Controller *John Chiang*

California State Controller's Office

July 2011 Summary Analysis **Volume 5, Issue 7**

Statement of General Fund Cash Receipts and Disbursements

State Finances in June 2011

This summary document compares June totals against estimates found in the Governor's May Revision proposal (dated May 16, 2011), which are the latest projections for this month. While the Governor signed a new budget on June 30, 2011, revised cash flows for June 2011 and Fiscal Year 2011-12 are not expected until later this month.

⇒ Compared to the 2011-12 May Revision Budget estimates, total General Fund revenues in June were $440.5 million higher (3.7%) than expected. Personal income tax revenues came in above the estimates by $410.5 million (6.8%). Corporate taxes were also above expectations by $156 million (7.2%). Sales tax revenues were $21.8 million better (0.8%) than anticipated.

⇒ Compared to June 2010, General Fund revenues in June 2011 were up $1 billion (9.0%). The total for the three largest taxes was above last year by $1.2 billion (11.8%).

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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 June 2011 and the entire 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.

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This was driven by personal income taxes, which were up $674.9 million (11.6%) and corporate taxes, which came in above last June by $379.4 million (19.5%). Sales taxes were above last June by $160.9 million (6.4%).

Tax Revenue Fiscal Year to Date

⇒ Compared to the 2011-12 May Revision Estimates, General Fund revenues in June were above the year-to-date estimates by $848.7 million (0.9%). The three largest sources of revenue were above estimates by $895.4 million (1.0%). Sales tax collections came in better than expected by $327.7 million (1.2%). Income taxes came in better than expected by $422.8 million (0.8%). Corporate tax collections year-to-date also were above estimates by $144.9 million (1.5%). Because the May Revision estimates contained actual totals through April, this revenue improvement occurred in the months of May and June.

⇒ Compared to this date in June 2010, revenue receipts for the fiscal year were up $6.6 billion (7.7%). This was driven by personal income taxes, which came in $5.8 billion above (12.9%) last year at this time. Sales taxes also were up $512.9 million (1.9%) from last year's

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What the Numbers Tell Us

Despite the consternation that the recovery's slow pace has created in policy circles and the media, California continues to move forward. The state ended the 2010-11 fiscal year with nearly $1.8 billion more in receipts than expenditures. This is stronger than was anticipated in the May Revision estimates, but slightly lower than anticipated in the newly enacted budget, which counted on $1.2 billion in additional revenue between May and June 2011 ($849 million in additional revenue was collected).

Still, revenues have certainly exhibited a consistent upswing. Compared to 2009-10, General Fund Revenues were more than $6.6 billion higher by the end of this fiscal year.

That's not to say that California is out of the woods yet. While it is true that both income and corporate taxes are improving, we've seen growth slow on the consumer side. This can be partly attributed to the disaster in Japan, which disrupted the supply chain for many manufactured goods — especially automobiles — and caused a purchase delay here in California. In addition, the extension of the higher sales tax rate was not passed as part of the newly enacted budget. Thus, there may be some degree of delay built into the June sales tax number as consumers may have waited to make "big-ticket" purchases until the lower tax rate comes into effect in July.

More troubling is the slow pace of the labor markets. California shed nearly 30,000 jobs in May after turning a corner at the end of 2010. But the slow pace of the employment recovery was expected. Firms have made extraordinary efforts to maximize efficiency, do more with less, and increase the productivity of their existing work force. In fact, the Philadelphia Federal Reserve's coincident index of economic activity shows that California has regained its pre-recession peak in terms of economic activity, but we are doing it with roughly 1.3 million fewer workers.

Fortunately, these productivity increases and efficiency gains have come at the price of higher capacity utilization. As demand continues to increase, these labor-saving measures will give way to increased demand for workers. This bodes well for personal income and corporate taxes alike. With more Californians working and existing workers taking on more hours and higher wages, consumer spending is expected to increase during the remainder of 2011.

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total at the end of June.

⇒ Year-to-date collections for the three major taxes were $6.6 billion higher (8.2%) than last year at this time. Corporate taxes also were up $358.2 million (3.8%) from last year's total at the end of June.

Summary of Net Cash Position as of June 30, 2011

⇒ Through June, the State had total receipts of $95.5 billion (Table 1) and disbursements of $93.8 billion (Table 2).

⇒ The State ended last fiscal year with a deficit of $9.9 billion. The combined current year deficit stands at $8.2 billion (Table 3). That deficit was covered with internal borrowing in the form

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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 - June 30, 2011 (in Millions)*

Revenue Source	Actual Receipts to Date	2011-12 May Revision	Actual Over (Under) Estimate
Corporate Tax	$9,804	$9,659	$145
Personal Income Tax	$50,402	$49,979	$423
Retail Sales and Use Tax	$27,172	$26,844	$328
Other Revenues	$5,855	$5,902	($47)
Total General Fund Revenue	$93,233	$92,384	$849
Non-Revenue	$2,304	$2,695	($392)
Total General Fund Receipts	$95,536	$95,079	$457

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

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

Recipient	Actual Disburse-ments	2011-12 May Revision	Actual Over (Under) Estimate
Local Assistance	$65,433	$65,384	$49
State Operations	$26,898	$27,578	($679)
Other	$1,447	$1,611	($164)
Total Disbursements	$93,779	$94,573	($794)

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of short-term loans from the state's special funds.

⇒ Of the largest expenditures, $65.4 billion went to local assistance and $26.9 billion went to State operations (Table 2).

⇒ Local assistance payments were $49.4 million higher (0.1%) than the 2011-12 May Revision estimates (Table 2) and State operation expenditures were below those estimates by $679.3 million (-2.5%).

Table 3: General Fund Cash Balance As of June 30, 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	$1,758	$507	$1,251
Cash Balance June 30, 2011	($8,164)	($9,415)	$1,251


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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)	**700,398** Through February 2010	**757,998** Through February 2011
Median Home Price (for Single Family Homes)	**$278,000** In May 2010	**$249,000** In May 2011
Single Family Home Sales	**40,965** In May 2010	**35,536** In May 2011
Foreclosures Initiated (Notices of Default)	**81,054** In 1st Quarter 2010	**68,239** In 1st Quarter 2011
Total State Employment (Seasonally Adjusted)	**13,944,200** In May 2010	**14,031,700** In May 2011
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**37,044** In May 2010	**53,141** In May 2011
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance		

Signs Point to More Hiring Ahead

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The National Bureau of Economic Research (NBER) declared that the recession that started in December 2007 ended in June 2009. At the state and local levels, movements in payroll employment are generally used to gauge the beginning and ending points of recessions.

The severity of the Great Recession is evident when job losses during this recession and job gains during the recovery are compared to the recessions of 1990-91 and 2001. The 2001 recession, which was mainly caused by the collapse of high-tech industry, was relatively mild. California lost about 365,000 jobs over a 28-month period, the unemployment rate peaked at 7.0 percent and the economy generated enough jobs to reach the previous peak employment in 21 months.

A sharp decline in defense spending and a large real estate inventory overhang, both residential and nonresidential, were the main culprits of the 1990-91 recession. California lost 517,000 payroll jobs over a 34-month period and the unemployment rate hit a high of 9.9 percent. It took 30 months for the payroll employment to recover to its previous peak level.

What made the recent recession more severe than the 1990-91 recession was a sharper decline in home prices and the resulting higher level of foreclosures. Declines in home prices not only eroded consumers' balance sheet but also damaged financial institutions' asset quality — making banks more reluctant to extend loans and credit. The multiplier effects of job losses that initially began in the construction and the financial activity sectors spilled over into other sectors. This led to a broad-based slowdown, and explains the depth and length of the recent recession.

The recovery in the job market began in early 2010. For the year, California gained 83,000 payroll jobs compared to the U.S. job gains of 940,000. California's economy is roughly 13

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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.

percent of the nation's, and the state should have generated at least 122,000 new jobs if it would have recovered at the same rate as the rest of the country. This subpar performance is mainly due to California's disproportionate dependency on the construction industry, an industry that is not showing any job growth during the current recovery.

The current residential and nonresidential permit statistics show that California construction spending has hit bottom and is expected to rebound about 6.0 percent in 2012.

At the national level, year-to-year percentage changes in real GDP are forecasted to trend up through 2012. A weaker value of the dollar and relatively stronger economies of our major trading partners are positively influencing exports.

Positive trends in construction spending, real GDP and real exports point to a pickup in overall job growth. On an average annual basis, the total number of payroll jobs in California is forecasted to increase by about 216,000 jobs in 2011 and 290,000 jobs in 2012. This translates to growth rates of 1.6 percent in 2011 and 2.1 percent in 2012.

Although we expect a pickup in job creation in 2012, the pace of recovery is relatively weak compared to historical standards.

There are countervailing forces affecting the housing market. Lower home prices, increasing income and low mortgage rates improved housing affordability. That, along with improving job market, should induce home buying activity, but higher underwriting standards are excluding many potential buyers from the market, leading to a weak sales activity.

On the supply side, the major headwind is a high and persistent level of inventory, particularly stressed properties. There are still a large number of stressed properties held by the financial institution in what is known as "shadow inventory." In addition to this existing level of inventory are the exotic adjustable mortgages that originated in 2006 and are still due to be refinanced in 2011. These homeowners are underwater, and a result, many households are choosing to short sale or let their properties be foreclosed.

The good news is that 2006 was the last year of the mortgage bubble and financial institutions did not originate many exotic adjustable mortgages in 2007. Hence, this points to a slowdown in the new supply of stressed properties in 2012. In addition, cautious builders have sharply reduced housing permits. As a result, the construction of new housing units, although rebounding, will not add significantly to inventory accumulation.

On balance, our forecast calls for housing prices in California, measured by the median price of a single-family home, to show a decline of about 4.5 percent in 2011 and show virtually no appreciation in 2012.