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Controller Releases October Cash Update

SACRAMENTO – State Controller John Chiang today released his monthly report covering California's cash balance, receipts and disbursements in October, showing revenues came in $810.5 million below projections from the recently passed state budget.

"October's poor revenues capped a very disappointing first four months of the fiscal year," said Chiang. "Unless revenues and expenditures begin to track with projections, the State will face increasing cash pressure in the months ahead."

The Controller's Office continues to work with the Department of Finance to identify and prepare for any impact on the State's cash outlook. After accounting for October revenues, total year-to-date general fund revenues are now behind the budget's estimates by $1.5 billion, but expenditures for the year are over projections by $1.7 billion.

The State ended last fiscal year with a cash deficit of $8.2 billion. The combined current year cash deficit stands at $20.3 billion. Those deficits are being covered with $14.9 billion of internal borrowing (temporary loans from special funds) and $5.4 billion of external borrowing.

For more details, read October 2011's and summary analysis.

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Controller John Chiang

California State Controller's Office

November 2011 Summary Analysis | Volume 5, Issue 11

Statement of General Fund Cash Receipts and Disbursements

State Finances in October 2011

⇒ Compared to the 2011 Budget Act Estimates, total General Fund revenues in October 2011 were $810.5 million lower (-16.3%) than expected. Personal income tax revenues came in below estimates by $451 million (-12.9%). Corporate taxes were below expectations by $10.9 million (-3.8%). Sales tax revenues were $7.5 million better (1.1%) than anticipated.

⇒ Compared to October 2010, General Fund revenue was down $1.1 billion (-21.3%). Personal income taxes were down $655.8 million (-17.7%), while sales taxes came in below last October by $242.1 million (-25.9%). Corporate taxes were down $54.7 million (-16.6%).

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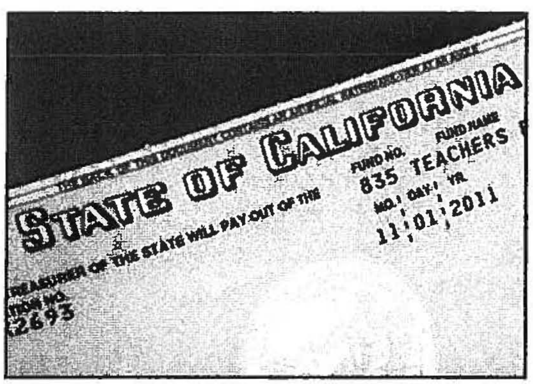
Budget vs. Cash



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 October 2011 and year to date for the first four 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.

This report compares actual receipts against historical figures from 2010-11 and the statement of estimated cash flows from the 2011 Budget Act.

(Continued from page 1)

Tax Revenue Fiscal Year to Date

⇒ Compared to the 2011 Budget Act projections, General Fund revenues in October were below the year-to-date estimate by $1.5 billion (-6.2%). Income taxes came in better than expected by $50.8 million (0.4%). Sales tax collections were down $180.1 million (-3.0%). Corporate tax collections year-to-date were below estimates by $224 million (-12.1%).

⇒ Compared to this date in October 2010, revenue receipts were down by $2.1 billion (-8.3%). This was driven by sales taxes, which came in $1.7 billion below (-22.1%) last year at this time. Corporate taxes were down $194.4 million (-10.7%) from last year's total at the end of October.

⇒ Year-to-date collections for the three major taxes were $1.8 billion lower (-7.8%) than last year at this time. Personal income taxes were up $50.9 million (0.4%) from last year's total at the end of October.

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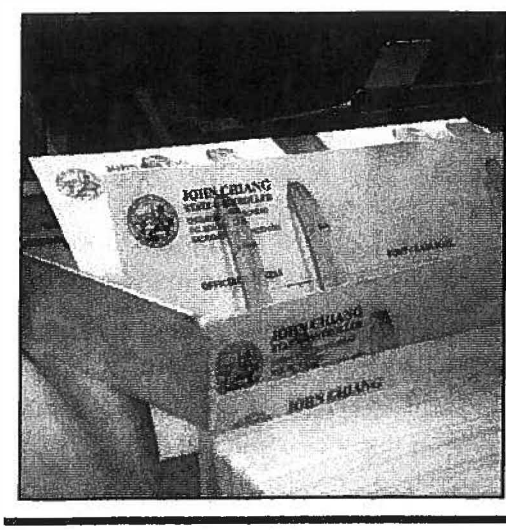

What the Numbers Tell Us

Through October, revenues are tracking roughly $1.5 billion lower than was projected by the Department of Finance at the time of the Budget Act's passage. This represents an over-estimation by more than 6%.

Nearly $1.2 billion of this variance is attributable to the "Not Otherwise Classified" category, which houses the $4 billion in unallocated revenues from the budget's forecast. These revenues were expected in the Department of Finance's forecast, but were not attributed to a specific revenue source.

Both corporate taxes and sales taxes are trailing behind their estimates by roughly $400 million so far this year. These losses are being partially offset by personal income taxes so that the overall variance on the "Big 3" sources of revenues is just 1.6%.

The $4 billion of projected revenues' failure to materialize *does* increase the probability of the budget's trigger cuts being pulled. This could create additional strain on our education and social services infrastructure, and could prolong the employment slide at the state and local levels, which has impeded a speedy recovery.

Additionally, October was a particularly bad month for personal income taxes, with actuals falling short of projections by more than $451 million. According to the Franchise Tax Board, this was driven by both falling withholdings and reduced estimated tax payments relative to projections.

Still, the state has already added back more than 225,000 jobs since hitting bottom, and personal income has exceeded its pre-recession peak. Given that the labor markets continue to gain steam and that the third quarter of this year showed acceleration in real economic growth nationwide, revenues could become less turbulent as the recovery takes hold.

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Summary of Net Cash Position as of October 31, 2011

⇒ Through October, the State had total receipts of $24.9 billion (Table 1) and disbursements of $37 billion (Table 2).

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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.

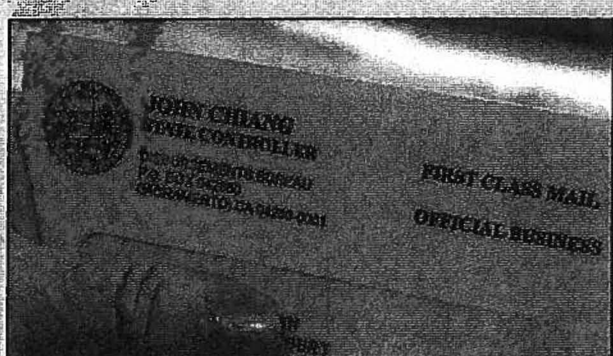

Table 1: General Fund Receipts, July 1, 2011 – October 31, 2011 (in Millions)*

Revenue Source	Actual Receipts to Date	2011 Budget Act	Actual Over (Under)
Corporate Tax	$1,629	$1,853	($224)
Personal Income Tax	$13,847	$13,796	$51
Retail Sales and Use Tax	$5,894	$6,074	($180)
Other Revenues	$1,518	$2,680	($1,163)
Total General Fund Revenue	$22,888	$24,404	($1,516)
Non-Revenue	$2,000	$2,194	($194)
Total General Fund Receipts	$24,888	$26,598	($1,710)

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

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

Recipient	Actual Disburse-ments	2011 Budget Act	Actual Over (Under) Estimate
Local Assistance	$28,025	$26,207	$1,818
State Operations	$9,099	$9,483	($384)
Other	($93)	($385)	$292
Total Disbursements	$37,031	$35,304	$1,726

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- ⇒ The State ended last fiscal year with a deficit of \$8.2 billion. The combined current year deficit stands at \$20.3 billion (Table 3). Those deficits are being covered with \$14.9 billion of internal borrowing and \$5.4 billion of external borrowing.
- ⇒ Of the largest expenditures, \$28 billion went to local assistance and \$9.1 billion went to State operations (See Table 2).
- ⇒ Local assistance payments were \$1.8 billion higher (6.9%) than the 2011 Budget Act Estimates and State operations were \$384.1 million below (-4.1%).

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

	Actual Cash Balance	2011 Budget Act	Actual Over (Under) Estimate
Beginning Cash Balance July 1	(\$8,164)	(\$8,164)	\$0
Receipts Over (Under) Disbursements to Date	(\$12,143)	(\$8,706)	(\$3,437)
Cash Balance October 31, 2011	(\$20,308)	(\$16,871)	(\$3,437)

How to Subscribe to This Publication

This Statement of General Fund Cash Receipts and Disbursements for November 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

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

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California Economic Snapshot		
New Auto Registrations (Fiscal Year to Date)	**85,911** Through July 2010	**97,777** Through July 2011
Median Home Price (for Single-Family Homes)	**$265,000** In September 2010	**$249,000** In September 2011
Single-Family Home Sales	**33,176** In September 2010	**35,404** In September 2011
Foreclosures Initiated (Notices of Default)	**83,261** In 3rd Quarter 2010	**71,275** In 3rd Quarter 2011
Total State Employment (Seasonally Adjusted)	**13,847,900** In September 2010	**14,098,500** In September 2011
Newly Permitted Residential Units (Seasonally Adjusted Annual Rate)	**41,026** In September 2010	**45,057** In September 2011

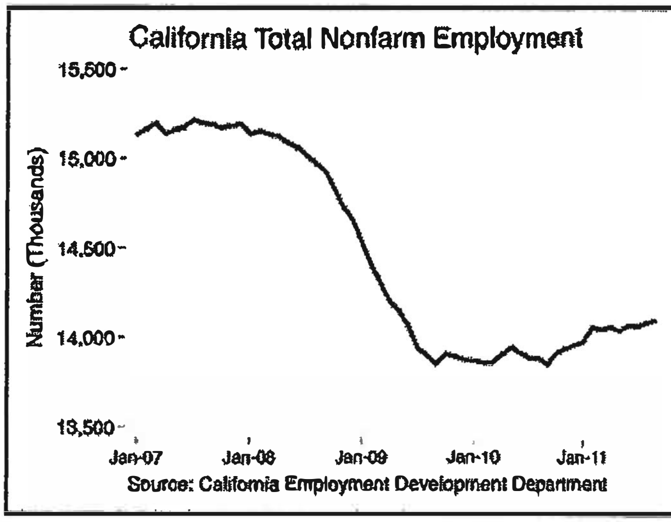
Data Sources: DataQuick, California Employment Development Department, Construction Industry Research Board, State Department of Finance

Employment Numbers Paint an Improving Picture

Christopher Thornberg, Ph.D
and Eric Meux
Beacon Economics, LLC

Even as the press touts the idea of a double dip, the employment numbers for California have been painting a substantially better picture. The last few months of data saw solid gains along with upward revisions of earlier releases. Overall the state has added close to a quarter-million jobs over the course of the last year—nearly 1.8% growth.

The Professional and Business Services sector posted the largest gains in September. Administrative and Support positions within that sector drove the gains by adding a seasonally adjusted 14,600 positions, up 1.6% from August. Employment in these sectors generally involves a higher educational requirement and is representative of the types of jobs leading the employment recovery. Consumer spending has increased substantially since the recession and has helped fuel job gains in the Retail Trade and Leisure and Hospitality sectors. Retail Trade posted the second largest increase in added jobs and contributed heavily to the September gains, increasing by 5,900 jobs from August. The Leisure and Hospitality sector grew by 4,700 jobs in September and was driven by gains in both of its subsectors, Arts and Entertainment and Accommodation and Food.



The Los Angeles Metropolitan area was by far the major driver of jobs in September, posting an additional 22,300 jobs. Other areas driving growth in non-farm positions include Orange County (+4,600 jobs), the Inland Empire area (+4,300 jobs), Stockton (MSA) (+2,700 jobs), and Visalia (+2,600 jobs). Gains in these areas were drawn down by losses in Oakland (-4,000 jobs), Sacramento (-3,800 jobs), San Diego (-1,900 jobs), Bakersfield (-1,700 jobs), and Santa Barbara (-1,700 jobs), resulting in a smaller net gain for the state overall.

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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.

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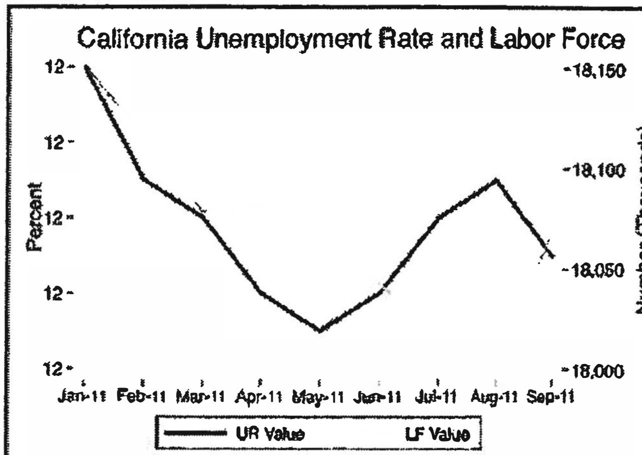
Local Government jobs led the declining sectors for September, shedding 8,400 positions. This sector of the labor market has been particularly hard hit since the recession. Local revenues dried up in the years after the recession and state budget woes exacerbated the situation greatly for city and county governments. If local governments are not able to hit their revenue benchmarks in the quarters ahead, this sector could see more job losses. That is significant because this sector has historically made up 11-12% of total non-farm employment in California for the last several decades.

Educational services also saw a large decrease in September, down 8,100 positions, or 2.5% from August. The goods-producing industries, typically sectors with lower educational requirements, showed a mixed performance. Construction jobs increased by 6,900 positions but Manufacturing and Durable Goods saw a combined loss of 10,400.

The unemployment rate fell to a seasonally-adjusted 11.9%, down from 12.1% in August and 12.5% in September of 2010. The labor force and household employment increased 0.3% and 0.5% respectively, signaling that the drop in the unemployment rate represents a true decline in unemployment as opposed to people being discouraged and giving up on their job search. While the jobs gains are a very welcome sign in a recovery economy, the persistence of historically-high unemployment in the state is troubling. In the next quarters and years ahead we need to see unemployment rate decreases in the neighborhood of 2% instead of the recent 0.2% in order to get us back to pre-recession levels.

Although we believe that fears of a double dip have been largely overblown and that there are reasons to be cautiously optimistic about a



Source: California Employment Development Department

sustained recovery, there are nonetheless several factors preventing California from experiencing faster growth. The most serious problem is the skills mismatch in the labor market. To be more specific, there is a real dichotomy between the skill sets of the workers in those sectors that were pummeled by the downturn and the skill sets required by the sectors that are leading California out of the recovery. On a proportional basis, construction, real estate, and retail trade were among the hardest-hit sectors in the region in terms of job losses. These sectors traditionally have low education requirements and pay relatively low wages, which are two of the predominant characteristics of our unemployed population.

The recent report on a 2.5% increase in U.S. Gross Domestic Product in the third quarter of 2011 helped confirm that a double dip recession is a only a remote possibility, and September's gains in Retail Trade and Construction jobs are a very welcome sign for the unemployed in California. Still, it will be several years before the state gets back to "normal" levels of unemployment, and that could be a relatively higher baseline of 7% if we cannot find a way to address some of the structural problems with our workforce.

Fact Sheet: 2011-12 Budget "Trigger Reductions"

Given the tenuous national economic situation, the recent announcement by State Controller John Chiang that the state's July revenues missed budget targets by ten percent, and today's release of the Department of Finance's monthly revenue bulletin , we thought it appropriate to update counties on the so-called "trigger reductions" mechanism, by which the state will enact mid-year budget reductions should state revenues not achieve anticipated targets.

AB 121 directs the Director of the Department of Finance, by December 15, 2011, to develop an updated revenue forecast for 2011-12 general fund revenues and to compare the forecast to that prepared by the Legislative Analyst's Office in November 2011. If the higher of those two forecasts is less than $87,452,500,000 (i.e. revenues are short of budget act estimates by more than $1 billion), Section 3.94(b) becomes operative and triggers reductions totaling $601 million to occur on or after January 1, 2012.

These reductions are as follows:

Reduction	Description
$100 million to the University of California	Unallocated reduction
$100 million to the California State University	Unallocated reduction
$100 million to the Department of Developmental Services	Department is directed to convene stakeholder working groups to develop savings proposals
$23 million to Department of Education Child Care	Across-the-board reduction of 4%
$15.866 million to California State Library	Eliminates all state grant funding for local library services
$20 million to the Department of Corrections and Rehabilitation	Unallocated reduction
$15 million to the California Emergency Management Agency Vertical Prosecution Grants	Eliminates funding for District Attorneys' Vertical Prosecution grants
$10 million to Department of Social Services In-Home Supportive Services	Eliminates funding for IHSS Anti-Fraud grants
$30 million to California Community Colleges	Results in a $10 per unit fee increase
$15 million to the Medi-Cal program	Extends provider cuts and copayments to the Medi-Cal Managed Care Plans
$100 million to Department of Social Services In-Home Supportive Services	Across-the-board 20% service hour reduction

If the higher forecast projects revenues less than $86,452,500,000 (i.e. revenues are short of budget act estimates by more than $2 billion), Section 3.94(c) becomes operative and triggers additional reductions totaling $1.86 billion to occur on or after January 1, 2012, as follows:

Reduction	Description
$248 million to the Department of Education Home-to-School Transportation	Eliminates funding for the Home-to-School Transportation program
$72 million to California Community Colleges	
$1.5 billion to K-12 education	Eliminates seven days of school

The trigger reductions total $2.461 billion.

SB 73 contains additional statutory direction on how the cuts to In-Home Supportive Services (IHSS), Developmental Services, and Medi-Cal Managed Care would be effectuated. The measure contains detailed provisions on the appropriation of the 20 percent reduction in authorized hours for IHSS recipients. SB 73 also establishes an IHSS Care Supplement application for recipients who believe he or she is at serious risk of out-of-home placement due to the reduction in hours. The state will develop an assessment tool for counties to use to determine who is at risk of out-of-home placement.

Admittedly, it is far too early to speculate as to the outcome of the December determination, but keep an eye on the state's monthly receipts. CSAC will continue to provide updates as events warrant.

Trigger Cuts Summary

Tier 0	
If the State receives \$3 - \$4 billion of the \$4 billion projected revenues, there will not be additional cuts. Any shortfall will be rolled into 2012-13.	
TOTAL	**\$0**
Tier 1	
If the State receives \$2 - \$3 billion of the projected revenues, nearly \$530 million in cuts will go into effect:	
▪ University of California	\$100 million
▪ California State University	\$100 million
▪ 20 percent reduction in authorized hours for In-Home Supportive Services recipients	\$100 million
▪ Department of Developmental Services unallocated reduction	\$100 million
▪ \$10/unit fee hike for community colleges	\$30 million
▪ Across-the-board cut to child care funding	\$23 million
▪ Department of Corrections and Rehabilitation	\$20 million
▪ Reduction to California State Library for library grants	\$16 million
▪ Medi-Cal Managed Care Plan payment reductions	\$15 million
▪ Vertical Prosecution grants	\$15 million
▪ Anti-fraud grants provided to counties for the IHSS program	\$10 million
TOTAL	**\$529 million**
Tier 2	
If the State receives \$0 - \$2 billion of the projected revenues, up to \$1.9 billion in cuts will go into effect, proportionate to revenues:	
▪ Reduction to K-12 schools that allows districts to drop seven classroom days. The school year would be reduced to 168 days – down from 180 days three years ago.	\$1.5 billion
▪ Elimination of school bus transportation	\$248 million
▪ Reduction to community colleges	\$72 million
TOTAL	**\$1.82 billion**