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California State Controller's Office

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Statement of General Fund Cash Receipts and Disbursements

Please Note: This Summary Analysis reflects adjustments to the Actual Statement of Cash Receipts and Disbursements. Last month's summary noted that the Board of Equalization incorrectly allocated $343 million of sales tax revenues earlier this year, and those funds were correctly deposited in the month of September. That deposit, however, artificially lowers the sales tax figures for the month of September. ***To avoid confusion and offer a true picture of revenue activity, the monthly figures in this Summary Analysis have been adjusted to compensate for that misallocation.***

State Finances in September 2011

⇒ Compared to the 2011 Budget Act estimates, total General Fund revenues in September 2011 were $301.6 million lower (-4.0 %) than expected in September. Corporate tax revenues came in below the estimates by $190.3 million (-17.1%). Personal income taxes were above expectations by $285.4 million (7.0%). Sales tax revenues were $56.8 million lower (-3.8%) than anticipated.

⇒ Compared to September 2010, General Fund revenue in September 2011 was down $651.8 million (-8.2%). This was

(Continued on page 2)

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 September 2011 and year to date for the 3 months of Fiscal Year 2011-12. 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 2010-11 and the statement of estimated cash flows from the 2011 Budget Act.

(Continued from page 1)

driven by sales taxes, which were down by $708.8 million (-33.2%). Corporate taxes came in below last September by $276 million (-23%), but personal income taxes were above last September by $318.5 million (7.9%).

Tax Revenue Fiscal Year to Date

⇒ Compared with the 2011 Budget Act estimates, General Fund revenues in September were below the year-to-date estimate by $705.5 million (-3.6%). The three largest sources of revenue were above the estimates by $101.1 million (0.6%). Income taxes came in better than expected in the 2011 Budget Act estimates by $501.8 million (4.9%). Sales tax collections came in worse than expected by $187.6 million (-3.5%). Corporate taxes year to date were below the estimates by $213.1 million (-13.6%).

⇒ Compared to this date in September 2010 revenue receipts are down by $938.0 million (-4.8%). This was driven by sales taxes, which were down $1.4 billion (-21.5%) from last year's total at the end of September. Corporate taxes were down $139.6 million (-9.3%) from last year's total at the end of September.

(Continued on page 3)

What the Numbers Tell Us

This month's revenue figures demonstrate just how volatile the recovery has been to date. Personal income taxes posted solid gains in September, driven in large part by total personal income which has finally exceeded its prerecession peaks according to data from the Bureau of Economic Analysis. However, both sales and corporate taxes disappointed. Particularly troubling is the weak sales tax figures because up to September, they had been tracking above the Department of Finance's most recent estimates.

However, it is important to keep in mind that a single month does not constitute a trend. Although revenues declined last month, a variety of indicators point to a continued recovery—albeit at a slower pace than we had hoped for. With initial jobless claims solidly in the 50,000 range, the number of newly unemployed is down sharply from its peak of more than 90,000 earlier this year. In addition, the state has added almost 200,000 jobs since hitting its employment trough last year. Certainly this is not enough to replace the more than 1.3 million jobs lost in California during the downturn and people are still hurting, but the economy is moving forward.

Even in terms of auto sales, which have been one cause of concern lately, things are looking better. Indeed, according to Motor Intelligence, every major auto company in the U.S. has posted year-to-date increases in auto sales through September with the exception of Honda and Toyota. This certainly bodes well for future taxable sales growth.

And, it is also critical to note that total General Fund receipts are tracking more than $650 million above last year's total at the end of September thanks in large part to significant increases in non-revenues due to budgetary loans and transfers. Overall, September was a disappointing month in terms of revenue receipts, but this should not be interpreted as the beginnings of the double-dip. The lackluster growth in revenues also makes the prospect of automatic cuts initiated by the triggers put in place earlier this year more likely. Still, income and income taxes continue to increase and the labor markets are improving slowly but surely. California still has a long way to go, but it is moving in the right direction.

(Continued from page 2)

⇒ Year to date collections for the three major taxes were $860.6 million (-4.7%) lower than last year at this time. Personal income taxes, came in $706.7 million above (7.0%) last year at this time.

Summary of Net Cash Position as of September 30, 2011

⇒ Through September, the State had total receipts of $20.6 billion (Table 1) and disbursements of $30 billion (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, 2011– Sept. 30, 2011 (in Millions)*

Revenue Source	Actual Receipts to Date	2011 Budget Act	Actual Over (Under)
Corporate Tax	$1,354	$1,567	($213)
Personal Income Tax	$10,796	$10,294	$502
Retail Sales and Use Tax	$5,200	$5,388	($188)
Other Revenues	$1,374	$2,181	($807)
Total General Fund Revenue	$18,724	$19,430	($706)
Non-Revenue	$1,872	$1,911	($39)
Total General Fund Receipts	$20,596	$21,341	($744)

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

Table 2: General Fund Disbursements, July 1, 2011– September 30, 2011 (in Millions)

Recipient	Actual Disburse-ments	2011 Budget Act	Actual Over (Under) Estimate
Local Assistance	$23,498	$23,807	($308)
State Operations	$6,674	$6,761	($88)
Other	($179)	($475)	$296
Total Disbursements	$29,993	$30,093	($100)

(Continued from page 3)

- ⇒ The State ended last fiscal year with a deficit of \$8.2 billion. The combined current year deficit stands at \$17.6 billion (Table 3). Those deficits are being covered with \$12.2 billion of internal borrowing and \$5.4 billion of external borrowing.
- ⇒ Of the largest expenditures, \$23.5 billion went to local assistance and \$6.7 billion went to State operations (See Table 2).
- ⇒ Local assistance payments were \$308.2 million lower (-1.3%) than the 2011 Budget Act Estimates and State operations were \$87.8 million below (-1.3%).

Table 3: General Fund Cash Balance As of September 30, 2011 (in Millions)

	Actual Cash Balance	2011 Budget Act	Actual Over (Under) Estimate
Beginning Cash Balance July 1	(\$8,164)	(\$8,164)	\$0
Receipts Over (Under) Disbursements to Date	(\$9,397)	(\$8,752)	(\$645)
Cash Balance September 30, 2011	(\$17,561)	(\$16,916)	(\$645)

How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for June 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)	**1,077,372** Through June 2010	**1,176,963** Through June 2011
Median Home Price (for Single-Family Homes)	**$260,000** In August 2010	**$249,000** In August 2011
Single-Family Home Sales	**34,239** In August 2010	**37,734** In August 2011
Foreclosures Initiated (Notices of Default)	**70,051** In 2nd Quarter 2010	**56,633** In 2nd Quarter 2011
Total State Employment (Seasonally Adjusted)	**13,866,100** In August 2010	**14,057,200** In August 2011
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**43,368** In August 2010	**55,956** In August 2011
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance		

Is Debt a Four-Letter Word?

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The levels of public debt have become a great concern for citizens of the State of California, the United States, and most other countries around the world. Simply put, public debt levels do not tell the full story and, perhaps, there is much to be learned in California from impacts of the public debt in the Euro-Economic Zone. Each of the Euro-Zone country's public debt situation is analogous in many ways to that of California; that is, the common currency (the Euro) for the Euro-Zone countries is analogous to the State of California with the U.S. dollar controlled by the Federal Reserve and U.S. Treasury, our control bank system. Also, each country, like California, issues its own public debt.

Developing strategies for managing government debt is on the top of the agenda for the European Economic Zone. Some governments can no longer borrow money, and others can do so only at relatively high interest rates. Reducing budget deficits has become a prime goal for nearly all countries (in Europe and beyond). However, examining only government debt totals can provide a misleading picture of a country's fiscal situation; this can be seen in the related table, showing both government and private sector debt as a percentage of Gross Domestic Product for eight members of the Euro Zone. Before the credit crisis of 2007, government debt would have shown Ireland as being the most fiscally conservative of the countries. Its net government debt (which deducts government financial assets like gold and foreign exchange reserves from money owed by the government) was approximately 11% of Gross Domestic Product (GDP). By contrast, Germany appeared to be in the middle of the pack, and Italy was the most indebted of the group.

As fate would have it, Ireland was slated to become one of the first casualties of the global financial credit crisis, and is now among one of

(Continued on page 7)

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.

(Continued from page 6)

the most heavily indebted governments. Germany is doing just fine (for the moment); Italian debt has risen only slowly (despite the threat of a multitude of fiscal problems). The International Monetary Fund forecasts that Ireland's debt-to-GDP ratio will be greater than that of Italy by 2013. It turns out that what matters most in Ireland was private sector debt. The debt of households and non-financial corporation's amount was equivalent to 241% of GDP, the highest of any country in the group.

Euro-Zone Net Debt as a Percentage of GDP

	Public			Private	
	2007	2010	2013*	2007	2010
Ireland	11	78	107	241	305
Netherlands	22	28	34	209	217
Spain	27	49	61	215	224
Germany	50	57	58	131	135
France	60	77	85	142	160
Portugal	64	89	111	225	249
Italy	87	99	100	122	133
Greece	105	143	174	105	122

* = Forecast by IMF

Source: IMF

Before the debt crisis occurred in 2007, the governments of Ireland and Spain (another poster child of the debtor group) were paying down debt, while the private sector debt grew.

Much of the Irish debt that we hear about today had been accumulated in connection with the real estate boom that turned to bust, destroying the balance sheet of banks. The government rescued the banks and wound up broke. Spain has done somewhat better, but it too has been badly hurt by the results of a real estate boom and subsequent bust.

The story has been quite different in the Netherlands, which in 2007 ranked just behind Ireland in apparent fiscal responsibility. It also had high private-sector debt, but most of those debts have not gone bad. The differences highlight the fact that public (and private) debt alone tell very little. The ability to generate economic growth (income growth), and thus, tax revenue, is more important.

To the private sector, it matters greatly what the debt was used to finance in the first place. If the private sector debt created valuable assets, it may be good for overall economic robustness for both the private and public sectors. Even if the borrowed money is utilized to support consumption, it may still be fine if the borrowers have income to repay the debt. This is one of the reasons that many Euro Zone countries are struggling with harsh programs to slash government spending. With high unemployment and low or non-existent growth, it is not easy to find the money to reduce debts; so even if governments do not borrow more money, the debt-to-GDP ratios will rise when the economy shrinks.

The lesson for California is clear and simple. Californians' public debt-to-state GDP was 4% in 2007, and has risen to 14% in 2010. These are not "off the chart" ratios by comparison with the Euro-Zone countries. We need to create jobs, and encourage productive business activities. If such activities are successful, the private sector income growth will yield more tax revenues, and resolve many of the apparent problems of the California public debt level. This is tantamount to a public-private sector symbiotic partnership. In fact, California has the potential for being one of the engines of growth for the United States and itself; and the role of government is to assist rather than impede these possibilities for growth.