Controller *John Chiang*

California State Controller's Office

May 2009 Summary Analysis | **Volume 3, Issue 5**

Statement of General Fund Cash Receipts and Disbursements

State Revenue in April 2009

⇒ The State's revenues continued to deteriorate in April. Total General Fund revenues were down $1.89 billion (-16%) from the latest estimates found in the 2009-10 Budget Act.

⇒ Personal income taxes were $1.06 billion below the estimate (-12.6%), corporate taxes were below the estimate by $831 million (-35.6%) and sales taxes lagged the estimate by $108 million (-19.9%).

⇒ Some of April's sales tax receipts were pushed into early May, but declining taxable transactions still drove sales tax receipts well below the Budget Act projection. While California's sales tax rate went up April 1, revenues from the new rate will not be seen until May.

⇒ Compared to April 2008, General Fund revenue in April 2009 was down $6.3 billion (-39%). The total for the three largest taxes was below 2008 levels by $6.3 billion

(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.

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 April 2009 and year to date for the first 10 months of Fiscal Year 2008-09. 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 2008 and the 17-month spending plan for the current and following fiscal years that was adopted in February.

(Continued from page 1)

(-40.3%). Sales taxes were $452 million lower (-50.9%) than last April, and personal income taxes were down $5.7 billion (-43.6%). Corporate taxes were $142 million below (-8.6%) April of 2008.

Tax Revenue Fiscal Year to Date

⇒ Compared to the 2009-10 Budget Act, General Fund revenue is below the year-to-date estimate by $2.1 billion (-3%). The three largest taxes were under the Budget Act estimate by $1.8 billion (-2.7%).

⇒ Sales tax collections year to date are short $327 million (-1.8%) from the 2009-10 Budget Act. Income taxes were $653 million lower (-1.7%) than expected, and corporate taxes were $788 million lower than expected (-9.5%). The State's other revenue streams were $299 million below (-6.7%) the estimates. Because the 2009-10 Budget Act contained actual revenue through February 2009, these disparities only occurred in the months of March and April.

⇒ Compared to this date in April 2008, revenue receipts are down by $11.7 billion (-14.8%). The "Not Otherwise Classified" group was the only category to post significant growth ($919 million) on a year-over-year comparison. That category was higher primarily because it contained unclaimed property collections that were virtually halted last year as new rules for locating owners were instituted.

⇒ Year-to-date collections for the three major taxes were down $12.4 billion

(Continued on page 3)

What The Numbers Tell Us

Coming in for a landing

California has yet to rid itself of its economic woes. In April, personal income taxes, corporate taxes, and sales taxes came in well below the Budget Act estimates for the month.

These numbers appear fairly grim, but there are encouraging signs that the State's situation is reaching bottom. Although sales tax revenues were down by more than 50% as compared to last April, consumer spending increased by 2.2% nationwide in the first quarter of 2009. Additionally, retail sales have stabilized in the first three months of this year on a seasonally adjusted basis.

Corporate taxes tend to be more cyclical in nature than sales taxes, and corporations typically follow the consumer. As a result, the trough in corporate taxes will likely follow some months after sales taxes reach a stable level.

Externally, there are additional signs of hope. The real estate market is beginning to show signs of life and home sales across California are increasing at a rapid pace. There were over 36,000 sales of new and existing homes in March. The large inventory of foreclosed homes that has mounted over the past few years is beginning to be absorbed - over 57% of existing homes sold in March were foreclosure properties.

Newly-permitted residential housing units are also showing signs of reaching bottom. Although still below last March, building permits increased in February and March on a seasonally-adjusted basis.

Proceed with Caution

Although California's economy appears to be nearing the bottom, this does not mean that the State will resume growth this year. The unemployment rate will likely increase through the end of 2009, but employment will stabilize in 2010. House prices will remain depressed for some time, but will converge on their long-term trend. Consumers will continue to save larger proportions of their disposable income, which will ultimately provide a cushion for people to feel comfortable spending again. Despite the rough waters for the next year, when the Golden State rebounds it should be on a healthier and more sustainable path of growth.

(Continued from page 2)

(-16.4%) below last year at this time. Retail sales were down $2.6 billion (-12.5%), personal income taxes fell by $9.2 billion (-19.7%), and corporate taxes were $614 million lower (-7.5%) than last year's total at the end of April.

Summary of Net Cash Position as of April 30, 2009

⇒ Through April, the State had total receipts of $69.7 billion (Table 1) and disbursements of $88.8 billion (Table 2).

⇒ The State ended last fiscal year with a deficit of $1.45 billion, the combined current year deficit stands at $20.5 billion (Table 3). Those deficits are being covered with $5.5 billion in Revenue Anticipation Notes (RANs), and $15 billion of internal borrowing.

⇒ While Table 2 shows April disbursements

(Continued on page 4)

Estimated Taxes

Estimated tax payments are generally filed quarterly to pay taxes due on income not subject to withholding. This can include income from self-employment, interest, dividends, gains from asset sales, or if insufficient income tax is being withheld from a salary, pension, or other income.

Borrowable Resources

State law authorizes the General Fund to internally borrow on a short-term basis from specific funds, as needed.

Table 1: General Fund Receipts, July 1, 2008-April 30, 2009 (in Millions)

Revenue Source	Actual Receipts To Date	2009-2010 Budget Act Projection	Actual Over (Under) Estimate
Corporation Tax	$7,528	$8,316	($788)
Personal Income Tax	$37,606	$38,259	($653)
Retail Sales and Use Tax	$18,064	$18,391	($327)
Other Revenues	$4,141	$4,440	($299)
Total General Fund Revenue	$67,340	$69,406	($2,067)
Non-Revenue	$2,384	$1,917	$467
Total General Fund Receipts	$69,724	$71,323	($1,599)

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

Table 2: General Fund Disbursements, July 1, 2008-April 30, 2009 (in Millions)

Recipient	Actual Disbursements	2009-2010 Budget Act Projection	Actual Over (Under) Estimate
Local Assistance	$63,692	$63,985	($293)
State Operations	$23,896	$24,388	($492)
Other	$1,177	$1,448	($272)
Total Disbursements	$88,766	$89,822	($1,056)

(Continued from page 3)

were $1.1 billion under projections, the State's disbursements actually exceeded projections by $600 million when factoring in $1.7 billion in Federal Medical Assistance Percentage (FMAP) funds the State received in April and then used to offset Medi-Cal costs. The Budget Act did not expect FMAP funds to arrive until June.

⇒ On April 30, the State's final cash position was actually $1.1 billion below the point expected in the Budget. While special funds recently opened up for cash-flow borrowing produced $1.1 billion over the $2 billion expected in the budget, and $500 million in short-term loans were secured from the Golden One Credit Union, the additional cash was not enough to offset higher than expected disbursements and revenue deterioration.

⇒ Of the largest expenditures, $63.7 billion went to local assistance and $23.9 billion went to State operations (See Table 2).

Table 3: General Fund Cash Balance As of April 30, 2009 (in Millions)

	Actual Cash Balance	2009-2010 Budget Act Projection	Actual Over (Under) Estimate
Beginning Cash Balance July 1, 2008	($1,452)	($1,452)	$0
Receipts Over (Under) Disbursements to Date	($19,042)	($18,499)	($543)
Cash Balance April 30, 2009	($20,494)	($19,950)	($543)

How to Subscribe to this Publication

This Statement of General Fund Cash Receipts and Disbursements for April 2009 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

Any questions concerning this Summary Analysis may be directed to Hallye Jordan, Deputy Controller for Communications, at (916) 445-2636.

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 typically are transfers to the General Fund from other state funds.

California Economic Snapshot		
New Auto Registrations (Fiscal Year to Date)	**816,127** Through Dec. 2007	**589,250** Through Dec. 2008
Median Home Price (for Single Family Homes)	**$358,000** In March 2008	**$223,000** In March 2009
Single Family Home Sales	**24,565** In March 2008	**36,215** In March 2009
Foreclosures Initiated (Notices of Default)	**113,809** In 1st Quarter 2008	**135,431** In 1st Quarter 2009
Total State Employment (Seasonally Adjusted)	**15,496,800** In March 2008	**14,867,400** In March 2009
Newly Permitted Residential Units (Seasonally adjusted Annual Rate)	**48,752** In March 2008	**33,482** In March 2009
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board		

California State Controller John Chiang:

300 Capitol Mall, Suite 1850
Sacramento, CA 95814

P.O. Box 942850
Sacramento, CA 94250

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

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

Telephone: (916) 445-2636 **Fax: (916) 445-6379** **Web: *www.sco.ca.gov***

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 Christopher Thornberg, Chair of the Controller's Council of Economic Advisors.

What do the GDP Numbers Mean?

By Christopher Thornberg
Chair, Controller's Council of Economic Advisors

Looking at the first quarter U.S. Gross Domestic Product (GDP) numbers on the surface, it may be hard to see any silver lining. The overall pace of economic contraction was functionally the same as for the fourth quarter of 2008, roughly -6% at a seasonally adjusted annualized rate. These two quarters come in as the third- and fourth-worst in the last four decades.

Yet if you scratch away at the numbers a bit, you find the patterns of weakness in the two quarters are completely different, and in the first quarter numbers, we actually start to see the first roots of economic stability.

In the fourth quarter of 2008, the primary weakness in the economy came from the consumer. Increasing consumer spending usually adds 2.24% to the economy - slightly over two-thirds of total growth. In the fourth quarter, a massive contraction in spending shaved 3% off growth, one of the worst declines in consumer spending on record.

In the first quarter of 2009, the consumer actually firmed up and contributed 1.5% to growth despite the rapid worsening of the labor market. Part of this strength stems from disposable income, which in real terms is surprisingly higher today than it was a year ago - a function of falling energy prices and tax rates.

Total domestic investment was weak in last year's fourth quarter, but it was incredibly weak in the first quarter of this year, shaving almost 9% off of growth. Yet even here there are signs of stability. Capital investments in equipment and software have shaved quite a bit off of growth - not a big surprise since business spending follows consumer spending. With consumers starting to stabilize, this segment of aggregate demand should also start to stabilize, although problems on the external accounts will prevent a rapid rebound in spending.

Residential investment also shaves a percent off of growth - as it has for the last three years. However, we have started to see signs of life in the industry. With a variety of state and local programs designed to stimulate the purchase of homes, combined with low mortgage rates and prices that have dropped to affordable levels in many areas, overall home sales are starting to increase and new home sales have stabilized. It is clear that while this segment of the economy will not grow anytime soon, it will at least stop being a negative.

(Continued on page 7)

(Continued from page 6)

The rest of this segment of the economy is mixed. On one hand, a decline in inventories subtracted almost 3% off of growth - firms have used inventories to meet current demand rather than running their factories to produce goods. This burn in inventory is the other side of the collapse in industrial production. But falling inventory means those factories will have to be turned on again soon to maintain inventories at a level properly relative to sales. In short, this negative is a very positive sign for output going forward.

On the other side, non-residential construction held up well through the first year of the downturn but turned sharply in the first quarter of 2009, shaving 2% off of growth. The problems in non-residential real estate are just starting in earnest. Look for this part of the economy to be weak for some time.

Contributions to U.S. GDP Growth by Source of Demand (Percentage)

	Average	2008 4th Quarter	2009 1st Quarter
Gross domestic product	**3.24%**	**-6.30%**	**-6.10%**
Personal consumption	**2.24%**	**-2.99%**	**1.50%**
Durable goods	0.49	-1.67	0.61
Nondurable goods	0.56	-1.97	0.26
Services	1.19	0.66	0.63
Domestic investment	**0.73%**	**-3.47%**	**-8.83%**
Structures	0.04	-0.38	-2.13
Equipment and software	0.49	-2.18	-2.55
Residential	0.11	-0.80	-1.36
Change in inventories	0.09	-0.11	-2.79
Net exports	**-0.18%**	**-0.15%**	**1.99%**
Exports	0.65	-3.44	-4.06
Imports	-0.83	3.29	6.05
Government	**0.45%**	**0.26%**	**-0.81%**
Federal	0.15	0.52	-0.32
National defense	0.09	0.18	-0.35
Nondefense	0.06	0.34	0.03
State and local	0.30	-0.25	-0.49

The external accounts were a source of growth (in the aggregate) in the first quarter. Both imports and exports collapsed rapidly, but imports more than exports. The decline in exports has been tough on some industries. But much of the decline in business and personal spending has also been passed on to the rest of the world, as well, in the form of reduced imports. On a net comparison, it comes out as a positive for the domestic economy.

Lastly, a pull back in government spending caused some decline in output for the U.S. economy. Most of the decline here was in defense spending as operations in Iraq slowly contract. But a greater impact comes from state and local governments hit hard by the economic downturn. The Obama administration has worked aggressively to backfill some of the revenue decline to stem the domestic economy for the rest of the year.

So what does it all add up to? With the major sources of GDP contraction finding stability, we continue to forecast that the current quarter will be the last that GDP growth will be negative. Yet this does not imply any sort of major growth in the near future. While stable consumer spending is in place, overall growth will be limited as consumers increase their savings rates to proper levels. Falling exports will put a strain on some U.S. businesses and keep capital investments weak, and the commercial real estate market will be a large negative for the next year.

Add it up and it looks as if the U.S. economy will stagnate for the next few quarters. While not the growth surge we would like to see, it is still a significant step up from the dismal numbers seen in the last two quarters.