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California State Controller's Office



September 2010 Summary Analysis

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Statement of General Fund Cash Receipts and Disbursements

The Governor's latest budget estimates – found in the May Revision – assume the July 1 enactment of his Fiscal Year 2010-11 spending plan and its \$19.1 billion in revenue and spending solutions.

To offer a straightforward comparison against August totals, this report adjusts the Governor's May Revision estimates to remove the budget solutions that were not enacted.

State Finances in August 2010

- ⇒ While the 2010-2011 fiscal year got off to a bumpy start in July, results for General Fund revenues in August were more positive.
- ⇒ Compared to the adjusted 2010-11 May Revision estimates, total General Fund revenues were \$264.6 million higher (3.9%) than expected. Corporate tax revenues were \$150.9 million worse (-117.0%) than anticipated. However, personal income tax revenues came in above estimates in

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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 August 2010 and year to date for the first two months of Fiscal Year 2010-11. 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 2009-10 and the statement of estimated cash flows from the 2010-11 May Revision Estimates, after removing proposed budget solutions for the first two months of the fiscal year.

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August by \$119.5 million (4.1%). Retail sales tax totals were also above expectations by \$124.8 million (3.8%).

- ⇒ Compared to August 2009, General Fund revenue in August 2010 was up \$397.9 million (6.0%). The total for the three largest taxes was above 2009 levels by \$265.9 million (4.3%). This was driven by personal income taxes jumping \$325.4 million (11.9%), and sales taxes rising above last August by \$184.1 million (5.8%). However, corporate taxes were \$243.7 million lower (-109.9%) than last year.

Tax Revenue Fiscal Year to Date

- ⇒ Compared to the adjusted estimates, General Fund revenues in August were above the year-to-date estimate by \$173.4 million (1.5%). The three largest sources of revenue were above estimates by \$38.1 million (0.4%). Sales taxes came in better than expected by \$194 million (4.5%). Income taxes were \$90.8 million worse (-1.5%) than expected. Corporate tax collections year to date were also below the estimates by \$65.2 million (-18.2%).
- ⇒ Compared to this date in August 2009, revenue receipts were up \$496.6 million (4.4%). This was driven by personal income taxes which came in \$458.3 million above (8.2%) last year at this time. Sales taxes were also up \$227 million (5.3%) from last year's total at the end of August.
- ⇒ Year-to-date collections for the three major taxes were \$422.0 million higher (4.1%) than last year at this time. However, corporate taxes were down \$263.4 million (-47.4%) from last year's total.

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What the Numbers Tell Us

This month's General Fund numbers show us that overall, the State has largely weathered the economic storm caused by the "Great Recession." California's revenues continue to improve steadily, albeit at a tepid pace.

These year-over-year results have been driven almost entirely by increases in personal income and sales tax. The Bureau of Labor Statistics is reporting that the number of hours worked in nonfarm industries increased by 3.5% in the second quarter while real hourly compensation remained unchanged. As the labor markets begin to improve and work weeks grow longer, personal income begins to grow. This trend has been driving the personal income tax revenue numbers higher in recent months.

On the sales tax side, the Bureau of Economic Analysis (BEA) has recently released revised numbers on consumer spending that show that consumers' balance sheets are in slightly better shape than initially reported. Previous estimates had consumer spending nationwide at more than 85% of personal income while savings rates only climbed to just over 3% of total income. The new BEA estimates show that consumer spending was only 82% of income in the second quarter and savings rates were much better at 5.5%. While this is probably still too much consumption, it shows that the consumer is in a better position (with larger savings cushions). This, combined with slightly improved labor markets, explains why sales tax revenues in California continue to improve.

Despite these positive signs in the budget and economic figures, a return to rapid growth is not on the horizon for California. The housing market is still reeling from the collapse and a significant share (roughly 13%) of all mortgages in the State are seriously delinquent (60+ days) or in foreclosure. In addition, the unemployment rate remained at 12.3% in July. Couple this with lackluster corporate tax receipts that indicate that business profits remain weak, and the prognosis leaves something to be desired. The patient has stabilized, but the recovery process will be lengthy and policy choices in Washington and Sacramento leave many question marks over the short-run outlook for California.

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Summary of Net Cash Position as of August 31, 2010

- ⇒ Through August, the State had total receipts of \$11.9 billion (Table 1) and disbursements of \$15.8 billion (Table 2).
- ⇒ The State ended last fiscal year with a deficit of \$9.9 billion. The combined current year deficit stands at \$13.8 billion (Table 3). Those deficits are being covered with \$13.7 billion of internal borrowing.
- ⇒ Of the largest expenditures, \$10.8 billion went to local assistance and \$3.8 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, 2010 - August 31, 2010 (in Millions)*

| Revenue Source | Actual Receipts to Date | 2010-11 May Revision Estimate w/o Solutions | Actual Over (Under) Estimate |
|------------------------------------|-------------------------|---|------------------------------|
| Corporate Tax | \$293 | \$358 | (\$65) |
| Personal Income Tax | \$6,032 | \$6,123 | (\$91) |
| Retail Sales and Use Tax | \$4,492 | \$4,298 | \$194 |
| Other Revenues | \$867 | \$732 | \$135 |
| Total General Fund Revenue | \$11,684 | \$11,511 | \$173 |
| Non-Revenue | \$187 | \$49 | \$138 |
| Total General Fund Receipts | \$11,871 | \$11,560 | \$311 |

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

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

| Recipient | Actual Disbursements | 2010-11 May Revision Estimate w/o Solutions | Actual Over (Under) Estimate |
|----------------------------|----------------------|---|------------------------------|
| Local Assistance | \$10,793 | \$13,876 | (\$3,083) |
| State Operations | \$3,807 | \$3,248 | \$559 |
| Other | \$1,197 | (\$136) | \$1,333 |
| Total Disbursements | \$15,797 | \$16,988 | (\$1,191) |

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- ⇒ Local assistance payments were \$3.1 billion lower (-19.4%) than the adjusted estimates, and State operations were \$559 million above (17.2%) those projections.
- ⇒ Some of the \$1.2 billion not disbursed through August 31 may be spent in September, but a large portion was likely unspent because agencies have begun reducing their spending due to the State's budget crisis, and because fewer program claims are being filed with the State Controller's office.

Table 3: General Fund Cash Balance As of August 31, 2010 (in Millions)

| | Actual Cash Balance | 2010-11 May Revision Estimate w/o Solutions | Actual Over (Under) Estimate |
|---|---------------------|---|------------------------------|
| Beginning Cash Balance August 1, 2010 | (\$9,922) | (\$11,700) | \$1,778 |
| Receipts Over (Under) Disbursements to Date | (\$3,926) | (\$5,428) | \$1,502 |
| Cash Balance August 31, 2010 | (\$13,848) | (\$17,128) | \$3,280 |



How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for August 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

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California Economic Snapshot

| | | |
|---|---------------------------------------|---------------------------------------|
| New Auto Registrations (Fiscal Year to Date) | 977,667 Through May 2009 | 982,168 Through May 2010 |
| Median Home Price (for Single Family Homes) | \$250,000 In July 2009 | \$268,000 In July 2010 |
| Single Family Home Sales | 45,079 In July 2009 | 35,202 In July 2010 |
| Foreclosures Initiated (Notices of Default) | 124,562 In 2nd Quarter 2009 | 70,015 In 2nd Quarter 2010 |
| Total State Employment (Seasonally Adjusted) | 13,978,700 In July 2009 | 13,874,900 In July 2010 |
| Newly Permitted Residential Units (Seasonally Adjusted Annual Rate) | 35,105 In July 2009 | 46,821 In July 2010 |

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