

State of California

***General Fund
Cash Basis Report***

For the Fiscal Year Ended June 30, 2009



Controller *John Chiang*
California State Controller's Office



JOHN CHIANG
California State Controller

January 29, 2010

**To the Citizens, Governor, and Members
of the Legislature of the State of California:**

I am pleased to submit to you the *General Fund Cash Basis Report* for the fiscal year ended June 30, 2009. The General Fund ended the 2008-09 fiscal year with a cash deficit before loans of \$11.9 billion, which is \$10.4 billion more than the cash deficit of \$1.5 billion at the beginning of the fiscal year.

HISTORIC CASH CRISIS

Traditionally, the State manages General Fund cash shortages through a combination of reasonable internal and external borrowing. California utilized the latter when it issued a total of \$5.5 billion of short-term debt, including \$5 billion in Revenue Anticipation Notes (RANs) on October 23, 2008, and an additional \$500 million on March 23, 2009. As required by law, those RANs were repaid prior to June 30, 2009.

However, during the worst fiscal crisis since the Great Depression, my office was required to take additional steps to prevent the State from defaulting on critical payments, such as education and debt service, which would have slowed our economic recovery and harmed the State's ability to finance critical public works projects. A global recession coupled with a historic housing downturn and Wall Street meltdown significantly affected each of the State's three primary sources of revenues: personal income, sales and corporate taxes. Revenue receipts dropped 11%, from \$96.4 billion in Fiscal Year 2007-08 to \$85.2 billion in FY 2008-09. As a result, the State faced a multi-billion budget imbalance and insufficient funds in the State's treasury to meet all of its payment obligations.

To preserve enough cash to meet the State's Constitutionally-required payment obligations to bond holders and schools, my office was regrettably forced to delay other payments during February 2009. That resulted in a 30-day delay in paying \$4.2 billion in personal income tax refunds and money owed to private businesses for products and services provided to the State.

These payment delays were no longer needed shortly after the Governor and State Legislature enacted a curative budget on February 20, 2009.

SPECIAL FUND WARNING

California law allows the State to temporarily borrow from certain special funds in order to meet its General Fund payment obligations. The law is clear that those funds, which total more than \$19.6 billion, are available to be tapped only to the extent that doing so does not interfere with operations supported by those funds.

The State places critical public programs – such as those established to clean-up oil spills or protect our drinking water – at risk of failure when it relies on heavily borrowing from these resources with no clear ability or plan for repayment. The Governor and Legislature should be wary of the fact that the State has not had a positive cash balance since July of 2007 without relying on these special funds and other external borrowing.

This report is published to provide authoritative information, using the cash basis of accounting, concerning the financial status of the General Fund as close to the end of the fiscal year as possible. This report does not, however, provide a complete picture of the State's operations or financial position. After the State Auditor completes the audit of the State's finances, I will issue the *Comprehensive Annual Financial Report*, prepared in conformity with accounting principles generally accepted in the United States of America. I will also issue the *Budgetary/Legal Basis Annual Report*, which contains an accounting of all fund activity in compliance with state law, state accounting procedures, and the state budget.

This report is available on the Internet at the State Controller's homepage at http://sco.ca.gov/ard_state_genfundcashbasis.html.

Sincerely,

Original signed by

JOHN CHIANG
California State Controller

Statement of Cash Receipts, Disbursements, and Balances

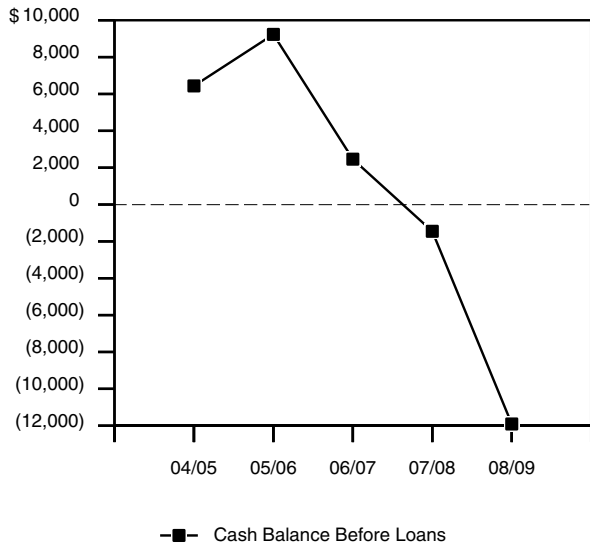
(Amounts in thousands)

	Year Ended June 30,	
	2009	2008
General Fund Beginning Cash Balance Before Loans, July 1	\$ (1,451,759)	\$ 2,462,023
Receipts (Note 1)		
Revenues	85,179,154	96,378,795
Nonrevenues	2,595,798	7,037,376
Total Receipts	87,774,952	103,416,171
Disbursements		
State Operations	26,668,214	26,834,224
Local Assistance	69,825,334	76,697,574
Capital Outlay	1,202,612	1,274,339
Nongovernmental (Note 1)	535,119	2,523,816
Total Disbursements	98,231,279	107,329,953
Receipts Over(Under) Disbursements	(10,456,327)	(3,913,782)
General Fund Ending Cash Balance before June 30	(11,908,086)	(1,451,759)
Loans		
From Special Fund for Economic Uncertainties	1,539,572	1,451,759
From Special Fund and Accounts (Note 2)	10,368,514	—
Total Loans	11,908,086	1,451,759
General Fund Ending Cash Balance After Loans, June 30	—	—
Special Fund for Economic Uncertainties, June 30 (Note 3)	—	925,715
Total Cash, June 30 (Note 1)	\$ —	\$ 925,715
<hr/>		
Borrowable Resources		
Available Resources (Note 2)		
From Special Fund for Economic Uncertainties	\$ 1,539,572	\$ 2,377,474
From Special Funds and Accounts	17,498,140	11,831,921
Total Available Resources	19,037,712	14,209,395
Total Loans	11,908,086	1,451,759
Unused Resources	\$ 7,129,626	\$ 12,757,636

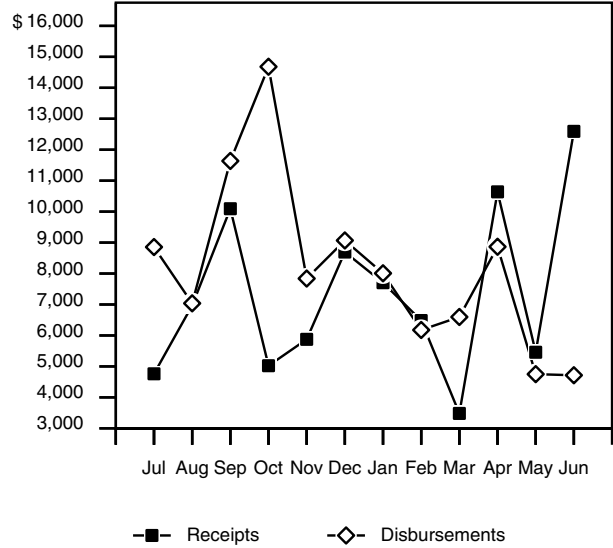
Charts of Cash Receipts, Disbursements, and Balances

(Amounts in millions)

**Ending Cash Balances Before Loans
Last Five Fiscal Years**

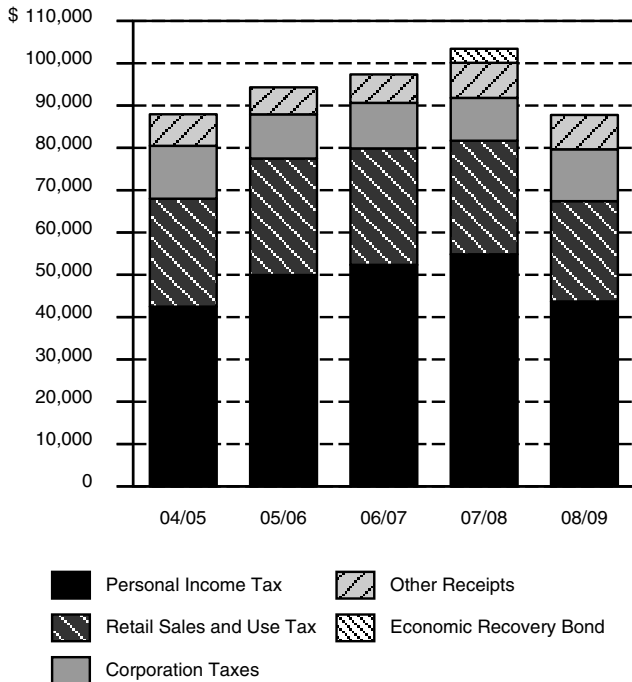


**Monthly Cash Receipts and Disbursements
Fiscal Year Ended June 30, 2009 ***

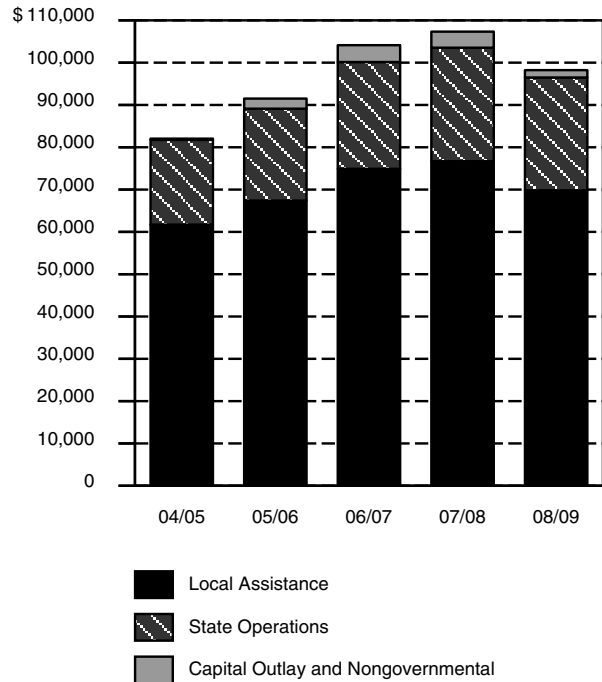


* Delayed Payments Feb - Mar

**Cash Receipts
Last Five Fiscal Years**



**Cash Disbursements
Last Five Fiscal Years**



Schedule of Cash Receipts

(Amounts in thousands)

	Year Ended June 30,	
	2009	2008
RECEIPTS		
REVENUES		
Major Taxes and Licenses (Note 4)		
Personal Income Tax	\$ 43,701,844	\$ 54,849,291
Retail Sales and Use Taxes	23,702,413	26,836,793
Corporation (Income) Taxes	12,260,536	10,124,367
Insurance Gross Premiums Tax	2,059,909	2,195,628
Excise Tax on Distilled Spirits	172,255	167,425
Excise Tax on Beer and Wine	161,180	159,266
Estate, Inheritance, and Gift Tax	18,275	14,431
Cigarette Tax	107,415	111,394
Total Major Taxes and Licenses	82,183,827	94,458,595
Minor Revenues		
Pooled Money Investment Income	226,399	489,200
Abandoned Property	558,208	(265,202)
Receipts for Child Support Services	238,526	222,764
State Lands Royalties	374,167	385,796
Trial Court Revenues	67,260	65,866
Health Care Deposit Fund Receipts	13,616	13,725
Private Rail Car Tax	6,045	6,110
Liquor License Fees	3,771	5,228
Horse Racing (Parimutuel) License Fees	2,534	2,498
Vehicle License Fees	187,405	—
Miscellaneous	1,317,396	994,215
Total Minor Revenues	2,995,327	1,920,200
Total Revenues	85,179,154	96,378,795
NONREVENUES		
Transfers from Special Fund for Economic Uncertainties (Note 3)	837,902	190,174
Transfers from Other Funds (Note 5)	1,081,352	2,696,706
Transfer from Economic Recovery Fund (Note 6)	—	3,313,000
Miscellaneous	676,544	837,496
Total Nonrevenues	2,595,798	7,037,376
TOTAL RECEIPTS	\$ 87,774,952	\$ 103,416,171

Schedule of Cash Disbursements

(Amounts in thousands)

	Year Ended June 30,	
	2009	2008
DISBURSEMENTS		
STATE OPERATIONS		
Legislative/Judicial/Executive	\$ 1,471,734	\$ 1,575,259
Resources	1,567,600	1,311,350
State and Consumer Services	537,149	557,654
Environmental Protection	61,400	73,858
Business, Transportation, and Housing	4,695	3,595
Health and Human Services		
Mental Health Hospitals	1,204,252	1,162,768
Health Services	210,754	264,214
Other Health and Human Services	626,695	726,166
Total Health and Human Services	2,041,701	2,153,148
Corrections and Rehabilitation	9,016,603	9,177,031
Education		
University of California	3,206,579	3,278,752
State Universities and Colleges	2,875,470	2,966,847
Other Education	167,672	198,678
Total Education	6,249,721	6,444,277
Debt Service	3,995,754	3,391,226
General Government	1,496,416	1,947,320
Interest on Loans	205,634	219,870
Public Employees Retirement System	19,807	(20,364)
Total State Operations	26,668,214	26,834,224
LOCAL ASSISTANCE		
Judicial/Executive	2,249,099	2,264,532
Resources	16,178	45,030
Business, Transportation, and Housing	6,297	10,150
Health and Human Services		
Health Services (Note 4).....	13,029,554	14,432,936
Social Services	9,378,187	9,140,754
Developmental Services	2,338,766	2,150,258
Mental Health Services	840,415	546,174
Other Health and Human Services	994,054	982,369
Total Health and Human Services	26,580,976	27,252,491

Schedule of Cash Disbursements

(Amounts in thousands)

	Year Ended June 30,	
	2009	2008
Corrections and Rehabilitation	\$ 276,343	\$ 312,370
Education		
K-12 Education (Note 4).....	31,186,076	35,595,003
Community Colleges	4,068,798	4,180,172
Teachers' Retirement System	1,133,088	1,622,917
Other Education	3,623,193	4,400,300
Total Education	40,011,155	45,798,392
Tax Relief		
Homeowners Property Tax Relief	433,385	434,269
Senior Citizens Renter's Assistance	1,218	146,456
Senior Citizens Property Tax Deferral and Assistance	13,552	50,729
Subventions for Open Space	33,916	37,634
Miscellaneous Tax Relief	—	42
Total Tax Relief	482,071	669,130
General Government	203,215	345,479
Total Local Assistance	69,825,334	76,697,574
CAPITAL OUTLAY		
Total Capital Outlay	1,202,612	1,274,339
NONGOVERNMENTAL		
Transfer to Special Fund for Economic Uncertainties	—	953,486
Transfer to Budget Stabilization Account (Note 5).....	—	1,022,621
Transfer to Other Funds	567,538	440,790
Transfer to Revolving Fund	12,778	8,378
Advances		
Counties for Social Welfare	(3,522)	88,582
Social Welfare Federal Fund	2,681	2,496
State-County Property Tax Administration Program	(44,356)	7,463
Total Nongovernmental	535,119	2,523,816
TOTAL DISBURSEMENTS	\$ 98,231,279	\$ 107,329,953

Notes to Statements and Schedules

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The *General Fund Cash Basis Report* is based on cash reported to and recorded in the records of the State Controller's Office. Amounts reported may differ from amounts in other reports to the extent that there are timing differences in the recording of in-transit items between agencies, the State Treasury, and the State Controller's Office. The cash basis of accounting does not reflect accruals.

The "Statement of Cash Receipts, Disbursements, and Balances" does not include cash in the Special Fund for Economic Uncertainties (SFEU) in the report's balances, except for the balance titled "Total Cash, June 30."

Nonrevenue receipts are transfers or miscellaneous receipts from other funds that do not represent revenues of the General Fund. "Transfers from Other Funds" are legally authorized movements of money into the General Fund from other funds that are responsible for the initial receipt of the money. "Miscellaneous" nonrevenue receipts include reimbursements that are not credited to a specific appropriation, and certain other receipts that are not defined as revenue.

Nongovernmental disbursements are transfers or advances to other funds that do not represent expenditures of the General Fund. "Transfers to Other Funds" are legally authorized movements of money from the General Fund, which is responsible for the initial receipt of the money, to other funds that are responsible for the actual expenditure. "Advances" include certain legally authorized loans to other funds and governmental entities, and the repayments of those loans. Negative balances are the result of repayments received that are greater than disbursements made during the fiscal year.

NOTE 2: BORROWABLE RESOURCES

Government Code Sections 16310 and 16418 authorize transfers to the General Fund from other funds in the State Treasury and Government Code Section 17300 authorizes borrowing from internal sources to meet the State's short-term borrowing needs. In February 2009, the State Legislature enacted several solutions to reduce the impact of the impending cash crisis as a result of economic pressures in the fall of 2008. One of these solutions reclassified 37 special funds as borrowable which increased the available borrowable resources by approximately \$4.0 billion dollars.

External sources of funds to meet short-term borrowing needs are obtained by issuing Revenue Anticipation Notes (RANs), Revenue Anticipation Warrants (RAWs), and Registered Reimbursement Warrants. With respect to short-term external borrowing, the State issued \$5.0 billion in RANs on October 23, 2008, and an additional \$500 million on March 23, 2009, which were repaid on May 20, June 22, and June 23 for \$1.2 billion, \$3.8 billion and \$500 million, respectively. The State ended the 2008-09 fiscal year with no short-term external loans.

NOTE 3: SPECIAL FUND FOR ECONOMIC UNCERTAINTIES

The Special Fund for Economic Uncertainties (SFEU) was created by Chapter 139, Statutes of 1985, and is funded with the General Fund revenues. Commonly known as the State's "rainy day fund," it provides the moneys for necessary expenditures throughout the year that have not been anticipated or provided for in the annual budget. It also provides relief, to the amount of its available funds, for any budgeted shortfalls. The State began the 2008-09 fiscal year with a \$926 million balance which was reduced to cover a portion of the State's deficit of \$11.9 billion by June 30, 2009.

NOTE 4: REVENUE SHORTFALLS and DISBURSEMENT REDUCTIONS

In September 2008, the State Legislature passed a Budget which projected \$103 billion in cash receipts for the 2008-09 fiscal year, and authorized \$104 billion in disbursements. However, due to various economic conditions, the revenues did not materialize as anticipated, as reflected by the decrease of \$11.1 billion in Personal Income Tax receipts and \$3.1 billion in Retails Sales and Use Tax compared to the prior fiscal year. In February 2009, the Legislature enacted an 18-month budget which included several solutions to offset the impending cash shortage. For example, quarterly corporate tax reporting was changed to a 30-30-20-20 estimated tax reporting structure for the tax year, which resulted in increased receipts for the last half of the 2008-09 fiscal year.

The Legislature also enacted several reductions to appropriations, which mostly impacted Local Assistance disbursements. The February Budget Act redesignated \$1.1 billion in revenue limits for K-12 as coming from Proposition 98 settleup funds. Also, \$2.9 billion of payments for the principal apportionment was deferred from February to July in the 2009-10 fiscal year. Federal funds provided through American Recovery and Reinvestment Act (ARRA) also offset approximately \$1.2 billion Medi-cal expenditures in March 2009.

NOTE 5: BUDGET STABILIZATION ACCOUNT

The Budget Stabilization Account was established per Proposition 58 of 2004 to set aside funds to cover budget shortfalls. In September 2006, \$472 million, and in September 2007, \$1.0 billion, was transferred to the Budget Stabilization Account to retire some economic recovery bonds. In January 2008, \$1.5 billion was transferred to General Fund which is included in the Non-Revenue Receipts Transfers from Other Funds.

NOTE 6: ECONOMIC RECOVERY BONDS

In March 2004, the California Economic Recovery Bond Act authorized the issuance of up to \$15 billion in economic recovery bonds to finance the negative General Fund reserve balance as of June 30, 2004. In February 2008, the State issued the remaining \$3.3 billion economic recovery bonds in order to relieve cash flow and budgetary shortfalls identified in the 2007-08 fiscal year.