

# Controller *John Chiang*

## California State Controller's Office



March 2008 Summary Analysis

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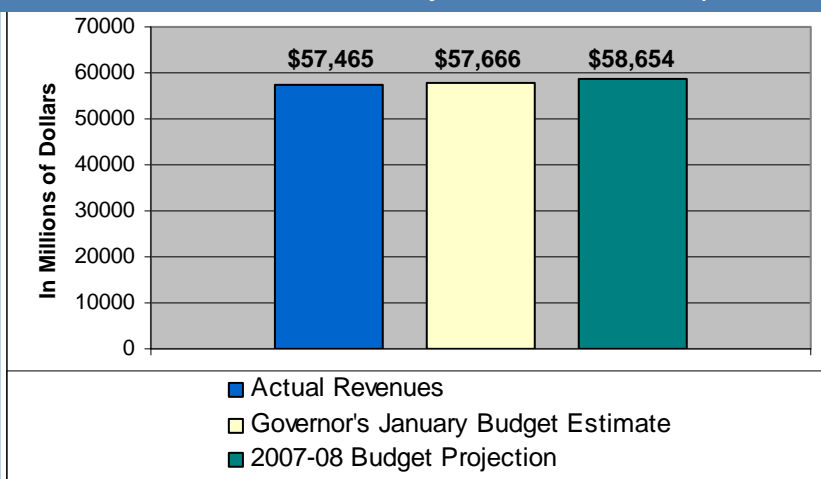
## Statement of General Fund Cash Receipts and Disbursements

### Tax Revenue in February 2008

- ⇒ General Fund revenue in February was \$82 million below (-1.5%) the Governor's Budget estimate for the month. The largest setback was the sales tax, coming in \$191 million under (-5.1%) the estimate. Corporate taxes were below estimate by \$24 million (-12.5%) while income taxes were \$263 million above (19.2%) the Governor's Budget estimate. Together, the three largest taxes (personal income, corporate and sales taxes) were \$48 million above (0.9%) the Governor's January Budget estimate.
- ⇒ Revenue in February was \$61 million below (-1.1%) the 2007-08 Budget Act estimate. Income taxes were \$110 million above (7.2%) the Budget Act's figures. Retail sales revenues were below estimates by \$175 million (-4.7%). Corporate taxes were \$29 million below (-14.6%) the Budget Act estimate. In total, the three major taxes were \$94 million below (-1.7%) the Budget Act estimate for February.
- ⇒ Total General Fund revenue for the month was just \$10

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Table 1: General Fund Revenues: July 1, 2007–Feb. 29, 2008 (in Millions)



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 10<sup>th</sup> 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 February 2008. Data are shown for total cash receipts and disbursements, the three largest categories of revenues, and the two largest categories of expenditures. This report also provides the state's latest revenue projections as points of comparison. In January, the Governor released his 2008-09 budget proposals, which contain updated revenue projections for the remainder of the fiscal year. A comparison to those projections is now included. We also continue to include a comparison to the 2007-08 Budget Act passed in August 2007.

For the three largest sources of revenue (income taxes, corporate taxes and sales taxes), the January Governor's budget reduced revenue expectations in fiscal 2007-08 by \$3.6 billion. The largest was a \$2.4 billion reduction in expected income taxes, with April and May receipts expected to be down by almost \$2 billion from the projections given in the Budget Act.

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million above (0.2%) the revenue seen in February 2007.

- ⇒ Sales taxes had the weakest year-over-year revenue growth, falling \$59 million below (-1.6%) last February. Income taxes were up \$58 million (3.7%) and corporate taxes grew by \$26 million (17.5%). In total, the three largest taxes were \$25 million higher (0.5%) than February 2007.
- ⇒ February and March are low revenue months for income taxes, as most tax returns filed are from taxpayers who request a refund. Payroll withholding in February accounted for the rise in the personal income tax, which came in 7.6% higher than a year ago. Since California's job totals declined in January and are unlikely to have grown substantially in February, the increased revenue could be related to employment based income increases such as exercised stock options.

**Table 2: General Fund Receipts, July 1, 2007-February 29, 2008 (in Millions)**

Revenue Source	Actual Receipts To Date	Governor's Budget Estimate	Actual Over (Under) Estimate	Budget Act Projections	Actual Over (Under) Projection
Bank And Corporation Tax	\$5,110	\$5,185	(\$75)	\$5,718	(\$609)
Personal Income Tax	\$32,071	\$31,831	\$240	\$31,860	\$211
Retail Sales and Use Tax	\$17,731	\$18,001	(\$270)	\$18,482	(\$751)
Other Revenues	\$2,553	\$2,649	(\$96)	\$2,594	(\$41)
Total General Fund Revenue	\$57,465	\$57,666	(\$201)	\$58,654	(\$1,189)
Non-Revenue	\$6,689	\$6,487	\$201	\$1,326	\$5,362
Total General Fund Receipts	\$64,154	\$64,153	\$1	\$59,980	\$4,173

Note: Some totals may not add, due to rounding

## Tax Revenue Fiscal Year to Date

- ⇒ From July 1, 2007, through February 29, 2008, General Fund revenue was \$201 million below (-0.3%) the January Governor's Budget estimate for the year to date. Sales taxes were \$270 million below (-1.5%) estimate, corporate taxes were \$75 million under (-1.5%) the estimate while income taxes were \$240 million above (0.8%) the estimate. Together, the three largest taxes were \$106 million below (-0.2%) the Governor's Budget estimate for this date.
- ⇒ Through February, General Fund revenue was \$1.2 billion below (-2%) the Budget Act estimate. Retail sales receipts were \$751 million below (-4.1%) the Budget Act year-to-date estimate, while corporate taxes were \$609 million lower (-10.6%) than expected. Income taxes were above the year-to-date estimate by \$211 million (0.7%). In total, the three largest taxes were \$1.1 billion below (-2.1%) the level expected in the Budget Act.
- ⇒ Compared to last year at this date, General Fund revenue was \$67 million higher (0.1%). The three major taxes were \$631 million higher (1.7%) than at this time last fiscal year, but this was largely offset by a decline of \$486 million in receipts in the "not otherwise classified" category. Although this category

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includes an assortment of revenues from various state programs such as horse racing and alcoholic beverage licenses, this shortfall was most likely due to newly-adopted reporting and remitting schedules for the State's Unclaimed Property Program. The Budget Act trailer bill, SB 86, requires banks, financial institutions and other holders to maintain property until June of 2008, when owners have been notified and given the opportunity to claim it before it is sent to the State.

- ⇒ Of the three largest taxes, corporate taxes have shown the weakest growth in a year-over-year comparison. Collections year to date were \$406 million below (-7.4%) the levels seen during the same period last fiscal year.
- ⇒ Personal income tax receipts were \$1.3 billion higher (4.3%) than last year at this date. Withholding continued to be strong at \$1.4 billion above (6.4%) last fiscal year, and estimated taxes were \$820 million higher (9.5%). Higher withholding and estimated income tax payments were being partially offset by refunds that came in at \$386 million more (10.3%) than last year and receipts in the "miscellaneous" category that came in at \$546 million less (-21%).

## Estimated Taxes

Estimated tax payments are generally filed quarterly to pay taxes due on income not subject to withholding. This can include income from self-employment, interest, dividends, gains from asset sales, or if insufficient income tax is being withheld from a salary, pension, or other income.

## 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.

## Economic Recovery Bonds

Voters approved \$15 billion in recovery bonds for State operations when they adopted Proposition 57 in 2004. The final \$3.3 billion were sold in February to cover projected shortfalls in future budget years.

## Summary of Net Cash Position as of February 29, 2008

- ⇒ The large non-revenue receipts in Table 2 (\$6.7 billion) were mostly from the \$3.3 billion in Economic Recovery Bond proceeds in February and the transfer of \$1.4 billion from the Budget Stabilization Account in January. These funds were not anticipated as being needed in the Budget Act.
- ⇒ In February, State expenditures were \$2.5 billion higher than receipts. Expenditures were \$11.5 billion and receipts totaled \$9 billion.
- ⇒ For the fiscal year to date, the State spent \$15.7 billion more than it received in revenue (see Table 3). Total receipts were \$64.2 billion, while total expenditures were \$79.9 billion.
- ⇒ The State began the fiscal year with a cash balance of \$2.5 billion. The net cash deficit at the

**Table 3: General Fund Cash Balance As of February 29, 2008 (in Millions)**

	Actual Cash Balance	Governor's Budget Estimate	Actual Over (Under) Estimate	Budget Act Projection	Actual Over (Under) Projection
Beginning Cash Balance July 1, 2007	\$2,462	\$2,462	\$0	\$2,462	\$0
Receipts Over (Under) Disbursements to Date	(\$15,738)	(\$17,461)	\$1,723	(\$19,625)	\$3,887
Cash Balance Feb. 29, 2008	(\$13,276)	(\$14,999)	\$1,723	(\$17,163)	\$3,887

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end of February was \$13.3 billion. The State issued a \$7 billion Revenue Anticipation Note (RAN) in October to cover a portion of this short-term deficit. In February, the State sold the remaining \$3.3 billion in Economic Recovery Bonds that were authorized in 2004. The remaining \$3 billion shortfall is being covered by internal borrowing. As of February, the State still had \$7.5 billion in unused borrowable resources.

- ⇒ A deficit at this point is not unusual. A disproportionate share of the State's revenue arrives during the last four months of the fiscal year, while a large percentage of disbursements occur during the first eight months.
- ⇒ Of the largest expenditures, \$58.6 billion went to local assistance and \$19.4 billion to State operations (See Table 4).

Recipient	Actual Disbursement	Governor's Budget Estimate	Actual Over (Under) Estimate	Budget Act Projection	Actual Over (Under) Projection
Local Assistance	\$58,618	\$59,984	(\$1,366)	\$57,238	\$1,380
State Operations	\$19,377	\$18,814	\$563	\$18,559	\$818
Other	\$1,897	\$2,817	(\$920)	\$3,809	(\$1,912)
Total Disbursements	\$79,892	\$81,615	(\$1,723)	\$79,606	\$286

### Revenue Anticipation Notes

Traditionally, to bridge cash gaps the state borrows money in the private market by issuing Revenue Anticipation Notes (RANs). RANs are repaid by the end of the fiscal year.

### Borrowable Resources

State law authorizes the General Fund to internally borrow on a short-term basis from specific funds, as needed.

## How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for February 2008 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 [www.sco.ca.gov/ard/cash/email-sub.shtml](http://www.sco.ca.gov/ard/cash/email-sub.shtml).

Any questions concerning this Summary Analysis may be directed to Hallye Jordan, Deputy Controller for Communications, at (916) 445-2636.

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### ***Featured Articles on California's Economy***

*Controller John Chiang's Council of Economic Advisors informs the Controller on emerging strengths and vulnerabilities in California's economy, major issues and trends that may affect the State's fiscal health, and how to make the best use of limited government revenues and resources.*

*The advisors also contribute monthly articles on issues regarding California's economy. The opinions in the 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 from Nancy Bolton, Chair of the Controller's Council of Economic Advisors.*

## **Slowdown Around the Nation: How does California Compare?**

*By Nancy Bolton  
Chair, Controller's Council of Economic Advisors*

The current economic downturn is being felt across the country. But states hit hardest by the real estate market and subprime mortgage crisis appear to be facing the most pain. How does California compare? What follows is a brief analysis of employment and revenue figures for the California, Texas, New York and Florida, the nation's largest states.

The entire nation lost approximately 22,000 jobs in January of this year, while California reported 20,300 reported job losses in the same period. The Golden State's unemployment rate in January was 5.9 percent, up from 5 percent just a year ago. The U.S. Labor Department reported the nation lost 63,000 jobs in February. While the February employment data for California is not yet available, it is unlikely that California is faring better than the nation as a whole.

The largest category of job loss in California was in Information Services, which reported a loss of 25,100 jobs. Construction lost 12,500 jobs. The largest gain in jobs was in Trade, Transportation and Utilities (10,900 jobs) followed by Professional and Business Services (10,000 jobs). Most of the job loss in Information Services, which includes the movie industry, was concentrated in the Los Angeles area. That indicates this category was affected by the recent writer's strike that was settled at the end of February.

Even without the strike, California's employment growth has shown signs of weakness in the last 12 months. Year-over-year employment growth in January is at 0.1 percent, compared to 0.7 percent for the nation as a whole. The next three most populous states – Texas, New York, and

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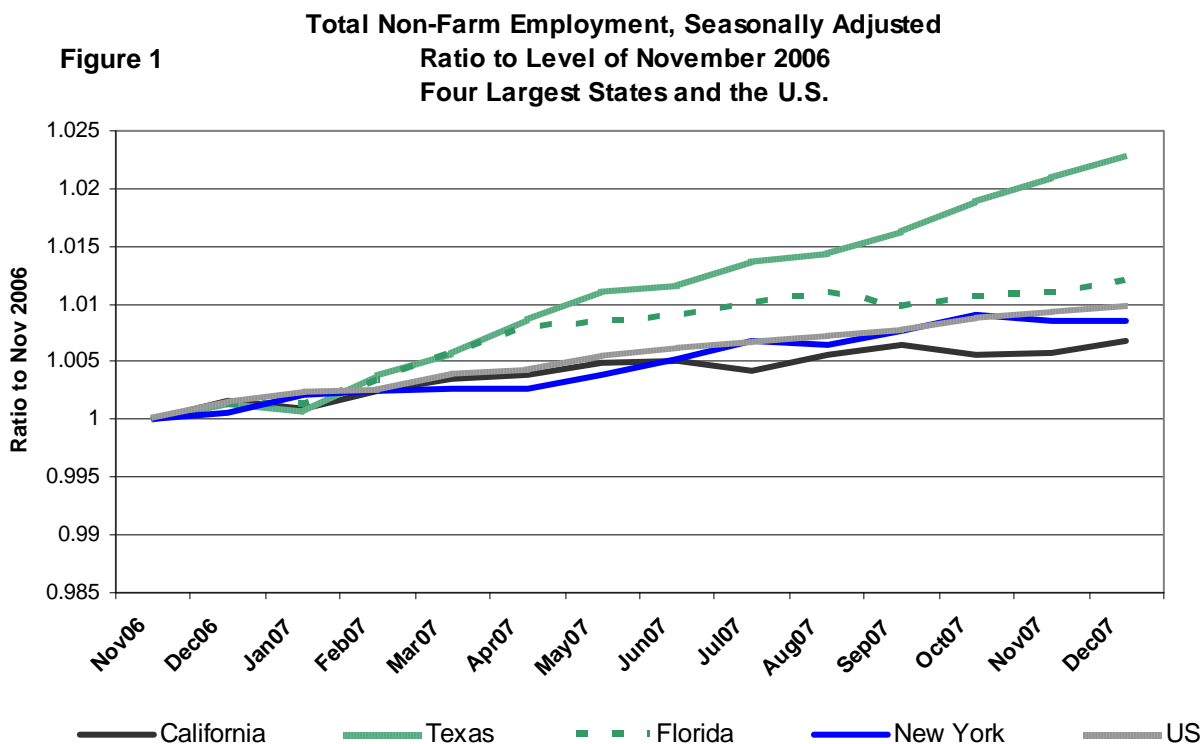
Florida – also reported higher employment growth than California (see Figure 1).

With the decline in the real estate market, losses in construction employment increased, hurting overall job growth. Construction employment in Florida, another state hard hit by the turmoil in the real estate market, has declined in roughly the same proportion as California (see Figure 2). But a related sector, Financial Activities, has actually seen greater declines in California than it has in other large states, including Florida (see Figure 3). That sector includes banking, insurance, real estate brokerages and leasing firms – jobs affected by the real estate slowdown.

In California, the jobs category showing the most gains is Education and Health Care, which is growing across the nation (see Figure 4). Although California's growth in this category paralleled the rest of the nation, it did not provide enough to offset the State's weakness in housing-related employment.

California's revenue growth is also slowing. Through the end of February, General Fund Revenue is just 0.1 percent higher than last year at this time. Corporate taxes are lagging last year's receipts by 7.4 percent, while sales taxes are 1.5 percent lower than last year. Personal income taxes are above last fiscal year at this date by a modest 4.3 percent.

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Data from the U.S. Bureau of Labor Statistics

Figure 2

**Construction Employment, Seasonally Adjusted  
Ratio of Level of November 2006  
Four Largest States and the U.S.**

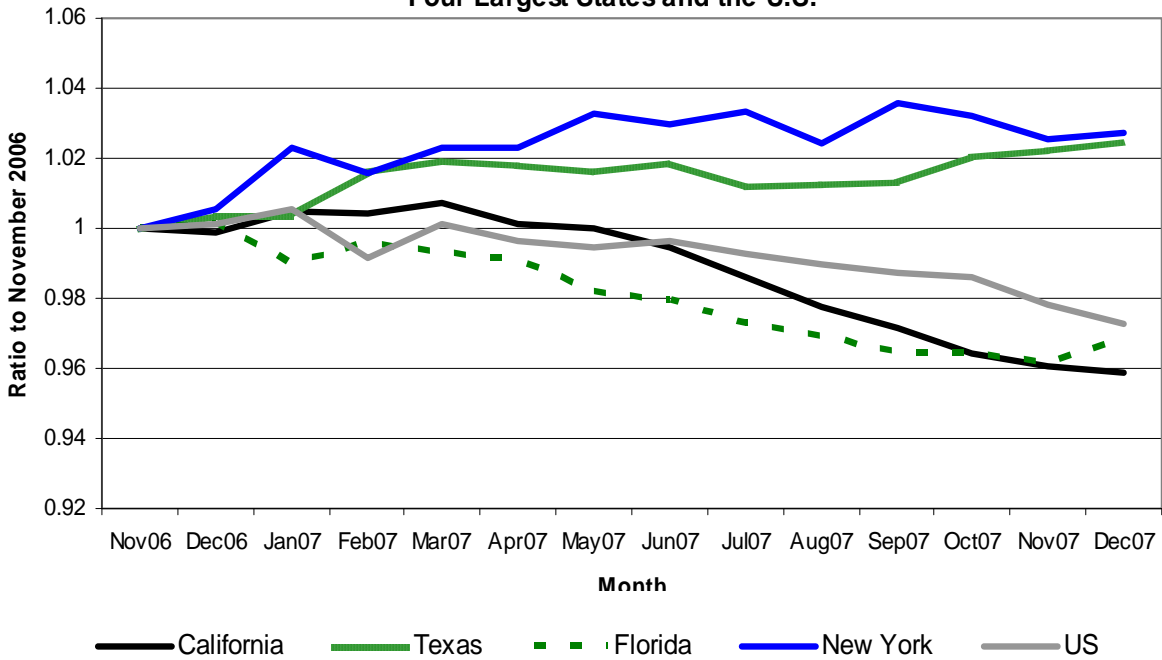
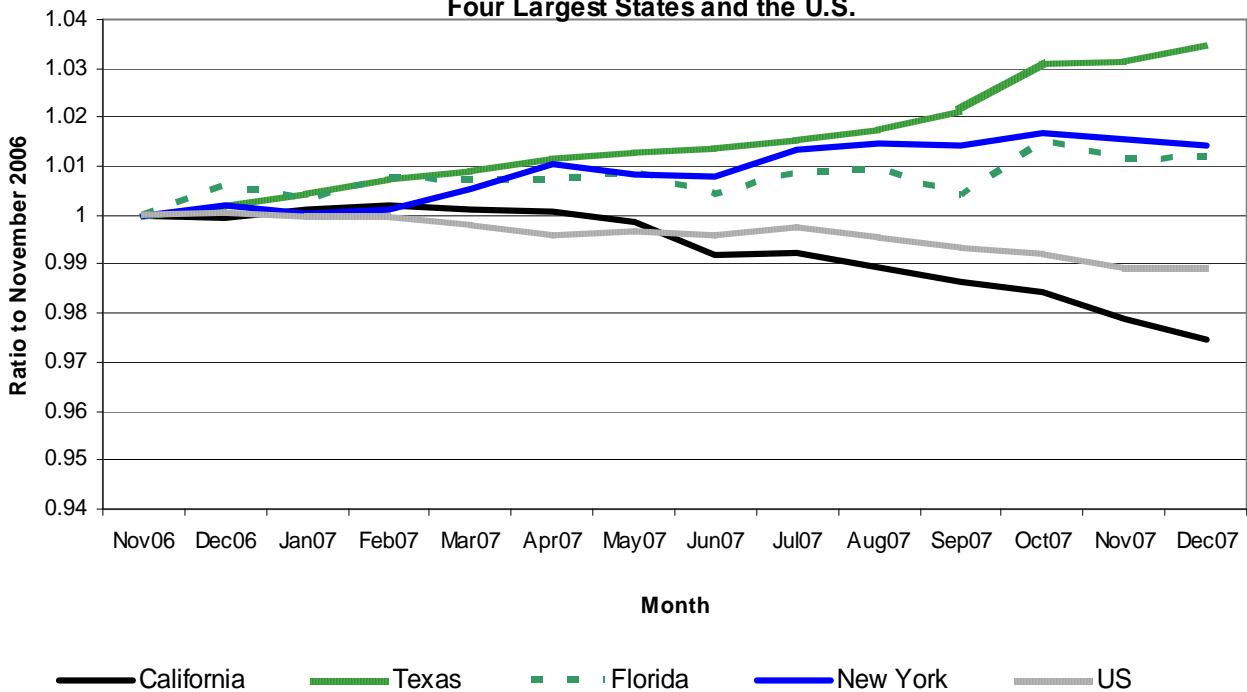


Figure 3

**Employment in Financial Activities, Seasonally Adjusted  
Ratio to Level of November 2006  
Four Largest States and the U.S.**



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Texas, the country's second most populous state, is enjoying stronger economic growth, most likely related to its large energy sector. Tax revenues from oil and gas production increased, respectively, by 35.1 percent and 19.9 percent in the first four months of its fiscal year (September-December) compared to the same period of the previous year. The state sales tax is the primary source of revenue for the Texas General Fund, and those receipts have increased 7.2 percent, year over year, during the same time period. Overall revenue is up 9.7 percent through January, compared to last fiscal year. Recent employment growth in Texas has also shown to be stronger than other large states and the nation taken as a whole.

New York, like California, has a personal income tax, a sales tax and a business tax. New York's

General Fund revenue through January is up by 3.7 percent over the last fiscal year. Income taxes are up by 5.4 percent and sales taxes are up by 4 percent, but business taxes are 6.1 percent below last fiscal year at this date. New York's recent employment figures are slightly better than the nationwide totals.

Florida is seeing more substantial revenue declines than California, despite its higher rate of employment growth. For the fiscal year through January 2008, Florida has seen a 7.7 percent decline in General Fund revenue compared to the same period last year. Florida depends primarily on sales taxes and corporate taxes for its General Fund revenue. Sales tax collections as of January were down by 4.5 percent from the prior year and corporate taxes were down 9.6 percent.

Figure 4

Employment in Education & Health Services, Seasonally Adjusted  
Ratio to Level of November 2006  
Four Largest States and the U.S.

