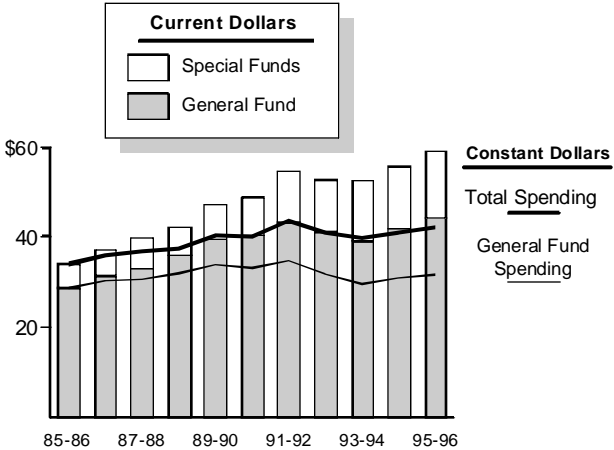


State Spending Growth Resumes As Recession Ends^a

(In Billions)

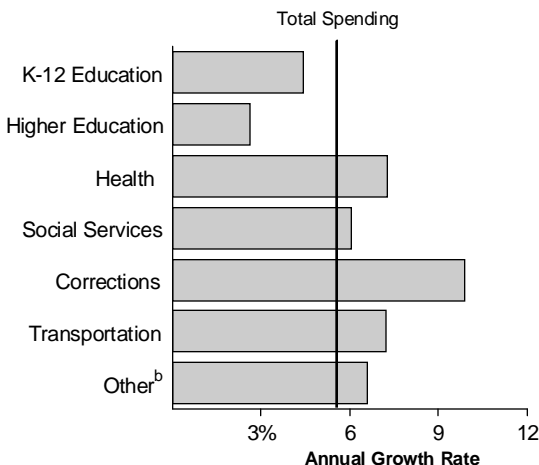


^a Budgetary accounting basis. Excludes federal funds and bond funds. Special funds include Local Public Safety Fund.

- Total state spending grew rapidly from 1985-86 to 1991-92, but spending growth stopped during the next two years, largely due to revenue constraints associated with the recession.
- With the end of the recession, spending growth resumed in 1994-95 and will continue in 1995-96. About half of the current spending growth is for additional support to K-14 education, which is required by Proposition 98 as state revenues increase.
- After adjusting for inflation, however, total spending in 1995-96 still will be below its peak in 1991-92.

Spending Growth Varies Considerably by Program Area^a

1985-86 Through 1995-96



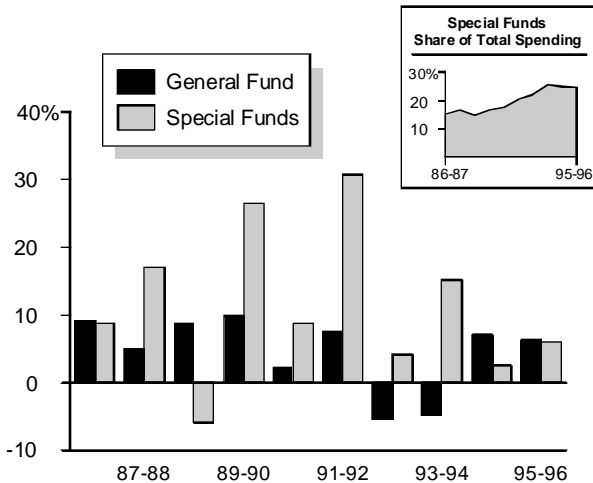
^a Excludes federal funds and bond funds.

^b Includes, among other spending, local subventions of vehicle license fees, Trial Court Funding (TCF), and Local Public Safety Fund grants.

- Total state spending has grown at an average annual rate of 5.7 percent over the last decade, but annual spending growth for major program areas during this period varied from a low of 2.6 percent for higher education to a high of 9.9 percent for corrections.
- The low rate of state spending growth for K-12 education reflects budget actions that increased school's share of local property taxes in order to reduce state school funding required under Proposition 98.

Special Fund Spending Has Grown Faster Than General Fund Spending Until Recently

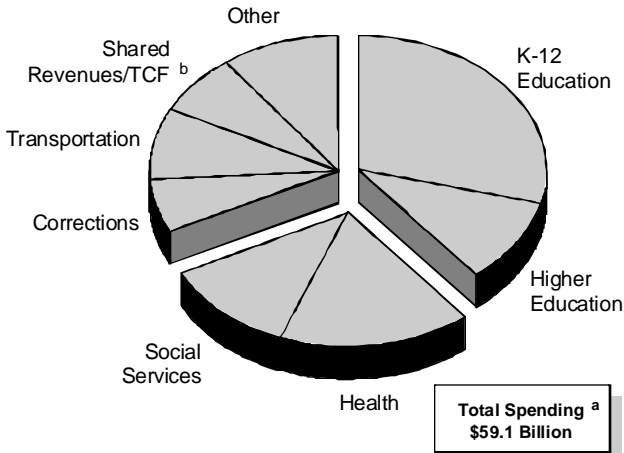
Annual Percentage Growth



- Prior to 1991-92, growth in special fund spending primarily reflected new earmarked funds (such as gasoline and cigarette tax increases) and the creation of new programs (such as fee-based environmental and recycling programs).
- After 1991-92, special fund spending growth largely reflected restructuring within the budget, involving shifts of state costs to local governments along with shifts of state sales tax revenues to new special funds allocated to local governments to offset those costs.

Most State Spending Is for Education, Health and Social Services

1995-96



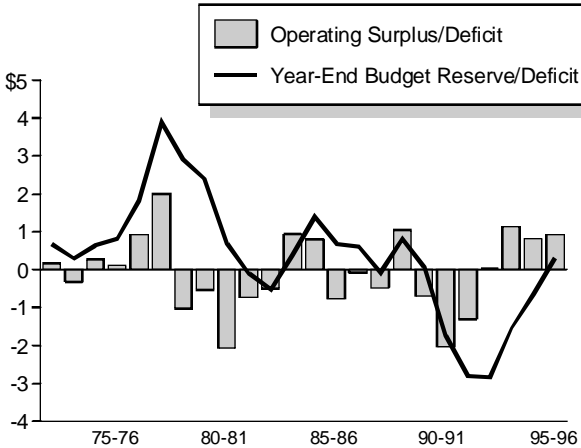
^a Excludes federal funds and bond funds.

^b Includes local subventions of vehicle license fees, Trial Court Funding (TCF) and Local Public Safety Fund grants.

- The largest share of state spending is for education (39 percent). However, education's share of the state spending pie has diminished since the 1980s, when it received about half of total state spending.
- Health and social services programs together account for 28 percent of state spending.
- Although spending for prisons has grown rapidly, corrections still accounts for a relatively small share of total spending—6.4 percent.

Operating Surpluses Paying Off Accumulated Deficit

(In Billions)



Note: Data are on a budgetary accounting basis.

- The annual *operating* balance (surplus or deficit) is the difference between current revenues and current spending in any year. Adding any carryover surplus or deficit from the prior year to the operating balance yields the *budget* balance.
- During the recession of the early 1990s, the state ran large operating shortfalls. These resulted in an accumulated deficit that was financed by borrowing.
- Recent operating surpluses have reduced the carryover deficit, which is expected to be eliminated by the end of 1995-96.

Initiative Measures Limit State And Local Fiscal Flexibility

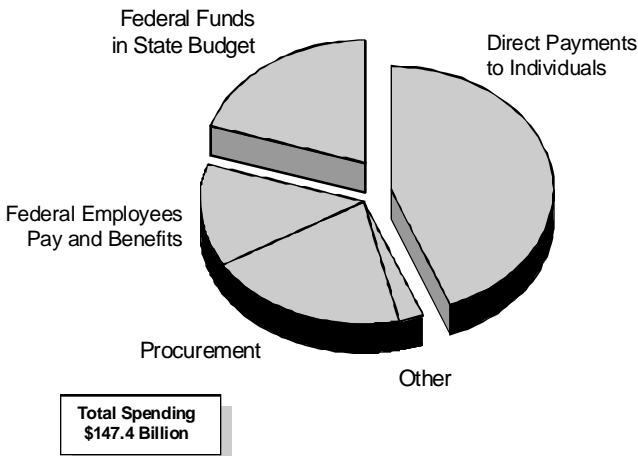
Measure/Election	Major Provisions
Proposition 13/ June 1978	<ul style="list-style-type: none"> • Limits general property tax rate to 1 percent and limits increases in assessed value after a property is bought or constructed. • Makes Legislature responsible for dividing property tax among local entities. • Requires two-thirds vote for Legislature to increase taxes. • Requires two-thirds voter approval of new local special taxes.
Proposition 4/ November 1979	<ul style="list-style-type: none"> • Generally limits spending of "proceeds of taxes" by the state and local entities to prior-year amount, adjusted for population growth and inflation (now per capita personal income growth). • Requires state to reimburse local entities for mandated costs.
Proposition 6/ June 1982	<ul style="list-style-type: none"> • Prohibits state gift and inheritance taxes, except for "pickup" tax qualifying for federal tax credit.
Proposition 7/ June 1982	<ul style="list-style-type: none"> • Requires indexing of state personal income tax brackets for inflation.
Proposition 37/ November 1984	<ul style="list-style-type: none"> • Establishes state lottery and dedicates revenue to education. • Places prohibition of casino gambling in State Constitution.

Initiative Measures Limit State And Local Fiscal Flexibility CONTINUED

Measure/Election	Major Provisions
Proposition 62/ November 1986	<ul style="list-style-type: none"> • Requires approval of new local general taxes by two-thirds of the governing body and a majority of local voters.
Proposition 98/ November 1988	<ul style="list-style-type: none"> • Establishes minimum state funding guarantee for K-12 schools and community colleges. • Requires distribution to schools and community colleges of half of any state tax revenues in excess of the appropriations limit.
Proposition 99/ November 1988	<ul style="list-style-type: none"> • Imposes surtax on cigarettes and tobacco products. • Limits use of surtax revenue, primarily to augment health-related programs.
Proposition 162/ November 1992	<ul style="list-style-type: none"> • Limits the Legislature's authority over PERS and other public retirement systems, including their administrative costs and actuarial assumptions.
Proposition 163/ November 1992	<ul style="list-style-type: none"> • Repealed "snack tax" and prohibits any future sales tax on food items, including candy, snacks, and bottled water.
Proposition 172/ November 1993	<ul style="list-style-type: none"> • Imposes half-cent sales tax and dedicates the revenue to local public safety programs.

Most Federal Spending Is Outside the State Budget

1992-93



- Only about one-fifth of total federal spending in California flows through the state budget. The largest share of federal spending is for direct payments to individuals in programs that are not administered by the state.
- Social Security and Medicare benefits comprised more than 70 percent of the direct federal payments in California.
- Local agencies receive most of their federal funds via the state.