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California State Controller's Office



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Summary Analysis

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State Finances in January 2012

January 2012 compared to <i>monthly estimates</i> in the Governor's proposed budget	January 2012 compared to <i>monthly estimates</i> in the 2011-2012 Budget Act
 Total Revenues: -\$528.4 million (-5.5%)	Total Revenues:  -\$1.2 billion (-11.9%)
 Income Tax: -\$525 million (-6.3%)	Income Tax:  -\$368 million (-4.5%)
 Sales Tax: +\$42.8 million (5.6%)	Sales Tax:  +\$43.8 million (5.7%)
 Corporate Tax: -\$127.9 million (-48.8%)	Corporate Tax:  -\$259.9 million (-66%)

What the Numbers Tell Us

California saw relatively lackluster General Fund revenues in January. Total collections came in \$528 million below the latest estimates in the Governor's proposed budget, driven primarily by lower-than-expected personal income and corporate tax revenues.

January missed the 2011-12 Budget Act's estimate by an even wider margin, coming in \$1.2 billion less than projections. Comparing the month's totals against last January, revenues were also down by \$559.6 million for the month. January is a particularly important month for State revenues – in fiscal year 2010-11, it was the fourth largest month for tax collections.

Year to date, the State is \$3.7 billion short of revenues so far, as compared to the budget adopted last June. (More details on year-to-date comparisons can be found in the chart on Page 2).

However, the news is not completely bad, and there were some encouraging signs in this month's numbers:

Protecting California's Cash Position

The State Controller's Office is the primary agency responsible for managing the State's General Fund cash flow. This requires constant tracking of receipts and expenditures, as the Controller's office issues an average of 182,000 payments each day. The Controller maintains a \$2.5 billion mini-

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What the Numbers Tell Us

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- ⇒ Sales and use taxes came in 5.6% higher than anticipated in the Governor's budget, which signals that consumers continue to spend money as the economic recovery picks up steam. January sales tax receipts capture a portion of the proceeds from the holiday shopping season. The remainder will be collected in February.
- ⇒ While personal income tax fell short of expectations, data from the Franchise Tax Board (FTB) shows that withholdings on ordinary earned income actually increased - coming in \$473 million higher than last January and \$19 million higher than Governor's Budget projections. The increase in withholdings was offset by lower estimated tax payments in January and an increase in income tax refunds paid out during the month.
- ⇒ Corporate tax revenues fell short of expectations by \$128 million. However, on a year-to-date basis, *estimated* corporate tax payments (which make up the

majority of gross corporate tax receipts) are tracking slightly higher (0.2%) than estimates from the Governor's Budget.

Outside of the state's finances, the economy continues to gain steam and has begun to outpace the remainder of the U.S.

California has added more than 351,000 jobs and preliminary indications from the state's Employment Development Department show that this figure is likely to be roughly 13,000 jobs higher when new figures come out released in March.

In addition, both income and consumer spending have grown at a faster clip in California relative to the remainder of the U.S. during 2011. Even residential real estate has begun to improve with prices stabilizing and defaults and foreclosures trending downward steadily across the state (see chart on page 4). California still has a long way to go, and this month's General Fund receipts highlight that fact. Some econometrics are moving in the right direction, but the chronic budget deficit continues to weigh heavy on California's ability to meet its obligations and fund new policies.

Table 1: General Fund Receipts

July 1, 2011 – January 31, 2012 (in Millions)

Revenue Source	Actual Revenues	2012-13 Governor's Budget		2011-2012 Budget Act		Comparison to 10-11 Fiscal Year	
		Estimates	Actual Over (Under)	Estimates	Actual Over (Under)	Last Year's Totals Through January	Actual Over (Under)
Corporation Tax	\$3,261	\$3,409	(\$147)	\$3,830	(\$569)	\$4,010	(\$749)
Personal Income Tax	\$29,686	\$30,281	(\$595)	\$30,433	(\$747)	\$29,850	(\$164.1)
Retail Sales and Use Tax	\$10,602	\$10,542	\$60	\$10,577	\$25	\$14,506	(\$3,905)
Other Revenues	\$2,668	\$2,679	(\$11)	\$5,069	(\$2,402)	\$3,112	(\$444)
Total General Fund Revenue	\$46,217	\$46,911	(\$694)	\$49,909	(\$3,692)	\$51,479	(\$5,262)
Non-Revenue	\$3,058	\$2,998	\$60	\$3,205	(\$146)	\$1,575	\$1,483
Total General Fund Receipts	\$49,275	\$49,908	(\$633)	\$53,114	(\$3,839)	\$53,054	(\$3,779)

Protecting California's Cash Position

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mum cash cushion at all times to safeguard the General Fund against unplanned expenses or sharp drop-offs in revenue collection.

As seen in the diagram on page 2, year-to-date revenues were \$3.8 billion below the Budget act's estimate. Meanwhile, disbursements were \$1.4 billion ahead of schedule (see diagram below). Together, these two developments place enough pressure on the State's cash flow that the General Fund could dip below the \$2.5 billion mark on February 29, and slip into the red in March.

To address this potential cash problem, the Controller's Office worked with the Department of Finance and the Treasurer's Office to develop a series of short-term

cash solutions to get the State through what is expected to be a seven-week cash shortfall. They include additional external borrowing through the Treasurer's Office, a small number of delayed payments, and temporary borrowing from the University of California and California State University systems.

The State also has access to an additional \$865 million of internal borrowable funds, due to recent legislation (SB 95) signed by the Governor last week. Together, these cash solutions will allow the State to maintain its \$2.5 billion cushion until the General Fund returns to safe cash levels on April 13.

As of January 31, the State's cash deficit was \$21.2 billion. This cash deficit was covered by \$15.8 billion from internal borrowing (short-term loans from special funds) and \$5.4 billion of external borrowing.

Table 2: General Fund Disbursements

July 1, 2011 – January 31, 2012 (in Millions)

Recipient	Actual Disbursements	2012-13 Governor's Budget		2011-2012 Budget Act	
		Estimates	Actual Over (Under)	Estimates	Actual Over (Under)
Local Assistance	\$48,083	\$49,022	(\$938)	\$45,838	\$2,246
State Operations	\$14,261	\$14,485	(\$223)	\$15,416	(\$1,155)
Other	(\$19)	(\$99)	\$80	(\$365)	\$346
Total Disbursements	\$62,325	\$63,407	(\$1,082)*	\$60,888	\$1,437

*This figure includes recent payment deferrals made to address the General Fund's cash needs.

California Economic Snapshot

New Auto Registrations (Fiscal Year to Date)	353,534 Through October 2010	380,905 Through October 2011
Median Home Price (for Single-Family Homes)	\$254,000 In December 2010	\$246,000 In December 2011
Single-Family Home Sales	36,215 In December 2010	37,734 In December 2011
Foreclosures Initiated (Notices of Default)	69,799 In 4th Quarter 2010	61,517 In 4th Quarter 2011
Total State Employment (Seasonally Adjusted)	13,958,700 In December 2010	14,199,000 In December 2011
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	70,243 In December 2010	55,635 In December 2011

Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance

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Bay Area Leads State In Job Recovery

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Don't put on your sunglasses just yet, but the employment picture is looking a little brighter for many California cities, according to the Milken Institute's Best-Performing Cities index.

The good news: Fourteen of California's 21 biggest cities gained ground in the 2011 rankings of the 200 largest U.S. metropolitan areas. The bad news: Just six Golden State cities ranked in the Top 100, and the closest any came to the Top 25 was Bakersfield at 47th.

Best-Performing Cities examines both long-term (five years) and short-term (one year) measurements of employment and salary growth to determine where jobs are being created and sustained. It also looks at four measurements of technology output growth because technology plays such a crucial role in creating quality jobs and driving regional economies.

Employment, salary and tech growth all played a role in making **Bakersfield** the top-ranked California city despite its dropping 20 spots in the overall index due largely to slower job growth. The metro area was 12th in wages and salary growth (for the five-year period ending in 2009) and 13th in high-tech GDP growth (for the five-period ending in 2010) among its 200 rivals. Bakersfield is benefitting from increased oil production and investment in alternative energy, which has diversified the area's

energy industry and created high-skilled, higher-paying jobs.

BAY AREA: The unheralded story of this recovery has been the resurgence in business investment and equipment, especially IT and software. **San Jose** and **San Francisco**, both heavy on tech companies, benefitted significantly from this trend. The former leaped 81 spots to 51st, while the latter jumped 51 positions to 52nd. San Jose ranked 21st in recent job growth (June 2010–June 2011), indicating that the recovery has accelerated. Meanwhile, San Francisco came in 120th in recent job growth, suggesting the surge is not as pronounced as in San Jose. **Oakland** made a modest leap from 178th to 168th, and its economy should continue to improve due to its exposure to high-tech industries.

CENTRAL VALLEY: **Merced**, the epicenter of the housing collapse, recorded the biggest jump in ranking, skyrocketing 105 positions to 63rd. Merced's housing sector has begun to heal, and new hiring in trade and transportation helped the region. The metro came in 33rd in job growth for 2009–2010 and 12th in wage and salary growth for 2008–2009. In contrast, **Visalia** recorded the largest drop in rankings among California metros, plummeting 81 spots to 151st. That metro is heavily dependent on agriculture, and this lack of diversity in its industrial base has made for a sluggish recovery.

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The opinions in this article are presented in the spirit of spurring discussion and reflect those of the authors and not necessarily the Controller or his office.

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The story is similar for other Central Valley metros, including **Fresno**, **Modesto** and **Stockton**.

Sacramento inched down two positions from 142nd to 144th. It was hit hard by the foreclosure crisis, and selling the excess housing stock is slow going. Budget cutting in state government has also contributed to stalled job growth and may continue to do so.

SOUTHERN CALIFORNIA: Largely aided by growth in tourism and high-tech industries, San Diego rose to 69th from 78th. **San Diego** has the most diverse high-tech industry mix in the country, and, astonishingly, in each of its high-tech industries, recorded a higher concentration of output relative to the national average. R&D services, clean tech and manufacturing of various tech components supporting the biomedical and health-care sectors were key drivers behind the metro's ranking of 36th in five-year high-tech growth. **Los Angeles**, though still plagued by high unemployment, rebounded 23 places to 135th overall, thanks largely to a surge in international trade. Export traffic at the Port of Los Angeles spiked 28.1 percent from October 2010 to October 2011, and the ripple effects are apparent. With the help of state incentives, the metro's movie industry is also seeing signs of life with 4,680 new jobs in 2010. Los Angeles ranked ninth in one-year high-tech GDP growth.

Oxnard-Thousand Lakes-Ventura was the most resilient metro in the Southland, climbing 54 positions to 124th overall. The resurgence of various high-tech industries — defense-related and semiconductors in particular — have helped accelerate the recovery. The metro ranked eighth in high-tech GDP growth for 2009–2010. In contrast, high-tech growth slowed in the **Santa Ana–Anaheim–Irvine** area as defense and information industries struggled. But look for the region to improve next year, thanks to its strong link to the global economy and diverse high-tech industry mix (Santa Ana ranked second in high-tech diversity). Despite some bright spots in **Riverside's** high-tech economy, the metro still faces one of the highest unemployment rates. Wage growth has not kept pace with the rest of the nation, and high rates of foreclosure continue to act as a drag on growth.

Best-Performing California Cities		
Rank according to 2011 index, among largest 200 metros		
Metropolitan Statistical Area (MSA)	2011 rank	2010 rank
Bakersfield, CA	47	27
San Jose-Sunnyvale-Santa Clara, CA	51	132
San Francisco-San Mateo-Redwood City, CA	52	103
Merced, CA	63	168
San Diego-Carlsbad-San Marcos, CA	69	76
Santa Barbara-Santa Maria-Goleta, CA	99	138
Vallejo-Fairfield, CA	102	115
San Luis Obispo-Paso Robles, CA	103	114
Oxnard-Thousand Oaks-Ventura, CA	124	180
Los Angeles-Long Beach-Glendale, CA	135	158
Salinas, CA	142	128
Sacramento-Arden-Arcade-Roseville, CA	144	142
Fresno, CA	146	124
Visalia-Porterville, CA	151	70
Santa Cruz-Watsonville, CA	161	185
Riverside-San Bernardino-Ontario, CA	162	146
Santa Ana-Anaheim,Irvine, CA	165	172
Santa Rosa-Petaluma, CA	167	188
Oakland-Fremont-Hayward, CA	168	178
Modesto, CA	174	193
Stockton, CA	187	186

Source: Milken Institute