



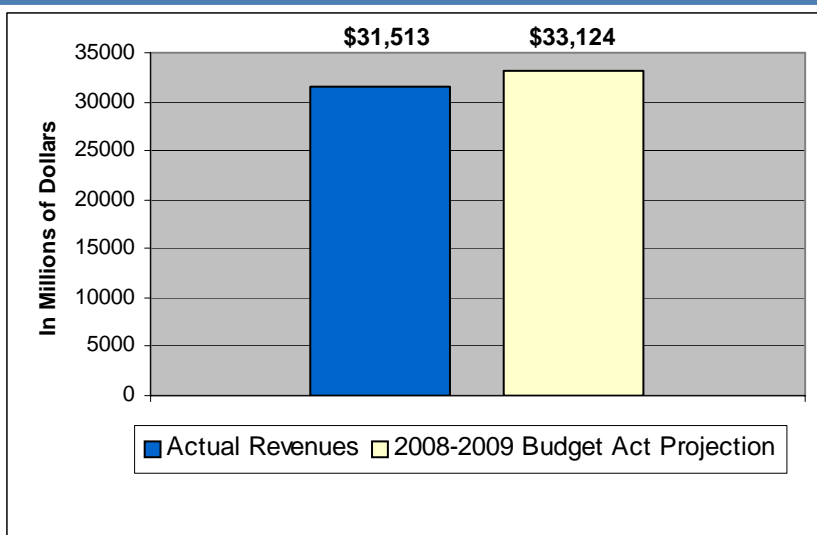
## Statement of General Fund Cash Receipts and Disbursements

### Tax Revenue in November 2008

- ⇒ November revenue came in worse than expected. General Fund revenue was \$1.3 billion below (-18.5%) the Budget Act estimate for the month.
- ⇒ Personal income taxes were \$479 million below (-18.2%) the Budget Act estimate. Sales taxes were \$630 million below (-17.3%) and corporation taxes were \$106 million above estimate.
- ⇒ Together, the three largest taxes (income, sales, and corporate) were \$1 billion below (-16.4%) the Budget Act estimate.
- ⇒ Insurance taxes were \$305 million (-82.7%) below the Budget Act estimate. Early December receipts indicate that a portion of this loss is due to timing of receipts—taxes

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Table 1: General Fund Revenues: July 1, 2008–Nov. 30, 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 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 November 2008 and year to date for the first five months of Fiscal Year 2008-09. Data are shown for total cash receipts and disbursements, the three largest categories of revenues, and the two largest categories of expenditures. The final Budget was passed on September 23, 2008. The Budget Act cash flow numbers used as a comparison this month show actual revenue through September and projections for the remainder of the fiscal year. The cash flows use the base revenue forecast in the May Revision with updates to reflect revenue accelerations that were part of the Budget Act legislation.

In January 2009, the Governor will release updated projections for 2008-09 as part of his 2009-10 budget proposals and revenue and expenditure will again be revised. The budget proposal will be revised again in May 2009. At each point this report will incorporate those updates.

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expected in November were not received until the first few days of December.

- ⇒ Compared to November 2007, General Fund revenue in November 2008 was lower by \$1.1 billion (-16.6%).
- ⇒ Corporation taxes were below 2007 levels by \$77 million.
- ⇒ Personal income taxes were \$445 million below (-17.2%) November 2007. This drop was due to a 17.4% drop in payroll withholding taxes. While the weak economy is certainly a big factor in this decline, it also appears to be related to a delay in the receipt of payroll withholding taxes caused by the Thanksgiving holidays falling near the last business day of November. Early December receipts captured a portion of November's late payments.

**Table 2: General Fund Receipts, July 1, 2008-November 30, 2008 (in Millions)**

Revenue Source	Actual Receipts To Date	2008-2009 Budget Act Estimate	Actual Over (Under) Estimate
Bank And Corporation Tax	\$2,492	\$2,470	\$22
Personal Income Tax	\$16,646	\$17,271	(\$625)
Retail Sales and Use Tax	\$10,136	\$10,800	(\$664)
Other Revenues	\$2,239	\$2,583	(\$344)
Total General Fund Revenue	\$31,513	\$33,124	(\$1,610)
Non-Revenue	\$1,209	\$1,045	\$164
Total General Fund Receipts	\$32,722	\$34,169	(\$1,447)

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

- ⇒ Sales taxes were \$628 million lower (-17.3%) than last November. While a portion of this decline appears to be related to the timing of payments, the shortfall was mostly caused by declining retail sales.
- ⇒ The total for the three largest taxes was below 2007 levels by \$1.2 billion (-18.3%).
- ⇒ November revenue for the big three taxes fell \$723 below even the new pessimistic estimates released by Department of Finance in late October. Regardless of timing issues, November receipts represent an estimated \$500 million deterioration beyond the late October estimates.
- ⇒ Withholding taxes had an unexpectedly large drop in November. California lost 101,300 jobs from October 2007 to October 2008. The November 2008 employment report for the nation showed an accelerating loss, with 533,000 jobs cut in November alone. The November drop in payroll taxes indicates the California jobs report for November, due to be released on December 21, also will be bleak.

## Tax Revenue Fiscal Year to Date

- ⇒ Since the Budget Act contained actual revenue for July through September, the year-to-date comparisons reflect only October and November variances.
- ⇒ Compared to the Budget Act, General Fund revenue is under the year-to-date estimate by \$1.6 billion (-4.9%). The three largest taxes are below the Budget Act estimate by \$1.3 billion (-4.1%).

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- ⇒ Sales taxes are low by \$664 million (-6.2%) while income taxes are behind by \$625 million (-3.6%).
- ⇒ Corporate taxes are above the Budget Act estimate by \$22 million (0.9%).
- ⇒ Compared to this date in November 2007, revenue receipts are \$1.6 billion lower (-4.8%) . The “Not Otherwise Classified” category was the only category that showed growth on a year-over-year comparison. That category is higher primarily because it contains unclaimed property collections which were virtually halted last year as new rules for locating owners were instituted.
- ⇒ Year-to-date collections for the three major taxes are \$2.3 billion below (-7.3%) last year at this date. Retail sales are \$996 million below (-8.9%) last year at this date. Corporate taxes are \$689 million below (-21.7%) last year and income taxes are \$635 million lower (-3.7%) than last year at this date.

## Summary of Net Cash Position as of November 30, 2008

- ⇒ Through November, the State had total receipts of \$32.7 billion (Table 2) and disbursements of \$50 billion (Table 4). The deficit of \$17.3 billion was covered by \$5 billion in Revenue Anticipation Notes (RANs) and \$12.3 billion of internal borrowing.
- ⇒ Of the largest expenditures, \$36.3 billion went to local assistance and \$13 billion went to State operations (See Table 4).
- ⇒ Total receipts were \$1.4 billion lower (-4.2%) than anticipated in the Budget Act. Revenue receipts were low by \$1.6 billion (-4.9%), and nonrevenue receipts were higher by \$164 million (15.7%). Nonrevenue

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**Table 3: General Fund Cash Balance As of November 30, 2008 (in Millions)**

	Actual Cash Balance	2008-2009 Budget Act Estimate	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2008	(\$1,452)	(\$1,452)	\$0
Receipts Over (Under) Disbursements to Date	(\$17,327)	(\$17,333)	\$5
Cash Balance November 30, 2008	(\$18,779)	(\$18,784)	\$5

### 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.

### 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.

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receipts are primarily transfers from other funds.

⇒ Disbursements through November were \$1.5 billion lower (-2.8%) than estimated in the Budget Act. Local assistance payments are \$2.2 billion less (-5.7%) than expected. This is primarily associated with school payments, and most of it is attributed to timing issues and the monies will be paid in future months.

⇒ The State ended last fiscal year with a net cash deficit of \$1.45 billion. That deficit was covered by internal borrowing. The total year to date deficit of \$18.8 billion (\$1.45 from last year and \$17.3 billion from this year) is covered by internal borrowing and RANs. RAN notes totaling \$5 billion were issued in October. Loans from internal sources now total \$13.8 billion. At the end of November, the State had \$4.1 billion remaining in borrowable resources. Internal loans will be repaid according to cash management procedures as resources are available.

**Table 4: General Fund Disbursements, July 1, 2008-November 30, 2008 (in Millions)**

Recipient	Actual Disbursements	2008-2009 Budget Act Estimate	Actual Over (Under) Estimate
Local Assistance	\$36,350	\$38,528	(\$2,178)
State Operations	\$13,002	\$12,327	\$676
Other	\$697	\$646	\$51
Total Disbursements	\$50,050	\$51,501	(\$1,452)

## How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for November 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.

**California Economic Snapshot**

<b>New Auto Registrations</b> (Fiscal Year to Date)	<b>412,963</b> Through Sept. 2007	<b>341,878</b> Through Sept. 2008
<b>Median Home Price</b> (for Single Family Homes)	<b>\$517,240</b> In Oct. 2007	<b>\$311,060</b> In Oct. 2008
<b>Single Family Home Sales</b> (Seasonally Adjusted Annual Rate)	<b>254,650</b> In Oct. 2007	<b>552,750</b> In Oct. 2008
<b>California Foreclosures Initiated</b> (Notices of Default)	<b>72,571</b> In 3rd Quarter 2007	<b>94,240</b> In 3rd Quarter 2008
<b>Total State Employment</b> (Seasonally Adjusted)	<b>15,168,000</b> In Oct. 2007	<b>15,066,700</b> In Oct. 2008
<b>Newly Permitted Residential Units</b> (Seasonally adjusted Annual Rate)	<b>92,000</b> In Oct. 2007	<b>46,300</b> In Oct. 2008

Data Sources: California Association of REALTORS (sales data), DataQuick (foreclosure data), California Employment Development Department, Construction Industry Research Board

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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 a summary of the December meeting of the Controller's Council of Economic Advisors.

# Council Presents Economic Forecasts

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

The Controller's Council of Economic Advisors met with the Controller and his executive staff on December 4. The meeting covered three topics: economic forecasts, energy policy, and economic stimulus proposals.

Council members present were Esmael Adibi, Julie Cullen, Cynthia Lin, Robert Edelstein and Chris Thornberg. The meeting was chaired by Nancy Bolton.

## The Economy

Esmael Adibi, Bob Edelstein and Chris Thornberg presented economic forecasts. Some of the points made were:

The problems in the economy have continued to spread. What started as a housing problem has now enveloped the broader economy. The federal government, Treasury and the Federal Reserve have now committed an estimated \$8 trillion dollars in spending commitments and guarantees. Despite this money, the financial sector is still on edge and the economy is weak. The economic problems are large and widespread and will take time to resolve. Among the issues we are dealing with:

- ◆ Asset prices grew much faster than income over the past decade; this is the root source of the housing problem.
- ◆ Debt, both public and private, grew at unsustainable levels over the past two decades.
- ◆ Growth rates of personal consumption in the past two decades were unsustainable.
- ◆ Personal savings as a percent of GDP has plummeted.
- ◆ Investors starved for yields took on high risk investments.
- ◆ Deregulation allowed institutions to engage in high risk behavior.



Resolving these problems will take time, there is

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no magic bullet. Much of the federal attention to date has focused on financial institutions and the credit markets. Among the other problems that may require attention:

- ◆ Mounting unemployment
- ◆ Global economies, including China, could face severe dislocations
- ◆ A dollar crash could result from the enormous increase in federal debt. The federal policy being used to stabilize the economy is necessary but creates the potential for a dollar crash if not handled correctly.
- ◆ State and local government budgets in crisis

Employment declines are likely to intensify in the months ahead. Unemployment growth will reinforce the housing downturn as foreclosures increase and other types of credit falter. Credit card and other consumer debt defaults are increasing. Rising unemployment rates also will keep consumer spending weak for some time.

State and local governments are feeling the effects of the recession and that will continue for several years. Income and sales taxes are depressed and property taxes will follow shortly. Commercial property has held up longer than residential, but is now following the residential property path down. This recession has been ongoing for a year but we are not yet on the way out.

### Energy Policy

Cynthia Lin presented some of her research on energy policy, showing that energy prices have declined 50% over the last 2.5 months, but consumption has not yet rebounded. Rising unemployment, increased efficiency and substitutions are probably contributing factors. It is difficult to say what the effect will be if prices remain low. The elasticity of demand to price increases has increased in recent years.

California has a leadership role in environmental regulations—we have more progressive air quality standards and global warming initiatives.

Professor Lin referenced Greg Manikaw, a Harvard University economist, who said that higher gasoline taxes are “the most direct and least invasive policy to address environmental concerns.” She said raising the gasoline tax in California by \$0.10 per gallon could raise \$1.5 billion annually in taxes and would:

- ◆ Reduce congestion costs on California roads
- ◆ Provide incentives for fuel efficient cars
- ◆ Reduce dependence on foreign oil
- ◆ Provide revenue to fund energy research.

### Fiscal Stimulus

Professor Cullen presented evidence on the impact of the \$100+ billion in tax rebates issued last spring. For those households that received a rebate check, spending was boosted by an estimated 3.5%. The effect was most evident in lower income households; those households had an increase of 6.3%. This indicates that the greatest impact of stimulus programs is achieved by targeted programs. Examples of this are unemployment insurance and food stamps. The data indicate that about half of the stimulus checks were saved.

Wendell Primus of House Speaker Nancy Pelosi’s office, presented some elements of the stimulus package being assembled in Congress. The Speaker’s office has been working with the Obama team to frame a stimulus package. While the size of the package is unknown at this time, a primary goal will be to save or create 2.5 million jobs over a two-year period. The package may also include assistance to states, infrastructure projects, and the promotion of innovation and science.

Mark Zandi, Chief Economist at Moody’s Economy.com, provided a study to the Obama team outlining the economic problems we face. He envisions that without significant government intervention, unemployment could rise as high as 11% by 2011.