

# Controller *John Chiang*

## California State Controller's Office



April 2011 Summary Analysis

Volume 5, Issue 4

## Statement of General Fund Cash Receipts and Disbursements

### State Finances in March 2011

- ⇒ Compared to the 2011-12 Governor's Budget, total General Fund revenues were down in March by \$370 million (-5.8%). However, personal income tax revenues came in above estimates by \$1.2 billion (144.7%). Retail sales and use taxes were also above expectations by \$9.7 million (0.5%). Corporate tax revenues were \$387.6 million worse (-19.7%) than anticipated, but most of the month's drop was due to the cancelled sale and lease-back of state buildings that was slated to happen in March. Those revenues were scored under the "Not Otherwise Classified" category, which dropped \$1.2 billion (-95.3%) below budget estimates.
- ⇒ Compared to March 2010, General Fund revenue in March 2011 was down \$343.0 million (-5.4%). The total for the three largest taxes was below 2010 levels by \$255.8 million (-4.3%). This was driven by personal income taxes,

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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.

#### 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.

This Summary Analysis covers actual receipts and disbursements for March 2011 and year to date for the nine 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 estimates found in the Governor's proposed 2011-2012 State Budget.

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which were down by \$261.8 million (-11.2%) and sales and use taxes, which came in below last March by \$27.6 million (-1.3%). Corporate taxes were above last March by \$33.6 million (2.2%).

## Tax Revenue Fiscal Year to Date

⇒ Compared with the 2011-12 Governor's Budget Estimates, General Fund revenues through March were still above the year-to-date estimate by \$941.6 million (1.5%). The three largest sources of revenue were above the estimates by \$2.2 billion (3.9%). Income taxes came in better than expected by \$2.8 billion (8.9%). Sales tax collections were \$40.6 million better (0.2%) than expected in the 2011-12 Governor's Budget Estimates. Corporate tax collections year-to-date were below the estimates by \$615.6 million (-9.7%).

⇒ Compared to this date in March 2010, revenue receipts were up \$4.6 billion (7.8%). This was driven by personal income taxes, which came in \$4.6 billion above (15.8%) last year at this time. Sales taxes were also up \$109.2 million (0.6%) from last year's total at the end of March.

⇒ Year-to-date collections for the three major taxes were \$4.6

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## What the Numbers Tell Us

This month's revenue figures show that while the state continues its economic recovery, the progress toward our pre-recession peaks will be slow. General Fund revenues fell in March relative to March 2010. In total, General Fund revenues were down 5.4% from last March.

Yet despite less than ideal performance in revenues, these numbers show that the recovery continues to move forward. For example, while total revenues were below the budget estimates by \$370 million, much of this variance is due to the non-sale and lease-back of government-owned properties. At the time the Governor's Budget was created in January, the estimates included these sales in its projections for March revenues. Because the sales were cancelled, there is a large divergence from the estimates.

However, when we look at the three largest sources of state revenue, the General Fund continues to improve. March personal income tax revenues are tracking more than \$1.2 billion above the Department of Finance's latest estimates on the back of decent gains in employment, incomes, and hours. Sales tax revenues, which came in just above the estimates, continue to benefit from rising consumer spending and a gradually-improving economy.

That said, corporate taxes continue to drag on California's General Fund. To date, corporate taxes are down \$616 million from the Governor's Budget despite rising earnings and profits.

This volatility in revenues, with some sources posting solid increases while others lag behind, is indicative of how bumpy the road to recovery will be. The next year is expected to be mixed with some aspects of the economy improving while others struggle to regain their footing.



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billion higher (8.5%) than last year at this time, despite corporate taxes being down \$86.4 million (-1.5%) from last year's total at the end of March.

## Summary of Net Cash Position as of March 31, 2011

- ⇒ Through March, the State had total receipts of \$65.1 billion (Table 1) and disbursements of \$74.2 billion (Table 2).
- ⇒ The State ended last fiscal year with a deficit of \$9.9 billion. The combined current year deficit stands at \$19 billion (Table 3). Those deficits are being covered with \$9 billion of internal borrowing and \$10 billion of external borrowing.

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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 - March 31, 2011 (in Millions)\***

Revenue Source	Actual Receipts to Date	2011-12 Governor's Budget	Actual Over (Under) Estimate
Corporate Tax	\$5,721	\$6,337	(\$616)
Personal Income Tax	\$33,915	\$31,132	\$2,783
Retail Sales and Use Tax	\$19,819	\$19,778	\$41
Other Revenues	\$3,710	\$4,976	(\$1,266)
Total General Fund Revenue	\$63,166	\$62,224	\$942
Non-Revenue	\$1,975	\$1,479	\$497
Total General Fund Receipts	\$65,141	\$63,703	\$1,438

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

**Table 2: General Fund Disbursements, July 1, 2010-March 31, 2011 (in Millions)**

Recipient	Actual Disbursements	2011-12 Governor's Budget	Actual Over (Under) Estimate
Local Assistance	\$53,536	\$54,760	(\$1,224)
State Operations	\$19,688	\$19,698	\$(9)
Other	\$993	\$978	\$15
Total Disbursements	\$74,217	\$75,435	(\$1,218)

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- ⇒ Of the largest expenditures, \$53.5 billion went to local assistance and \$19.7 billion went to State operations (Table 2).
- ⇒ Local assistance payments were \$1.2 billion lower (-2.2%) than the 2011-12 Governor's Budget Estimates and State operations were \$9.4 million below (-0.0%).



### How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for March 2011 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: [http://www.sco.ca.gov/ard\\_monthly\\_cash\\_email.html](http://www.sco.ca.gov/ard_monthly_cash_email.html)

Any questions concerning this Summary Analysis may be directed to Hallye Jordan, Deputy Controller for Communications, at (916) 445-2636.

**Table 3: General Fund Cash Balance As of March 31, 2011 (in Millions)**

	Actual Cash Balance	2011-12 Governor's Budget	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2010	(\$9,922)	(\$9,922)	\$0
Receipts Over (Under) Disbursements to Date	(\$9,076)	(\$11,733)	\$2,657
Cash Balance March 31, 2011	(\$18,998)	(\$21,655)	\$2,657

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**California Economic Snapshot**

<b>New Auto Registrations</b> (Fiscal Year to Date)	<b>426,058</b> Through November 2009	<b>449,323</b> Through November 2010
<b>Median Home Price</b> (for Single Family Homes)	<b>\$249,000</b> In February 2010	<b>\$244,000</b> In February 2011
<b>Single Family Home Sales</b>	<b>28,111</b> In February 2010	<b>27,320</b> In February 2011
<b>Foreclosures Initiated</b> (Notices of Default)	<b>84,568</b> In 4th Quarter 2009	<b>69,799</b> In 4th Quarter 2010
<b>Total State Employment</b> (Seasonally Adjusted)	<b>13,859,600</b> In February 2010	<b>14,055,900</b> In February 2011
<b>Newly Permitted Residential Units</b> (Seasonally Adjusted Annual Rate)	<b>46,704</b> In February 2010	<b>27,900</b> In February 2011

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



## Don't Count on Bankruptcy Theories

*By Timothy Schaefer  
Founder and Principal,  
Magis Advisers*

Late in 2010, a proposal was made to create federal legislation that would enable state governments to file bankruptcy. The idea is unsound for a variety of reasons, including the clear lack of any state that needs or has requested such powers. Despite the punishing effects of the Great Recession, the majority of our nation's states are succeeding in rearranging their budgets to reflect the new funding levels available in 2011.

Individual, or "retail," investors are the largest holders of municipal securities, including many from state governments. This investor class holds 35% of all outstanding municipal indebtedness. A bankruptcy by any major state issuer would destabilize this market segment, and possibly result in a significant threat to the retirement incomes of ordinary investors.

This market effect applies equally to shareholders in mutual funds who own bonds of state governments. These mutual funds hold another 36% of outstanding state and local government bonds. Simple logic suggests that a large exposure by one or more funds would provoke a possible "run" on the mutual fund holdings following an actual or threatened state bankruptcy.

Some critics see unfunded pension obligations as impending financial doom for state budgets, and while some governmental pension systems are underfunded, to characterize them as immediately payable is simply dead wrong. A pension fund's obligation, by definition, is paid out over many years as employees retire and age. In a simplistic analogy, it is the same as paying one's mortgage. Few persons could retire their entire mortgage immediately upon demand of the lender.

Predicting the "collapse" of the market based on the recent experience of other credit sectors is to misunderstand the U.S. municipal finance system. For context, consider several recent studies by the credit rating agencies – and an older study – on the default rates for state and local government debt. In March 2009, Standard & Poor's examined defaults in the municipal sector since 1986 and compared those defaults to those occurring in the U.S. corporate bond market. Only 0.11% of A-rated municipal bonds defaulted during that period. In contrast, defaults on corporate bonds rated at the same level were thirty times greater.

During the 1930s, defaults of municipal bonds rose, but never became widespread. In the early 1970s, George Hempel of Washington University found that during the Great Depression, outstanding municipal bonds defaulted at a rate of fewer than 2% of outstanding issues, and that almost 97% of those defaults were cured in time.

There is no tangible evidence to suggest that today's credit stresses will produce different results. Over time, municipal bonds issued for essential, governmental purposes have proven to be safe, durable investment assets. That is primarily due to the essentiality of the assets being financed and the still modest debt levels of most of our state and local governments.

In short, the prognosticators of widespread defaults do not seem to recognize that government and business aren't the same – and, neither is their debt.

*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.*