

Controller *John Chiang*

California State Controller's Office



March 2010 Summary Analysis

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Statement of General Fund Cash Receipts and Disbursements

State Finances in February 2010

- ⇒ The State's General Fund revenues improved again in February 2010. Compared to projections in the 2010-11 Governor's Budget, total General Fund revenues were \$480 million higher (8.7%) than expected. Personal income tax revenues were \$250 million lower (-11.8%) than anticipated. But corporate tax revenues came in above estimates by \$119 million (89.2%), and sales taxes also beat projections by \$544 million (17.9%).
- ⇒ At this time last year, the State was forced to delay \$4.8 billion in payments to manage a cash crisis. To present a true comparison against that period, last year's revenues are adjusted to account for the delays. Compared to February 2009, General Fund revenue in February 2010 was up \$1.89 billion (46.1%). The total for the three largest taxes was above 2009 levels by \$1.81 billion (46.7%). Corporate taxes were up by \$194 million (335.7%). Sales taxes were \$412 million higher (13.0%) than last year. Personal income taxes came in \$1.21 billion above (184.0%) last February.

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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 February 2010 and year to date for the first eight months of Fiscal Year 2009-10. 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 and disbursements against historical figures from 2008-09 and the statement of estimated cash flows from the 2010-11 Governor's Budget.

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Tax Revenue Fiscal Year to Date

- ⇒ Compared to projections in the 2010-11 Governor's Budget, General Fund revenues in February were above the year-to-date estimate by \$1.94 billion (3.9%). The three largest sources of revenue were higher than the estimates by \$1.86 billion (4.0%). Corporate tax collections year to date were up \$277 million (6.9%), and income taxes were \$869 million higher (3.3%) than expected in the 2010-11 Governor's Budget. Sales taxes also beat projections by \$717 million (4.2%). Because the Governor's Budget estimates contained actual revenue through November, this revenue improvement occurred between December and February.
- ⇒ Compared to this date in February 2009, revenue receipts are up by \$267 million (0.5%). This was driven by sales taxes, which came in \$1.62 billion above (10.1%) last year at this time, and by corporate taxes, which were \$109 million higher (2.6%).
- ⇒ Year-to-date collections for the three major taxes were \$150 million higher (0.3%) than last year at this time. However, personal income taxes were down \$1.58 billion (-5.5%) from last year's total at the end of February.

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What The Numbers Tell Us

The State's economy has definitely begun the healing process. For the third consecutive month, California saw an improvement in its revenues. Total General Fund receipts were above both the Governor's Budget estimates and last year's totals at this point of 2009. Both retail sales and corporate taxes have come in particularly strong. This provides strong evidence that consumer activity, which accounts for the largest portion of the economy, is finding some level of stasis.

The housing market, which in some ways precipitated this consumer-led downturn, is also showing signs of life. The median price of an existing single-family home in California rose for the third straight month on a year-over basis. Though home sales fell slightly over the past few months, they remain much higher than the level of activity seen when home prices peaked. This was surely aided by the extension of the federal government's first-time homebuyer tax credit, and the fact that prices are finally in closer alignment with incomes.

The construction of new homes is also slowly climbing out of the basement. After a steady decline from mid-2005, new residential building permits have been trending upward at a muted pace since early 2009. Although the roughly 3,700 homes permitted in January was far below the 20,000+ permits issued at the peak of the market, this trend is welcome news for an industry that has struggled in recent years.



The labor markets, which are typically a lagging indicator of recovery, are finally beginning to show some signs of life. According to the Employment Development Department, the State added 32,500 jobs in January. Encouragingly, this expansion was spread across virtually every sector although financial activities, professional and business services continued their decline.

This is not to say that California does not face significant challenges ahead. The commercial real estate market is not out of the woods yet. The employment picture — although less grim — still has the State well below peak and unemployment rose overall in January. The worst is likely over, but we need to see economic growth and reduced unemployment sustained over the medium-term.

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Summary of Net Cash Position as of February 28, 2010

- ⇒ Through February, the State had total receipts of \$54.0 billion (Table 1) and disbursements of \$64.4 billion (Table 2).
- ⇒ The State ended last fiscal year with a deficit of \$11.9 billion, so the combined current year deficit stands at \$22.3 billion (Table 3). Those deficits are being covered with \$13.5 billion of internal borrowing and \$8.8 billion in external borrowing.
- ⇒ Of the largest expenditures, \$47.5 billion went to local assistance and \$15.6 billion went to State operations (See Table 2).

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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, 2009 - February 28, 2010 (in Millions)*

| Revenue Source | Actual Receipts to Date | 2010-11 Governor's Budget Estimate | Actual Over (Under) Estimate |
|------------------------------------|-------------------------|------------------------------------|------------------------------|
| Corporate Tax | \$4,266 | \$3,990 | \$277 |
| Personal Income Tax | \$26,952 | \$26,083 | \$869 |
| Retail Sales and Use Tax | \$17,608 | \$16,892 | \$717 |
| Other Revenues | \$3,397 | \$3,314 | \$83 |
| Total General Fund Revenue | \$52,224 | \$50,279 | \$1,945 |
| Non-Revenue | \$1,760 | \$1,678 | \$82 |
| Total General Fund Receipts | \$53,984 | \$51,957 | \$2,027 |

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

Table 2: General Fund Disbursements, July 1, 2009-February 28, 2010 (in Millions)

| Recipient | Actual Disbursements | 2010-11 Governor's Budget Estimate | Actual Over (Under) Estimate |
|----------------------------|----------------------|------------------------------------|------------------------------|
| Local Assistance | \$47,470 | \$47,657 | (\$186) |
| State Operations | \$15,574 | \$15,419 | \$154 |
| Other | \$1,359 | \$1,449 | (\$90) |
| Total Disbursements | \$64,402 | \$64,525 | (\$122) |

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⇒ Local assistance payments were \$186 million lower (-0.4%) than expected in the 2010-11 Governor's Budget. State operations disbursements were \$154 million above (1.0%) projections.

**Table 3: General Fund Cash Balance
As of February 28, 2010 (in Millions)**

| | Actual Cash Balance | 2010-11 Governor's Budget Estimate | Actual Over (Under) Estimate |
|---------------------------------------------|---------------------|------------------------------------|------------------------------|
| Beginning Cash Balance July 1, 2009 | (\$11,908) | (\$11,908) | \$0 |
| Receipts Over (Under) Disbursements to Date | (\$10,419) | (\$12,568) | \$2,150 |
| Cash Balance February 28, 2010 | (\$22,327) | (\$24,476) | \$2,150 |

How to Subscribe to this Publication

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

To have the monthly financial statement and summary analysis e-mailed to you directly, sign up at: http://www.sco.ca.gov/ard_monthly_cash_email.html

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California Economic Snapshot

| | | |
|------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| New Auto Registrations (Fiscal Year to Date) | 511,314 Through November 2008 | 431,951 Through November 2009 |
| Median Home Price (for Single Family Homes) | \$224,000 In January 2009 | \$247,000 In January 2010 |
| Single Family Home Sales | 29,458 In January 2009 | 27,858 In January 2010 |
| Foreclosures Initiated (Notices of Default) | 75,230 In 4th Quarter 2008 | 84,568 In 4th Quarter 2009 |
| Total State Employment (Seasonally Adjusted) | 14,543,800 In January 2009 | 13,842,100 In January 2010 |
| Newly Permitted Residential Units (Seasonally Adjusted Annual Rate) | 29,826 In January 2009 | 44,551 In January 2010 |
| Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance | | |

What To Expect In Terms of Recovery?

This month, two members of Controller John Chiang's Council of Economic Advisors were asked to explain what type of recovery, if any, they expect in California. 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.

**By Christopher Thornberg, Ph.D,
Founding Principal, Beacon Advisers**

With ample evidence that the worst is behind us, the question now is how strong a recovery to expect. Amid any good news, unfortunately, caution is still in order. Today's rebounds are largely due to government intervention in the economy, rather than healthy fundamentals. When government support is withdrawn, economic growth will slow sharply. There is a chance of yet another recession, albeit a mild one relative to what we have just come through.

Take housing. The bounce in prices is due to low interest rates, the tax credit and aggressive Federal Housing Administration (FHA) lending, not to mention the slowing of the foreclosure process due to the loan modification programs. Later this year, rates will rise as quantitative easing comes to an end. The FHA portfolio is already in trouble and as more bad news emerges from this agency, it will presumably have to pull back. The tax credit effect is only good for the last two months of the programs, and, of course, the state currently has 500,000 housing units with non-performing loans, most of which will eventually be on the market. It is clear this bounce will come to an end.

Similarly, the rebound in consumer spending is occurring principally because of the massive tax breaks Americans have enjoyed. When these tax cuts come to an end in 2011, the rate increase will erase all of the gains in savings the nation has seen. Unless Americans decide yet again to stop saving, look forward to another sharp decline in spending. Add it up, and the state legislative bodies should plan not on a rebound in revenues, but rather normal growth from the current low base.

**By Esmael Adibi
Director, Anderson Center for
Economic Research at Chapman University**

In all likelihood, the U.S. economy emerged from recession in the third quarter of 2009. Real Gross Domestic Product grew in the third and fourth quarters of 2009, mainly as a result of pick-up in consumers' spending, supported by the government's stimulus package and sharp improvement in real exports.

However, the economy is still shedding jobs, albeit at a slower rate. The outlook for job growth in California not only depends on total spending at the national level and recovery in the exports market, but also local construction spending.

Residential construction activity is stabilizing and is expected to show an uptick this year. But with high commercial vacancy rates, nonresidential construction activity is expected to decline further throughout 2010. Total spending in the construction sector, therefore, will be a significant drag on the state's economy. As a result, California will continue to lose jobs in early 2010 and show only a modest positive rate of job creation in the second half of the year.

On an annual basis, the state is forecasted to lose 73,750 payroll jobs in 2010. Most of the new projected payroll jobs will be in the services sector. The most rapid growth is forecasted to take place in the education and health services and professional and business services sectors, followed by a weak growth in the leisure and hospitality and the high-tech manufacturing sectors.