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California State Controller's Office

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Statement of General Fund Cash Receipts and Disbursements

State Finances in July 2010

⇒ The 2010-2011 fiscal year got off to a bumpy start with mixed results for General Fund revenues. Compared to the 2010-11 May Revision Estimates, total General Fund revenues were $91.1 million lower (-1.9%) than expected. Personal income tax revenues were $210 million worse (-6.6%) than anticipated. However, corporate tax revenues came in above estimates by $86 million (37.4%). Retail sales and use taxes were also above expectations by $69 million (6.6%).

⇒ However, compared to July 2009, General Fund revenue in July 2010 was up $99 million (2.2%). The total for the three largest taxes was above 2009 levels by $156 million (3.7%). This was driven by personal income taxes rising $133 million (4.7%), and sales taxes coming in above last July by $43 million (4.0%). However, corporate taxes were $20 million lower (-5.9%) 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 July 2010. 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 2009-10 and the statement of estimated cash flows from the 2010-11 May Revision Estimates.

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Summary of Net Cash Position as of July 31, 2010

⇒ Through July, the State had total receipts of $4.8 billion (Table 1) and disbursements of $8.6 billion (Table 2).

⇒ The State ended last fiscal year with a deficit of $9.9 billion. The combined current year deficit stands at $13.7 billion (Table 3). Those deficits are being covered with $13.7 billion of internal borrowing.

⇒ Of the largest expenditures, $5.5 billion went to local assistance and $1.9 billion went to State operations (See Table 2).

⇒ Local assistance payments were $1.1 billion lower (-17.1%) than the 2010-11 May Revision Estimates and State operations were $752 million above (64.4%). However, these numbers reflect $153 million in non-revenue receipts as offsets to General Fund expenditures.

How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for July 2010 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 1: General Fund Receipts, July 1, 2010 - July 31, 2010 (in Millions)*

Revenue Source	Actual Receipts to Date	2010-11 May Revision Estimate	Actual Over (Under) Estimate
Corporate Tax	$315	$229	$86
Personal Income Tax	$2,968	$3,178	($210)
Retail Sales and Use Tax	$1,116	$1,047	$69
Other Revenues	$273	$309	($36)
Total General Fund Revenue	$4,672	$4,763	($91)
Non-Revenue	$153	$333	($180)
Total General Fund Receipts	$4,825	$5,096	($272)

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

Table 2: General Fund Disbursements, July 1, 2010-July 31, 2010 (in Millions)

Recipient	Actual Disburse-ments	2010-11 May Revision Estimate	Actual Over (Under) Estimate
Local Assistance	$5,523	$6,661	($1,139)
State Operations	$1,918	$1,167	$752
Other	$1,161	($190)	$1,350
Total Disbursements	$8,602	$7,638	$963

Table 3: General Fund Cash Balance As of July 31, 2010 (in Millions)

	Actual Cash Balance	2010-11 May Revision Estimate	Actual Over (Under) Esti-mate
Beginning Cash Balance July 1, 2010	($9,922)	($11,700)	$1,778
Receipts Over (Under) Disbursements to Date	($3,377)	($2,542)	($1,235)
Cash Balance July 31, 2010	($13,699)	($14,242)	$543

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.

What the Numbers Tell Us

California's General Fund began the fiscal year with revenues $99 million above where they were at this time last year. Yet, despite this positive variance, revenues came in below the levels expected in the May Revision estimates. These mixed results illustrate that the road to recovery will be lengthy.

Consumer spending continues to increase, but the rate of growth is slowing. Retail sales and use tax was up in July, but tax rates nationwide remain at historically low levels. For example, the Bureau of Economic Analysis reports that current personal taxes in the second quarter of 2010 fell to 9.1% of income. The national tax rate has not been at such low levels since the late 1940s, which explains why California has been bolstered by increased sales tax revenues — consumers simply have more of their income available for consumption given that they are paying less in taxes.

However, the government is also running relatively large budget deficits — net government borrowing nationally is at all-time high levels of more than 10% of gross domestic product. As debt and inflation fears grow, the government will be forced to pull back. We are already seeing the debate in Washington regarding when to let the Bush tax cuts expire.

Similarly, corporate tax revenues in California posted gains over last July. This is not surprising given that the state has seen small increases in its nonfarm employment base, indicating that businesses are expecting stronger performance this year. This is indeed a good sign, but again warrants caution. Corporate taxes are still well below peak, and unemployment remains above 12% in the state. Businesses do follow the consumer — as evidenced by the lagged response to increased taxable sales — which is why an expectation of a return to peak activity in 2010 or 2011 would be misplaced.

We have turned the corner, but the economy is more like a water balloon than a tennis ball — it is likely to splat rather than bounce.

California Economic Snapshot

New Auto Registrations (Fiscal Year to Date)	**977,667** Through May 2009	**982,168** Through May 2010
Median Home Price (for Single Family Homes)	**$246,000** In June 2009	**$270,000** In June 2010
Single Family Home Sales	**44,167** In June 2009	**43,964** In June 2010
Foreclosures Initiated (Notices of Default)	**124,562** In 2nd Quarter 2009	**70,015** In 2nd Quarter 2010
Total State Employment (Seasonally Adjusted)	**14,066,800** In June 2009	**13,880,700** In June 2010
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**35,726** In June 2009	**42,147** In June 2010

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

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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 Controller's Council of Economic Advisors.

Spending Picks Up, But Job Market Will Be Sluggish

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

February benchmark employment data confirmed that the recession had a greater negative impact on California than initial reports suggested. The revised data show that since the beginning of the national recession in December of 2007, California lost 1,371,000 payroll jobs or a decline of 9.0 percent.

Although many focus on unemployment rates in evaluating the direction of the economy, the rate of job creation is a more relevant and useful statistic. The most reliable measure is payroll employment. California's payroll job growth depends on the performance of national and international economies and local construction spending.

Clearly, the recession is over. Our forecast calls for a weak but sustained growth in real GDP through 2011. A low trade-weighted value of the dollar and gradual improvements in the world economy are projected to increase growth in real exports over the remainder of the year, and the gains will gradually accelerate into 2011. The recent development in the Euro-zone has, of course, a negative impact on our exports, but the impact on California's export will be more modest than the nation.

Residential construction spending hit bottom in 2009. Total number of permits for single and multiple housing units is forecasted to increase gradually through 2011. High vacancy rates, declining lease rates and prices of commercial real estate, however, are continuing to push nonresidential construction spending lower. As a result, total construction spending (which is generated by projected total residential and nonresidential permit valuation into future quarters) is projected to decline through the third quarter of 2011.

Hence, the strength in real exports and real GDP growth will be partially offset by continued weakness in California's construction spending but, on balance will positively affect job creation in California. Year-

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over-year payroll job growth will increase from virtually no growth in the third quarter of 2010 to 1.7 percent by the fourth quarter of 2011. While such growth pales in comparison to historical standards, it points to the creation of 182,000 net new payroll jobs in California in 2011.

Most of the new jobs over the 2010-11 period will be created in the services sector. The most rapid growth is forecasted in the education and health services sector.

Outside of the services sector, the retail and wholesale sectors are forecasted to show recovery in 2011. High unemployment rates, consumer deleveraging and declining nominal income led to a sharp decline in consumer spending. But with the recession ending, consumers are becoming more secure about their jobs and are spending again.

In the goods-producing sector, employment growth in the construction sector will remain weak. On the bright side, the manufacturing sector is improving. Our California purchasing managers' index hit bottom in the first quarter of 2009, and since the third quarter of 2009, the index remained over the reading of 50, suggesting expansion in this sector. The rapid increases in productivity enabled employers to produce higher levels of output with existing or even lower numbers of employees. But an expected slowdown in productivity growth and increase in output would lead to hiring in this sector by year-end 2010 and 2011.

As for housing prices, a point of clarification is in order. Year-over-year median resale single-family home prices in California declined from the peak of $594,000 in June of 2007 to $245,000 in February of 2009, a decline of 58.0 percent. The median price then increased steadily and currently stands at $324,000, an increase of 32.0 percent from the low of $245,000.

The above data provided by the California Association of Realtors is the median price of homes sold in a given month. The bursting of the bubble initially impacted subprime mortgages that were mainly concentrated in lower-priced homes. Hence, foreclosures, short-sales and other sales were concentrated in markets with relatively lower-priced homes — rapidly pulling down the median. With job losses and higher unemployment rates, defaults and foreclosures spread to prime mortgage borrowers and affected relatively more expensive homes. Hence, in recent months recorded sales gradually moved to higher-priced homes — pulling up the median. We believe both the rapid decline of 58.0 percent and the recent increase of 32.0 percent in median-home prices are influenced significantly by the change in the mix of homes sold and do not reflect the true price fluctuations of an existing stock of housing units.

With our projection of income and job growth and modest increases in the supply of new and resale housing units, median single-family home prices are forecasted to increase annually within a range of four to eight percent in California over the 2010-11 period.

Stability in the housing market along with improvements in income and taxable sales spending are good news to the state and local governments. But the projected increase in the state's general fund revenue will not be sufficient enough to cover the state's projected spending. It is imperative, therefore, for the Governor and Legislature to avoid imposing hefty taxes to solve tight budgetary conditions. Higher taxes could derail this weak and fragile recovery.