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California State Controller's Office



January 2010 Summary Analysis

Volume 4, Issue 1

Statement of General Fund Cash Receipts and Disbursements

State Finances in December 2009

- ⇒ The State's General Fund revenues improved in December 2009. Compared to estimates found in the Amended 2009-10 Budget Act enacted on July 28, 2009, total General Fund revenues were up \$481 million (5.7%). This was driven by personal income tax revenues that were up \$223 million (4.9%). However, corporate taxes were \$17.6 million below (-1.3%) estimates and sales taxes were down \$67.3 million (-3.1%). The total for the three largest taxes was above estimates by \$138 million (1.7%).
- ⇒ Compared to December 2008, General Fund revenue in December 2009 was up \$254 million (2.9%). The total for the three largest taxes was above 2008 levels by \$277 million (3.5%). Personal income taxes came in \$189 million above (4.2%) last December and corporate taxes were up by \$74.7 million (5.8%). Sales taxes were \$13.2 million higher (0.6%) than last year.

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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 December 2009 and year to date for the first six 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 2008-09. A statement of estimated cash flows for the Amended 2009-10 Budget Act enacted on July 28, 2009, are used as estimates for a basis of comparison.

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Tax Revenue Fiscal Year to Date

- ⇒ Compared to the Amended 2009-10 Budget Act, General Fund revenues through December were below the year-to-date estimate by \$353 million (-0.9%). The three largest sources of revenue were lower than the estimates by \$1.49 billion (-4.1%).
- ⇒ Corporate tax collections year-to-date were up by \$145 million (4.2%) from the Amended 2009-10 Budget Act estimates. Income taxes were \$1.22 billion lower (-6.1%) than expected, and sales taxes also came in lower than expected by \$421 million (-3.2%).
- ⇒ Compared to this date in December 2008, revenue receipts were down by \$2.07 billion (-5.2%). This was driven by personal income taxes, which came in \$2.44 billion below (-11.5%) last year at this time and corporate taxes, which were down \$218 million (-5.8%).
- ⇒ Year-to-date collections for the three major taxes were \$1.92 billion below (-5.2%) last year at this time.

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Budget Provision for

Lower-Than-Expected Revenues

The Amended 2009-2010 Budget Act, in the “other receipts” category of its monthly cash flows, included \$3 billion for potential revenue deterioration.

What The Numbers Tell Us



A new calendar year has begun and California's economy is beginning to see rays of sunshine through the clouds that loomed heavy over the State for more than two years. This can be seen in the State's revenues, which improved again in

December. Corporate taxes, which typically lag the turnaround in sales and income taxes, rose higher than the Budget Act estimates and the December 2008 numbers. Sales and use taxes, which have benefitted from an increased tax rate, are now benefitting from stabilized consumer spending as well. Preliminary estimates from the State Board of Equalization show that the amount of taxable sales increased by nearly 5% between July and September on a year-to-year, seasonally-adjusted basis.

Looking outside California's fiscal position to broader economic indicators, we see encouraging signs as well. Recent data showed signs of improvement in the state's labor markets. California's unemployment rate dropped two-tenths of a percent in November, and the number of people classified as employed increased by more than 25,000 from October. Although total nonfarm employment in California fell slightly in November, we did see gains in several key sectors, including construction, professional and business services, information, and other services.

Residential construction also continues to improve across the State. It is no secret that the bubble and subsequent collapse in home prices had a significant impact on California's economy. New residential building permits had been in a freefall since 2006, and construction employment followed shortly afterwards. In November, newly issued residential building permits climbed by almost 6% — continuing a positive trend that began in June of 2009. As a result, we are beginning to see construction employment pick back up. This source of turbulence in California's economy has worked out many of its key imbalances — although defaults and foreclosures are ongoing concerns.

The New Year has begun with important first steps for any recovery: positive economic growth nationwide; consumer spending stabilizing; labor markets leveling off; and some rationality to the housing markets. Yet it is important to keep in mind that the recovery has just begun. The State will not be back to its peak level of economic activity for at least a few years. Although this year is likely to be better than last, the key word for 2010 in California should be *patience*.

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However, retail sales taxes were up \$737 million (6.0%) from last year's total at the end of December.

Summary of Net Cash Position as of December 31, 2009

- ⇒ Through December, the State had total receipts of \$38.7 billion (Table 1) and disbursements of \$51.5 billion (Table 2).
- ⇒ The State ended last fiscal year with a cash deficit of \$11.9 billion, so the combined current year deficit stands at \$24.8 billion (Table 3). That deficit is being covered with \$16.0 billion of internal borrowing and \$8.8 billion of external borrowing.

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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, 2009 - December 31, 2009 (in Millions)*

| Revenue Source | Actual Receipts to Date | Amended 2009-2010 Budget Act Estimate | Actual Over (Under) Estimate |
|------------------------------------|-------------------------|---------------------------------------|------------------------------|
| Corporation Tax | \$3,569 | \$3,424 | \$145 |
| Personal Income Tax | \$18,744 | \$19,962 | (\$1,218) |
| Retail Sales and Use Tax | \$12,966 | \$13,388 | (\$422) |
| Other Revenues | \$2,811 | \$1,670 | \$1,141 |
| Total General Fund Revenue | \$38,090 | \$38,443 | (\$353) |
| Non-Revenue | \$576 | \$597 | (\$21) |
| Total General Fund Receipts | \$38,666 | \$39,041 | (\$375) |

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

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

| Recipient | Actual Disbursements | Amended 2009-10 Budget Act Estimate | Actual Over (Under) Estimate |
|----------------------------|----------------------|-------------------------------------|------------------------------|
| Local Assistance | \$38,463 | \$37,835 | \$628 |
| State Operations | \$12,149 | \$11,979 | \$170 |
| Other | \$911 | \$947 | (\$36) |
| Total Disbursements | \$51,524 | \$50,762 | \$762 |

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- ⇒ Of the largest expenditures, \$38.5 billion went to local assistance and \$12.1 billion went to State operations (See Table 2).
- ⇒ Local assistance payments were \$628 million higher (1.7%) than the Amended 2009-10 Budget Act estimates, and State operations were up \$170 million (1.4%).

How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for December 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 December 31, 2009 (in Millions)**

| | Actual Cash Balance | Amended 2009-2010 Budget Act Estimate | Actual Over (Under) Estimate |
|---|---------------------|---------------------------------------|------------------------------|
| Beginning Cash Balance July 1, 2009 | (\$11,908) | (\$11,908) | \$0 |
| Receipts Over (Under) Disbursements to Date | (\$12,858) | (\$11,721) | (\$1,137) |
| Cash Balance December 31, 2009 | (\$24,766) | (\$23,629) | (\$1,137) |

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California Economic Snapshot

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| New Auto Registrations (Fiscal Year to Date) | 230,734 Through August 2008 | 166,567 Through August 2009 |
| Median Home Price (for Single Family Homes) | \$258,000 In November 2008 | \$261,000 In November 2009 |
| Single Family Home Sales | 32,163 In November 2008 | 35,860 In November 2009 |
| Foreclosures Initiated (Notices of Default) | 94,240 In 3rd Quarter 2008 | 111,689 In 3rd Quarter 2009 |
| Total State Employment (Seasonally Adjusted) | 14,811,370 In November 2008 | 14,193,180 In November 2009 |
| Newly Permitted Residential Units (Seasonally Adjusted Annual Rate) | 68,953 In November 2008 | 37,923 In November 2009 |
| Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance | | |