

Controller *John Chiang*

California State Controller's Office



February 2010 Summary Analysis

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Statement of General Fund Cash Receipts and Disbursements

State Finances in January 2010

- ⇒ The State's General Fund revenues improved again in January 2010. Compared to estimates found in the 2010-11 Governor's Budget, total General Fund revenues were \$1.28 billion higher (18.6%) than expected. Personal income tax revenues were \$930 million better (17.2%) than anticipated. Corporate tax revenues came in above projections by \$189 million (73.4%), and sales taxes were also up by \$157 million (17.5%).
- ⇒ Compared to January 2009, General Fund revenue in January 2010 was up \$452 million (5.9%). The total for the three largest taxes was above 2009 levels by \$255 million (3.4%). Corporate taxes were up by \$134 million (42.8%). Sales taxes were \$469 million higher (79.8%), and personal income taxes came in \$348 million below (-5.2%) last January.

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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 January 2010 and year to date for the first seven months of Fiscal Year 2009-10. 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 and disbursements against historical figures from 2008-09 and the statement of estimated cash flows from the 2010-11 Governor's Budget.

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Tax Revenue Fiscal Year to Date

- ⇒ Compared to estimates found in the 2010-11 Governor's Budget, General Fund revenues through January were above the year-to-date figure by \$1.46 billion (3.3%). The three largest sources of revenue surpassed estimates by \$1.45 billion (3.5%). Corporate tax collections year to date were \$158 million above (4.1%) the Governor's Budget estimates. Income taxes were \$1.12 billion higher (4.7%) than expected, and sales taxes were also up by \$173 million (1.2%). Because the Governor's Budget estimates contained actual revenue through November 2009, this revenue improvement occurred in December and January.
- ⇒ Compared to this date in January 2009, year-to-date revenues are down by \$1.62 billion (-3.4%). This was driven by personal income taxes, which came in \$2.79 billion below (-10%) last year at this time and corporate taxes, which were down \$84.7 million (-2.1%).
- ⇒ Year-to-date collections for the three major taxes were \$1.66 billion below (-3.7%) last year at this time. However, retail sales taxes were up \$1.21 billion (9.4%) from last year's total at the end of January.

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What The Numbers Tell Us



Recently, we have seen several indicators showing that this recession, if not officially over, will be soon. Real Gross Domestic Product nationwide grew for the second consecutive quarter in the fourth quarter of 2009. In the third quarter, real output expanded by 2.2% and we ended last year with a 5.7% growth rate. Over these two quarters, we

saw increases both in consumer spending and business investment. Additionally, we saw exports rise faster than imports in the fourth quarter, which contributed to the growth in GDP.

These are good signs for the national economy, and we are seeing positive signs coming out of California as well. The State's revenues from the "Big 3" — personal income, corporate, and sales and use taxes — were up in January. Also notable were the increases in sales and use taxes, which shot up nearly 80% on a year-over comparison. This indicates that consumer activity is beginning to level off, aided by massive government intervention at the national level, and consumer spending should return to growth in 2010 — albeit at a much slower pace than experienced just a few years ago.

There also are encouraging signs coming out of the State's labor markets. Although California's unemployment rate remains at 12.4% on a seasonally-adjusted basis, we have seen the rise halted over the past three months as the rate held steady. We have yet to see employment expand despite reaching peak unemployment, but total nonfarm jobs are typically a lagging indicator of an economic recovery and slow growth is expected to resume in the coming months. Other positive indications that California's labor markets will soon be on the mend are highlighted in the recently released national unemployment numbers for January. According to the Bureau of Labor Statistics, the U.S. unemployment rate fell from a seasonally adjusted 10.0% in December to 9.7% in January. This shows that households are slowly getting back to work, and California's unemployment could follow suit.

Despite the positive signs coming from the labor markets and the State's fiscal position, it is important to remember that we have only just begun the recovery process. It will be some time before we reach peak levels of economic activity again. With policy debates and potential policy changes in both Washington and Sacramento, uncertainty will place a question mark over any short-term economic outlook.

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Summary of Net Cash Position as of January 31, 2010

- ⇒ Through January, the State had total receipts of \$46.8 billion (Table 1) and disbursements of \$59.0 billion (Table 2).
- ⇒ The State ended last fiscal year with a cash deficit of \$11.9 billion, so the combined current year cash deficit stands at \$24.1 billion (Table 3). Those deficits are being covered with \$15.3 billion of internal borrowing and \$8.8 billion in external borrowing.
- ⇒ Of the largest expenditures, \$44.1 billion went to local assistance and \$13.6 billion went to State operations (See 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, 2009 - January 31, 2010 (in Millions)*

Revenue Source	Actual Receipts to Date	2010-11 Governor's Budget Estimate	Actual Over (Under) Estimate
Corporate Tax	\$4,015	\$3,857	\$158
Personal Income Tax	\$25,087	\$23,968	\$1,119
Retail Sales and Use Tax	\$14,024	\$13,851	\$173
Other Revenues	\$3,110	\$3,095	\$15
Total General Fund Revenue	\$46,236	\$44,771	\$1,465
Non-Revenue	\$584	\$1,589	(\$1,005)
Total General Fund Receipts	\$46,819	\$46,360	\$459

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

Table 2: General Fund Disbursements, July 1, 2009-January 31, 2010 (in Millions)

Recipient	Actual Disbursements	2010-11 Governor's Budget Estimate	Actual Over (Under) Estimate
Local Assistance	\$44,125	\$43,600	\$525
State Operations	\$13,558	\$13,403	\$156
Other	\$1,326	\$1,421	(\$95)
Total Disbursements	\$59,009	\$58,423	\$586

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⇒ Local assistance payments were \$525 million higher (1.2%) than the 2010-11 Governor's Budget projected, and State operations payments were also up by \$156 million above (1.2%).

How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for January 2010 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

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 January 31, 2010 (in Millions)**

	Actual Cash Balance	2010-11 Governor's Budget Estimate	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2009	(\$11,908)	(\$11,908)	\$0
Receipts Over (Under) Disbursements to Date	(\$12,190)	(\$12,064)	(\$126)
Cash Balance January 31, 2010	(\$24,098)	(\$23,972)	(\$126)

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California Economic Snapshot

New Auto Registrations (Fiscal Year to Date)	430,341 Through October 2008	356,742 Through October 2009
Median Home Price (for Single Family Homes)	\$249,000 In December 2008	\$264,000 In December 2009
Single Family Home Sales	37,836 In December 2008	41,837 In December 2009
Foreclosures Initiated (Notices of Default)	75,230 In 4th Quarter 2008	84,568 In 4th Quarter 2009
Total State Employment (Seasonally Adjusted)	14,727,400 In December 2008	14,148,000 In December 2009
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	51,451 In December 2008	38,960 In December 2009
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance		

Featured Articles on California's Economy

Will California Default on Its Debt Obligations? NO

By California State Controller John Chiang

Although it sounds all too familiar, California is facing another fiscal crisis. Without corrective action on the part of the Legislature and Governor, it is likely that the State will run a deficit in the current fiscal year around \$5 billion, while the forecast for the 2010-11 fiscal year is in the \$14 billion range. With such grim news, some have suggested that the State might default on its debt obligations. A reality check is needed here.

In the discussion of the crisis many forget the actual practice of fiscal management. My job as California's Controller is to make sure the State meets its financial obligations. The State's constitution ensures bondholders that money will be set aside for service of debt, and failing to do so may be an impairment of contract. The constitution mandates that the first obligation is payments to education, and second is payment of the State's debt service.

First, take a quick look at the state's available resources. The State expects to receive \$83 billion in general fund revenues in fiscal year 2010-11. Under the Governor's budget proposal, we will spend about \$47.8 billion on education. Debt service is the very first priority to be paid from the remaining \$35.2 billion. The State's total debt service for this year is about \$5 billion, and some of that will be paid from secondary funds. There is plenty of cash available to meet our debt service obligations.

Second, some worry that a late budget could delay scheduled debt service payments. Not so. Debt service is "continuously appropriated" and does not rely on the passage of a budget.

Third, some worry that the State may run out of cash during the course of the year if expenditures come in higher than expected or revenues fall short of forecasts. This is where good cash management becomes paramount. My office will continue to monitor daily cash flows and adjust its cash scenarios accordingly for what will likely occur in the upcoming 18 months. Furthermore, major assumptions regarding future revenues (for example lawsuits and federal stimulus funds) also are taken into account as part of this "stress-test."

As a practical matter, there are a number of fail safes I can use to ensure that money is available for primary obligations. They include payment deferrals for other expenditure items, special fund or short term borrowing and, of course, the use of IOU's bearing maturity dates. Unfortunately, a number of these options were adopted in 2009 in response to the Legislature's delayed passage of the current budget.

As we saw over the last few years, there is not a situation where there is not enough money to honor the top two payment priorities of the State — education and debt service. While default is not impossible, it has never happened in California history, and I will use every cash management tool available to my office to ensure that record continues.

