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California State Controller's Office



May 2011 Summary Analysis

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Statement of General Fund Cash Receipts and Disbursements

State Finances in April 2011

- ⇒ After a sluggish performance in February and March, General Fund revenues improved in April 2011. Compared to the 2011-12 Governor's Budget estimates, total General Fund revenues were up in April by \$397.6 million (4.0%). Personal income tax revenues came in above estimates by \$272.7 million (4.0%). Retail sales taxes were also above expectations by \$45.2 million (5.0%). However, corporate tax revenues were \$48.2 million worse (-3.1%) than anticipated.
- ⇒ Compared to April 2010, General Fund revenue in April 2011 was up \$296.3 million (2.9%). The total for the three largest taxes was above 2010 levels by \$128.4 million (1.4%). This was driven by corporate taxes, which were up by \$97.5 million (7.0%) and sales taxes, which came in above last April by \$67.3 million (7.6%). Personal income taxes were below last April by \$36.4 million (-0.5%).

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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 April 2011 and year to date for the 10 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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Tax Revenue Fiscal Year to Date

- ⇒ Compared to the 2011-12 Governor's Budget Estimates, General Fund revenues through April were above the year-to-date estimate by \$1.3 billion (1.9%). This figure is skewed by the canceled sale and lease-back of state properties, a plan that expected to generate \$1.2 billion of "revenues" in March. Year to date receipts for the three largest taxes were above estimates by \$2.5 billion. Income taxes came in better than expected by \$3.1 billion (8.0%). Sales tax collections were \$85.8 million better (0.4%) than expected, while corporate taxes year-to-date were below estimates by \$663.8 million (-8.4%).
- ⇒ Compared to this date in April 2010, revenue receipts were up \$4.9 billion (7.1%). This was driven by personal income taxes, which came in \$4.6 billion above (12.6%) last year at this time. Sales taxes were also up \$176.6 million (0.9%) from last year's total at the end of April. Corporate tax collections were up \$11.1 million (0.2%).
- ⇒ Year-to-date collections for the three major taxes were \$4.8 billion (7.4%) higher than last year at this time.

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What the Numbers Tell Us

After a lackluster performance in February and March, General Fund revenues continued trending upward relative to both last year and to the Department of Finance's estimates.

Personal income taxes continue to lead the charge — rising 8% over estimates and 13% over last fiscal year. This is unsurprising given the slow, but steady progress we have seen in the labor markets and the rising California incomes reported by the Bureau of Economic Analysis.

Sales taxes have continued to improve as well, rising over last year's total and the Department of Finance's forecast. This has been driven by the gradually improving conditions in addition to rising commodity prices. Indeed, initial indications from the Board of Equalization show that auto fuel/service stations were the fastest growing category of taxable expenditures in the final quarter of 2010. However, the correction to consumer balance sheets that was



stimulated by the recession in terms of rising savings rates and falling debt levels has finally brought consumers back to a place where they can begin to feel comfortable spending again. This has helped to drive modest increases in other categories of expenditures (apparels, home furnishings, etc).

However, corporate taxes are still lagging behind, though they are up slightly from last year. And while personal income tax has grown, we have seen it stumble slightly in recent months. Both of these trends underscore the importance of securing permanent solutions to the budget shortfall.

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Summary of Net Cash Position as of April 30, 2011

- ⇒ Through April, the State had total receipts of \$75.5 billion (Table 1) and disbursements of \$83.3 billion (Table 2).
- ⇒ The State ended last fiscal year with a deficit of \$9.9 billion. The combined current year deficit stands at \$17.8 billion (Table 3). Those deficits are being covered with \$7.8 billion of internal borrowing and \$10 billion of external borrowing.
- ⇒ Of the largest expenditures, \$59.9 billion went to local assistance and \$22.6 billion went to State operations (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, 2010 - April 30, 2011 (in Millions)*

Revenue Source	Actual Receipts to Date	2011-12 Governor's Budget	Actual Over (Under) Estimate
Corporate Tax	\$7,205	\$7,869	(\$664)
Personal Income Tax	\$41,029	\$37,973	\$3,056
Retail Sales and Use Tax	\$20,773	\$20,687	\$86
Other Revenues	\$4,505	\$5,643	(\$1,139)
Total General Fund Revenue	\$73,512	\$72,173	\$1,339
Non-Revenue	\$1,985	\$1,502	\$482
Total General Fund Receipts	\$75,497	\$73,675	\$1,821

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

Table 2: General Fund Disbursements, July 1, 2010-April 30, 2011 (in Millions)

Recipient	Actual Disbursements	2011-12 Governor's Budget	Actual Over (Under) Estimate
Local Assistance	\$59,862	\$61,580	(\$1,718)
State Operations	\$22,608	\$22,615	(\$7)
Other	\$865	\$991	(\$126)
Total Disbursements	\$83,335	\$85,186	(\$1,851)

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⇒ Local assistance payments were \$1.7 billion lower (-2.8%) than the 2011-12 Governor's Budget Estimates and State operation expenditures were down \$6.7 million (-0.0%).

Table 3: General Fund Cash Balance As of April 30, 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	(\$7,838)	(\$11,511)	\$3,673
Cash Balance April 30, 2011	(\$17,760)	(\$21,433)	\$3,673

How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for April

2011 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)	608,106 Through January 2010	653,310 Through January 2011
Median Home Price (for Single Family Homes)	\$255,000 In March 2010	\$249,000 In March 2011
Single Family Home Sales	37,295 In March 2010	36,417 In March 2011
Foreclosures Initiated (Notices of Default)	81,054 In 1st Quarter 2010	68,239 In 1st Quarter 2011
Total State Employment (Seasonally Adjusted)	13,861,200 In March 2010	14,049,300 In March 2011
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	39,606 In March 2010	43,536 In March 2011

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

The Effects of an E10 Ethanol-Blend Policy on California

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National attention has emerged in support of biofuel development and use. The motivating factors include high oil prices, security concerns from relying on foreign energy sources, support for economic growth in the United States' agricultural community, and environmental goals related to criteria pollutants and climate change emissions. Given the existing production infrastructure and experience with fuel blending, the biofuel of choice is currently ethanol. Currently, gasoline fuel in California includes approximately 5.7% ethanol (E5.7).

Another mixture, E10, combines 10% ethanol and 90% gasoline for use in internal combustion engines of most modern automobiles and light-duty vehicles. E10 blends are mandated in some areas for emissions and other reasons.

The potential effects of an E10 ethanol-blend policy in California are uncertain. In California, ethanol fuel or corn feedstock is largely imported from midwest states creating interstate transport challenges. Ethanol fuel cannot be transported in the fuel pipeline system and needs to be blended with gasoline near the end-market locations.

Additionally, certain blend fractions of ethanol in gasoline can increase evaporative emissions and permeation, resulting in larger air quality concerns. Moreover, especially in California, E10 from corn is supported largely because it facilitates the transition away from petroleum and toward biofuels. But this issue has not been thought through, and is subject to a variety of uncertain assumptions.

How much ethanol would be consumed in CA each year for the next ten years if there were a mandatory E10 policy? In recent research with graduate students Wei Zhang, Omid Rouhani and Lea Prince, I estimate ethanol consumption based on projections of fuel demand as a base case, and then analyze different scenarios.

In order to estimate the required ethanol quantities under an E10 mandate, we first estimate future gasoline fuel demand. The estimation of demand models for gasoline has produced varying results over the past few decades and continues to be a subject of great interest. Estimates drawn from analysis that includes recent data and California-specific data are scarce, however.

A key parameter in the estimation of gasoline

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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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demand is the price elasticity of demand, which measures the percent change in gasoline demand for a percent change in gasoline price. It is a measure of how responsive consumers are to changes in the price of gasoline. The higher the elasticity in magnitude, the more consumers will decrease gasoline consumption in response to an increase in gasoline price. According to previous



studies estimating the elasticity of demand for gasoline using data spread over the years 1929 to 2000, the mean short-run elasticity ranged from -0.25 to -0.28. Short-run elasticities measure the responsiveness over a time span of several months. One recent study, Hughes et al. (2008), shows that demand has become more inelastic over the recent

years. In particular, they find that short-run elasticities have decreased by up to an order of magnitude from a range of -0.21 to -0.34 for the years 1975 to 1980, to a range of -0.034 to -0.077 for the recent years 2001 to 2006.

To determine how much ethanol would need to be supplied in California each year from 2010 to 2020 if there were a mandatory national E10 policy that required 10% of the fuel blend to be ethanol, we start with a model of fuel demand for California. Under an E10 policy, 10% of this fuel demand would have to be ethanol.

According to our model, we find the intermediate-run price elasticity of demand for gasoline in California to be -0.221. Unlike the previous estimates of the elasticity of demand, our estimate is specific to California and the data used in its estimation include data from recent years. In alternate specifications, we also use a range for the elasticity, from -0.101 to -0.28, which encompasses the range of mean elasticities found in the literature.

If implemented, an E10 policy in California would have impacts on ethanol consumption and greenhouse gas emissions, among other effects. Under an E10 policy in California, the ethanol consumption in 2020 will range from 1.56 billion to 2.40 billion gallons, with a base case value of 1.68 billion gallons. The average greenhouse gas emission reduction in 2020 using an E10 policy for the present combination of feedstock will be 1.37% compared to the current E5.7 blend, with a range of -0.94% to 3.87%.

