of November was \$14.3 billion. The State issued a \$7 billion RAN (Revenue Anticipation Note) in November to cover a portion of this short-term deficit. The remaining \$7.3 billion shortfall is being covered by internal borrowing. As of November 30, the State still had \$8.2 billion in unused borrowable resources.

⇒ A deficit at this point is not unusual. A disproportionate share of the state's revenue arrives during the last

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**Table 4: General Fund Cash Balance As of November 30, 2007 (in Millions)**

	Actual Cash Balance	Budget Act Estimated Cash Balance	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2007	\$2,462	\$2,462	\$0
Receipts Over (Under) Disbursements to Date	(\$16,781)	(\$15,533)	(\$1,248)
<b>Cash Balance November 30, 2007</b>	<b>(\$14,319)</b>	<b>(\$13,071)</b>	<b>(\$1,248)</b>

### 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.

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four months of the fiscal year, while a large percentage of disbursements occur during the first eight months.

⇒ Of the largest expenditures, \$37.4 billion went to local assistance and \$12.5 billion to State operations (see Table 3).

### How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for November 2007 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.

## 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](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, we are reporting a summary of the meeting of the Council, held on December 4, 2007*

## **The Controller's Economic Council Meeting: December 4, 2007**

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

Controller John Chiang and his executive staff met December 4, 2007, with the Controller's Council of Economic Advisors. Esmael Adibi of Chapman University, Julie Cullen of UC San Diego, Ross DeVol of the Milken Institute and Cynthia Kroll of UC Berkeley discussed socially responsible and green investing, the state's economy and the real estate market.

Also lending insight were guest speakers Blaine Townsend, Portfolio Manager with Trillium Asset Management Corporation; Stephan Dolezalek, Managing Director of VantagePoint Venture Partners; John Krainer, Senior Economist at San Francisco Federal Reserve Bank; Fred Cannon, Managing Director of Keefe Bruyette and Woods; and Andrew LePage of DataQuick Information Systems. Following are some of the insights from the participants:

### **Socially Responsible Investing:**

Socially responsible investing (SRI) is a small but growing sector. There now are 200-300 funds that do some socially responsible screening. Three of the main criteria are environmental, social justice and climate change. SRI funds or portfolios can mimic any market portfolio, and are constructed by screening members of those sectors, retaining stocks from socially responsible companies and replacing others with SRI proxies. "Best of class" criteria and patterns of behavior are used in building portfolios.

If considered as a long-term investment, SRI funds have a track record similar to those not using SRI criteria. One reason: By screening for socially responsible companies, the investor is eliminating companies with potentially large legal liabilities. Using SRI criteria also helps identify risks not seen by others. Most of the SRI investments are domestic because many countries lack disclosure requirements.

Because of the growing use of reinsurance by companies, companies are being asked by their insurers to disclose Environmental Social Governance (ESG), which increases information available to measure

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companies. For example, investors want to know whether a company has an environmental manager in place, or whether the firm has policies on transparency and accountability. ESG appeals to larger institutional investors as it provides ways for investors to measure their risks and provides them with data to “hang their hat on.”

### **Green Investing:**

Around since 1970, the focus of clean tech remains on energy, water, solar and natural resources. Prior to 2005, many questioned whether money could be made on clean tech, which requires huge capital investments. But that question has been answered: This year, there is evidence of more publicly-traded companies targeting solar, wind and alternative power.

The four drivers that turned the situation around are prices of commodities such as oil, gas and water; climate change; energy security and independence; and global demand for water and energy, especially in India and China.

While many entered clean tech as a way to solve public relations problems, they become absorbed in it. Contrary to critics who said going green will hurt the economy, we are seeing financial profits from clean tech. Once poor, Iceland became one of Europe’s wealthiest nations per capita by becoming energy independent through the development of hydro and geothermal energy sources.

Water will likely be California’s largest clean tech problem. Israel has used existing technology to bring its per capita water use to a fraction of what the U.S. uses. The investment tax credit bill now before Congress would help foster this capital-intensive sector.

### **The Economy and the Real Estate Market:**

Most agreed economic growth would continue to be slow. All agreed the residential housing market is the dominant factor driving the downturn.

In 2007, the loss of jobs in residential construction was partially offset by a still robust nonresidential sector – but that is now showing weakness. The office vacancy rate has risen in Orange County from 7% in 2006 to an expected 13% in 2008. The Writers Guild strike in Los Angeles also will hurt California growth.

On the positive side, the fall of the dollar has actually caused growth in hospitality and leisure industries, primarily because Americans are staying home, while foreigners flock here for inexpensive vacations.

There was consensus that California has not seen the worst of the real estate market. The economists warned we may see a 20-25% decline in prices before we bottom out, prompting a possible decline in property tax revenue.

The focus has shifted from purely subprime mortgage-backed securities to a difficulty in obtaining loans at any price. The change in perceived risk was abrupt and was triggered by the collapse of Bear Stearns hedge funds and the American Home Mortgage bankruptcy. Delinquencies continue to rise and prices fall.

There was general agreement that governmental proposals to help homeowners in trouble are positive for the small segment of borrowers who won’t have to face a high re-set of their mortgage payments, but will do little to help those who already are delinquent, who rent, and subprime borrowers who are so deep in debt that they will walk away from their homes regardless. The experts cautioned that any governmental fix cannot violate contract law, which all agreed would be devastating to security holders and have negative consequences on future real estate investments.