Controller John Chiang
California State Controller's Office

March 2011 Summary Analysis | Volume 5, Issue 3

Statement of General Fund Cash Receipts and Disbursements

State Finances in February 2011

⇒ Compared to the 2011-12 Governor's Budget, total General Fund revenues were $139.4 million lower (-2.4%) than expected in February. Personal income tax revenues came in above estimates by $250 million (14.4%). Retail sales and use taxes were below expectations by $247.2 million (-7.1%). Corporate tax revenues were $134 million worse (-49.6%) than anticipated.

⇒ Compared to February 2010, General Fund revenue in February 2011 was down $325.5 million (-5.4%). The total for the three largest taxes was below 2010 levels by $339.6 million (-6%). This drop was driven by sales and use taxes, which were down by $346.2 million (-9.7%) and corporate taxes, which came in below last February by $115.6 million (-45.9%). Personal Income taxes were above last February by $122.2 million (6.6%).

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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 February 2011 and year to date for the eight 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 February were above the year-to-date estimate by $1.3 billion (2.3%). The three largest sources of revenue were above the estimates by $1.4 billion (2.6%). Income taxes came in better than expected by $1.6 billion (5.1%). Sales tax collections were $30.9 million better (0.2%) than expected in the 2011-12 Governor's Budget. Corporate tax collections year to date were below estimates by $228 million (-5.2%).

⇒ Compared to this date in February 2010, revenue receipts were up by $4.9 billion (9.4%). This was driven by personal income taxes, which came in $4.9 billion above (18.1%) last year at this time. Sales taxes were also up $137 million (0.8%) from last year's total at the end of February.

⇒ Year-to-date collections for the three major taxes were $4.9 billion (10%) higher than last year at this time, despite corporate taxes being down $120 million (-2.8%) from last year's total at the end of February.

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What the Numbers Tell Us

There is a sharp dichotomy today between headlines and the underlying trends in the U.S. economy. While unemployment remains stubbornly high, incomes for those that have jobs have been growing at a solid pace. And while 4th quarter growth was a mere 2.8% overall, this masked the fact that gross purchases grew by over 6%, the fastest pace since 2003. The underlying growth in the economy is being driven by the sudden acceleration in consumer spending growth, as well as the ongoing growth in exports and capital investments by firms. Combine this with the extension of the federal tax cuts and the second round of quantitative easing, and 2011 promises to be a solid year for growth, particularly for California.

Similarly, while California's budget gap continues to dominate Sacramento political debates, growth in the state's revenue streams is reflecting the underlying strength of the current economy. While the February cash numbers are slightly below predictions, year-to-date revenues through February remain at $4.9 billion greater than last year and $1.3 billion above the latest forecast from the department of finance.

Most of the gains are in income taxes, perhaps surprising given the double-digit unemployment rate but fitting the overall economic dichotomy. Some of the gains are from withholdings, up 19% from last year, likely reflecting the substantial bounce in the financial markets. But withholdings from paychecks are up a strong 14% from a year ago, and proportionally this has contributed the most to the increase.

With consumer spending on the rise, we might have expected to see a great bump in this revenue category. Yet the state is likely to experience losses in potential new revenues to online retailers. While this fight may start in California, it is an issue that all governments who rely on sales taxes will eventually need to address.

The only surprise in the budget is the lackluster growth in corporate taxes — surprising given the strong growth in corporate profits over the past year. But this is the smallest of the three major revenue sources, and the small lag is not cause for immediate concern.

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Summary of Net Cash Position as of February 28, 2011

⇒ Through February, the State had total receipts of $59 billion (Table 1) and disbursements of $68.2 billion (Table 2).

⇒ The State ended last fiscal year with a deficit of $9.9 billion. The combined current year deficit stands at $19.2 billion (Table 3). Those deficits are being covered with $9.2 billion of internal borrowing and $10 billion of external borrowing.

⇒ Of the largest expenditures, $49.7 billion went to local assistance and $17.6 billion went to State operations (See Table 2).

⇒ Local assistance payments were $1.4 billion

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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 - February 28, 2011 (in Millions)*

Revenue Source	Actual Receipts to Date	2011-12 Governor's Budget	Actual Over (Under) Estimate
Corporate Tax	$4,146	$4,374	($228)
Personal Income Tax	$31,838	$30,283	$1,554
Retail Sales and Use Tax	$17,745	$17,714	$31
Other Revenues	$3,413	$3,458	($46)
Total General Fund Revenue	$57,142	$55,830	$1,312
Non-Revenue	$1,833	$1,473	$359
Total General Fund Receipts	$58,974	$57,303	$1,671

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

Table 2: General Fund Disbursements, July 1, 2010-February 28, 2011 (in Millions)

Recipient	Actual Disburse-ments	2011-12 Governor's Budget	Actual Over (Under) Estimate
Local Assistance	$49,714	$51,118	($1,403)
State Operations	$17,643	$17,586	$57
Other	$866	$883	$4
Total Disbursements	$68,243	$69,586	($1,343)

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lower (-2.7%) than the 2011-12 Governor's Budget Estimates and State operations were $57.2 million above (0.3%).


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State Finances in April 2010

How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for February 2011 is available on the State Controller's Web site at: **www.sco.ca.gov**

Table 3: General Fund Cash Balance
As of February 28, 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	($9,269)	($12,283)	$3,013
Cash Balance February 28, 2011	($19,191)	($22,205)	$3,013

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)	**426,058** Through November 2009	**449,323** Through November 2010
Median Home Price (for Single Family Homes)	**$247,000** In January 2010	**$239,000** In January 2011
Single Family Home Sales	**27,858** In January 2010	**27,706** In January 2011
Foreclosures Initiated (Notices of Default)	**84,568** In 4th Quarter 2009	**69,799** In 4th Quarter 2010
Total State Employment (Seasonally Adjusted)	**13,869,100** In January 2010	**13,971,200** In January 2011
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**47,781** In January 2010	**45,648** In January 2011
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 Ross DeVol, Executive Director, Economic Research Centers for Regional, California and Health Economics at the Milken Institute, and member, Controller's Council of Economic Advisors.

California Isn't Greece Because We Still Innovate

By Ross DeVol
Executive Director, Economic Research Centers for Regional, California and Health Economics at the Milken Institute
Member, Controller's Council of Economic Advisors

Most recent national media stories on California shed a negative light on the seemingly former Golden State. In some cases, these stories are justified because we give them plenty of ammunition with which to cast dispersions on California. Our dysfunctional legislature, underfunded public employees' pension funds, our inability to provide adequate medical care for our prison population, and our ongoing state budget gaps in the billions of dollars have led to prominent financial service firms' CEOs, such as JP Morgan Chase's Jamie Dimon, to compare California to Greece. As the Milken Institute's State Technology and Science Index demonstrates, we aren't Greece because the state still has innovation assets that provide a solid underpinning for California's economy. California held steady in fourth position with a score of 73.85, a slight decline from 74.62 in the 2008 index, but a significant drop from 80.37 in the first index in 2002, when California ranked third.

The State Technology and Science Index (STSI) provides a nationwide benchmark for states to assess their science and technology capabilities, along with their ecosystems for converting them into companies and high-paying jobs. There are 79 individual indicators. Each indicator is computed and measured relative to population, gross state product (GSP), number of establishments, number of businesses, and other factors. Data sources include government agencies, foundations, and private sources. Seventy-nine indicators are subdivided into five equally-weighted major composite indexes:

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State Technology and Science Index 2010
California

	Rank	Score
Research & Development Inputs Composite Index	**4**	**79.06**
Risk Capital and Infrastructure Composite Index	**2**	**75.45**
Human Capital Investment Composite Index	**13**	**60.67**
Technology and Science Workforce Composite Index	**7**	**74.67**
Technology Concentration and Dynamism Composite Index	**5**	**79.40**
State Technology and Science Index	**4**	**73.85**

Source: Milken Institute.

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Research and development inputs: This composite index gauges a region's R&D capabilities and includes such measures as industrial, academic, and federal R&D funding, Small Business Innovation Research awards, and the Small Business Technology Transfer program.

Risk capital and entrepreneurial infrastructure: This component includes different measures of venture capital as well as patenting activity, new businesses formed, and initial public offerings, which together determine a state's success at turning research into services and products.

Human capital capacity: This composite index weighs various areas of a region's educational attainment, including the number of bachelor's, master's, and Ph.D.s relative to a state's population, and measures of specific science, engineering, and technology degrees.

Technology and science workforce: This indicates the depth of a state's high-end technical talent. It measures the intensity of employment in 18 different occupations that make up the categories of computer and information science, life and physical science, and engineers.

Technology concentration and dynamism: This measure of technology outcomes assesses the effectiveness of policymakers and other stakeholders in transforming regional assets into regional prosperity. Measures include the percent of establishments, employment, and payrolls that are in high-tech categories, as well as growth in a number of technology categories.

This year California performed well in risk capital and entrepreneurial infrastructure (second), R&D inputs (fourth), and technology concentration and dynamism (fifth). But in human capital capacity, it ranked far below the top three states at 13th. California even fell in the Technology and Science Workforce Composite Index, to seventh from sixth in 2008, due largely to the continued outsourcing of computer, semiconductor, and communications equipment manufacturing abroad and to other

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states. Most troubling for California is the falloff in recent graduates in the sciences, engineering, and biomedical fields.

Despite these foreboding trends, California remains a national leader in technology-derived economic development. Based on our research, California has five of the top 10 technology clusters in the nation, and Silicon Valley (the San Jose metro area) remains the preeminent high-tech cluster in the world. California has considerable strength in the newly emerging fields of nanotechnology, clean technology, and green technology, and is a leading innovator in public policy to support these areas.

Former Governor Arnold Schwarzenegger signed legislation in March 2010 that provides a sales tax exemption for equipment used by manufacturers in the clean-tech sector. California has been without a formal state economic development office since 2003, when it was a casualty of the last budget crisis. The former governor corrected this by signing an executive order in April of 2010 authorizing the Governor's Office of Economic Development. Governor Brown seems committed to supporting California's leadership in these newly emerging sectors.

It is important to understand that the STSI adjusts these indicators relative to the size of a state's economy. We would be fooling ourselves to think that size doesn't matter when examining the innovation capacity of states. California has the critical mass to remain at the vanguard of technology entrepreneurship if we recognize that spending on K-12 and higher education is an investment, not a cost. Additionally, for a state the size of California to score as highly as it does is remarkable when you consider that if you transposed it onto the East Coast, it would cover the geography from New Jersey all the way into Georgia. A less onerous regulatory regime might spur future Google's to keep more of their employment base in California, but nobody does a better job at creating the next dominant tech firm.