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California State Controller's Office
October 2010 Summary Analysis
Volume 4, Issue 10

Statement of General Fund Cash Receipts and Disbursements

By publication time, the most recent Budget estimates available are those found in the Governor's 2010-11 May Revision, which assumes a July 1 enactment and $19.1 billion in revenue and spending solutions.

To offer a straightforward comparison against September totals, this report adjusts the Governor's May Revision estimates to remove the budget solutions that were not enacted.

State Finances in September 2010

⇒ Compared to the 2010-11 May Revision Estimates, total General Fund revenues were $1.1 billion higher (15.3%) than expected in September. Corporate tax revenues were $378.7 million better (46.1%) than anticipated and retail sales and use taxes came in above expectations by $60 million (2.9%).

⇒ Personal income tax revenues came in above the estimates

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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 September 2010 and fiscal year to date for the first three months of Fiscal Year 2010-11. 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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by $732.9 million (22%). Tax returns suggest that much of the additional revenue stems from a change in filing dates, rather than genuine economic recovery.

⇒ Compared to September 2009, General Fund revenue in September 2010 was down $233.3 million (-2.8%). The total for the three largest taxes was below 2009 levels by $120.2 million (-1.6%). This was driven by corporate taxes, which were down $184.2 million (-13.3%). However, personal income taxes were up $58.2 million (1.5%) and sales and use taxes were $5.8 million above (0.3%) last September.

Tax Revenue Fiscal Year to Date

⇒ Compared with 2010-11 May Revision estimates, General Fund revenues through September were above the year-to-date estimate by $1.2 billion (6.7%). The three largest sources of revenue were above estimates by $1.2 billion (7.1%). Income taxes came in above projections by $642.1 million (6.8%). Corporate tax collections were $313.5 million better (26.6%) than expected in the 2010-11 May Revision Estimates. Sales tax collections year to date were also above the estimates by $254.1 million (4.0%).

⇒ Compared to this date in September 2009, General Fund revenues are up by $263.3 million (1.4%). This was driven by personal income taxes, which came in $516.5 million above (5.4%) last year at this time. Sales taxes were also up $232.9 million (3.6%) from last year's total at the end of September.

⇒ Year-to-date collections for the three major

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What the Numbers Tell Us

Last month, the National Bureau of Economic Research declared that the "Great Recession" officially ended in June of 2009. However, this announcement has brought little comfort to a state still reeling from this downturn. The unemployment rate remains above 12% and there are more than two million Californians who are looking for, but cannot find, work.

This confirms what we have been saying all along: California has made it to the bottom of this business cycle, but the recovery will be muted — especially in the labor markets, which typically trail the end of a recession with a substantial lag.

Yet when we look into the State's cash position, we can see that the rebound in activity has indeed begun. Despite weak performance in corporate tax revenues, both sales and personal income taxes posted gains over last year, and General Fund revenues through September are above last year's total, although some of this additional revenue stems from a change in tax filing dates.

These statistics, combined with new Bureau of Economic Analysis (BEA) numbers on California incomes, which have been growing since the end of 2009, make it clear that we have turned the corner. People are earning more and they are spending more — both of which have helped drive most of the improvement in General Fund revenues. The question really is when the state will fully recover. The unfortunate answer is that it will be several years before California returns to peak levels of activity.

Corporate profits are still declining relative to last year, which shows that businesses have yet to see any significant upward movement in their profits. Additionally, the state has added another $2.7 billion to the deficit this fiscal year. When combined with the outstanding loan balance from the 2009-10 fiscal year, California still has a roughly $12.6 billion hole to fill. For the time being, the positive signs in the State's cash position and the improvement of key external indicators are important as a signal, if nothing else, but there is a long road ahead of us before we can consider ourselves fully recovered.

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taxes were $301.8 million higher (1.7%) than last year at this time. However, corporate taxes were down $447.6 million (-23.1%) from last year's total.

Summary of Net Cash Position as of September 30, 2010

⇒ Through September, the State had total receipts of $19.9 billion (Table 1) and disbursements of $22.6 billion (Table 2).

⇒ The State ended last fiscal year with a deficit of $9.9 billion. The combined current year deficit stands at $12.6 billion (Table 3). Those deficits are being covered with $12.6 billion of internal 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, 2010 - September 30, 2010 (in Millions)*

Revenue Source	Actual Receipts to Date	2010-11 May Revision Estimate w/o Solutions	Actual Over (Under) Estimate
Corporate Tax	$1,494	$1,180	$314
Personal Income Tax	$10,089	$9,447	$642
Retail Sales and Use Tax	$6,628	$6,374	$254
Other Revenues	$1,452	$1,429	$23
Total General Fund Revenue	$19,662	$18,430	$1,232
Non-Revenue	$282	$132	$150
Total General Fund Receipts	$19,944	$18,562	$1,382

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

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

Recipient	Actual Disburse-ments	2010-11 May Revision Estimate w/o Solutions	Actual Over (Under) Estimate
Local Assistance	$15,502	$23,874	($8,372)
State Operations	$5,848	$5,652	$196
Other	$1,269	($89)	$1,358
Total Disburse-ments	$22,620	$29,437	($6,816)

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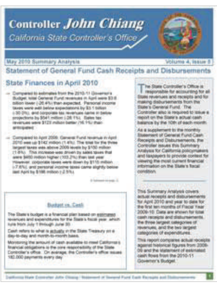
- ⇒ Of the largest expenditures, $15.5 billion went to local assistance and $5.8 billion went to State operations (See Table 2).

- ⇒ State operations were $196.4 million above estimates (3.5%), while local assistance payments were down $8.4 billion (-35.1%). The drop in expenditures reflects a number of payments that are not made when the State lacks a budget, combined with $2.5 billion in deferred education payments.

Table 3: General Fund Cash Balance As of September 30, 2010 (in Millions)

	Actual Cash Balance	2010-11 May Revision Estimate w/o Solutions	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2010	($9,922)	($11,700)	$1,778
Receipts Over (Under) Disbursements to Date	($2,675)	($10,874)	$8,199
Cash Balance September 30, 2010	($12,597)	($22,574)	$9,977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Statement of General Fund Cash Receipts and Disbursements
State Finances in April 2010

How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for September 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

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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)	**$249,000** In August 2009	**$260,000** In August 2010
Single Family Home Sales	**39,811** In August 2009	**34,239** In August 2010
Foreclosures Initiated (Notices of Default)	**124,562** In 2nd Quarter 2009	**70,015** In 2nd Quarter 2010
Total State Employment (Seasonally Adjusted)	**13,941,000** In August 2009	**13,827,900** In August 2010
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**38,325** In August 2009	**46,510** In August 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 Christopher Thornberg, Principal, Beacon Economics, and Chair of the Controller's Council of Economic Advisors.

It's the Economy!

By Christopher Thornberg
Principal, Beacon Economics

The budget solution proposed by the legislative bodies has neither tax increases nor dramatic cuts to spending. Instead, it relies on longer-term borrowing, federal bailout money and an improved economy. Consider the latter assumption.

Recently the National Bureau of Economic Research (NBER) declared that the recent "great recession" ended in June of 2009. The popular press largely panned this pronouncement, saying that it is out of touch with Main Street where the pain of the downturn is still being felt. But this is due to a fundamental misunderstanding of what the NBER is actually dating.

A recession occurs when there is a substantial broad-based reduction of economic activity, as measured by a number of indicators from industrial production to employment to overall Gross Domestic Product (GDP). A recession is technically over when the contraction comes to an end — not when the economy gets back to pre-recession levels of economic performance.

For economists who regularly watch the numbers, it is pretty clear that this recession has been over for quite some time — the only question was the exact date the NBER might choose. The recovery is another story and has been slower than policymakers or Main Street would like (particularly in the labor markets). However, this is not surprising.

Beacon Economics has been publicly forecasting a slow recovery for more than a year. The slowness of the recovery is as much an artifact of policy decisions as of the nature of the downturn. It was clear that the choices being made were achieving current stability and an earlier recovery by pushing a portion of the economy's problems into the future.

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The benefits of such a strategy are clear. An economy facing too many negative hits is one that can sink into a death spiral of reduced demand and output, something that can lead to a long-term depression. By spreading the pain out over time, the chance of such a negative feedback cycle is reduced, but it also prevents the sort of rapid recovery the Obama Administration had been hoping for, especially as mid-term elections approach.

Recently, there have been fears of a double dip, particularly this past summer when the slowing pace of GDP growth sent shock waves through the equity markets. Beacon Economics never believed this was a realistic possibility, as recessions need some formative shock to occur — and Beacon's forecast did not identify any imbalances in today's economy that could create such a spark. Indeed, Beacon Economics outlook has improved in recent months.

The reasons for this optimism are threefold. First, numbers from the second quarter were much better than they first appeared — while the top level growth figure was weak, aggregate demand actually increased by the fastest pace since 2006. Second, a major revision of U.S. economic statistics accompanied the release of the second quarter data. This revision indicates that the U.S. economy had better fundamentals than previously reported. In particular, consumers had been saving at higher, more sustainable, rates than previously thought. Lastly the numbers coming out since the summer all show the economy back on a growth path. The positive implications for state revenues are clear.

Beacon Economics still expects below-average growth rates over the next two years as the Federal Reserve and Congress begin to unwind historically low interest rates and massive budget deficits. This means consumer spending will grow at a slower than normal pace. There is also likely to be continued weakness stemming from both the residential and commercial real estate markets as they continue to work through the backlog of excess supply and bad debt. Employment growth will continue to be moderate, implying that it could be late 2013 before peak employment levels return and late 2014 before unemployment drops below six percent again. It isn't all bad news. These weaknesses are being offset to some extent by growing exports and decent trends in business investment in equipment and software.

Add it up, and a better economy will help this budget work. Whether the federal government will come up with the additional funding, and the ability of the State to yet again use Wall Street to raise funds, should be the primary worries for those wondering what will happen next.