Controller *John Chiang*

California State Controller's Office

November 2011 Summary Analysis Volume 5, Issue 11

Statement of General Fund Cash Receipts and Disbursements

State Finances in October 2011

⇒ Compared to the 2011 Budget Act Estimates, total General Fund revenues in October 2011 were $810.5 million lower (-16.3%) than expected. Personal income tax revenues came in below estimates by $451 million (-12.9%). Corporate taxes were below expectations by $10.9 million (-3.8%). Sales tax revenues were $7.5 million better (1.1%) than anticipated.

⇒ Compared to October 2010, General Fund revenue was down $1.1 billion (-21.3%). Personal income taxes were down $655.8 million (-17.7%), while sales taxes came in below last October by $242.1 million (-25.9%). Corporate taxes were down $54.7 million (-16.6%).

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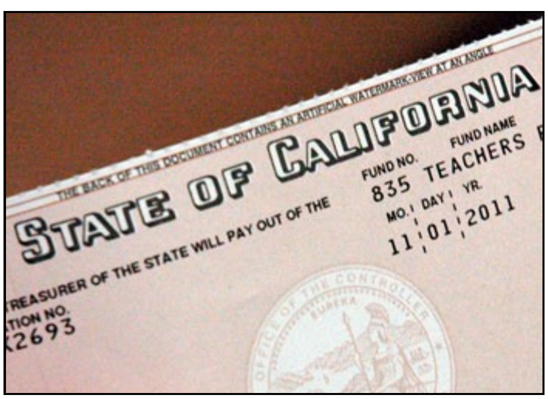
Budget vs. Cash



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 October 2011 and year to date for the first four months of Fiscal Year 2011-12. 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 2010-11 and the statement of estimated cash flows from the 2011 Budget Act.

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Tax Revenue Fiscal Year to Date

⇒ Compared to the 2011 Budget Act projections, General Fund revenues in October were below the year-to-date estimate by $1.5 billion (-6.2%). Income taxes came in better than expected by $50.8 million (0.4%). Sales tax collections were down $180.1 million (-3.0%). Corporate tax collections year-to-date were below estimates by $224 million (-12.1%).

⇒ Compared to this date in October 2010, revenue receipts were down by $2.1 billion (-8.3%). This was driven by sales taxes, which came in $1.7 billion below (-22.1%) last year at this time. Corporate taxes were down $194.4 million (-10.7%) from last year's total at the end of October.

⇒ Year-to-date collections for the three major taxes were $1.8 billion lower (-7.8%) than last year at this time. Personal income taxes were up $50.9 million (0.4%) from last year's total at the end of October.

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What the Numbers Tell Us

Through October, revenues are tracking roughly $1.5 billion lower than was projected by the Department of Finance at the time of the Budget Act's passage. This represents an over-estimation by more than 6%.

Nearly $1.2 billion of this variance is attributable to the "Not Otherwise Classified" category, which houses the $4 billion in unallocated revenues from the budget's forecast. These revenues were expected in the Department of Finance's forecast, but were not attributed to a specific revenue source.

Both corporate taxes and sales taxes are trailing behind their estimates by roughly $400 million so far this year. These losses are being partially offset by personal income taxes so that the overall variance on the "Big 3" sources of revenues is just 1.6%.

The $4 billion of projected revenues' failure to materialize *does* increase the probability of the budget's trigger cuts being pulled. This could create additional strain on our education and social services infrastructure, and could prolong the employment slide at the state and local levels, which has impeded a speedy recovery.

Additionally, October was a particularly bad month for personal income taxes, with actuals falling short of projections by more than $451 million. According to the Franchise Tax Board, this was driven by both falling withholdings and reduced estimated tax payments relative to projections.

Still, the state has already added back more than 225,000 jobs since hitting bottom, and personal income has exceeded its pre-recession peak. Given that the labor markets continue to gain steam and that the third quarter of this year showed acceleration in real economic growth nationwide, revenues could become less turbulent as the recovery takes hold.

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Summary of Net Cash Position as of October 31, 2011

⇒ Through October, the State had total receipts of $24.9 billion (Table 1) and disbursements of $37 billion (Table 2).

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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, 2011 – October 31, 2011 (in Millions)*

Revenue Source	Actual Receipts to Date	2011 Budget Act	Actual Over (Under)
Corporate Tax	$1,629	$1,853	($224)
Personal Income Tax	$13,847	$13,796	$51
Retail Sales and Use Tax	$5,894	$6,074	($180)
Other Revenues	$1,518	$2,680	($1,163)
Total General Fund Revenue	$22,888	$24,404	($1,516)
Non-Revenue	$2,000	$2,194	($194)
Total General Fund Receipts	$24,888	$26,598	($1,710)

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

Table 2: General Fund Disbursements, July 1, 2011– October 31, 2011 (in Millions)

Recipient	Actual Disburse-ments	2011 Budget Act	Actual Over (Under) Estimate
Local Assistance	$28,025	$26,207	$1,818
State Operations	$9,099	$9,483	($384)
Other	($93)	($385)	$292
Total Disbursements	$37,031	$35,304	$1,726

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- ⇒ The State ended last fiscal year with a deficit of $8.2 billion. The combined current year deficit stands at $20.3 billion (Table 3). Those deficits are being covered with $14.9 billion of internal borrowing and $5.4 billion of external borrowing.
- ⇒ Of the largest expenditures, $28 billion went to local assistance and $9.1 billion went to State operations (See Table 2).
- ⇒ Local assistance payments were $1.8 billion higher (6.9%) than the 2011 Budget Act Estimates and State operations were $384.1 million below (-4.1%).

Table 3: General Fund Cash Balance As of October 31, 2011 (in Millions)

	Actual Cash Balance	2011 Budget Act	Actual Over (Under) Estimate
Beginning Cash Balance July 1	($8,164)	($8,164)	$0
Receipts Over (Under) Disbursements to Date	($12,143)	($8,706)	($3,437)
Cash Balance October 31, 2011	($20,308)	($16,871)	($3,437)

How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for November 2011 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)	**85,911** Through July 2010	**97,777** Through July 2011
Median Home Price (for Single-Family Homes)	**$265,000** In September 2010	**$249,000** In September 2011
Single-Family Home Sales	**33,176** In September 2010	**35,404** In September 2011
Foreclosures Initiated (Notices of Default)	**83,261** In 3rd Quarter 2010	**71,275** In 3rd Quarter 2011
Total State Employment (Seasonally Adjusted)	**13,847,900** In September 2010	**14,098,500** In September 2011
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**41,026** In September 2010	**45,057** In September 2011

Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance

Employment Numbers Paint an Improving Picture

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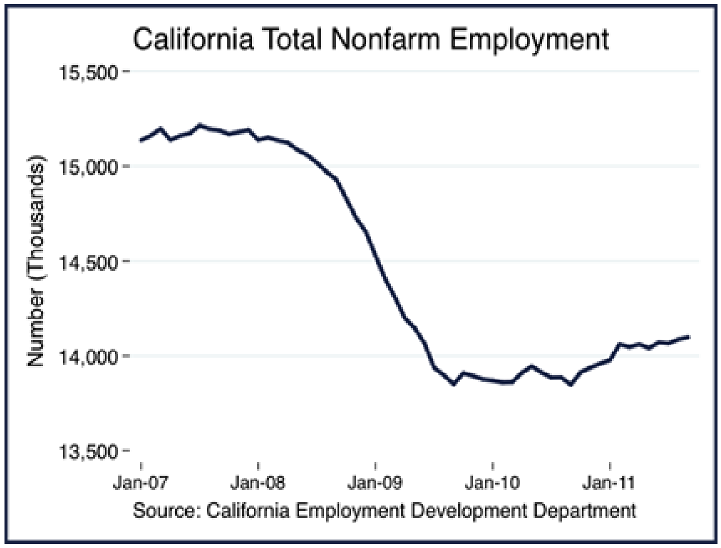
Even as the press touts the idea of a double dip, the employment numbers for California have been painting a substantially better picture. The last few months of data saw solid gains along with upward revisions of earlier releases. Overall the state has added close to a quarter-million jobs over the course of the last year—nearly 1.8% growth.

The Professional and Business Services sector posted the largest gains in September. Administrative and Support positions within that sector drove the gains by adding a seasonally adjusted 14,600 positions, up 1.6% from August. Employment in these sectors generally involves a higher educational requirement and is representative of the types of jobs leading the employment recovery. Consumer spending has increased substantially since the recession and has helped fuel job gains in the Retail Trade and Leisure and Hospitality sectors. Retail Trade posted the second largest increase in added jobs and contributed heavily to the September gains, increasing by 5,900 jobs from August. The Leisure and Hospitality sector grew by 4,700 jobs in September and was driven by gains in both of its subsectors, Arts and Entertainment and Accommodation and Food.



The Los Angeles Metropolitan area was by far the major driver of jobs in September, posting an additional 22,300 jobs. Other areas driving growth in non-farm positions include Orange County (+4,600 jobs), the Inland Empire area (+4,300 jobs), Stockton (MSA) (+2,700 jobs), and Visalia (+2,600 jobs). Gains in these areas were drawn down by losses in Oakland (-4,000 jobs), Sacramento (-3,800 jobs), San Diego (-1,900 jobs), Bakersfield (-1,700 jobs), and Santa Barbara (-1,700 jobs), resulting in a smaller net gain for the state overall.

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The opinions in this article are presented in the spirit of spurring discussion and reflect those of the authors and not necessarily the Controller or his office.

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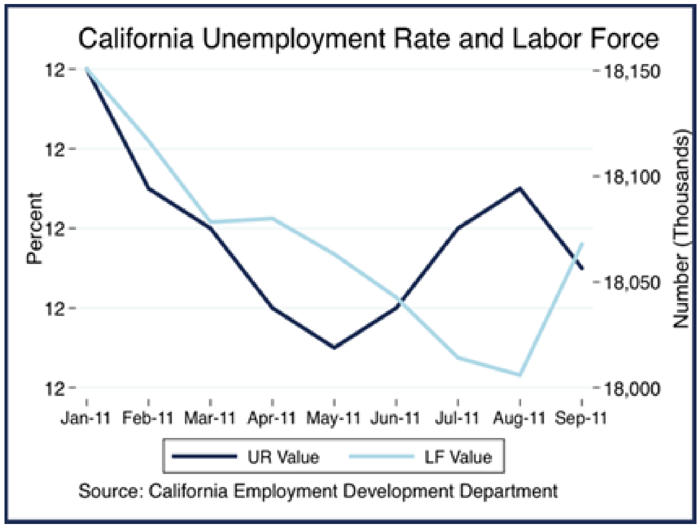
Local Government jobs led the declining sectors for September, shedding 8,400 positions. This sector of the labor market has been particularly hard hit since the recession. Local revenues dried up in the years after the recession and state budget woes exacerbated the situation greatly for city and county governments. If local governments are not able to hit their revenue benchmarks in the quarters ahead, this sector could see more job losses. That is significant because this sector has historically made up 11-12% of total non-farm employment in California for the last several decades.

Educational services also saw a large decrease in September, down 8,100 positions, or 2.5% from August. The goods-producing industries, typically sectors with lower educational requirements, showed a mixed performance. Construction jobs increased by 6,900 positions but Manufacturing and Durable Goods saw a combined loss of 10,400.

The unemployment rate fell to a seasonally-adjusted 11.9%, down from 12.1% in August and 12.5% in September of 2010. The labor force and household employment increased 0.3% and 0.5% respectively, signaling that the drop in the unemployment rate represents a true decline in unemployment as opposed to people being discouraged and giving up on their job search. While the jobs gains are a very welcome sign in a recovery economy, the persistence of historically-high unemployment in the state is troubling. In the next quarters and years ahead we need to see unemployment rate decreases in the neighborhood of 2% instead of the recent 0.2% in order to get us back to pre-recession levels.

Although we believe that fears of a double dip have been largely overblown and that there are reasons to be cautiously optimistic about a



sustained recovery, there are nonetheless several factors preventing California from experiencing faster growth. The most serious problem is the skills mismatch in the labor market. To be more specific, there is a real dichotomy between the skill sets of the workers in those sectors that were pummeled by the downturn and the skill sets required by the sectors that are leading California out of the recovery. On a proportional basis, construction, real estate, and retail trade were among the hardest-hit sectors in the region in terms of job losses. These sectors traditionally have low education requirements and pay relatively low wages, which are two of the predominant characteristics of our unemployed population.

The recent report on a 2.5% increase in U.S. Gross Domestic Product in the third quarter of 2011 helped confirm that a double dip recession is a only a remote possibility, and September's gains in Retail Trade and Construction jobs are a very welcome sign for the unemployed in California. Still, it will be several years before the state gets back to "normal" levels of unemployment, and that could be a relatively higher baseline of 7% if we cannot find a way to address some of the structural problems with our workforce.