

# Controller *John Chiang*

## California State Controller's Office



August 2008 Summary Analysis

Volume 2, Issue 8

## Statement of General Fund Cash Receipts and Disbursements

### July 2008 Receipts

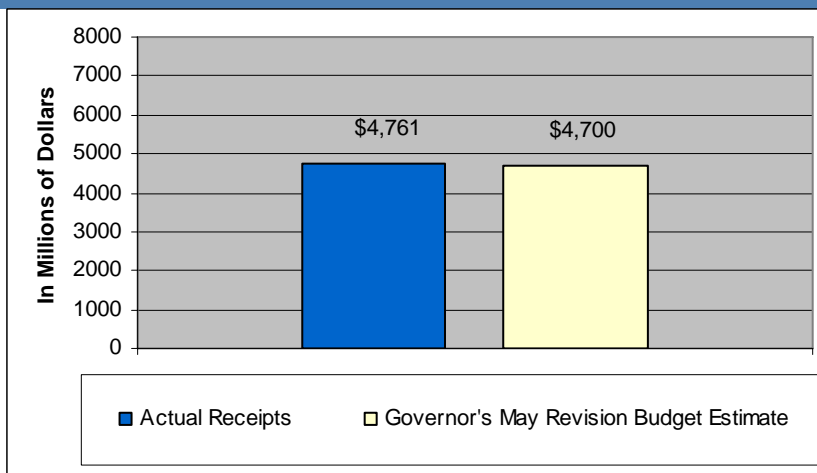
⇒ In July 2008, total General Fund receipts were \$61 million (1.3%) above the Governor's May Revision for the month. Personal income taxes were \$223 million above the estimate (8.3%) but retail sales taxes were below the estimate by \$132 million (-12.9%) and corporation taxes fell short by \$45 million (-17.9%). The total for the three largest taxes (income, sales, and corporate) was \$46 million above (1.2%) the May Revision, while the smaller revenues including alcohol, insurance and tobacco taxes beat estimates by \$33 million. The month's total revenue was \$54 million below (-1.2%) estimates due to a \$133 million shortfall in the "Not Otherwise Classified" category—largely caused by a drop in expected revenue from unclaimed property. Non revenues—primarily transfers from other funds—exceeded estimates by \$116 million, bringing total July receipts back into positive territory.

(Continued on page 2)

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.

Table 1: General Fund Receipts: July 1, 2008–July 31, 2008 (in Millions)



This Summary Analysis covers actual receipts and disbursements for July 2008, the first month of the 2008-09 fiscal year. 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. Revenue estimates found in the May Revision of the Governor's 2008-09 budget proposal are used as points of comparison.

(Continued from page 1)

⇒ Compared to July 2007, General Fund revenue in July 2008 was higher by \$455 million (11%). Virtually all this improvement was due to a \$443 million increase in “Not Otherwise Classified” revenue. That increase could have been caused by this year's new unclaimed property reporting schedule, which changed the timing of property transfers to give property owners more time to claim their accounts. The total for the three largest taxes was below 2007 levels by \$21 million (-0.5%). Corporate taxes were below July 2007 figures by \$84 million (-28.6%) and sales taxes were lower by \$7 million (-0.7%). Personal income taxes were \$69 million higher (2.4%) than last July. Payroll withholding taxes continue to be a driver of income tax growth. Payroll withholding was 4% higher in July compared to a year ago.

**Table 2: General Fund Receipts, July 1, 2008-July 31, 2008 (in Millions)**

| Revenue Source              | Actual Receipts To Date | May Revision Budget Estimate | Actual Over (Under) Estimate |
|-----------------------------|-------------------------|------------------------------|------------------------------|
| Bank And Corporation Tax    | \$209                   | \$254                        | (\$45)                       |
| Personal Income Tax         | \$2,915                 | \$2,692                      | \$223                        |
| Retail Sales and Use Tax    | \$888                   | \$1,020                      | (\$132)                      |
| Other Revenues              | \$565                   | \$665                        | (\$100)                      |
| Total General Fund Revenue  | \$4,577                 | \$4,631                      | (\$54)                       |
| Non-Revenue                 | \$185                   | \$69                         | \$116                        |
| Total General Fund Receipts | \$4,761                 | \$4,700                      | \$61                         |

## Looking Ahead to the New Fiscal Year

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

- ⇒ In this publication we concentrate most of our attention on tax revenue, specifically the revenue derived from the big three taxes: income, corporate and sales taxes. These three taxes are the backbone of the General Fund, comprising roughly 95% of all revenue receipts. The rise and fall of revenue from these taxes is intricately tied to the state's economy. As the California economy has slowed over the past several months, we have been closely, even anxiously, following trends in these three taxes.
- ⇒ There is no doubt that revenue growth from these three taxes is weak. For all of Fiscal Year 2007-08, the growth was only 1.3%. If we consider that the Consumer Price Index in June showed a year-over-year inflation rate of 4.9%, then revenue growth is not even keeping up with inflation. In June, the year-over-year growth rate was 1.2%. Since July is not a large revenue month, the timing of deposits into the General Fund from the collecting agencies could easily account for the relatively minor \$21 million decline. July receipts, therefore, do not represent a major change in revenue collections but are a sign of continuing slow growth. The next few months will provide better guidelines on revenue trends.
- ⇒ The May Revision estimated revenue growth of 1.7% for the big three tax sources in the first quarter of the fiscal year (July, August and September). August and September are much bigger revenue months than July. In particular, we will be looking at sales tax receipts in August and estimated payments in September for both individuals and corporations as indicators of revenue trends for the fiscal year. For

(Continued on page 3)

(Continued from page 2)

the fiscal year as a whole, the May Revision estimates a revenue decline in the big three taxes of 1.2% compared to FY 2007-08. The largest impact is expected in the final quarter (April through June) when revenue from these sources is expected to be 5.9% below the level of the same period last fiscal year. This will be a difficult year for the State and for Californians who depend on the State for services.

## Summary of Net Cash Position as of July 31, 2008

- ⇒ At the end of July, the State had \$10.1 billion remaining in unused borrowable resources, more than twice what was estimated in the Governor's May Revision. Internal borrowing was used in July to cover the deficit between \$4.8 billion (Table 2) in receipts and \$8.9 billion (Table 4) in disbursements.
- ⇒ Of the largest expenditures, \$4.7 billion went to local assistance and \$2.3 billion went to State operations (See Table 4).
- ⇒ Disbursements were \$306 million lower (-3.3%) than estimated in the May Revision. Without a budget, the State was prohibited from making a number of payments in the month of July. The \$1.8 billion

(Continued on page 4)

**Table 3: General Fund Cash Balance As of July 31, 2008 (in Millions)**

|   | Actual Cash Balance | May Revision Budget Estimate | Actual Over (Under) Estimate |
|---|---------------------|------------------------------|------------------------------|
| Beginning Cash Balance July 1, 2008         | —                   | —                            | —                            |
| Receipts Over (Under) Disbursements to Date | (\$4,095)           | (\$4,462)                    | \$368                        |
| Cash Balance July 31, 2008                  | (\$5,546)           | (\$9,262)                    | \$3,715                      |

**Table 4: General Fund Disbursements, July 1, 2008-July 31, 2008 (in Millions)**

| Recipient           | Actual Disbursement | May Revision Budget Estimate | Actual Over (Under) Estimate |
|---------------------|---------------------|------------------------------|------------------------------|
| Local Assistance    | \$4,672             | \$6,521                      | (\$1,849)                    |
| State Operations    | \$2,340             | \$2,384                      | (\$44)                       |
| Other               | \$1,844             | \$257                        | \$1,587                      |
| Total Disbursements | \$8,856             | \$9,162                      | (\$306)                      |

### 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.

### Borrowable Resources

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

(Continued from page 3)

smaller payment to local assistance was largely offset by a \$1 billion dollar advance to MediCal providers listed under NonGovernmental payments and contained in the "Other" category of Table 4.

⇒ The State ended last fiscal year with a net cash deficit of \$1.45 billion. That deficit was covered by internal borrowing. Loans from internal sources now total \$5.5 billion. Internal loans will be repaid according to cash management procedures as resources are available.

**How to Subscribe to this Publication**

This Statement of General Fund Cash Receipts and Disbursements for July 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).

| <b>California Economic Snapshot</b>   |                                       |                                       |
|---|---------------------------------------|---------------------------------------|
| <b>New Auto Registrations</b><br>Fiscal Year to Date  | <b>1,737,872</b><br>through June 2007 | <b>1,552,437</b><br>through June 2008 |
| <b>Median Home Price</b><br>for Single Family Homes   | <b>\$591,280</b><br>in June 2007      | <b>\$368,250</b><br>in June 2008      |
| <b>Single Family Home Sales</b><br>(Annualized Rate)  | <b>357,890</b><br>by June 2007        | <b>420,550</b><br>by June 2008        |
| <b>Foreclosures Initiated</b><br>Notices of Default   | <b>53,943</b><br>in 2nd Quarter 2007  | <b>121,341</b><br>in 2nd Quarter 2008 |
| <b>Total State Employment</b><br>(Seasonally adjusted)  | <b>15,172,200</b><br>in May 2007      | <b>15,132,300</b><br>in May 2008      |
| Data Sources: California Department of Motor Vehicles, California Association of REALTORS (sales data), DataQuick (foreclosure data), California Employment Development Department. |                                       |                                       |

**California State Controller John Chiang:**

300 Capitol Mall, Suite 1850  
Sacramento, CA 95814

777 S. Figueroa Street, Suite 4800  
Los Angeles, CA 90017

P.O. Box 942850  
Sacramento, CA 94250

Telephone (213) 833-6010  
Fax: (213) 833-6011

Telephone: (916) 445-2636

Fax: (916) 445-6379

Web: [www.sco.ca.gov](http://www.sco.ca.gov)

## 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 by Nancy Bolton, Chair of the Controller's Council of Economic Advisors.

# California's General Fund Cash Management

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

The State of California borrows money for a variety of reasons including the maintenance of state operations and for purposes of providing critical public services.

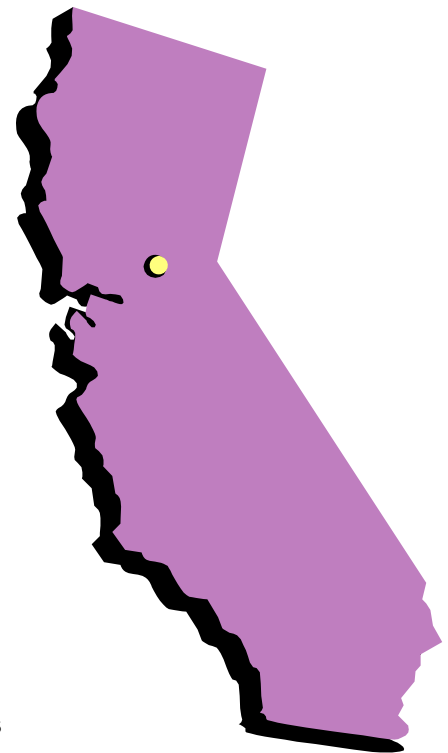
Throughout the fiscal year, the General Fund's receipts follow an irregular pattern with amounts collected often failing to match that month's scheduled disbursements or allocations. Because of these timing issues, the State generally receives less revenue than scheduled expenditures each month of the new fiscal year from July through November (see chart on page 6). Revenues typically outpace expenditures in December or January when significant tax receipts are received and then expenditures once again outpace receipts in February and March. April's income tax returns finally bring the General Fund back into shape.

Maintaining sufficient operating resources throughout the year, a practice called "cash management," is a central responsibility of the State Controller's Office. What follows is a description of each type of General Fund borrowing:

**Daily cash management.** If the State begins a fiscal year with a surplus, that money is used in July to fill the initial cash gap between receipts and expenditures. For months in which General Fund expenditures outpace revenues, the State will engage in short term internal borrowing from special funds and accounts. These include accounts such as the Motor Vehicle Account, Transportation Account and other funds where borrowing is not otherwise restricted by law. The Controller may

transfer money from these accounts in the manner provided in law so long as the amount borrowed does not interfere with the purpose for which the fund or account was created. Many of these accounts are borrowable up to a certain percentage of the fund on an interest free basis. Money borrowed in excess of the percentage specified is repaid with interest calculated at the Pooled Money Investment rate. These funds and accounts are reported as "Borrowable Resources" in the monthly Statement of General Fund Cash Receipts and Disbursements, with \$10.1 billion available at the end of July.

**Fiscal year cash management.** Because internal borrowables cannot cover cash fluctuations through the entire year, the State often borrows externally through the issuance of a short-term note called a Revenue Anticipation Note (RAN). These notes are typically issued



(Continued on page 6)

(Continued from page 5)

soon after a budget is enacted and must be repaid by the end of the fiscal year in June. The size of the RAN is determined by the State Controller's Office after an examination of the projected cash flow for the budget year. A RAN is sold by the State Treasurer and repaid at the end of the fiscal year with interest.

**Registered Reimbursement Warrants (RAWs).** In years where the State is in need of cash to meet expenditures and no budget has been enacted, or the budgeted revenues are not realized to the extent projected in the Budget Act, the State Controller will issue a Registered Reimbursement Warrant which is commonly referred to as a RAW. Unlike a RAN, the RAW can be repaid in the fiscal year following its issuance. A RAW is typically supported by a form of credit enhancement to ensure that investors will be repaid at the time indicated at the time of the sale. The last RAW was issued in June of 2003 in the amount of \$10.97 billion.

Borrowing money to meet expenditures is sometimes necessary for individuals, companies and public agencies alike. The least costly borrowing for the General Fund is internal borrowing, which requires interest payments in certain instances, depending on the amount borrowed. The cost is greater when the State borrows from private markets by issuing RANs and RAWs. Firms must be hired to package, rate the debt, provide insurance or credit enhancement, in some cases, for investors. When the State is facing a downturn in revenue growth, both the interest rate and the cost of insurance increases.

There is ultimately a cost to all forms of borrowing, and money paid for debt service means less resources available for education, health care and other programs. California must be as responsible as any of its taxpayers in managing its finances to avoid excessive costs.

## Monthly Cash Flow for the 2007-08 Budget Year

(Excludes proceeds from Economic Recovery Bond sales)

