

# Controller *John Chiang*

## California State Controller's Office



January 2012 Summary Analysis

Volume 6, Issue 1

## Statement of General Fund Cash Receipts and Disbursements

### State Finances in December 2011

- ⇒ Compared to estimates found in the Governor's newly proposed 2012-13 Budget, total General Fund Revenues in December 2011 were \$165.2 million worse (-2.0%) than expected. Personal income taxes were \$69.8 million lower (-1.4%) than projected and corporate taxes were \$19.5 million below (-1.4%) the estimates in December.
- ⇒ Sales and use taxes were \$17 million (1.1%) better than expected in the Governor's Budget. These revenues do not reflect all holiday spending. The balance of holiday sales tax receipts will be seen in late January and early February. They not include gift card sales either, for tax is only collected when the card is used to purchase goods.

(Continued on page 2)

#### 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.

The Controller also publishes this Summary Analysis for California policymakers and taxpayers to provide the State's latest cash figures and other financial information. To offer context, this summary compares the State's latest financial figures against figures from last year, estimates from the 2011 budget, as well as projections found in the Governor's newly proposed 2012-13 budget.

This Summary Analysis covers actual receipts and disbursements for December 2011 and year to date for the first six months of Fiscal Year 2011-12. Data are shown for total cash receipts and disbursements, the three largest categories of revenues, and the two largest categories of expenditures.

(Continued from page 1)

- ⇒ In comparison to the 2011 Budget Act's estimates, total General Fund revenues in December 2011 were \$1.4 billion worse (-15.0%) than expected. Personal income tax revenues came in below the estimates by \$960.8 million (-16.7%). Corporate taxes were also lower than expectations by \$142.5 million (-9.7%). Sales tax revenues were \$161.0 million higher (11.1%) than anticipated.
- ⇒ Compared to December 2010, General Fund revenue in December 2011 was down \$2.0 billion (-19.2%). The total for the three largest taxes was below 2010 levels by \$1.9 billion (-19.4%). This was driven by personal income taxes, which came in below last December by \$1.0 billion (-17.4%), and sales taxes, which were below last December by \$542.8 million (-25.2%). Corporate taxes were \$300.7 million lower (-18.4%) than December 2010.

## Tax Revenue Fiscal Year to Date

- ⇒ In comparison with the 2011 Budget Act estimates, General Fund revenues in December were below the year-to-date estimates by \$2.5 billion (-6.2%). The three largest sources of revenue were below the estimates by \$706.5 million (-2.0%). Income taxes came in worse than expected by \$378.6 million (-1.7%) in the 2011 Budget Act estimates. Corporate tax collections year to date were below the estimates by \$308.7 million (-9.0%). Sales tax collections came in worse than expected by \$19.2 million (-0.2%).

(Continued on page 3)

## What the Numbers Tell Us

After solidly outperforming the 2011 Budget Act estimates in November, California's General Fund revenues deteriorated in December 2011. Personal income taxes saw a large variance of nearly \$1 billion from the 2011 Budget Act passed last year and almost \$70 million from what was projected in the 2012-13 Governor's Budget released late last week.

Taxpayer filing trends can dramatically affect the timing of these revenues. Many taxpayers send their final estimated payment in late December in order to maximize federal tax deductions for the year. These estimated payments are typically received in late December and early January, making both important months for estimated income tax revenues. These payments are one indication of future state revenues, because they reflect what taxpayers think they will owe on their final annual returns. Similarly, withholdings can drop as a result of lower anticipated tax liabilities, but also may go down if a large number of taxpayers adjust their withholding to reduce their tax refund for the calendar year.

Of this deterioration in personal income tax revenues, the Franchise Tax Board reports that roughly two-thirds stems from lower withholdings on personal income while the remainder is due to lower estimated taxes. This shows that the slowdown in personal income tax revenues was relatively stratified across the income spectrum. Still, relative to our year-to-date total through the first half of 2010-11, personal income tax is tracking only 1% lower in 2011-12.

Corporate taxes also declined, though only slightly relative to the estimates. However, compared to last year, corporate tax receipts are down by more than \$530 million. Nationwide, corporate profits continue to rise, but several temporary solutions regarding deduction of prior year losses as well as new rules allowing election of the single sales factor apportionment have offset increasing profits, causing tax receipts continue to struggle.

Relative to both the new and the old revenue estimates, sales taxes performed better than expected during December. These figures demonstrate that California's consumers were out in greater force than predicted this holiday season, which should help to bolster jobs when the employment report is released next week.

Despite the deterioration in December, California's economy continues to move forward. The state has added more than 320,000 jobs since hitting bottom in 2010. With the nation adding 200,000 jobs last month, California is poised for continued growth in 2012 and beyond.

(Continued from page 2)

- ⇒ The Governor's proposed 2012-13 budget contains actual totals through November 2011. Therefore comparing the Governor's proposal against year-to-date figures through December would only highlight the latest month's variance (explained in the previous section.)
- ⇒ Compared to this date in December 2010, revenue receipts are down by \$4.7 billion (-11.2%). This was driven by sales taxes, which came in \$3.5 billion below (-26.4%) last year at this time. Corporate taxes were down \$530.9 million (-14.5%) from last year's total at the end of December. Personal income taxes were down \$230.8 million (-1.0%) from last year's total at the end of December.
- ⇒ Year-to-date collections for the three

(Continued on page 4)

### 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.

### Non-Revenue Receipts

Non-revenue receipts are typically transfers to the General Fund from other State funds.

**Table 1: General Fund Receipts,  
July 1, 2011 – December 31, 2011 (in Millions)**

Revenue Source	Actual Revenues	2012-13 Governor's Budget		2011 Budget Act	
		Estimate	Actual Over (Under)	Estimate	Actual Over (Under)
Corporation Tax	\$3,127	\$3,147	(\$20)	\$3,436	(\$309)
Personal Income Tax	\$21,868	\$21,938	(\$70)	\$22,247	(\$379)
Retail Sales and Use Tax	\$9,792	\$9,775	\$17	\$9,811	(\$19)
Other Revenues	\$2,404	\$2,497	(\$93)	\$4,165	(\$1,761)
Total General Fund Revenue	\$37,191	\$37,357	(\$165)	\$39,659	(\$2,468)
Non-Revenue	\$2,215	\$2,211	\$4	\$2,349	(\$134)
Total General Fund Receipts	\$39,406	\$39,567	(\$161)	\$42,008	(\$2,602)

**Table 2: General Fund Disbursements,  
July 1, 2011 – December 31, 2011 (in Millions)**

Recipient	Actual Disbursements	2012-13 Governor's Budget		2011 Budget Act	
		Estimates	Actual Over (Under)	Estimates	Actual Over (Under)
Local Assistance	\$39,237	\$39,302	(\$66)	\$36,658	\$2,578
State Operations	\$13,132	\$13,146	(\$14)	\$13,348	(\$215)
Other	(\$85)	(\$126)	\$40	(\$372)	\$287
Total Disbursements	\$52,284	\$52,323	(\$39)	\$49,634	\$2,649

(Continued from page 3)

major taxes were \$4.3 billion (-11%) lower than last year at this time.

## Summary of Net Cash Position as of December 31, 2011

⇒ Through December, the State had total receipts of \$39.4 billion (Table 1) and disbursements of \$52.3 billion (Table 2).

⇒ The State ended last fiscal year with a cash deficit of \$8.2 billion. The combined current year deficit stands at \$21.0 billion (Table 3). Those deficits are being covered with \$15.6 billion of internal borrowing and \$5.4 billion of external borrowing.

⇒ Of the largest expenditures, \$39.2 billion went to local assistance and \$13.1 billion went to State operations (See Table 2).

⇒ Compared with the 2011 Budget Act Estimates, local assistance payments were \$2.6 billion higher (7.0%) than the estimates and state operations were \$215.5 million below (-1.6%).

⇒ Compared to the 2012-13 Governor's Budget Estimates (which incorporated recent expenditure figures), local assistance payments were down \$65.7 million (-0.2%) and State operations were down \$14 million (-0.1%).

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

	Actual Cash Balance	2012-13 Governor's Budget		2011 Budget Act	
		Estimates	Actual Over (Under)	Estimates	Actual Over (Under)
Beginning Cash Balance July 1	(\$8,164)	(\$8,164)	\$0	(\$8,164)	\$0
Receipts Over (Under) Disbursements to Date	(\$12,877)	(\$12,756)	(\$122)	(\$7,626)	(\$5,251)
Cash Balance December 31, 2011	(\$21,042)	(\$20,920)	(\$122)	(\$15,791)	(\$5,251)

## How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for December 2011 is available on the State Controller's Web site at: [www.sco.ca.gov](http://www.sco.ca.gov). To have the monthly financial statement and summary analysis emailed to you directly, sign up at: [http://www.sco.ca.gov/ard\\_monthly\\_cash\\_email.html](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.

## California State Controller John Chiang:

300 Capitol Mall, Suite 1850  
Sacramento, CA 95814

P.O. Box 942850  
Sacramento, CA 94250

Telephone: (916) 445-2636

777 S. Figueroa Street, Suite 4800  
Los Angeles, CA 90017

Telephone (213) 833-6010  
Fax: (213) 833-6011

Fax: (916) 445-6379

Web: [www.sco.ca.gov](http://www.sco.ca.gov)

**California Economic Snapshot**

<b>New Auto Registrations</b> (Fiscal Year to Date)	<b>85,911</b> Through July 2010	<b>97,777</b> Through July 2011
<b>Median Home Price</b> (for Single-Family Homes)	<b>\$255,000</b> In November 2010	<b>\$244,000</b> In November 2011
<b>Single-Family Home Sales</b>	<b>31,403</b> In November 2010	<b>32,669</b> In November 2011
<b>Foreclosures Initiated</b> (Notices of Default)	<b>83,261</b> In 3rd Quarter 2010	<b>71,275</b> In 3rd Quarter 2011
<b>Total State Employment</b> (Seasonally Adjusted)	<b>13,937,000</b> In October 2010	<b>14,170,100</b> In November 2011
<b>Newly Permitted Residential Units</b> (Seasonally Adjusted Annual Rate)	<b>44,472</b> In November 2010	<b>52,857</b> In November 2011

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



# The Recovery Creeps Along

Esmael Adibi  
Director, Anderson Center for Economic Research  
Chapman University

The most recent data available from the State Employment Development Department show that California generated about 193,000 jobs during the first 11 months of 2011. Only Santa Clara and San Diego counties are growing faster than the California average. In general, coastal counties with more diversified economies are growing faster than the inland regions that are more dependent on retail sales and construction activity.

The jobless recovery during this cycle is somewhat similar to the recovery that followed the 1990-91 recession. During that recession, California lost jobs for 34 months. It took 30 months for employment to recover to its previous peak level. The 2001 recession was relatively mild when California lost jobs over a 28-month period and employment reached its previous peak after 21 months. This time around, California lost jobs for 38 consecutive months. While the state generated some jobs over the last 18 months, payroll employment is still about 7.0 percent below its peak level.

The sharp drop in home prices is the main culprit, leading to a very weak recovery. With

high inventory of unsold homes and high commercial real estate vacancy rates, construction spending nosedived over the 2007-2010 period. The good news is that construction spending has dropped to such a low level that it is not likely to get any worse. As a result, continuing weakness in the construction industry will not be as big of a drag as it was over the last four years.

Another positive development is the improvement in California's merchandise exports. After a setback in the first quarter of this year, caused mainly by the Japanese earthquake and tsunami, merchandise exports increased to \$40.5 billion in the third quarter of 2011. This is an increase of \$7.5 billion since the first quarter of 2010.

The outlook continues to remain positive. California's largest trading partners — particularly Mexico, Canada and China — are experiencing healthy growth. Japan, California's fourth largest trading partner, launched a large rebuilding effort that bodes well for the State's exports. And although the Eurozone economy may experience contraction, only Germany and

*(Continued on page 7)*

*The opinions in this article are presented in the spirit of spurring discussion and reflect those of the authors and not necessarily the Controller or his office.*

*(Continued from page 6)*

the Netherlands are among California's top export destinations.

In addition to the pickup in the export market, the recent surge in business investment in technology, machinery, and equipment also benefits manufacturing, particularly the high technology sector.

Improvements in the construction spending and manufacturing sector suggest that the recession in the goods-producing sector is coming to an end. This is evident by the current readings of job growth. Over the first nine months of 2011, payroll jobs in construction and manufacturing showed a gain of 0.9 percent in California.

Construction activity and international trade are two important engines of job growth in California. But the most important variable is real Gross Domestic Product (GDP) growth. Real GDP is projected to increase at an annual rate of 2.3 percent compared to an estimated growth rate of 1.8 percent in 2011. The pickup in real GDP growth suggests that job creation in 2012 will pick up steam.

In annual terms, our forecast calls for a gain of 237,000 payroll jobs in California—a growth rate of 1.7 percent. The recovery will be broad-based, with both services and goods-producing sectors gaining payroll jobs in 2012.

Our research shows a significant positive correlation between job formation and home price appreciation. The projected increase in job creation, therefore, should be viewed as a positive factor in its influence on the demand for housing. But the long-run correlation between new jobs and newly completed housing units points to a large disequilibrium between potential demand and supply. The ratio of new civilian jobs to completed housing units over the



1990-2000 period in California was 1.6. This means that, on average, 1.6 workers lived in one newly completed dwelling unit. This ratio was as low as 1.2 in Ventura County and as high as 3.1 in San Francisco Metropolitan Area. Over the 2000-2010 period, this ratio dropped well below 1.0 for California and its 10 largest metropolitan areas. The only way this ratio can improve is for the economy to generate stronger job growth to convert potential housing demand into actual demand.

The lack of significant job creation explains why home sales activity is in the doldrums. After a temporary boost in sales, induced by state and federal tax incentives, home sales have since decreased in late 2010 and early 2011. More problematic is the inventory of unsold homes. Not only are there still too many unsold housing units in the market, there are a large number of homes in the foreclosure process that will keep the supply of resale housing units at an elevated level.

On balance, our forecast calls for the median selling price of a single-family unit, as reported by the California Association of Realtors, to decrease by 2.5 percent in California in 2012.