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California State Controller's Office

November 2010 Summary Analysis | Volume 4, Issue 11

Statement of General Fund Cash Receipts and Disbursements

*As part of the 2010-11 Budget Act enacted on October 8, the Governor and Legislature approved the delay of $5.5 billion in specific payments to cover others that could not lawfully be paid during the State's record 100-day budget stalemate. The $5.5 billion in payments include $526.8 million in personal income tax refunds and $59.5 million in corporate tax refunds. Because tax refunds are offsets to revenues, their deferral inflated the amount of revenue received during the month of October. To present a true picture of revenue activity and the impact of delayed tax refunds, adjustments were made to all current amounts that are compared to 2009 figures.**

Because the 2010-11 Budget Act assumed these tax refunds would be delayed, no adjustments were made when comparing against the 2010-11 Budget Act estimates.

**On October 28, an interim cash flow borrowing of $6.7 billion was received. This provided the State with adequate cash to rescind the temporary deferral and begin paying tax refunds in early November.*

State Finances in October 2010

⇒ Compared to the 2010-11 Budget Act, total General Fund revenues were $232.3 million higher (4.6%) than expected in October. Corporate tax revenues were $26.8 million better (8.8%) than anticipated and personal income tax revenues came in above

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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 2010 and year to date for the four 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 for the 2010-11 Budget Act.

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the 2010-11 Budget Act estimates by $63.8 million (1.8%). Retail sales and use taxes were also above expectations by $108.7 million (13.1%).

⇒ Compared to October 2009, General Fund revenue in October 2010 was up $386.6 million (9.0%). The total for the three largest taxes was above 2009 levels by $328.4 million (8.1%). This was driven by personal income taxes, which were up by $578.5 million (22.2%). However, corporate taxes came in below last October by $141.9 million (-34.4%) and sales and use taxes were $108.2 million below (-10.4%) last October.

Tax Revenue Fiscal Year to Date

⇒ Compared with the 2010-11 Budget Act estimates, General Fund revenues through October were above the year-to-date estimate by $232.3 million (0.9%). The three largest sources of revenue were above the estimates by $199.3 million (0.9%). Personal income taxes came in better than expected by $63.8 million (0.5%). Corporate tax collections were $26.8 million better (1.5%) than expected in the 2010-11 Budget Act estimates. Sales tax collections year to date also were above the estimates by $108.7 million (1.5%). Because the 2010-11 Budget Act contained actual revenues through September, this revenue improvement occurred during the month of October.

⇒ Compared to the same period through October 2009, revenue receipts are up by $649.9 million (2.7%). This was driven by personal income taxes, which came in $1.1 billion above (9.0%) last year at this time. Sales taxes were also up $124.7 million (1.7%) from last year's total at the end of October.

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What the Numbers Tell Us

We are seeing indications that California has weathered the worst of the "Great Recession." However, the road to full recovery is going to be a long one.

Although current data on economic output in California is not available, we are fairly confident that the state's economy has begun to grow again: Personal income began to rise in the fourth quarter of 2009 and has continued to grow. Overtime hours are also rising, another indicator that the California economy is expanding. In the face of these indicators, the recovery is shaping up to be rather jobless. The state saw some transitory job growth through May 2010 associated with the Census, but, as of September, total nonfarm employment had actually fallen below the trough reached in December 2009.

The sharp decline in jobs from August to September may be somewhat misleading, as it is partially a quirk of seasonal adjustment. September marks the beginning of the school year and entails a sharp rise in education employment, which was relatively small this year. The seasonal adjustment process is based on historical trends, and September numbers are adjusted downward to counter the spike in teaching jobs. The smaller size of this spike resulted in the seasonally adjusted numbers being significantly depressed. On a non-seasonally adjusted basis, Nonfarm employment actually grew by just under 18,000. Thus, the drop in the seasonally-adjusted numbers does not reflect real job losses; rather, these are referred to as lost opportunity job losses.

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⇒ Year-to-date collections for the three major taxes were $630.2 million higher (2.9%) than last year at this time. However, corporate taxes were down $589.5 million (-25.0%) from last year's total.

Summary of Net Cash Position as of October 31, 2010

⇒ Through October, the State had total receipts of $26.1 billion (Table 1) and disbursements of $33.6 billion (Table 2).

⇒ The State ended last fiscal year with a deficit of $9.9 billion. The combined current year deficit stands at $17.5 billion (Table 3). Those deficits are being covered with $10.8 billion of internal borrowing and $6.7 billion of external borrowing through an interim Revenue Anticipation Note.

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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 - October 31, 2010 (in Millions)*

Revenue Source	Actual Receipts to Date	2010-11 Budget Act	Actual Over (Under) Estimate
Corporate Tax	$1,823	$1,797	$27
Personal Income Tax	$13,796	$13,732	$64
Retail Sales and Use Tax	$7,564	$7,455	$109
Other Revenues	$1,770	$1,737	$33
Total General Fund Revenue	$24,953	$24,720	$232
Non-Revenue	$1,147	$1,232	($85)
Total General Fund Receipts	$26,099	$25,952	$147

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

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

Recipient	Actual Disburse-ments	2010-11 Budget Act	Actual Over (Under) Estimate
Local Assistance	$25,238	$24,424	$814
State Operations	$8,521	$8,588	($67)
Other	($132)	($153)	$21
Total Disbursements	$33,628	$32,860	$768

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⇒ As of October 31, the State had $380.4 million less in unused borrowable resources than expected.

⇒ Of the largest expenditures, $25.2 billion went to local assistance and $8.5 billion went to State operations (See Table 2).

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

	Actual Cash Balance	2010-11 Budget Act	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2010	($9,922)	($9,922)	$0
Receipts Over (Under) Disbursements to Date	($7,528)	($6,908)	($621)
Cash Balance October 31, 2010	($17,450)	($16,830)	($621)

⇒ Disbursements of $33.6 billion were $768 million more than anticipated in the 2010-11 Budget Act. This is because the 2010-11 Budget Act assumed that billions of dollars in payments would be deferred from October to November 2010 until a cash flow borrowing could be executed in early November to address the State's cash needs. The proceeds from the cash flow borrowing came in on October 28 – earlier than expected. This enabled the State to immediately rescind the payment deferrals, and make payments in October that were not expected to be made until November. This variance will be offset next month.

⇒ Local assistance payments were $813.6 million higher (3.3%) than the 2010-11 Budget Act estimates and State operations were $67.0 million below (-0.8%).

How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for October 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)	**69,836** Through July 2009	**83,907** Through July 2010
Median Home Price (for Single Family Homes)	**$251,000** In September 2009	**$265,000** In September 2010
Single Family Home Sales	**40,216** In September 2009	**33,176** In September 2010
Foreclosures Initiated (Notices of Default)	**111,689** In 3rd Quarter 2009	**83,261** In 3rd Quarter 2010
Total State Employment (Seasonally Adjusted)	**13,852,200** In September 2009	**13,808,500** In September 2010
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**41,026** In September 2009	**38,814** In September 2010
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance		

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 C.-Y. Cynthia Lin, Assistant Professor, University of California at Davis, and Member, Controller's Council of Economic Advisors.

Gasoline Price Volatility

By C.-Y. Cynthia Lin
Assistant Professor, University of California at Davis and
Member, Controller's Council of Economic Advisors

Gasoline-powered passenger vehicles create numerous negative externalities including local air pollution, global climate change, accidents, congestion, and dependence on foreign oil. These externalities can be addressed by policymakers through a variety of actions aimed at reducing demand for gasoline or reducing pollution from automobiles. The latter could be addressed with state vehicle smog standards, industry standards, and efforts to reduce vehicle speeds and congestion. The former is typically addressed with gasoline or carbon taxes or automobile industry production standards for fuel efficiency.

A key parameter in the estimation of gasoline demand is the price elasticity of demand, which measures the percent change in gasoline demand for a percent change in gasoline price. It is a measure of how responsive consumers are to changes in the price of gasoline. The higher the elasticity in magnitude, the more consumers will decrease gasoline consumption in response to an increase in gasoline price.

A big concern among policymakers in terms of reduction of demand for gasoline is that consumers are not very responsive to changes in the price of gasoline. As the gasoline price increases, consumers do not cut back very much on gasoline. In other words, gasoline demand is inelastic. The literature shows increasingly inelastic demand for gasoline with respect to price in both the short and long runs and recent studies using data up to 2006 have shown that price elasticity of demand has decreased by up to an order of magnitude in recent years, meaning that consumers have become significantly less responsive to changes in gasoline price. The change in price elasticity of demand may stem from structural and behavioral changes in the U.S. since the 1970s, which might include the implementation of Corporate Average Fuel Economy program (CAFÉ), changing land-use patterns, growth in per capita and household income and an increase in public transportation. The mechanisms driving the inelasticity in gasoline demand and the change in the magnitude of the elasticity over time, however, are not well understood. Moreover, anecdotal evidence suggests that despite the supposed inelasticity of demand, people did change their driving behavior and cut back on gasoline consumption when the gasoline prices were high in 2008. In ongoing research, I am examining the possible role the volatility in gasoline price may have played in explaining gasoline demand. It is possible that consumers were cutting back on

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Figure 1: Real Gas Price, Demand for Gasoline and Per Capita Disposable Income (1980-2009)

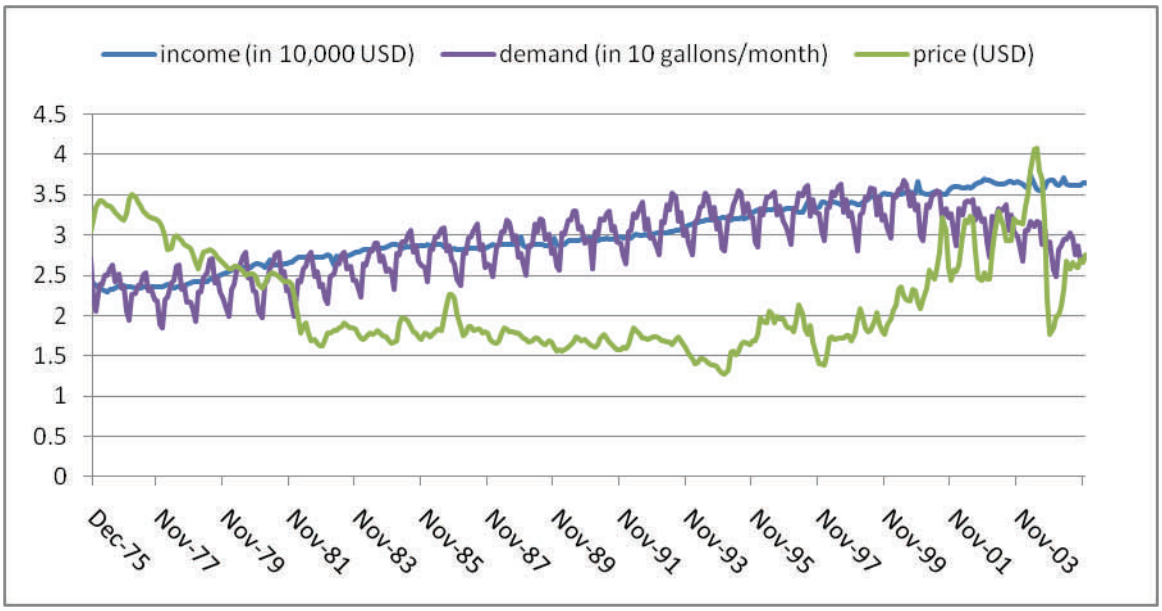
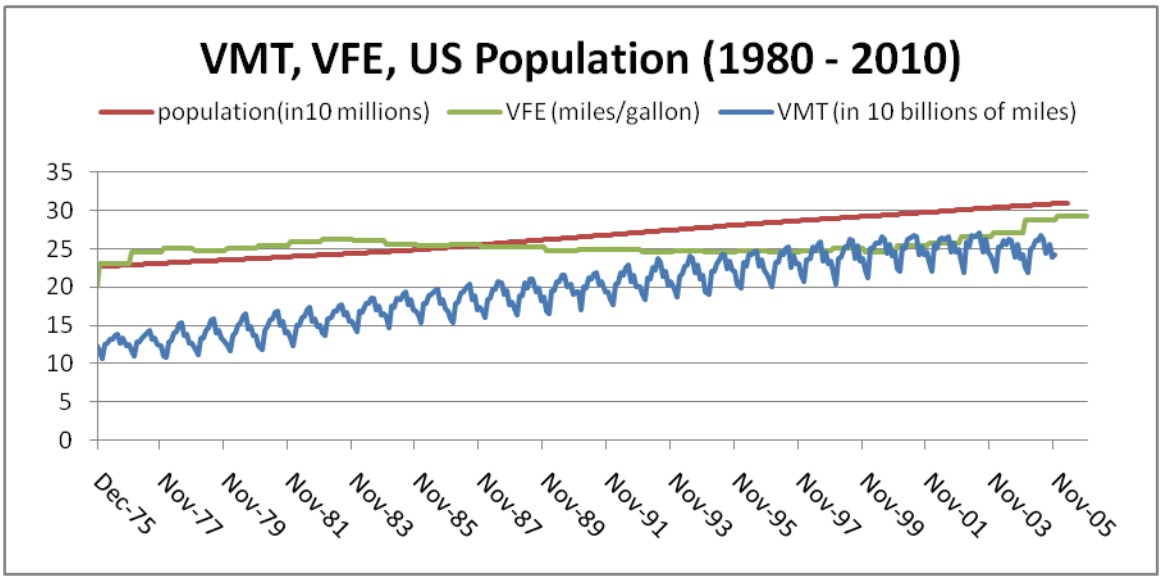


Figure 2: VMT, VFE, and US Population



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gasoline consumption in recent years not so much because the prices were high per se, but more because the prices were volatile.

Retail gasoline prices have displayed higher than normal volatility in recent years. In 2008, gasoline hit its highest real price in the past 30 years at just over $3.99 per gallon of unleaded regular grade gasoline in May of 2008 and dipped as low as $1.74 per gallon just 7 months later. While there have been extensive studies in which price elasticity of demand for gasoline has been estimated, it is unclear how volatility in gasoline prices impacts consumer demand.

Figure 1 shows per capita fuel demand, calculated as vehicle miles traveled (VMT), divided by vehicle fuel economy (VFE), plotted against real gasoline prices and per capita personal disposable income.

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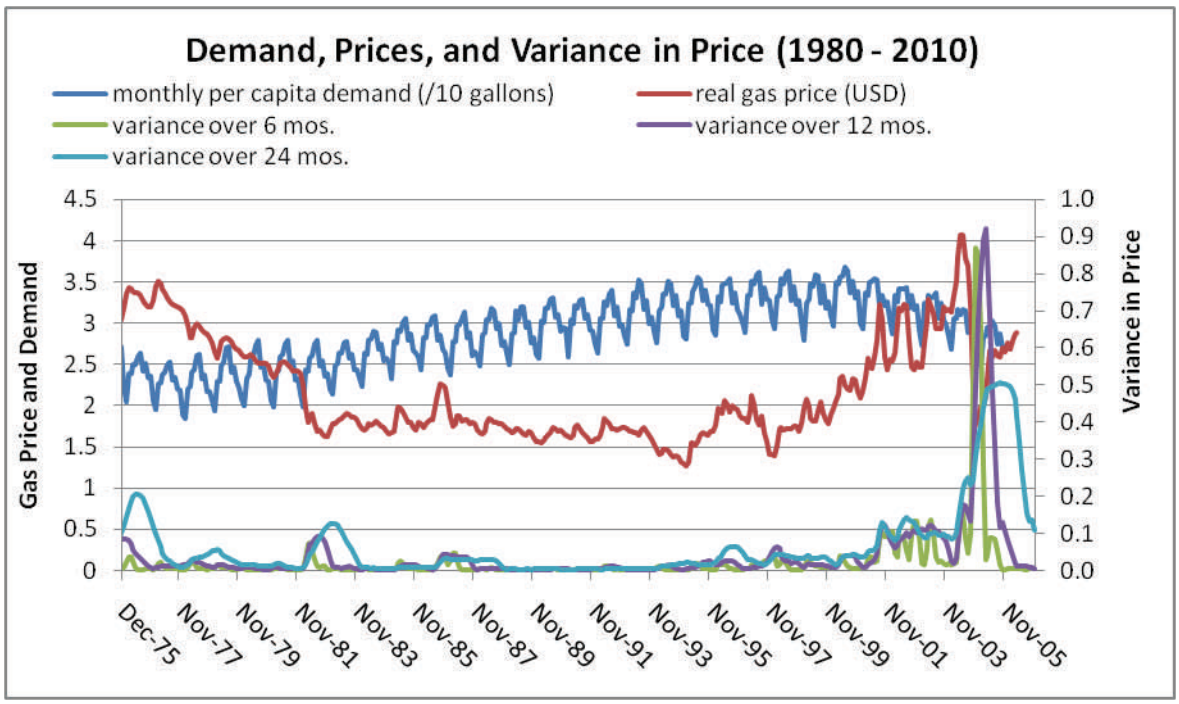
Figure 3: Gasoline Demand, Price, and Variance of Price (1980 – 2010)



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In the past decade, U.S. real gas prices have hit both a 30-year low and high, and show more volatility compared to the relatively steady gasoline prices of the late 1980s and 1990s. Note the downward trend in per capita gasoline demand in the past five years – which occurs as per capita income continues to grow. This downward trend is the first since the early 1980s. In the 1980s there was a clear and sustained hike in the real price of gasoline and a slight dip in real per capita disposable income; the combination of these provide an easy explanation for the downward dip in income. The recent downward dip in demand, however, is occurring as per capita disposable income continues to grow while there is no sustained hike in real gas prices, although there is a general trend upward. This indicates that there are likely variables other than price and income that are impacting demand.

Figure 2 shows total U.S. VMT plotted against VFE and population. This illustrates the mechanisms behind the change in demand for gasoline, which are two-fold. In recent years, for example, where we see a slight down-turn in demand for gasoline, we see that vehicle miles traveled decreased beginning around 2006 and vehicle fuel efficiency increased around the same time. Although changing VMT is largely a short-run phenomenon (even though there could be long-run components such as relocation and building of transportation infrastructure), changing VFE is likely a long-run phenomenon. Consequently, it is important to understand consumers' responses in both the short and long runs in order to implement any policy aimed at reducing gasoline demand.

Figures 3 shows gasoline price, demand and variance in price, calculated over the previous 6, 12, and 24 months. The increase in price volatility since 2005 is apparent.

In an ongoing study, I am examining the effects of gasoline price volatility on the demand for gasoline. I find that volatility in prices has little impact on demand in the very short run. In the long-run, however, volatility in prices decreases the demand for gasoline. In an atmosphere of price volatility, consumers will tend to consume less gasoline. Thus, high volatility in gasoline prices in recent years may have caused consumers to reduce their gasoline consumption. These results have important implications for policymakers who wish to reduce gasoline consumption and the negative externalities it creates.