

Controller John Chiang

California State Controller's Office



September 2009 Summary Analysis

Volume 3, Issue 9

Statement of General Fund Cash Receipts and Disbursements

State Finances in August 2009

- ⇒ The State began the fiscal year without enough cash to cover all of its payments, forcing the State Controller's Office to issue Registered Warrants (IOUs) to any General Fund payment categories not protected by the State Constitution, federal law or court decision. In the month of August alone, \$862 million worth of Registered Warrants were issued, and \$471 million in scheduled payments were delayed into September.
- ⇒ The figures reported in August's cash statement are distorted by \$279 million in IOUs for personal income and corporate tax refunds that would have otherwise offset revenues, and \$1.05 billion in other IOUs and payment delays that would have otherwise increased disbursements. This summary adjusts receipts and disbursements to account for IOUs and payment delays.
- ⇒ Compared to estimates found in the Amended 2009-10 Budget Act enacted on July 21, 2009, total General Fund revenues were down \$237 million (-3.6%). This was driven by

(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 August 2009 and year to date for the first two months of Fiscal Year 2009-10. 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 2008 and estimated cash flows for the Amended 2009-10 Budget Act enacted on July 21, 2009.

(Continued from page 1)

personal income tax revenues that were \$247 million below (-8.9%) estimates and sales taxes that were down \$185 million (-5.5%). Corporate taxes were \$27.3 million above (22.6%) the estimates. The total for the three largest taxes was below the estimates by \$405 million (-6.5%).

- ⇒ Compared to August 2008, General Fund revenue in August 2009 was down \$486 million (-7.1%). The total for the three largest taxes was below 2008 levels by \$518 million (-8.1%). Personal income taxes came in \$401 million below (-13.7%) last August. Sales taxes were down \$56.6 million (-1.7%), and corporate taxes dropped by \$60 million (-28.8%) from last August.

Tax Revenue Fiscal Year to Date

- ⇒ Compared to the Amended 2009-10 Budget Act, General Fund revenues are below the year-to-date estimate by \$237 million (-2.2%). Sales tax collections year-to-date were down \$185 million (-4.2%), and income taxes were \$247 million lower (-4.6%) than expected. Because the 2009-10 Budget Act estimates contain actual revenue through July, the deterioration in both sources of revenue occurred in August. Corporate taxes came in above estimates by \$27.3 million (7.8%).
- ⇒ Compared to this date in August 2008, revenue receipts are down \$851 million (-7.5%). This was driven by personal income taxes, which came in \$736 million below (-12.6%) last year at this time.
- ⇒ Year-to-date collections for the three major taxes were down \$649 million (-6.2%) and corporate taxes were down \$41.1 million lower (-9.9%). Retail sales taxes were up \$128 million (3.1%) from last year's total at the end of August.

(Continued on page 3)

What The Numbers Tell Us

Not Yet Time to Celebrate

Although there are general signs that the economy in the U.S. and California is feeling for the bottom, it is not yet time to celebrate. Residential construction appears to have leveled off and the pace of job declines has slowed significantly over the past several months. However, California's General Fund Revenue came in below last August, and below the Amended 2009-10 Budget Act that was enacted less than two months ago.

Personal income taxes were driven below the Budget Act estimate and last August's totals by lower-than-expected collections of withholding taxes. According to the Department of Finance, withholdings are down by 5.5% compared to their most recent projections for the 2009-10 fiscal year. Additionally, estimated tax payments are down by 16.4% relative to the Department's estimates. This highlights the extent to which people all across the labor market — from wage and salary earners, to the self employed or corporate executive — are still feeling the pinch of this downturn in their pocketbooks despite some stabilization.

This seemingly near bottom also contrasts with the State's collection of sales tax receipts. California collected 1.7% less sales tax revenue in August 2009 than it did in August 2008, and things are probably slightly worse than these numbers reflect. The Federal Government's "Cash for Clunkers" program has been successful in boosting demand for new automobiles, and has almost certainly helped to generate additional tax revenues for California. This is a positive indicator, but it reflects policy changes in Washington D.C. more than a genuine rebound in consumer activity.

The silver lining is that the pace of job declines continues to slow. Although California's unemployment rate increased in July, it did so at a slower pace. There are signs that many sectors are nearing a bottom, including construction, which should begin to stabilize as residential building permits have leveled off in recent months. Unfortunately, the return to growth may take longer than many expect, and when job growth does resume it will do so at a much slower pace.

(Continued from page 2)

Summary of Net Cash Position as of August 31, 2009

- ⇒ Through August, the State had total receipts of \$10.8 billion (Table 1) and disbursements of \$14.9 billion (Table 2).
- ⇒ The State ended last fiscal year with a deficit of \$11.9 billion, and the combined current year cash deficit stands at \$12.6 billion (Table 3). Those deficits are being covered with \$11.1 billion of internal borrowing and \$1.5 billion in external borrowing. Without IOUs and payment delays in July and August, the cash deficit would have grown to \$16 billion.

(Continued on page 4)

Borrowable Resources

State law authorizes the General Fund to internally borrow 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 typically are transfers to the General Fund from other state funds.

Table 1: General Fund Receipts, July 1, 2009 - August 31, 2009 (in Millions)*

Revenue Source	Actual Receipts to Date	Amended 2009-2010 Budget Act Estimate	Actual Over (Under) Estimate
Corporation Tax	\$376	\$349	\$27
Personal Income Tax	\$5,114	\$5,361	(\$247)
Retail Sales and Use Tax	\$4,265	\$4,450	(\$185)
Other Revenues	\$793	\$625	\$168
Total General Fund Revenue	\$10,547	\$10,748	(\$237)
Non-Revenue	\$263	\$370	(\$107)
Total General Fund Receipts	\$10,810	\$11,154	(\$344)

***Note:** Personal income and corporate tax receipts are adjusted to account for Registered Warrants being issued for tax refunds. Some totals on charts may not add, due to rounding

Table 2: General Fund Disbursements, July 1, 2009-August 31, 2009 (in Millions)**

Recipient	Actual Disbursements	Amended 2009-10 Budget Act Estimate	Actual Over (Under) Estimate
Local Assistance	\$11,232	\$11,722	(\$490)
State Operations	\$3,392	\$3,317	\$76
Other	\$294	\$904	(\$610)
Total Disbursements	\$14,919	\$15,943	(\$1,024)

****Note:** Disbursements are adjusted to account for IOUs and payment delays that pushed many August payments into September.

(Continued from page 3)

- ⇒ Of the largest expenditures, \$11.2 billion went to local assistance and \$3.4 billion went to State operations (See Table 3).
- ⇒ Local assistance payments were \$490 million lower (-4.2%) than the Amended 2009-10 Budget Act projected and State operations were \$75.8 million above (2.3%) those estimates (Table 2).

How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for August 2009 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

Any questions concerning this Summary Analysis may be directed to Hallye Jordan, Deputy Controller for Communications, at (916) 445-2636.

Table 3: General Fund Cash Balance As of August 31, 2009 (in Millions)

	Cash Balance July 2009	Cash Balance July 2008	Actual Over (Under)
Beginning Cash Balance July 1, 2009	(\$11,908)	(\$1,452)	(\$10,456)
Receipts Over (Under)			
Disbursements to Date	(\$727)	(\$4,165)	\$3,438
Cash Balance August 31, 2009	(\$12,635)	(\$5,617)	(\$7,018)
Total on August 31 without IOUs and Payment Delays	(\$16,018)	(\$5,617)	(\$10,401)

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<i>California Economic Snapshot</i>		
New Auto Registrations (Fiscal Year to Date)	1,312,090 Through April 2008	898,948 Through April 2009
Median Home Price (for Single Family Homes)	\$318,000 In July 2008	\$250,000 In July 2009
Single Family Home Sales	39,507 In July 2008	45,079 In July 2009
Foreclosures Initiated (Notices of Default)	121,673 In 2nd Quarter 2008	124,562 In 2nd Quarter 2009
Total State Employment (Seasonally Adjusted)	15,010,880 In July 2008	14,250,254 In July 2009
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	66,613 In July 2008	34,860 In July 2009
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance		

Featured Articles on California's Economy

The opinions in these articles are presented in the spirit of spurring discussion and reflect those of the authors and not necessarily the Controller or his office. This month's report includes an article by Esmael Adibi, Director, Anderson Center for Economic Research, Chapman University, and member of the Council of Economic Advisors.

Gloomy Consumers Are Cutting Back

By Esmael Adibi
*Director, Anderson Center for Economic Research,
Chapman University*

After 16 consecutive years of increases, year-over-year real consumer spending declined in the third quarter of 2008 and the pace of decline accelerated through the second quarter of 2009. Unprecedented increases in consumer spending even during the recession of 2001 were astonishing but understandable. Lower interest rates engineered by the Federal Reserve Board during and after the 2001 recession, along with relaxed lending practices, fueled home buying and rapid home price appreciation. Consumers used their home equity to refinance mortgages, take out cash and spend it. Hence, between 2001 and 2006, higher home prices, an improving stock

market and pickup in the job market boosted consumer confidence and spending.

The most recent gauge of consumer confidence nationally and a survey conducted by our Center measuring consumers' sentiment shows California recently hit historical lows. Academic research does not fully support a significant correlation between small fluctuations in consumer confidence and consumer spending. There is, however, no doubt that sharp and continuous declines in consumer confidence have led to

(Continued on page 7)



(Continued from page 6)

cutbacks in consumer spending, further weakening the economy.

Consumers are suffering from a multitude of events that are negatively impacting their pocketbooks and their confidence with the current and future economic conditions. Erosion of confidence began when home prices showed sharp and precipitous declines. Lower home prices evaporated refinancing opportunities for those homeowners who bought homes that they could not have afforded under more traditional financing. Some are facing foreclosures, or at best, short sales. In addition, those homeowners who have no problems making their monthly payments have seen their biggest investment lose value. The negative wealth effect emanating from the loss of home values worsened when the stock market lost over 50 percent of its value from peak to trough. And finally, since December 2007, the national economy has experienced a severe recession placing upward pressure on the unemployment rate.

With disproportionate dependency on construction activity and the retail sector, this recession is hitting California particularly hard. It is important to remember that while the adjustment in the financial markets occurs very rapidly, the adjustment in the real economy, i.e., job creation and unemployment rates, is very slow. Although we expect the national economy to slowly emerge from the recession late this year, the unemployment rate is bound to go higher. Employers do not start hiring additional workers until they are confident that economic recovery is for real and is gaining momentum.

The good news is that the stock market reaches a trough about three to six months prior to the end of recession. Additionally, we believe median home prices will be near the bottom by the end of this year and that should bring some stability in the housing market. Obviously, these developments should help consumer confidence down the road.



The most important factor affecting consumers' sentiment, however, is the job market that is unfortunately a lagging indicator and will not improve until early 2010. When that happens, consumer confidence should be significantly boosted.

Meanwhile, we should not be surprised to see gloomy consumers acting cautiously about their spending plans. After years of borrowing, the deleveraging process will and should continue. And one should not expect to see significant increases in consumer spending anytime soon.

The slower rate of growth in consumer spending suggests that taxable sales revenue for the state will not increase very rapidly over the next few years. The retreat in consumer spending, however, is not all bad news. Lower consumer spending growth leaves more savings and resources for business investment. In the long-run, higher levels of investment and innovation along with entrepreneurial spirit will enhance growth nationally and locally.