

Controller *John Chiang*

California State Controller's Office

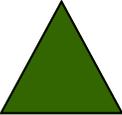
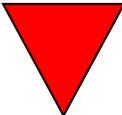


Sept. 11, 2012

Summary Analysis

Volume 6, Issue 9

State Finances in August 2012

| August 2012 compared to monthly estimates in the 2012-13 Budget Act | August 2012 monthly totals compared to August 2011 |
|---|---|
|  Total Revenues: \$434.0 million (7.0%) | Total Revenues:  -\$384.7 million (-5.5%) |
|  Income Tax: \$222.5 million (6.5%) | Income Tax:  \$378.1 million (11.6%) |
|  Sales Tax: \$187.3 million (8.1%) | Sales Tax:  -\$633.3 million (-20.2%) |
|  Corporate Tax: -\$102.2 million (-71.5%) | Corporate Tax:  -\$97.0 million (-70.4%) |

What the Numbers Tell Us

An uptick in personal income taxes helped August's total revenue come in \$434 million above projections, or a total 7% increase.

Even better news could be found in the tax returns themselves. Taxes paid through withholdings and estimated payments were up 7%.

Refunds also were down (13%) relative to projections, another good indicator that personal income taxes could perform well later this year when the majority of income tax is collected. However, it should be noted that these gains were offset in part by poor performance of the tax on business entities.

Sales taxes came in \$187.3 million above projections, although that variance (equaling approximately 8%) is due to timing differences.

What do the 'cash' numbers in the Controller's report represent?

The Chiang report lists disbursements and revenues since July 1 and helps readers monitor the state's financial condition. The numbers used in this report reflect the Controller's interest in cash management. (According to a public-finance adage, "you can't manage what you don't measure.")

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What the Numbers Tell Us

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Large sales tax deposits made to the Board of Equalization late in the month of July were not recorded in the Controller's records as General Fund receipts until the first few days of August

August is a significant month for sales tax revenues, and while this month's totals met Department

of Finance's estimates, they were down significantly (\$633.3 million) from this time last year.

Corporate taxes performed poorly, coming in \$102.2 million below projections and falling behind last year's totals by a similar amount (\$97 million). However, August is not a significant month for corporate taxes. In September, projections call for collecting nearly six times as much of this revenue.

Table 1: General Fund Receipts

July 1, 2012 – Aug. 31, 2012 (in Millions)

| Revenue Source | Actual Revenues | 2012-13 Budget Act | | 2011-12 Year-To-Date | |
|------------------------------------|-------------------|--------------------|---------------------|----------------------|---------------------|
| | | Estimate | Actual Over (Under) | Actual | Actual Over (Under) |
| Corporation Tax | \$305.8 | \$351.0 | (\$45.2) | \$429.2 | (\$123.4) |
| Personal Income Tax | \$6,954.7 | \$6,720.0 | \$234.7 | \$6,420.4 | \$534.3 |
| Retail Sales and Use Tax | \$3,092.3 | \$3,200.0 | (\$107.7) | \$4,116.2 | (\$1,023.9) |
| Other Revenues | \$534.9 | \$657.8 | (\$122.8) | \$775.5 | (\$240.5) |
| Total General Fund Revenue | \$10,887.8 | \$10,928.8 | (\$41.0) | \$11,741.3 | (\$853.5) |
| Non-Revenue | \$555.3 | \$775.3 | (\$219.9) | \$1,031.8 | (\$476.4) |
| Total General Fund Receipts | \$11,443.1 | \$11,704.0 | (\$260.9) | \$12,773.1 | (\$1,330.0) |

What do the 'cash' numbers represent?

(Continued from page 1)

By collecting data to monitor the state's cash balance, the Controller's Office works to ensure that it has sufficient cash to honor all payment demands (such as checks) presented to the State Treasurer. In this way, the monthly cash report functions much like an individual's checking account statement. It lets the reader know how much funds were available for honoring checks at the time of closing. Like a checking account statement, it lists only those funds which have been deposited after accounting for all valid withdrawals.

If cash reserves fall too low, the state runs the risk of having insufficient funds to honor its checks and warrants. By monitoring monthly (and daily) cash balances, policy makers can take steps to ensure sufficient balances by making midyear adjustments to expenditure levels and disbursement patterns. They also may take steps to adjust internal and external borrowing amounts as part of their short-term cash management strategies.

The Department of Finance (DOF) also publishes monthly revenues, as reported by agencies (particularly the Board of Equalization and the Franchise Tax Board).

The data reported in the department's Finance Bulletin reflect "preliminary" estimates, subject to revision. In contrast to the numbers in the Controller's report, DOF's preliminary estimates include all revenue payments made to the agencies, but not necessarily forwarded to the Treasurer. As such, the numbers reflect differences due to delays in depositing and clearing the checks.

The two reports may also differ to the extent the department makes budgetary adjustments in its Finance Bulletin. While the department shares the Controller's interest in the state's cash position, it also monitors revenues for purposes of measuring the June 30 budget balance.

| California Economic Snapshot | | |
|---|--------------------------------------|--|
| New Auto Registrations (Fiscal Year to Date) | 982,124 Through April 2011 | 1,094,544 Through April 2012 |
| Median Home Price (for Single-Family Homes) | \$252,000 In July 2011 | \$281,000 In July 2012 |
| Single-Family Home Sales | 34,695 In July 2011 | 39,507 In July 2012 |
| Foreclosures Initiated (Notices of Default) | 56,633 In 2nd Quarter 2011 | 54,615 In 2nd Quarter 2012 |
| Total State Employment (Seasonally Adjusted) | 14,074,700 In July 2011 | 16,443,900 In July 2012 |
| Newly Permitted Residential Units (Seasonally Adjusted Annual Rate) | 49,908 In May 2011 | 60,516 In May 2012 |

Data Sources: DataQuick, California Employment Development Department, Census Bureau, State Department of Finance

Table 2: General Fund Disbursements

July 1, 2012 – Aug. 31, 2012 (in Millions)

| Recipient | Actual Disbursements | 2012-13 Budget Act | | 2011-12 Year-To-Date | |
|----------------------------|----------------------|--------------------|---------------------|----------------------|---------------------|
| | | Estimates | Actual Over (Under) | Actual | Actual Over (Under) |
| Local Assistance | \$19,891.1 | \$16,668.7 | \$3,222.4 | \$14,466.7 | \$5,424.4 |
| State Operations | \$3,200.5 | \$3,554.3 | (\$353.8) | \$3,920.5 | (\$720.0) |
| Other | \$158.3 | \$78.8 | \$79.5 | (\$245.0) | \$403.3 |
| Total Disbursements | \$23,249.9 | \$20,301.7 | \$2,948.2 | \$18,142.2 | \$5,107.7 |