

Controller *John Chiang*

California State Controller's Office



February 2011 Summary Analysis

Volume 5, Issue 2

Statement of General Fund Cash Receipts and Disbursements

State Finances in January 2011

- ⇒ Compared to the 2011-12 Governor's Budget, total General Fund revenues were \$714.5 million higher (8.1%) than expected in January. Personal income tax revenues came in above the 2011-12 Governor's Budget estimates by \$628.4 million (8.8%). Retail sales taxes were above expectations by \$192.4 million (19.2%). Corporate tax revenues were \$69.2 million less (-16.4%) than anticipated.
- ⇒ Compared to January 2010, General Fund revenue in January 2011 was up \$1.4 billion (17.7%). The total for the three largest taxes was above 2010 levels by \$1.5 billion (18.5%). This was driven by personal income taxes, which were up by \$1.4 billion (22.2%) and sales taxes, which came in above last January by \$139.2 million (13.2%). Corporate taxes were still below last January by \$93.7 million (-21.0%).

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Controller Unveils *State Finances 101* Web pages

Controller Chiang believes it is important for Californians to be able to easily find out where the State gets its money and how it spends tax dollars. To make this information more readily available, he has launched a new ***State Finances 101*** section on the Controller's website with basic summaries of which taxes are collected, how the taxes are spent to pay for programs at the state and local levels, and other facts and resources. To check it out, just click on the State Finances 101 logo or link on the Controller's home page at www.sco.ca.gov.



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 2011 and year to date for the seven 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 estimates found in the Governor's proposed 2011-2012 State Budget.

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Tax Revenue Fiscal Year to Date

- ⇒ Compared with the 2011-12 Governor's Budget estimates, General Fund revenues through January were above the year-to-date estimate by \$1.5 billion (2.9%). The three largest sources of revenue were above the estimates by \$1.5 billion (3.2%). Income taxes came in better than expected by \$1.3 billion (4.6%). Sales tax collections were \$278.1 million better (2.0%) than expected in the 2011-12 Governor's Budget estimates. Corporate tax collections year to date were below the estimates by \$94 million (-2.3%).
- ⇒ Compared to this date in January 2010, revenue receipts were up by \$5.2 billion (11.3%). This was driven by personal income taxes, which came in \$4.8 billion above (19.0%) last year at this time. Sales taxes were also up \$483 million (3.4%) from last year's total at the end of 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.

What the Numbers Tell Us

California's economic recovery is so far shaping up to be fairly jobless, but General Fund revenue improved again in January 2011. Personal income taxes continue to perform particularly strongly. Specifically, they are tracking \$4.8 billion above last year at this time, and are coming in nearly 4.6% above the Department of Finance's latest estimates from the Governor's Budget proposal.

The increase in personal income is occurring for wage earners and, to a smaller extent, small businesses whose profits flow through to the owners and are taxed as personal income. According to the Department of Finance, 75% of the increase in personal income tax revenues was driven by increased withholdings on personal income.

The remaining increase was driven by increased estimated tax payments. An uptick in employment and hours are certainly contributing to the improvement in income tax revenues to California's General Fund.



Sales tax revenues continue to improve as well. The extension of federal payroll tax cuts through the end of 2012 combined with rising incomes have helped California's consumers begin to find their feet again. The General Fund has benefitted from an additional \$480 in sales tax revenues to date compared with last fiscal year—an increase of more than 3%.

Corporate tax revenues continue to post lackluster performance. They fell in January relative to last January, and are down overall on a year-to-date basis. Part of this is due to the revised allocation schedule for tax payments, which went from an equal 25% of the total liability per quarter to 30%-0%-30%-40%. This meant that the October-December totals were expected to underperform last year. But corporate tax revenues are also tracking below the new estimates from the Department of Finance which took the new payment schedule into account.

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⇒ Year-to-date collections for the three major taxes were \$5.2 billion (12.2%) higher than last year at this time, despite corporate taxes being down \$4.4 million (-0.1%) from last year's total at the end of January.

Summary of Net Cash Position as of January 31, 2011

⇒ Through January, the State had total receipts of \$53.1 billion (Table 1) and disbursements of \$61.6 billion (Table 2).

⇒ The State ended last fiscal year with a deficit of \$9.9 billion. The combined current year deficit stands at \$18.5 billion (Table 3). Those deficits are being covered with \$8.5 billion of internal

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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 - January 31, 2011 (in Millions)*

Revenue Source	Actual Receipts to Date	2011-12 Governor's Budget	Actual Over (Under) Estimate
Corporate Tax	\$4,010	\$4,104	(\$94)
Personal Income Tax	\$29,851	\$28,546	\$1,304
Retail Sales and Use Tax	\$14,506	\$14,228	\$278
Other Revenues	\$3,112	\$3,149	(\$38)
Total General Fund Revenue	\$51,479	\$50,028	\$1,451
Non-Revenue	\$1,575	\$1,341	\$234
Total General Fund Receipts	\$53,054	\$51,369	\$1,685

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

Table 2: General Fund Disbursements, July 1, 2010-January 31, 2011 (in Millions)

Recipient	Actual Disbursements	2011-12 Governor's Budget	Actual Over (Under) Estimate
Local Assistance	\$46,484	\$47,034	(\$550)
State Operations	\$15,184	\$15,129	\$54
Other	(\$47)	\$873	(\$920)
Total Disbursements	\$61,621	\$63,037	(\$1,416)

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borrowing and \$10 billion of external borrowing.

- ⇒ Of the largest expenditures, \$46.5 billion went to local assistance and \$15.2 billion went to State operations (See Table 2).
- ⇒ Local assistance payments were \$550 million lower (-1.2%) than the 2011-12 Governor's Budget Estimates and State operations were \$54.1 million above (0.4%).

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

	Actual Cash Balance	2011-12 Governor's Budget	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2010	(\$9,922)	(\$9,922)	\$0
Receipts Over (Under) Disbursements to Date	(\$8,567)	(\$11,668)	\$3,101
Cash Balance January 31, 2011	(\$18,489)	(\$21,590)	\$3,101



How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for January 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)	265,076 Through September 2009	253,220 Through September 2010
Median Home Price (for Single Family Homes)	\$264,000 In December 2009	\$254,000 In December 2010
Single Family Home Sales	41,837 In December 2009	36,215 In December 2010
Foreclosures Initiated (Notices of Default)	84,568 In 4th Quarter 2009	69,799 In 4th Quarter 2010
Total State Employment (Seasonally Adjusted)	13,809,600 In December 2009	13,897,100 In December 2010
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	38,389 In December 2009	63,384 In December 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 Jed Kolko, Associate Director and Research Fellow with the Public Policy Institute of California, and member, Controller's Council of Economic Advisors.

The California Economy: Employment in 2010

By Jed Kolko

Associate Director and Research Fellow with the Public Policy Institute of California
Member, Controller's Council of Economic Advisors

⇒ **After two years of sharp declines, employment grew slightly in 2010.**

Employment in California grew 0.6 percent in 2010. After job losses of 3.5 percent in 2008 and 5.7 percent in 2009, the state seems to be on the road to recovery. Also, the growth gap between California and the U.S. narrowed: California's rate was just 0.2 percent behind the U.S. rate in 2010, versus 2.2 percent in 2009. But growth remained below normal: from 1990 to the end of 2007 (when the recession began), California employment grew 1.2 percent annually on average.

⇒ **Unemployment remains stubbornly high.**

Despite the increase in employment, the unemployment rate drifted up to 12.5 percent, above its December 2009 level of 12.3 percent. Unemployment rose slightly because the labor force grew faster than employment. And the adult population (which includes some people who have given up looking for work and are therefore not in the labor force) grew at an even faster rate than the labor force, so that

employment as a share of the adult population fell from 56.3 percent in December 2009 to 56.0 percent in December 2010.

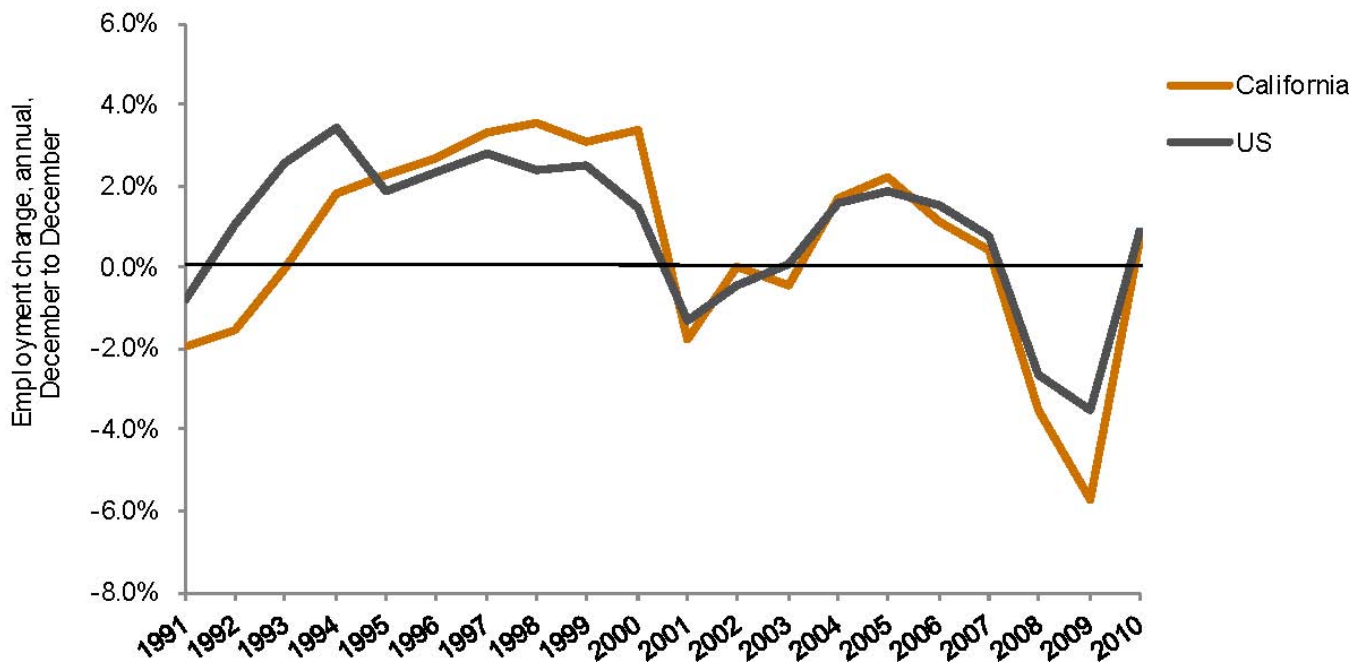
⇒ **Service sectors lead the recovery while construction continues to shrink.**

Service sectors experienced the highest employment growth in 2010: professional and business services grew fastest (3.3%), followed by leisure and hospitality, educational and health services, and personal and other services. For professional and business services, 2010 represents a turnaround after large losses in 2008 and 2009. Manufacturing also improved, growing at 1.0 percent in 2010 compared with annualized losses of 7.8 percent in 2008 and 2009.



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California's economy is growing, but slowly



Source: U.S. Bureau of Labor Statistics and California Employment Development Department.

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Construction lost 5.8 percent of jobs in 2010 — less than the annualized loss of 18.4 percent in 2008 and 2009 but still worse than any other sector in 2010.

⇒ **Some industries registered strong gains; others had sharp losses.**

Employment in two of California's iconic industries grew rapidly in 2010: motion picture and video production rose by 13.4 percent, and computer and peripheral equipment manufacturing grew by 12.8 percent. The employment services industry — which includes temporary help and placement services — grew by 11.9 percent, thanks to typically cautious post-recession hiring patterns. At the other extreme, housing-related industries suffered: residential building construction employment fell by 13.2 percent, and employment in wholesalers of

lumber and construction materials fell by 15.6 percent. Employment in many retail categories fell by more than 10 percent.

⇒ **Some regions are recovering while others are still losing jobs.**

Among larger metropolitan areas in 2010, job growth was fastest in Orange County (1.5%) and San Jose (1.0%). Employment fell by 0.1 percent in Los Angeles and 1.4 percent in San Francisco. It fell most in Sacramento (2.2%) and Santa Cruz (2.6%). But in every area, employment grew faster — or declined less sharply — than in the recession years. Previous downturns in California centered on specific regions (aerospace in Southern California in the 1990s; dot-coms in the Bay Area in the early 2000s), but in this recession employment fell in every California metropolitan area by at least 3 percent annually.

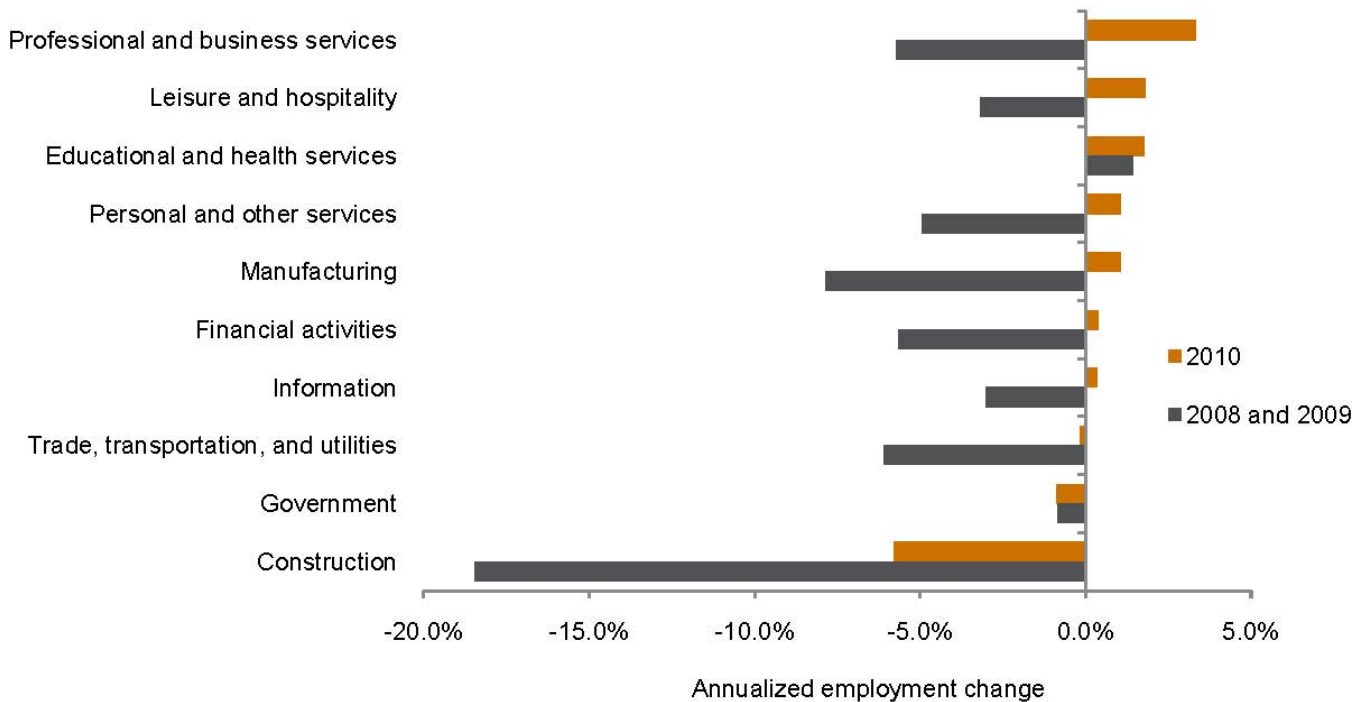
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⇒ **Forecasters expect employment growth to pick up a bit in 2011 and more in 2012.** The Legislative Analyst's Office (LAO) estimates that California employment will grow 0.9 percent in 2011 and 2.2 percent in 2012 and 2013, and that the unemployment rate will remain above 7

percent through 2015. But economists have become more optimistic since the LAO released its forecast in November 2010, partly because the December federal tax package is expected to boost growth.

Services are leading the recovery



Source: U.S. Bureau of Labor Statistics and California Employment Development Department.