

Controller *John Chiang*

California State Controller's Office



September 2011 Summary Analysis

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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. While sales tax revenues appear more robust in the Statement, the Board of Equalization notified the Controller that it had incorrectly allocated \$343 million of local government dollars to the State General Fund. The 2011-12 Budget enacted a major shift, or "realignment," of state responsibilities and revenues to local agencies to fund criminal justice, mental health, and social services. Under the realignment, \$343 million of sales tax revenues allocated to the State General Fund should have been allocated to local governments. **To avoid confusion, the figures in this Summary Analysis have been adjusted to remove those misallocated dollars. The BOE will make a corresponding adjustment in September.**

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 the first two months of the 2011-2012 fiscal year. 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.

State Finances in August 2011

- ⇒ Compared to the 2011 Budget Act Estimates, total General Fund revenues in August 2011 were \$135 million higher (2.1%) than expected in August. Personal income tax revenues came in above the estimates by \$127.4 million (4.1%). Corporation taxes were also above expectations by \$46.7 million (51.4%). Sales and use tax revenues were \$8.6 million better (0.3%) than anticipated.
- ⇒ Compared to August 2010, General Fund revenue in August 2011 was down \$326 million (-4.6%). Sales and use taxes were down by \$580.2 million (-17.2%), corporate taxes were up \$159.6 million, and personal income taxes were above last August by \$200.9 million (6.6%).

(Continued on page 2)

Tax Revenue Fiscal Year to Date

- ⇒ Compared with the 2011 Budget Act Estimates, General Fund revenues in August were below the year-to-date estimate by \$403.8 million (-3.4%). The three largest sources of revenue were above the estimates by \$62.9 million (0.6%). Income taxes came in better than expected by \$216.4 million (3.5%) in the 2011 Budget Act estimates. Sales tax collections came in worse than expected by \$130.7 million (-3.3%). Corporate tax collections year to date were below the estimates by \$22.8 million (-5.0%).
- ⇒ Compared to this date in August 2010, revenue receipts are down by \$286.1 million (-2.4%). This was driven by sales and use taxes, which came in \$718.8 million (-16%) below last year at this time. Corporate taxes were up \$136.4 million (46.6%) from last year's total at the end of August.
- ⇒ Year to date collections for the three major taxes were \$194.2 million (-1.8%) lower than last year at this time. Personal income taxes were up \$388.2 million (6.4%) from last year's total at the end of August.

Summary of Net Cash Position as of August 31, 2011

Through August, the State had total receipts of \$12.4 billion (Table 1) and disbursements of \$18.1 billion (Table 2).

The State ended last fiscal year with a deficit of \$8.2 billion. Adjusted for the \$343 million in misallocated sales tax revenues, the current year deficit stands at \$13.9 billion (Table 3).

(continued on Page 4)

What the Numbers Tell Us

Despite recent media reports about an impending double dip, California's General Fund continued to move in the right direction in August. The "Big 3" sources of revenue came in above the most recent Budget Act estimates by 3%, with personal income and corporate taxes leading the way. Indeed, when compared against this time last year, both personal income taxes and corporate taxes showed solid improvement last month.

Sales tax revenues came in well below last August, though this is due in large part to the expiration of the temporary sales tax increase that ended at the close of 2010-11. In fact, the sales taxes came in slightly higher than what was forecasted in the Department of Finance's most recent estimates. This lends some credence to the view that the slowdown seen in June and July was transitory and mostly related to transitory effects, such as the disasters in Japan and the Midwest, that disrupted the purchase of autos and other goods.

Outside the state's finances, there are other positive indicators that show the recovery is continuing, albeit at a slower pace than many had hoped. According to the California Department of Finance, the average work week hit 41.3 hours in the most recent data available, which is the highest level since before the recession began. This has also created some overtime opportunities for existing workers—averaging roughly 4 hours per week.

The housing market, which has been the source of much concern in recent years, has also stabilized around current prices — while both defaults and foreclosures are trending downward across the state. The residential market will not shoot back up in the near term, but it is safe to conclude that the worst is behind us on that front.

Unemployment is expected to remain high throughout the year and into 2012, but we have already added back more than 225,000 jobs and all indications point to more job growth. Things are getting better slowly, and despite concerns of a double-dip recession, the state is expected to continue its healing process.



Table 1: General Fund Receipts, July 1, 2011 - August 31, 2011 (in Millions)*

Revenue Source	Actual Receipts to Date	2011-12 State Budget	Actual Over (Under) Estimate
Corporate Tax	\$429	\$452	(\$23)
Personal Income Tax	\$6,420	\$6,204	\$216
Retail Sales and Use Tax**	\$3,773	\$3,904	(\$131)
Other Revenues	\$775	\$1,242	(\$467)
Total General Fund Revenue	\$11,398	\$11,802	(\$404)
Non-Revenue	\$1,032	\$1,632	(\$600)
Total General Fund Receipts	\$12,430	\$13,434	(\$1,004)

* Some totals on charts may not add up, due to rounding.
 ** Actual receipts are adjusted for the misallocation of \$343 million.

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

Recipient	Actual Disbursements	2011-12 State Budget	Actual Over (Under) Estimate
Local Assistance	\$14,467	\$14,120	\$347
State Operations	\$3,920	\$4,545	(\$625)
Other	(\$245)	(\$503)	\$258
Total Disbursements	\$18,142	\$18,163	(\$21)

(Continued from page 2)

Those deficits would be covered by \$5.4 billion of external borrowing and \$8.5 billion of internal borrowing.

Of the largest expenditures, \$14.5 billion went to local assistance and \$3.9 billion went to State operations (See Table 2).

Local assistance payments were \$346.5 million higher (2.5%) than the 2011 Budget Act Estimates and State operations were \$625.0 million below (-13.7%).

Table 3: General Fund Cash Balance As of August 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	(\$5,712)	(\$4,729)	(\$983)
Cash Balance August 31, 2011	(\$13,877)	(\$12,893)	(\$991)

* Actual receipts are adjusted for the \$343 million misallocation.

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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)	\$268,000 In July 2010	\$252,000 In July 2011
Single Family Home Sales	35,202 In July 2010	34,695 In July 2011
Foreclosures Initiated (Notices of Default)	70,051 In 2nd Quarter 2010	56,663 In 2nd Quarter 2011
Total State Employment (Seasonally Adjusted)	13,885,300 In July 2010	14,074,700 In July 2011
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	46,713 In July 2010	25,595 In July 2011

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