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California State Controller's Office

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Statement of General Fund Cash Receipts and Disbursements

As part of the 2010-11 Budget Act enacted on October 8, the Governor and Legislature approved the delay of $5.5 billion in specific payments to cover others that could not lawfully be paid during the State's record 100-day budget stalemate. The Budget assumed that $1.207 billion in corporate and income tax refunds for October and November would be delayed until December. However, only $96 million in corporate tax refunds and $911 million in income tax refunds were delayed, and all amounts were repaid by November 30, 2010. Because refunds offset revenues, the early repayment of those refunds could appear to inflate December totals when comparing them to estimates. To present a true picture of revenue activity, adjustments were made to this summary's December monthly figures.

State Finances in December 2010

⇒ Compared to the 2010-11 Budget Act, total General Fund revenues were $562.5 million lower (-5.8%) than expected in December. Corporate tax revenues were $529.9 million worse (-25.6%) than anticipated and retail sales and use taxes were below expectations by $50.2 million (-2.3%). Personal income tax revenues came in above estimates by $64.1 million (1.3%).

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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 December 2010 and year to date for the six months of Fiscal Year 2010-11. 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 2009-10 and the statement of estimated cash flows from the 2010-11 Budget Act.

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⇒ Compared to December 2009, General Fund revenue in December 2010 was up $1.3 billion (14.6%). The total for the three largest taxes was above 2009 levels by $1.4 billion (16.8%). This was driven by personal income taxes, which were up by $1.1 billion (22.7%) and corporate taxes, which came in above last December by $262.8 million (19.2%). Sales taxes were also up $43.1 million above (2.0%) last December.

Tax Revenue Fiscal Year to Date

⇒ Compared with the 2010-11 Budget Act Estimates, General Fund revenues through December were above the year-to-date estimate by $931.0 million (2.3%). The three largest sources of revenue were above estimates by $942.9 billion (2.5%). Income taxes came in better than expected by $757.1 million (3.5%). Sales tax collections were $425.1 million better (3.3%) than expected, but corporate tax collections were below estimates by $239.3 million (-6.1%). Because the 2010-11 Budget Act contained actual revenues through its October 8, 2010 passage, this revenue improvement happened between October and December.

⇒ Compared to July through December 2009, revenues year-to-date were up by $3.8 billion (10%). This was driven by personal income taxes, which came in $3.4 billion above (17.9%) last year at this time. Sales taxes also were $343.8 million above (2.7%) last year's total at the end of December.

⇒ Year to date collections for the three major taxes were $3.8 billion higher (10.7%) than last year at this time, with corporate taxes up $89.3 million (2.5%) from last year's total.

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What the Numbers Tell Us

December's revenue numbers posted another solid gain, rising 14.6% above December 2009, and General Fund revenues are 10% above the year-to-date performance from 2009-10. Strong gains in personal income tax led the way—up more than $3.4 billion. Consumer spending continues to increase in California as well, which has driven sales tax revenues to improve by $343.8 million over last fiscal year. Despite the fact that December came in below the 2010-11 Budget Act estimates, the improvement over last year shows that the major sources of revenue are trending in the right direction.

Much of this improvement has been driven by genuine, albeit slight, improvements in the state's economy. Average weekly hours worked are on the rise, which has driven personal income up in consecutive quarters over the past 12 months. This has also given rise to some gains in the labor market, where the private sector has added nearly 60,000 jobs since its trough in December 2009. Certainly, this does not replace the 1.3 million jobs lost during this recession, but it is an important signal that the worst is behind us.

However, the improvement in General Fund revenues and general economic conditions does not mean that the state will not continue to face serious challenges. The combined debt of more than $20 billion is projected to grow throughout the remainder of this fiscal year. Expenditures are roughly $107 million lower than projected in the 2010-11 Budget Act, but this represents 0.2% of total expenditures for the year to date. In addition, expenditures have grown by nearly $3 billion over their 2009-10 levels through December.

The state will continue to enjoy a slowly improving economy, which will lead to better revenues in 2011. Because the recovery will progress slowly, lawmakers would be wise to address the growing fiscal issues that are likely persist into the future for some time.

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Summary of Net Cash Position as of December 31, 2010

⇒ Through December, the State had total receipts of $43.3 billion (Table 1) and disbursements of $54.2 billion (Table 2).

⇒ The State ended last fiscal year with a deficit of $9.9 billion. The combined current year deficit stands at $20.8 billion (Table 3). Those deficits are being covered with $10.8 billion of internal borrowing and $10 billion of external borrowing.

⇒ Of the largest expenditures, $41.1 billion went to local assistance and $13.1 billion went to State operations (See Table 2).

⇒ Local assistance payments were $678.6 million

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Borrowable Resources

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

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.

Revenue Anticipation Notes

Traditionally, the State bridges cash gaps by borrowing money in the private market through Revenue Anticipation Notes (RANs). RANs are repaid by the end of the fiscal year.

Non-Revenue Receipts

Non-revenue receipts are typically transfers to the General Fund from other State funds.

Table 1: General Fund Receipts, July 1, 2010 - December 31, 2010 (in Millions)*

Revenue Source	Actual Receipts to Date	2010-11 Budget Act	Actual Over (Under) Estimate
Corporate Tax	$3,658	$3,898	($239)
Personal Income Tax	$22,099	$21,342	$757
Retail Sales and Use Tax	$13,310	$12,885	$425
Other Revenues	$2,826	$2,838	($12)
Total General Fund Revenue	$41,893	$40,962	$931
Non-Revenue	$1,423	$1,420	$3
Total General Fund Receipts	$43,316	$42,382	$934

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

Table 2: General Fund Disbursements, July 1, 2010-December 31, 2010 (in Millions)

Recipient	Actual Disburse-ments	2010-11 Budget Act	Actual Over (Under) Estimate
Local Assistance	$41,101	$41,779	($679)
State Operations	$13,060	$12,635	$425
Other	$43	($105)	$147
Total Disbursements	$54,204	$54,310	($107)

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lower (-1.6%) than estimates, and state operations came in $424.9 million above (3.4%) budget estimates.

Table 3: General Fund Cash Balance As of December 31, 2010 (in Millions)

	Actual Cash Balance	2010-11 Budget Act	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2010	($9,922)	($9,922)	$0
Receipts Over (Under) Disbursements to Date	($10,887)	($11,928)	$1,041
Cash Balance December 31, 2010	($20,809)	($21,850)	$1,041

How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for December 2010 is available on the State Controller's Web site at: www.sco.ca.gov


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To have the monthly financial statement and summary analysis e-mailed to you directly, sign up at:
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California Economic Snapshot		
New Auto Registrations (Fiscal Year to Date)	**265,076** Through September 2009	**253,220** Through September 2010
Median Home Price (for Single Family Homes)	**$261,000** In November 2009	**$255,000** In November 2010
Single Family Home Sales	**35,860** In November 2009	**31,403** In November 2010
Foreclosures Initiated (Notices of Default)	**111,689** In 3rd Quarter 2009	**83,261** In 3rd Quarter 2010
Total State Employment (Seasonally Adjusted)	**13,850,900** In November 2009	**13,863,300** In November 2010
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**37,944** In November 2009	**45,603** In November 2010
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance		

Featured Articles on California's Economy

The opinions in these 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, and member, Controller's Council of Economic Advisors.

Job Recovery in Low Gear

By Esmael Adibi
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California payroll employment peaked in July 2007 at 15.2 million jobs and showed rapid declines through 2008 and 2009. By December 2009, payroll employment hit a trough at 13.8 million jobs. Based on this measure, the recession at the state level lasted 29 months with 1.4 million job losses, or a decline of 9.2 percent.

Any meaningful rebound in income, spending and state tax revenue depends on future job growth, and that depends on the performance of the national economy, real exports growth and construction spending in California.

Year-over-year percentage changes in real Gross Domestic Product (GDP) are forecasted to show a gradual increase in the first half of 2011 and pick up steam by the end of the year.

The level of California's exports is projected to grow even faster than the U.S. The most recent available statistics show California's merchandise exports increased by 30.8 percent in the third quarter of 2010 as compared to the first quarter of 2009. This rapid increase is partly due to the weakness in the value of the dollar but, more importantly, reflects our trading partners' strong economic growth.

Trends in real GDP and real exports are positively affecting job growth, but the "downer" is the forecasted decline in construction spending. The sharp slowdown in building permit activity – another significant drag on jobs – reduced construction spending in 2008 and 2009 by 33.8 percent in 2010. The number and values of permits have shown a slow recovery in 2010 but the lagged effects of

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sharp declines in permit activity in 2009 will still show up in construction spending in early 2011. As a result, overall construction spending (residential and nonresidential) in 2011 is projected to decrease by 5.3 percent. This rate of decline will be relatively moderate compared to sharp and steady declines over the last three years.

The forecasted weakness in construction spending is more than offset by projected increases in real GDP and exports. On average, California payroll employment is forecasted to increase by 1.2 percent in 2011 – 167,000 net new jobs.

The payroll job recovery, however, will not be broad-based. The service-producing sector will be the main engine of job growth. The professional & business (2.4 percent), education & health (2.1 percent) and leisure & hospitality (1.5 percent) sectors are projected to show the highest rate of job creation.

The goods-producing sector (including construction) is projected to show only modest job gains. The manufacturing sector, particularly high-tech manufacturing, is improving as shown in our quarterly California manufacturing purchasing managers survey. Since the first quarter of 2009, the composite index has increased from a low of 40.8 to the current level of 55.5, indicating expansion in manufacturing. But the breakdown of the manufacturing sector into high-tech, non-durable and other durable products shows that the index representing the high-tech sector, currently at 63, is significantly higher than the indices for the other two. With an expected slowdown in productivity growth, the high-tech manufacturing sector is forecasted to add jobs to increase output.

The pickup in jobs, although weak, will increase future personal income and taxable sales spending in California. This trend should improve the state's general funds revenue, but the structural deficit will remain intact. Consequently, no significant job growth is forecasted in the state and local government sectors.

The job recovery should positively affect housing

demand. And the expected rebound in income, low mortgage rates and lower home prices are helping to keep housing affordability at historical highs, leading to increased housing demand, particularly for first-time homebuyers.

On the supply side, in addition to a pickup in new construction, the inventory of resale homes will remain persistently high. A large inventory remains held by financial institutions, and there are still a number of homes that are moving through different phases of foreclosure process. Many homeowners with adjustable rate mortgages that originated in 2006 also need to refinance their loans in 2011. With home values significantly below their existing mortgage balances, some homeowners will not qualify for refinancing. This will lead to additional defaults and foreclosures in the coming year.

The negative effects of high inventory on home prices will mostly offset the positive factors influencing demand. Our forecast calls for the median resale single-family home prices to increase 3.0 to 4.0 percent in California, *mainly due to changes in the mix of homes sold*.

Although we project the median price of homes sold to increase moderately, high inventories of relatively expensive homes (above the median price) suggests that further downward price pressures in this segment of the market is likely.