

Controller *John Chiang*

California State Controller's Office



July 2009 Summary Analysis

Volume 3, Issue 7

Statement of General Fund Cash Receipts and Disbursements

State Finances in June 2009

- ⇒ A surge in corporate tax payments made to avoid a new penalty bolstered State receipts for the second month in a row. Total General Fund revenues were up \$132 million (1.1%) from the 2009-10 May Revision estimates.
- ⇒ Corporate tax payments were \$1.31 billion above (41.2%) estimates. Personal income taxes were \$987 million below estimates (-18.0%), and sales taxes lagged by \$154 million (-5.8%).
- ⇒ Compared to June 2008, General Fund revenue in June was up \$1.67 billion (15.4%), again driven by corporate payments related to the new penalty. The total for the three largest taxes was above 2008 levels by \$1.45 billion (14.5%). Corporate taxes beat last June's totals by \$2.67 billion (146.3%), but sales taxes in June were down \$295 million (-10.6%), and personal income taxes were down \$918 million (-16.9%) in a month-to-month comparison to June 2008.

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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 June 2009 and the complete 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.

This report compares actual receipts against historical figures from 2008 and estimates found in the Governor's May Revisions to the State's current budget.

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Tax Revenue Fiscal Year to Year

- ⇒ General Fund revenues were below the 2009-10 May Revision estimates year to date by \$695 million (-0.8%). The three largest sources of revenue were below the May Revision estimates by \$499 million (-0.6%).
- ⇒ Sales tax collections year to date were \$263 million under (-1.1%) the May Revision estimates. Income taxes were \$1.46 billion lower (-3.2%) than expected, but corporate taxes came in above estimates by \$1.23 billion (11.1%). The State's other revenue streams were \$196 million below (-3.4%) estimates. Because the May Revision estimates contained actual revenue through April 2009, any revenue deterioration occurred between May and June.
- ⇒ Compared to Fiscal Year 2007-08, revenue receipts were down by \$11.2 billion (-11.6%). The "Not Otherwise Classified" category was the only one besides corporate taxes to post significant growth (\$1.34 billion) on a year-over-year comparison. That category is higher primarily because it contains unclaimed property collections that were virtually halted last year as new rules for locating owners were instituted.
- ⇒ Collections for the three major taxes were down \$12.1 billion (-13.2%) from Fiscal Year 2007-08. Personal income taxes were down primarily because of lower estimated tax payments, which were 22.1% below the year-to-date payments last June. Withholdings on personal income were only down 4.8% from this time last year. Retail sales taxes were down \$3.13 billion

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What The Numbers Tell Us



Grain of Salt

For only the second time in the 2008-09 fiscal year, California saw total monthly general fund revenues increase on a year-over-year basis. With a total collection of over \$12.6 billion, revenues were 15.4% higher than last June and 1.1% higher than the May Revision estimates. However, these results should be taken with a grain of salt, as the boost was driven almost entirely by a bump in corporate tax revenues paid by taxpayers ahead of a new corporate tax penalty. Personal income taxes and sales taxes still came in well below monthly projections as well as last June's totals.

As noted last month, the Governor signed a bill in October that imposed a 20% *understatement penalty* on corporate tax. Companies were given the option to avoid the penalty by filing an amended return and paying their *actual* tax liability by May 31, 2009. A large sum of payments related to this penalty were counted at the end of May and the beginning of June. As a result, miscellaneous corporate taxes in June soared to over \$2.1 billion according to Franchise Tax Board's collections - an increase of over 1022% from last June - and exceeded the FTB's \$1.9 billion estimate of related payments.

The higher revenues we see in June are based more on policy changes enacted in Sacramento than an earnest rebound in corporate earnings. Nationwide, seasonally adjusted corporate profits were up by 3.8% in the first quarter of 2009 from the last quarter of 2008, but were still down 17.6% on a year-over basis.

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(-11.7%), and personal income taxes fell by \$11.1 billion (-20.3%). Corporate taxes were \$2.14 billion higher (21.1%) than last year's total.

Summary of Net Cash Position as of June 30, 2009

- ⇒ Through June, the State had total receipts of \$87.8 billion (see Table 1) and disbursements of \$98.2 billion (see Table 2).
- ⇒ The State ended last fiscal year with a deficit of \$1.45 billion, and the combined current year deficit now stands at \$11.9 billion (Table 3). That deficit is being covered with \$11.9 billion of internal borrowing.
- ⇒ Of the largest expenditures, \$69.8 billion went to local assistance and \$26.7 billion went to State operations (Table 2).
- ⇒ Local assistance payments were \$439 million lower (-0.6%) than anticipated in the 2009-10 May Revision estimates. State operations were \$1.39 billion below (-5.0%) the estimates.

How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for June 2009 is available on the State Controller's Web site at www.sco.ca.gov.

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Table 1: General Fund Receipts, July 1, 2008-June 30, 2009 (in Millions)

Revenue Source	Actual Receipts To Date	2009-2010 May Revision Estimate	Actual Over (Under) Estimate
Corporation Tax	\$12,261	\$11,034	\$1,226
Personal Income Tax	\$43,702	\$45,164	(\$1,462)
Retail Sales and Use Tax	\$23,702	\$23,965	(\$263)
Other Revenues	\$5,514	\$5,710	(\$196)
Total General Fund Revenue	\$85,179	\$85,874	(\$695)
Non-Revenue	\$2,596	\$2,636	(\$40)
Total General Fund Receipts	\$87,775	\$88,510	(\$735)

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

Table 2: General Fund Disbursements, July 1, 2008-June 30, 2009 (in Millions)

Recipient	Actual Disbursements	2009-2010 May Revision Estimate	Actual Over (Under) Estimate
Local Assistance	\$69,825	\$70,264	(\$439)
State Operations	\$26,668	\$28,059	(\$1,391)
Other	\$1,738	\$1,702	\$35
Total Disbursements	\$98,231	\$100,026	(\$1,795)

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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

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

**Table 3: General Fund Cash Balance
As of June 30, 2009 (in Millions)**

	Actual Cash Balance	2009-2010 May Revision Estimate	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2008	(\$1,452)	(\$1,452)	\$0
Receipts Over (Under) Disbursements to Date	(\$10,456)	(\$11,516)	\$1,060
Cash Balance June 30, 2009	(\$11,908)	(\$12,968)	\$1,060

Borrowable Resources

State law authorizes the General Fund to internally borrow 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 typically are transfers to the General Fund from other state funds.



California Economic Snapshot

New Auto Registrations (Fiscal Year to Date)	1,312,090 Through April 2008	898,948 Through April 2009
Median Home Price (for Single Family Homes)	\$339,000 In May 2008	\$230,000 In May 2009
Single Family Home Sales	33,024 In May 2008	39,051 In May 2009
Foreclosures Initiated (Notices of Default)	113,809 In 1st Quarter 2008	135,431 In 1st Quarter 2009
Total State Employment (Seasonally Adjusted)	15,490,700 In May 2008	14,737,100 In May 2009
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	73,010 In May 2008	29,983 In May 2009
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance		

California State Controller John Chiang:

300 Capitol Mall, Suite 1850
Sacramento, CA 95814

P.O. Box 942850
Sacramento, CA 94250

Telephone: (916) 445-2636

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

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

Fax: (916) 445-6379

Web: www.sco.ca.gov

Featured Articles on California's Economy

The opinions in these 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 Daniel J.B. Mitchell, Professor-Emeritus, UCLA Anderson Graduate School of Management.

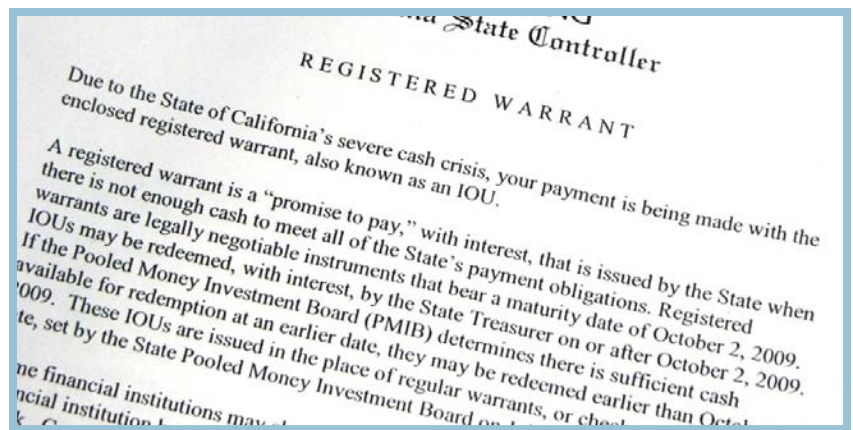
California IOUs in Historical Context

By Daniel J.B. Mitchell
Professor-Emeritus, UCLA Anderson
Graduate School of Management

California regularly enters financial markets to borrow for infrastructure and short-term cash needs. In such transactions, both the borrower and the lender are willing participants. However, on some occasions, the State has resorted to a kind of involuntary borrowing from those suppliers of services or local governments who would otherwise expect prompt payments. Two types of such borrowing have occurred: payment delays and formal IOUs known as registered warrants.

Particularly since the 1990s, payment delays have occurred when the Legislature and Governor have been unable to enact a budget by the start of the fiscal year on July 1. In those instances, even when there is cash on hand, the Controller is not authorized to make certain payments in the absence of a formal budget. The most recent occurrence was during the summer of 2008, when the State went a record two-and-a-half months without an enacted budget.

Payment delays also have occurred during cash shortages. Early in 2009, for example, the Controller delayed certain payments even though a budget was technically in place. The formal



spending plan for Fiscal Year 2008-09, adopted in September 2008, threatened to exhaust cash resources absent a midyear course correction. When a newly revised budget for 2008-09 was enacted in February 2009, those whose payments from the State were delayed were made whole.

In contrast to simple payment delays, registered warrants are paper acknowledgments that the State will make payments that are expected immediately, at some future date. Such warrants pay interest to the involuntary lender. Financial institutions may accept them at face value but are not compelled to do so. The most recent use of registered warrants occurred during the California budget crisis of the early 1990s. In the budget crisis of the early 1980s, there was some discussion of the possibility of issuing registered warrants, but other means of financing the State's fiscal imbalance were found and registered warrants were not needed.

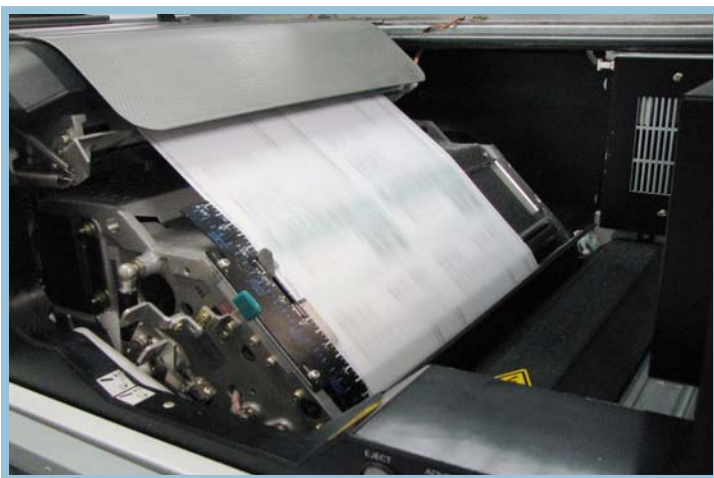
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Prior to the episode in the early 1990s, registered warrants were used as a means of state finance during the Great Depression. During that period, the general economic distress at the state and national level caused a state budget crisis. California did not default on its debt service but it could not pay all of its bills promptly. The Depression saw the development of other short-term financing tools as well. The Revenue Anticipation Notes (RANs) and Revenue Anticipation Warrants (RAWs) that are used today are the decedents of Depression-era financial practices.

During the Depression, when suppliers to the State received IOUs, they found that state financial institutions were often willing to accept them at face value. In part, this willingness was due to the relatively attractive rate of interest paid on the IOUs compared with the low returns available as conventional investments in the 1930s. And, in part, the willingness was due to a sense of civic responsibility that local institutions felt to the State. Since financial institutions were willing to accept state IOUs from individual suppliers, it seemed more efficient to borrow through short-term instruments directly from such institutions and pay state suppliers actual cash. That approach to short-term finance evolved and became standard practice in the post-Depression period.

The use of state IOUs during the Depression – and



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particularly the observation that they were often accepted at face value – gave rise to various political movements in the 1930s. In effect, it appeared that the State was able to issue a warrant/currency and engage in a *de facto* monetary policy. Upton Sinclair’s ultimately unsuccessful “EPIC” campaign for governor in 1934 was based in part on the notion that the State would create a monetary authority to finance takeovers of idle businesses and farms. These enterprises were then to be run as worker-operated co-ops.

In 1938 and 1939, the “Ham and Eggs” pension movement put initiatives on the ballot proposing that all Californians over age 50 should be paid “Thirty Dollars Every Thursday” in state-issued warrants. In return for their pensions, recipients would promise not to seek work and thus not to compete with younger job seekers. Like the EPIC campaign, the Ham and Eggs efforts to solve Depression unemployment proved unsuccessful with the electorate, although they attracted many followers and roiled California’s politics.

In the post-World War II years, the California economy was sufficiently buoyant to avoid fiscal crises as severe as had characterized the Great Depression. Periodic budget crises did occur after the War, generally reflecting the ups and downs of the business cycle. But the notion of using warrants as a California currency to manage the state economy disappeared. Nonetheless, the option of using registered warrants has remained available to State Controllers as a financing tool of last resort to this day.