Controller *John Chiang*

California State Controller's Office

August 2011 Summary Analysis **Volume 5, Issue 8**

Statement of General Fund Cash Receipts and Disbursements

State Finances in July 2011

⇒ Compared to the 2011 Budget Act Estimates, total General Fund revenues began the 2011-12 fiscal year $538.8 million lower (-10.3%) than expected in July. Personal income tax revenues came in above the estimates by $89 million (2.9%). However, corporate taxes were below expectations by $69.5 million (-19.3%). Sales and use tax revenues were $139.4 million worse (-12.5%) than anticipated.

⇒ Compared to July 2010, General Fund revenue in July 2011 was up $39.9 million (0.9%). The total for the three largest taxes was above 2010 levels by $25.5 million (0.6%). This was driven by personal income taxes, which were up $187.3 million (6.3%). Corporate taxes came in below last July by $23.2 million (-7.4%). Sales and use taxes were below last July by $138.6 million (-12.4%).

(Continued on page 3)

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.

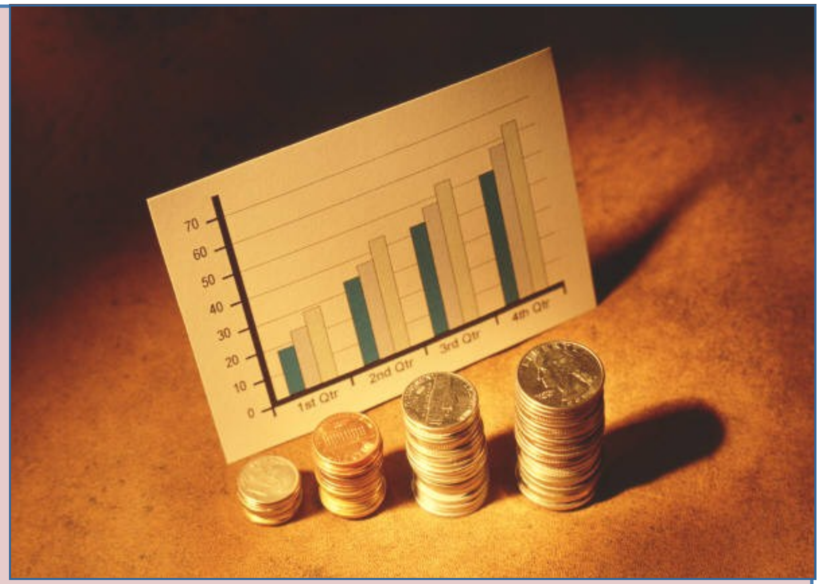
The State Controller's Office is responsible for accounting for all State revenues and receipts and for making disbursements from the State's General Fund. The Controller also is required to issue a report on the State's actual cash balance by the 10th of each month.

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 July 2011. 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 estimates found in the 2011-2012 State Budget.

What the Numbers Tell Us



The debt-ceiling debate ran late, and created a great deal of uncertainty for state and local governments, the bond markets, banks and businesses, and the economy. Although it was clear that a deal would ultimately be reached, it wasn't clear what that deal was going to look like until just before it became law.

We've seen the effects of this uncertainty in the equity markets, which have suffered several days of losses. We've also seen lackluster growth in the employment figures, and California is definitely seeing it in its revenue number. Although revenues were up relative to last July, losses in corporate taxes and sales taxes nearly offset the increase personal income tax revenue. Consumer spending has slowed, but the question is whether that is slowing is due to supply chain issues in Japan and the Midwest associated with natural disasters — thereby impacting car sales — or due to a genuine slowdown in the economy.

Recently revised figures from the Bureau of Economic Analysis show that the recession was deeper than originally reported. It also reported stronger growth than first reported for 2010, but had growth revised downward substantially in 2011 — much of it in the consumer accounts.

This is cause for concern, but not panic. This recovery was always going to be a slow and tumultuous process. And while employment and economic growth are not as strong as we would hope for after such a deep downturn, leading indicators do not appear to show underlying demand falling off. Weekly employment hours have remained elevated, and initial claims are down after rising for several weeks. Indeed, the Labor Department just reported that 117,000 jobs were gained in July nationwide. Personal income tax in the state also continued to grow despite the recent turbulence.

The economy slowed in the first half of 2011, and General Fund revenue underperformed relative to the estimates. But, with the supply chain for durable goods opening back up, consumer spending should pick up in the second half of the year. With the labor markets slowly improving, personal income should also gradually get better.

(Continued from page 1)

Summary of Net Cash Position as of July 31, 2011

⇒ Through July, the State had total receipts of $5.5 billion (Table 1) and disbursements of $8.4 billion (Table 2).

⇒ The State ended last fiscal year with a deficit of $8.2 billion. The combined current year deficit stands at $11.1 billion (Table 3). Those deficits are being covered with $5.7 billion of internal borrowing and $5.4 billion of external borrowing.

⇒ Of the largest expenditures, $6.7 billion went to local assistance and $2.0 billion went to State operations (See 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 - July 31, 2011 (in Millions)*

Revenue Source	Actual Receipts to Date	2011-12 State Budget	Actual Over (Under) Estimate
Corporate Tax	$291	$361	($70)
Personal Income Tax	$3,155	$3,066	$89
Retail Sales and Use Tax	$978	$1,117	($139)
Other Revenues	$288	$707	($419)
Total General Fund Revenue	$4,712	$5,251	($539)
Non-Revenue	$767	$1,267	($500)
Total General Fund Receipts	$5,478	$6,517	($1,039)

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

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

Recipient	Actual Disburse-ments	2011-12 State Budget	Actual Over (Under) Estimate
Local Assistance	$6,682	$7,258	($576)
State Operations	$1,988	$2,348	($360)
Other	($268)	($510)	$242
Total Disbursements	$8,402	$9,096	($694)

(Continued from page 3)

⇒ Local assistance payments were $575.8 million lower (-7.9%) than the 2011 Budget Act Estimates and state operations were $360.3 million below (-15.3%).

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

	Actual Cash Balance	2011-12 State Budget	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2011	($8,164)	($8,164)	$0
Receipts Over (Under) Disbursements to Date	($2,923)	($2,579)	($344)
Cash Balance July 31, 2011	($11,088)	($10,743)	($344)

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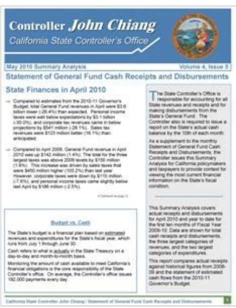

This Statement of General Fund Cash Receipts and Disbursements for July 2011 is available on the State Controller’s Web site at: www.sco.ca.gov

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)	**$270,000** In June 2010	**$253,000** In June 2011
Single Family Home Sales	**43,964** In June 2010	**38,975** In June 2011
Foreclosures Initiated (Notices of Default)	**70,051** In 2nd Quarter 2010	**56,663** In 2nd Quarter 2011
Total State Employment (Seasonally Adjusted)	**13,911,800** In May 2010	**14,068,600** In June 2011
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**46,131** In June 2010	**46,068** In June 2011

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

High-Skilled Out-Migration from California: Fact or Fiction

By Ross DeVol, I-Ling Shen and Perry Wong
The Milken Institute

It is a frequently repeated theme in the media: California has been losing its best and brightest to other states in recent years. The brain drain of highly educated and specialized workers presents a troubling future for California's technology-led economy, or so the hypothesis goes. This fear resonates, partly due to fresh memories of the early 1990s, when the post–Cold War downsizing of the state's defense and aerospace industries caused a massive migration of talent, decimating Southern California's economy.

In the current episode, our difficulties aren't driven by cutbacks in areas of federal spending that are important to California's economy. The culprit this time is competition with other states for the skilled workers that are the prerequisite for forming high-tech clusters—and policymakers have zeroed in on high-tech industries as a means of diversifying and enhancing the quality of job creation. The Great Recession drove up California's unemployment rate to the second-highest in the nation, and the high-tech sector alone shed nearly 76,000 jobs between 2008 and 2009.

Despite this decline, 9.3 percent of the state's employment was concentrated in the high-tech sector, which offered 1.3 million jobs in total and accounted for more than 16 percent of the state's total wages in 2009. So California remains a worldwide hub of technology innovation, commercialization and entrepreneurship. Its abundance of high-skilled workers is a key factor behind California's success in creating, attracting and retaining high-tech businesses. Nevertheless, anecdotal evidence regarding California's accelerating skill outflow abounds, and the storyline has gained traction.

In order to provide a fact-based estimate of the actual scale of the problem, representative population data is needed. Using data from the American Community Survey (ACS), we have tested the assertion that California is losing a disproportionate share of its prized talent to other states. We include those workers with at least a bachelor's degree who are above the age of 25, but exclude those aged 65 and above who were out of the labor force. The ACS information provides us with a decade's worth of data ending in 2009.

Two types of migration decisions, both with significant policy implications, can be identified: 1. Whether an individual moved out of his/her birth state in the past and still resided out-of-state in a particular census year; and 2. Whether an individual relocated from one state to another within the past year of a particular census year.

Profiles of out-migrants from California

The major concern regarding outmigration for California, or any other state, is the loss of young skilled workers. In addition to the forgone payoff of human capital investments made through public education and funding,

(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.

the state also suffers from seeing its tax base erode due to the loss of individuals with relatively higher earning and consumption power.

We studied the age and educational profiles of California's out-migrants relative to those who remained behind. The concept is that if there were no selectivity between movers and stayers on the basis of age or skill, their profiles would appear similar. As people from different origins may have different degrees of attachment to California, we expect varying outmigration patterns among them. Hence, we also examined three sub-groups by birthplace: those born in California, those born in other states, and those born in foreign countries.

Decade outflows of skilled residents
Out-migrants tended to be young—younger than those who remained in California. The movers had, on average, higher educational attainment than the stayers. This difference can be viewed as a measure of the skill-bias of mobility. This is far more discernible for the group of foreign-born individuals.

Among the highly educated, the migration patterns of those who hold degrees in science, technology, engineering, and mathematics (STEM) matter most to California's high-tech-driven economy. In total, a quarter of the out-migrants from California held STEM degrees in 2009, compared to 22.5 percent for the stayers.

The outmigration rate of high-skilled California natives appeared quite stable over the past decade, at around 35 percent. Nationwide, nearly half of the high-skilled population lived out of their native states during the period of 2000-2009. Texas was the only state that performed better in this regard. It had a native outmigration rate of 31 percent.

Annual outflows of skilled residents

Total skills outflow
Generally speaking, skill outflows were of small magnitude relative to total residents. Throughout 2000-2009, California had, on average, around 2.24 percent of skilled residents leaving for other states annually. This was the lowest rate among all states and about 1 percent below the national rate. It dispels the myth of a skills exodus from California in the form of prized talent looking for better opportunities in other states.

Skill outflows by birthplace
California's foreign-born skilled workers had an outflow rate that was nearly as low as the rate of its native-born skilled residents (the average annual outflow rates were 1.62 percent and 1.35 percent, respectively). California's outflow rate of the foreign-born skilled workers was actually the lowest in the nation. However, the data doesn't allow us to track foreign-born skilled workers who left for other countries or returned home.

Outflows of STEM degree holders
Between 2008 and 2009, California had 2 percent of STEM degree holders leaving for other states. This figure is well below the national outflow rate of 3.52 percent. Over the decade, STEM degree holders' annual outflow rate was a mere 1.53 percent, the lowest among all states, while the national rate was as high as 4.16 percent. In 2009, more than half of California's engineers and computer and information scientists were foreign-born.

Destination of California's skilled out-migrants
Texas was clearly by far the largest magnet: 12 percent of total skill outflow and 16 percent of STEM outflow from California went to Texas between 2008 and 2009. This could perhaps explain some observers' anxiety that California has been losing ground to Texas, both in terms of high-tech jobs and high-skilled human capital, even though California's skill outflow rate was no greater than that of Texas.

Summary

Our findings paint quite a contrasting picture relative to popular perceptions. First, California has retained a fairly high share of its high-skilled natives (those born in the state), especially when compared to other states. Only Texas performed better in this regard. Second, over the past decade, California has had the nation's lowest rate of skill outflow in proportion to its total skilled residents. And third, the Golden State has been particularly adept at retaining skilled foreign-born residents.

However, notwithstanding its outstanding record for skill *retention,* we also find that California did not have comparable success in *attracting* skilled workers from other states (although California more than compensated for this deficiency by attracting skill inflows from abroad).

Herein lies the real challenge for California: How do we enhance the environment for starting and growing businesses in the state so that we can attract more high-skilled domestic and international migrants?

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