

# Controller *John Chiang*

## California State Controller's Office



June 2011 Summary Analysis

Volume 5, Issue 6

## Statement of General Fund Cash Receipts and Disbursements

### State Finances in May 2011

- ⇒ Compared to the 2011-12 May Revision Budget estimates, total General Fund revenues were \$408.3 million higher (5.9%) than expected in May. Personal income tax revenues came in above estimates by \$12.3 million (0.4%). Retail sales taxes were also above expectations by \$305.9 million (9.0%). However, corporate tax revenues were \$11.1 million worse (-3.9%) than expected.
- ⇒ Compared to May 2010, General Fund revenue in May 2011 was up \$747.1 million (11.3%). The total for the three largest taxes was above 2010 levels by \$652.8 million (10.5%). This was driven by personal income taxes, which were up \$509.8 million (21.4%) and sales taxes, which came in \$175.4 million above last May's totals (4.9%). Corporate taxes were below last May by \$32.3 million (-10.5%).

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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 May 2011 and year to date for the 11 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 May Revise 2011-2012 State Budget proposal.

(Continued from page 1)

## Tax Revenue Fiscal Year to Date

- ⇒ Compared with the 2011-12 May Revision estimates, General Fund revenues through May were above the year-to-date estimate by \$408.3 million (0.5%). The three largest sources of revenue were above estimates by \$307.2 million (0.4%). Sales tax collections came in above estimates by \$305.9 million (1.3%). Income taxes came in \$12.3 million better than expected (0.0%). Corporate tax collections year-to-date were below estimates by \$11.1 million (-0.1%). The May Revision estimates made use of actual April 2011 figures. Therefore any variance showed in the comparisons above are entirely due to May revenues.
- ⇒ Compared to this date in May 2010, revenue receipts were up \$5.6 billion (7.5%). This was driven by personal income taxes, which came in \$5.1 billion above (13.1%) last year at this time. Sales taxes were also up \$352 million (1.5%) from last year's total at the end of May.
- ⇒ Year-to-date collections for the three major taxes were \$5.4 billion higher (7.7%) than last year at this time, despite corporate taxes being down \$21.2 million (-0.3%) from last year's total at the end of May.

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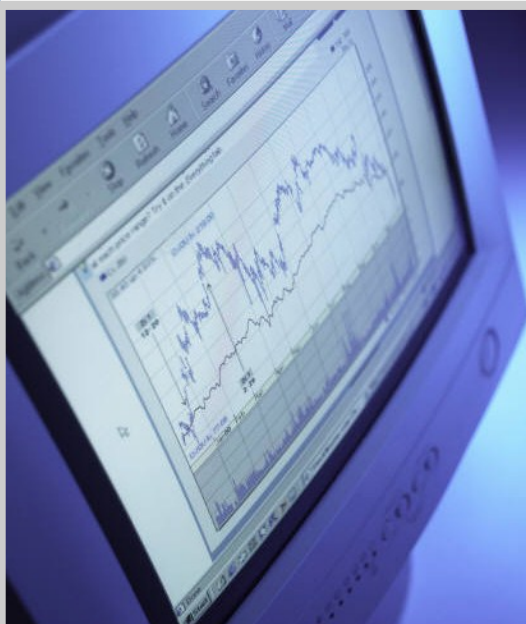
## What the Numbers Tell Us

While the economy continues down the road to health, recent data releases have sparked fears that the recovery has stalled. One example is the Case-Shiller index of home prices showing a slight slump in the first quarter of 2011, which has been interpreted by some media as a sign that prices will continue to fall.



What those stories miss is that home prices are at some of the most affordable levels on-record in the wake of the downturn. This fact, combined with the still-low interest rates on home mortgages, will help to keep prices from falling much further.

We find a similar case with both employment and output: Gross Domestic Product (GDP) growth slowed to 1.8% in the first quarter of 2011 due to lackluster consumer spending, a reduction in defense spending, and falling nonresidential construction.



Additionally, the United States economy only added 54,000 jobs in May. This has stoked fears that the recovery may be reversing course. However, this first quarter also marked the seventh consecutive quarter of economic expansion. While this has not catapulted the nation or state to rapid job growth, employment is well off the bottom.

(Continued from page 2)

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

- ⇒ Through May, the State had total receipts of \$83.2 billion (Table 1) and disbursements of \$88.1 billion (Table 2).
- ⇒ The State ended last fiscal year with a deficit of \$9.9 billion. The combined current year deficit stands at \$14.9 billion (Table 3). Those deficits are being covered with \$7.1 billion of internal borrowing and \$7.8 billion of external borrowing.
- ⇒ Of the largest expenditures, \$62.6 billion went to local assistance and \$24.7 billion went to State operations (Table 2).

(Continued on page 4)

### 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 - May 31, 2011 (in Millions)\***

Revenue Source	Actual Receipts to Date	2011-12 May Revision	Actual Over (Under) Estimate
Corporate Tax	\$7,481	\$7,492	(\$11)
Personal Income Tax	\$43,921	\$43,909	\$12
Retail Sales and Use Tax	\$24,495	\$24,189	\$306
Other Revenues	\$4,970	\$4,869	\$101
<b>Total General Fund Revenue</b>	<b>\$80,867</b>	<b>\$80,459</b>	<b>\$408</b>
Non-Revenue	\$2,326	\$2,241	\$85
<b>Total General Fund Receipts</b>	<b>\$83,194</b>	<b>\$82,700</b>	<b>\$493</b>

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

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

Recipient	Actual Disbursements	2011-12 May Revision	Actual Over (Under) Estimate
Local Assistance	\$62,633	\$63,356	(\$724)
State Operations	\$24,654	\$24,641	\$14
Other	\$857	\$889	(\$32)
<b>Total Disbursements</b>	<b>\$88,144</b>	<b>\$88,886</b>	<b>(\$742)</b>

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⇒ Local assistance payments were \$724 million lower (-1.1%) than the 2011-12 May Revision Budget estimates (Table 2) and State operation expenditures were above estimates by \$14 million (0.1%).

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

	Actual Cash Balance	2011-12 May Revision	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2010	(9,922)	(\$9,922)	\$0
Receipts Over (Under) Disbursements to Date	(\$4,950)	(\$6,186)	\$1,236
Cash Balance May 31, 2011	(\$14,872)	(\$16,108)	\$1,236

## How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for May 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)



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**California Economic Snapshot**

<b>New Auto Registrations</b> (Fiscal Year to Date)	<b>700,398</b> Through February 2010	<b>757,998</b> Through February 2011
<b>Median Home Price</b> (for Single Family Homes)	<b>\$255,000</b> In April 2010	<b>\$249,000</b> In April 2011
<b>Single Family Home Sales</b>	<b>37,481</b> In April 2010	<b>35,202</b> In April 2011
<b>Foreclosures Initiated</b> (Notices of Default)	<b>81,054</b> In 1st Quarter 2010	<b>68,239</b> In 1st Quarter 2011
<b>Total State Employment</b> (Seasonally Adjusted)	<b>13,910,500</b> In April 2010	<b>14,054,900</b> In April 2011
<b>Newly Permitted Residential Units</b> (Seasonally Adjusted Annual Rate)	<b>38,961</b> In April 2010	<b>39,767</b> In April 2011

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

# Manufacturing — At home in California?

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**M**anufacturing has started to stage a recovery around the country and California has been no exception. Part of the upswing reflects the upturn from a devastating recession. Longer term trends may also be at work as companies rethink their outsourcing strategies.

California's loss of factory jobs was both deep and long. Starting in early 2007, the state suffered consistent monthly losses for a full three years until some flickers of light appeared early last year. From the peak of February 2007 to the low point of September 2010, the state's manufacturing jobs plummeted 16%. This was almost double the 9% peak-to-trough loss experienced for total nonfarm payrolls in the state. Although of little consolation, California's 16% factory job loss was actually less than the 18% reduction posted nationally.

California's recovery in manufacturing jobs was initially bumpy last year, with a month or two of improvement followed by one or two months of setback. Beginning in October, a more consistent upswing has developed. Through April of this year, California has now added jobs for seven consecutive months, bringing the cumulative gain to more than 17,000 jobs over that time period.

Companies throughout the nation, including those in California, have been slow to add back workers for two reasons. First, they were uncertain as to how long any

upswing in sales might persist. Second, they were able to achieve sizable increases in efficiency. Nationally, for example, manufacturing firms recorded an impressive 6.3% boost in output per hour last year.

Although the economy continues to experience various shocks and uncertainties, ranging from Japan's earthquake to a spike in oil prices, many firms are beginning to believe that an improving trend in sales will persist. Productivity gains also may be reaching limits, with companies needing to bolster workforces to meet orders.

As of this April, manufacturing jobs were equal to 85% of their pre-recession high in California. This is slightly ahead of the national 84% recovery ratio. While full recovery is still a long ways off, a meaningful start has finally begun.

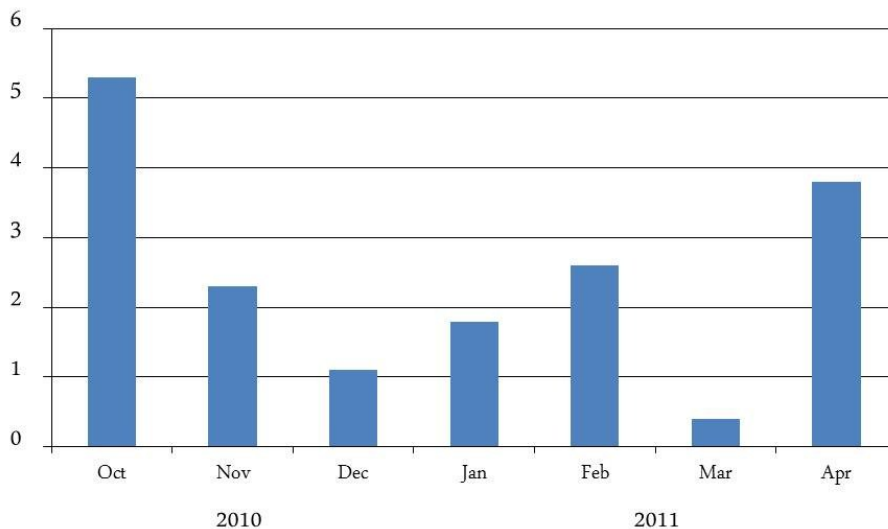
A few manufacturing industries, such as paper, plastics, wood products, and shipbuilding, have yet to show an upturn, but each appears to be stabilizing. Most others have experienced some job gains, although progress shows a wide variation.

Relative to four years ago in April 2007 before the recession struck, employment in medical equipment manufacturing operations is actually up by 5% as of April 2011. Food and beverage manufacturing firms have

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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.*

## California Factory Jobs Return Monthly changes, thousands, seasonally adjusted



Source: Haver; FBEI

Consulting Group estimates that by 2015 much of the cost advantage of China over the U.S. after adjusting for productivity and exchange rates will have disappeared.

High oil prices. If oil prices remain at around \$100 a barrel or higher, firms will need to factor in significant transportation costs as a negative in importing goods from foreign sources.

Supply chain risk. Japan's earthquake and tsunami underscored the risks of long and complex supply chains. A consolidation of those links may be in order.

Customized products. Many American firms are focusing on higher valued-added products involving niche markets in order

to be competitive. This often requires a closer proximity to customers where designers and engineers can work directly to customer specifications.

Rapid response to market changes. A close proximity to markets can also allow manufacturers to monitor and respond to shifts in consumer tastes with new and different products.

Better inventory management. Local suppliers can improve the likelihood of achieving optimal inventory levels as changes in demand dictate either sizable increases or declines in holdings of parts, supplies, and finished goods.

Considering these various factors, firms may continue to look outside the U.S., including in countries such as Vietnam, India, and Mexico. However, a number will opt to maintain operations in the United States, expand their American facilities, or establish new plants in this country. Hopefully, California can participate in some of this manufacturing renaissance.

restored employee levels to 98% of the 2007 totals.

Other California manufacturing industries showing recovery rates of more than 90% include petroleum refining (94%), computers and electronics (93%), aerospace (92%), chemicals (91%), and electrical equipment (91%). Industries posting relatively good recovery rates reflect the strength in demand for health care, consumer electronics, technology upgrades for various firms, and exports.

In contrast, payrolls among manufacturers of wood products, furniture, textiles, paper, and plastics are less than 80% of their pre-recession levels of four years ago. These shortfalls reflect the sluggish pace of housing and some of the cost pressures facing firms from higher commodity costs.

The global landscape facing manufacturers continues to change, which could have important implications for both the United States and California. For a number of years, firms relentlessly pursued one strategy: "Locate operations in China."

While many firms will continue to start and expand facilities in China, especially to serve the Chinese market, a number of manufacturers are considering other options for sales in the U.S. Several factors are at work:

Rapidly rising wage costs in China. With annual wage gains running around 15-17% per year, Boston