

# Controller *John Chiang*

## California State Controller's Office



May 2010 Summary Analysis

Volume 4, Issue 5

## Statement of General Fund Cash Receipts and Disbursements

### State Finances in April 2010

- ⇒ Compared to estimates from the 2010-11 Governor's Budget, total General Fund revenues in April were \$3.6 billion lower (-26.4%) than expected. Personal income taxes were well below expectations by \$3.1 billion (-30.0%), and corporate tax revenues came in below projections by \$541 million (-28.1%). Sales tax revenues were \$123 million better (16.1%) than anticipated.
- ⇒ Compared to April 2009, General Fund revenue in April 2010 was up \$142 million (1.4%). The total for the three largest taxes was above 2009 levels by \$150 million (1.6%). This increase was driven by sales taxes that were \$450 million higher (103.2%) than last year. However, corporate taxes were down by \$115 million (-7.6%), and personal income taxes came in slightly below last April by \$186 million (-2.5%).

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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 April 2010 and year to date for the first ten 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 and the statement of estimated cash flows from the 2010-11 Governor's Budget.

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## Tax Revenue Fiscal Year to Date

- ⇒ Compared with estimates found in the 2010-11 Governor's Budget, General Fund revenues through April were down \$1.3 billion (-1.9%). The three largest sources of revenue were lower than estimated levels by \$1.4 billion (-2.1%). Income taxes were \$2.2 billion lower (-5.7%) than expected, while corporate taxes were up \$252 million (3.6%). Sales taxes also came in better than expected by \$576 million (2.9%).
- ⇒ Compared to this date in April 2009, year-to-date revenues were up by \$1.3 billion (1.9%). This was driven by sales taxes, which came in \$2.5 billion above (14.0%) last year at this time.
- ⇒ Year-to-date collections for the three major taxes were \$1.0 billion higher (1.6%) than last year at this time. Personal income taxes were down \$1.2 billion (-3.1%) and corporate taxes were down \$334 million (-4.4%) from last year's total at the end of April.

## Summary of Net Cash Position as of April 30, 2010

- ⇒ Through April, the State had total receipts of \$70.4 billion (Table 1) and disbursements of \$78.7 billion (Table 2).

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## What The Numbers Tell Us

April was a month of mixed results for California's fiscal position. General Fund revenues improved over last April on the back of strong consumer performance. But compared to the Governor's Budget estimates, revenues came in well below the expectations. Overall, April was a month of weak corporate and personal income tax revenues irrespective of the basis of comparison.

When we dig into the lackluster performance of personal income tax revenues, several interesting facts emerge. While personal income taxes were down overall, California actually saw a 4.2% rise in withholdings on personal income over this time last year, according to the Franchise Tax Board. This bolstered the year-to-date performance. Similarly, refunds on personal income taxes were 14.2% below last year, which also helped. The real deterioration in personal income tax revenue came from both estimated and miscellaneous tax payments.

This highlights the well-known fact that businesses follow the consumer. We have seen some stasis in the labor markets and withholdings have leveled off as a result. However, small business owners continue to struggle. For many small businesses, profits flow through to the owners and are taxed as personal income.

These business owners make estimated tax payments based on their expected tax burden for the year. Through April, these firms have yet to see a big jump in earnings and have not increased their estimated tax payments over last year.



Indeed, we can see in the numbers for corporations, who pay tax on their own profits, earnings have yet to rebound. According to the Franchise Tax Board, both estimated tax payments and miscellaneous taxes were down by 6% and 10%, respectively over last year.

Despite the mixed results, it is important to keep things in perspective. Sales tax revenues continue to bolster the State's General Fund, and while personal income taxes are down, they are underperforming by smaller percentages as the months move on. For example, personal income tax revenues in March 2010 were 3.2% below March 2009 on a year-to-date basis. In April, this gap closed slightly to 3.1% below last April.

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- ⇒ The State ended last fiscal year with a deficit of \$11.9 billion, so the combined current year deficit stands at \$20.2 billion (Table 3). Those deficits are being covered with \$11.4 billion of internal borrowing and \$8.8 billion in external borrowing.
- ⇒ Of the largest expenditures, \$56.9 billion went to local assistance and \$19.9 billion went to State operations (See Table 2).
- ⇒ Local assistance payments were \$190 million higher (0.3%) than projected in the 2010-11 Governor's Budget. State operations were \$271 million below (-1.3%) those projections.

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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 - April 30, 2010 (in Millions)\***

Revenue Source	Actual Receipts to Date	2010-11 Governor's Budget Estimate	Actual Over (Under) Estimate
Corporate Tax	\$7,194	\$6,943	\$252
Personal Income Tax	\$36,441	\$38,634	(\$2,193)
Retail Sales and Use Tax	\$20,597	\$20,021	\$576
Other Revenues	\$4,409	\$4,350	\$58
Total General Fund Revenue	\$68,641	\$69,948	(\$1,307)
Non-Revenue	\$1,787	\$1,781	\$6
Total General Fund Receipts	\$70,428	\$71,729	(\$1,301)

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

**Table 2: General Fund Disbursements, July 1, 2009-April 30, 2010 (in Millions)**

Recipient	Actual Disbursements	2010-11 Governor's Budget Estimate	Actual Over (Under) Estimate
Local Assistance	\$56,910	\$56,720	\$190
State Operations	\$19,888	\$20,159	(\$271)
Other	\$1,914	\$1,939	(\$22)
Total Disbursements	\$78,713	\$78,815	(\$102)

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## How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for April 2010 is available on the State Controller's Web site at [www.sco.ca.gov](http://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](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 April 30, 2010 (in Millions)**

	Actual Cash Balance	2010-11 Governor's Budget Estimate	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2009	(\$11,908)	(\$11,908)	\$0
Receipts Over (Under) Disbursements to Date	(\$8,285)	(\$7,086)	(\$1,199)
Cash Balance April 30, 2010	(\$20,193)	(\$18,994)	(\$1,199)

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**California Economic Snapshot**

<b>New Auto Registrations</b> (Fiscal Year to Date)	<b>660,124</b> Through January 2009	<b>608,106</b> Through January 2010
<b>Median Home Price</b> (for Single Family Homes)	<b>\$223,000</b> In March 2009	<b>\$255,000</b> In March 2010
<b>Single Family Home Sales</b>	<b>36,215</b> In March 2009	<b>37,295</b> In March 2010
<b>Foreclosures Initiated</b> (Notices of Default)	<b>135,431</b> In 1st Quarter 2009	<b>81,054</b> In 1st Quarter 2010
<b>Total State Employment</b> (Seasonally Adjusted)	<b>14,300,400</b> In March 2009	<b>13,842,000</b> In March 2010
<b>Newly Permitted Residential Units</b> (Seasonally Adjusted Annual Rate)	<b>38,160</b> In March 2009	<b>39,976</b> In March 2010
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 Beacon Economics.

# California's Economy: Down But Not Out

By Beacon Economics

It is hard to deny 2009 was one of the worst years for California's economy in more than two decades. This cyclical fluctuation hit California hard, and the state played a major role in the downturn seen nationwide. In short, California was subject to the primary imbalances that drove the country into recession.

For example, California took on a disproportionate share of riskier home loans relative to most other states. In December 2005, it is estimated California had roughly 19.5% of the outstanding subprime and Alt-A loans in the nation. This is much higher than the state's share of the U.S. population, which averages roughly 12%.

Savings rates, which historically average more than 7% of disposable income, began a downward trend in the early 1980s. By the first quarter of 2008, savings rates fell to just above 1% of income, leaving us susceptible to a downturn. At the same time, household debt as a percentage of disposable income went through the roof — rising from 69.7% of income in 1980 to 136% by the first quarter of 2008. The unbalanced levels of savings and debt were clearly unsustainable.



## Taking Stock

In this downturn, California has been feeling pain across all aspects of its economy.

In January 2010, the unemployment rate reached 12.5% on a seasonally adjusted basis. More than 1.39 million nonfarm jobs were shed by December 2009 from the last peak of employment in July 2007. By the second quarter of 2009, taxable sales were off their highest levels by 22.9% and the retail sector continued to trim workers — with more than 212,000 jobs lost from its peak level by December of 2009.

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California has shed the largest number of jobs of any state, but in terms of employment decline as a percentage of peak employment, California ranks 6th with a decline of 9.2%. Michigan ranks 1st, having shed 18% of its jobs from its peak, followed by Ohio and the states with subprime and Alt-A woes — Nevada, Florida, and Arizona, with declines of 13.8%, 11.5%, and 11.1%, respectively.

The Golden State has the 5th highest unemployment rate in the nation with 12.5%, trailing

Michigan (14.3%), Nevada (13.0%), Rhode Island (12.7%), and South Carolina (12.6%).

The real estate markets also took a beating. After posting record gains between 2003 and 2006, they began falling sharply in 2007, 2008, and 2009, while defaults and foreclosures surged to decade highs. Residential building permits began to decline in late 2005, and by January 2009 they had fallen by 89% from their peak of more than 20,000 per month.

Problems in commercial real estate came later to the game. In both the retail and office segments, vacancy rates did not begin to rise by any significant amount until late 2007 and early 2008. The slowdown in commercial real estate lagged the housing market and many ominous signs remain. In every type of property (office, retail, or industrial), the same trends hold true throughout California: cap rates are up, rents are down, and net absorption remains negative while vacancy rates keep climbing higher.

## Down But Not Out

Despite today's turmoil and the hard times we face in the immediate future, California's long term outlook is bright. While we need to address political challenges in order to overcome our troubled regulatory structure and fiscal situation, the state's fundamentals are sound. Among other things, we have a highly skilled labor force, continue to attract high-tech businesses and new investment, and our ports and airports remain a vital gateway for goods, services, and people into and out of the United States. We may be down, but the Golden State is surely not out.

