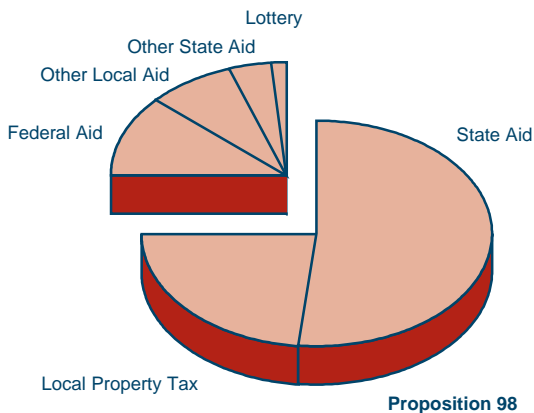


K-12 School Revenues

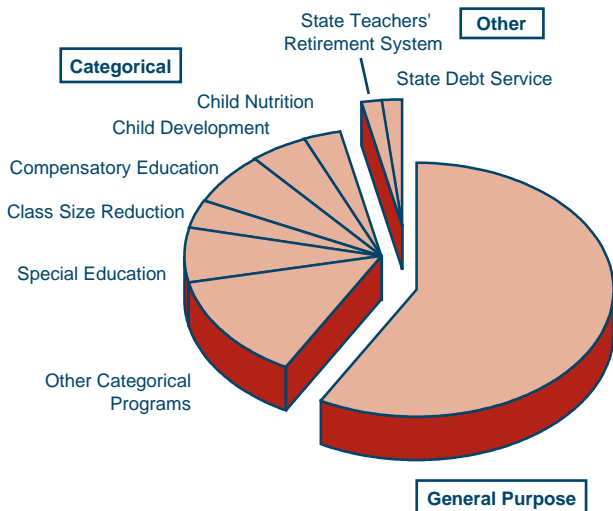
2002-03



- Proposition 98 is the shorthand term for the state's constitutional minimum funding requirement for K-14 education. This annual spending guarantee is met from two revenue sources: state aid and local property taxes.
- The state will provide 57 percent of all K-12 school revenue in 2002-03, while local government sources (property taxes and other local income) will contribute 31 percent. The federal government will provide 12 percent.
- The state lottery provides less than 2 percent of total school revenues, around \$138 per pupil.

K-12 School Spending

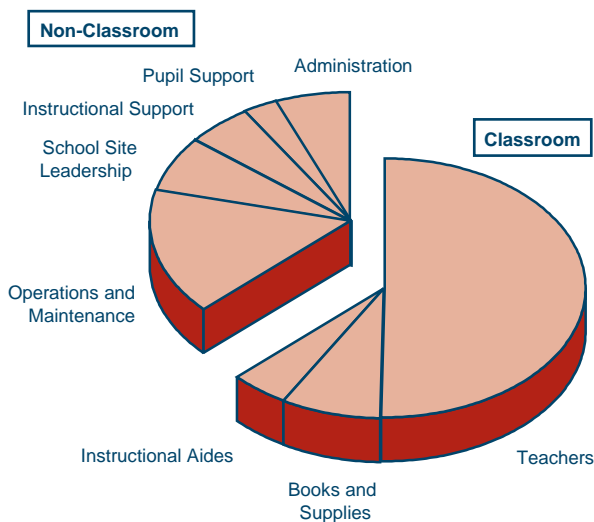
2002-03



- School “revenue limits”—consisting of state funds and local property taxes—are general purpose funds that support basic school operations. School districts also receive lottery revenues that they can use for general purposes. General purpose funds account for 58 percent of all school expenditures. Lottery revenues alone account for less than 2 percent of all school expenditures.
- Most of the remaining school expenditures are for so-called “categorical” programs—such as special education, compensatory education, and class size reduction. These funds constitute 38 percent of school spending.
- Over the past decade, general purpose funds have declined as a percentage of overall school funding.

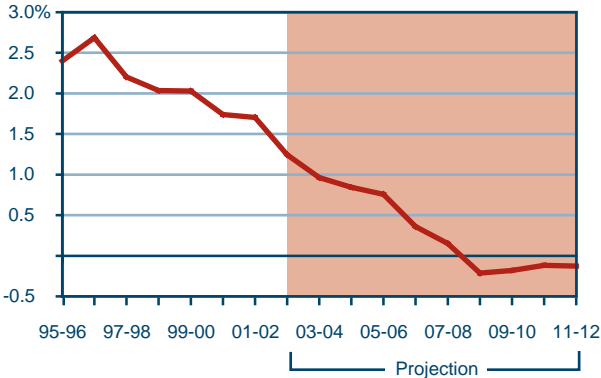
The Typical Cost of a California School

1999-00



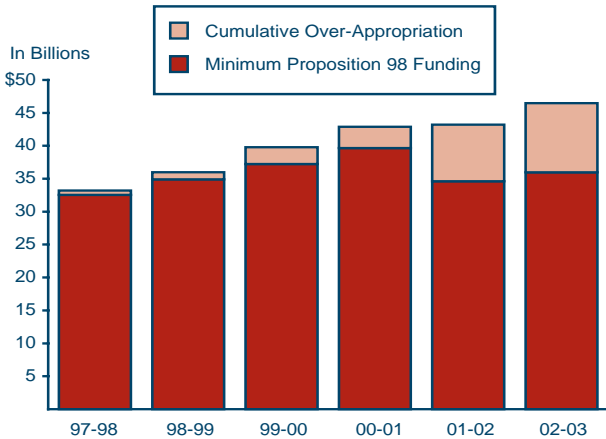
- In a typical K-12 school, classroom services account for almost two-thirds of all costs. Half of all K-12 costs are for teachers, with an additional 13 percent for instructional aides, books, and supplies.
- Other school site activities account for over one-third of all K-12 costs. These costs consist of operations and maintenance, administrators and clerical support, instructional support (such as reading specialists), and pupil support (such as nurses).
- Administration, which consists of district administration, county oversight, and state services, accounts for 6 percent of all K-12 costs.

Growth in K-12 Enrollment Will Slow Significantly



- Total public K-12 enrollment is projected to increase by 1 percent in 2002-03, bringing enrollment to 6.1 million students. Over the next ten years, K-12 enrollment growth will continue to slow and actually decline beginning in 2008-09.
- Each 1 percent increase in K-12 enrollment requires an increase of approximately \$430 million (General Fund) to maintain annual K-12 expenditures per pupil.
- Despite the general downward trend in enrollment growth, significant variation is expected to occur across counties. For example, between 2002-03 and 2011-12, Los Angeles' enrollment is expected to decline by 82,000 students (a 5 percent decline) whereas Riverside's enrollment is expected to increase by 69,000 students (a 20 percent increase).

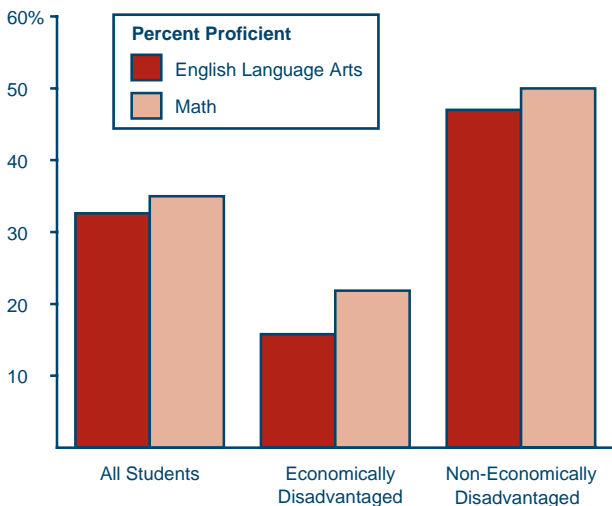
Proposition 98 and the Fiscal Impact Of Recent Over-Appropriations



^a The minimum Proposition 98 funding level shows how much the state would have been required to provide if the state annually appropriated at the Proposition 98 minimum guarantee and never over-appropriated.

- Since appropriations above the Proposition 98 minimum guarantee (often called "over-appropriations") are locked into the base for the next fiscal year, over-appropriations of Proposition 98 are permanent and cumulative.
- The state over-appropriated in each year shown in the figure. The over-appropriation for any year includes the impact of both prior-year and current-year over-appropriations.
- The cumulative impact of over-appropriations between 1997-98 and 2002-03 results in an annual spending level for K-14 education that is \$10.5 billion higher than it would have been if the state had appropriated at the minimum guarantee each year.

Proficiency Levels Low in English Language Arts and Math^a

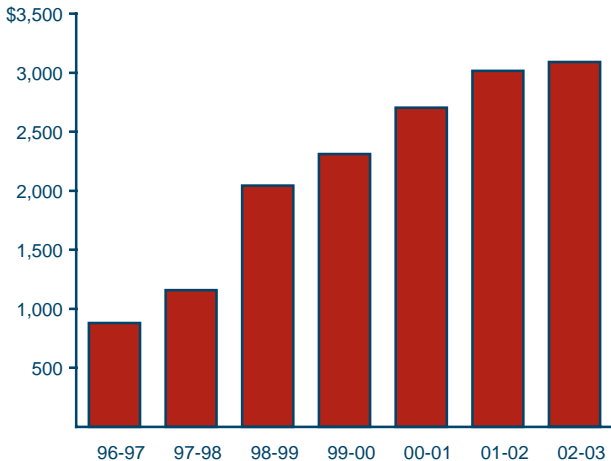


^aBased on 2002 results from the California Standards Test.

- In 2002, 33 percent of all K-12 students met the California proficiency standards for English language arts and 35 percent met proficiency standards in math.
- Large achievement gaps exist between economically disadvantaged students and other students. Similar gaps exist for English language learners and special education students.
- These test results—along with other student assessments—are used to compute each school's Academic Performance Index score and performance growth targets. Fifty-three percent of schools met performance growth targets in 2002.

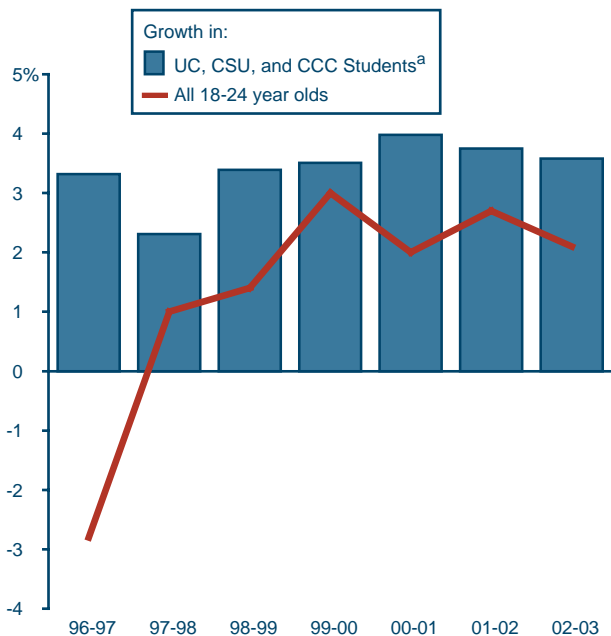
Spending on Child Care Programs Has Increased Significantly

*General Fund and Federal Funds
(In Millions)*



- Funding for child care programs has increased rapidly in recent years, rising from \$880 million in 1996-97 to \$3.1 billion in 2002-03.
- The increase in spending is primarily due to legislative actions to expand (1) state preschool, (2) after school programs, (3) child care for current and former CalWORKs families, and (4) other child care programs. Approximately \$1.1 billion of the \$2.1 billion expansion from 1996-97 through 2002-03 has been funded with federal funds for child care.
- The state currently provides child care slots for approximately 566,000 children. These programs primarily serve low-income families at little or no cost.

Funding for Enrollment Exceeds College-Age Population Growth

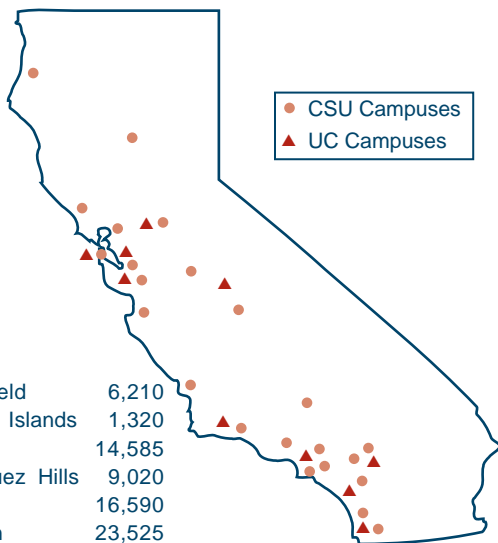


^aWeighted average of funded enrollment growth for the three segments.

- Demand for higher education is based in large part on the size of the young adult population (18 to 24 year olds).
- The state has provided more access to higher education than would be indicated solely by this prime college-going age group.
- A greater portion of the population is attending college for a variety of reasons, including the growth in financial aid opportunities, flat or declining fees, student outreach efforts, and other state policies.

California Public Universities

2002-03 Full-Time Equivalent Students



CSU

Bakersfield	6,210
Channel Islands	1,320
Chico	14,585
Dominguez Hills	9,020
Fresno	16,590
Fullerton	23,525
Hayward	11,695
Humboldt	7,450
Long Beach	26,440
Los Angeles	16,445
Maritime Academy	825
Monterey Bay	3,245
Northridge	22,175
Pomona	17,045
Sacramento	21,820
San Bernardino	12,900
San Diego	27,040
San Francisco	21,706
San Jose	21,500
San Luis Obispo	16,800
San Marcos	5,410
Sonoma	6,675
Stanislaus	6,385
Total CSU	316,806

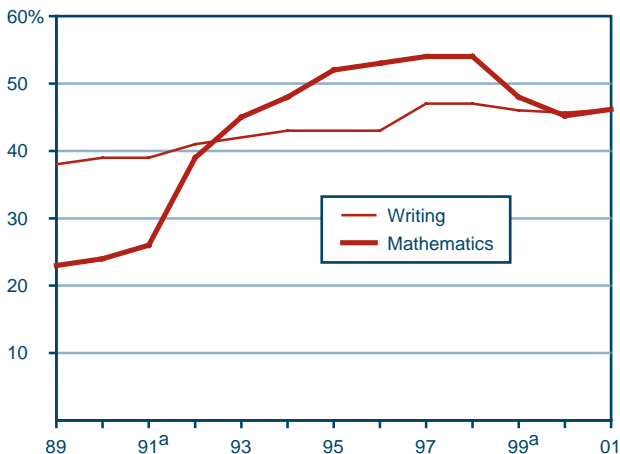
University of California

Berkeley	30,657
Davis	25,598
Irvine	21,540
Los Angeles	34,519
Merced	— ^a
Riverside	13,948
San Diego	21,592
San Francisco	3,712
Santa Barbara	20,200
Santa Cruz	13,000
Total UC	184,766

^aCampus scheduled to open in 2004-05.

Almost Half of CSU Freshmen Not Academically Prepared

Regularly Admitted Freshmen Needing Remediation

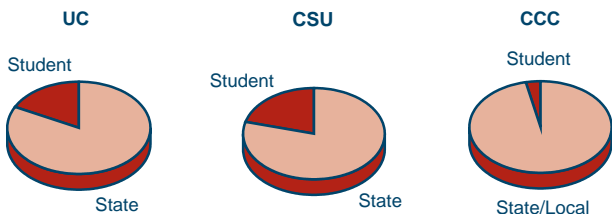


^aCSU made the mathematics exam more difficult in 1992, and allowed students to use calculators in 1999.

- Of regularly admitted California State University (CSU) freshmen, almost half are unprepared for college-level writing and almost half are unprepared for college-level math. These rates have risen over the past decade.
- At about half of the CSU campuses, at least two-thirds of regularly admitted freshmen arrive unprepared for college-level work. At CSU Dominguez Hills and CSU Los Angeles, roughly 90 percent of regularly admitted freshmen are unprepared for college-level work.
- At the University of California, about one-third of regularly admitted freshmen arrive unprepared for college-level writing.

California Higher Education Fees Cover a Fraction of Costs

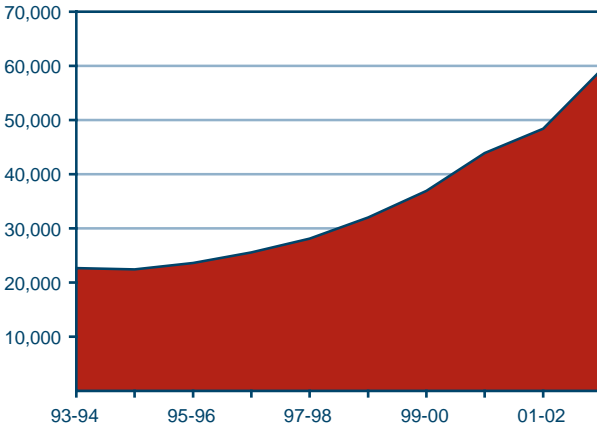
2002-03



- Students pay a small share of education costs at the state's public colleges and universities. In fact, California student fees are among the lowest in the nation.
- Since 2000, the annual state subsidy for each student has averaged \$18,000 at UC, \$8,500 at CSU, and \$4,375 at CCC.
- As of the 2002-03 academic year, resident undergraduate fees had not been raised at any of the state's public colleges and universities for eight years.

State Financial Aid Program Expanding Significantly Since Mid-90s

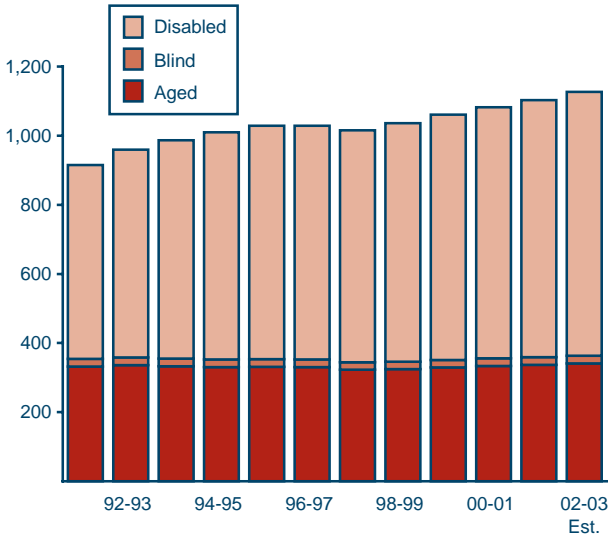
Cal Grant Recipients



- The state now guarantees that all recent high school graduates meeting financial and academic requirements may receive Cal Grant awards. These awards cover the total cost of educational fees, and, in some cases, a portion of living expenses.
- In 2002-03, approximately 59,300 recent high school graduates received Cal Grant awards. This represents an increase of 161 percent (or 36,600 students) over the past ten years.
- Approximately 45 percent of resident first-time freshmen entering the University of California and the California State University currently receive Cal Grant awards.

SSI/SSP Caseload Continues to Grow

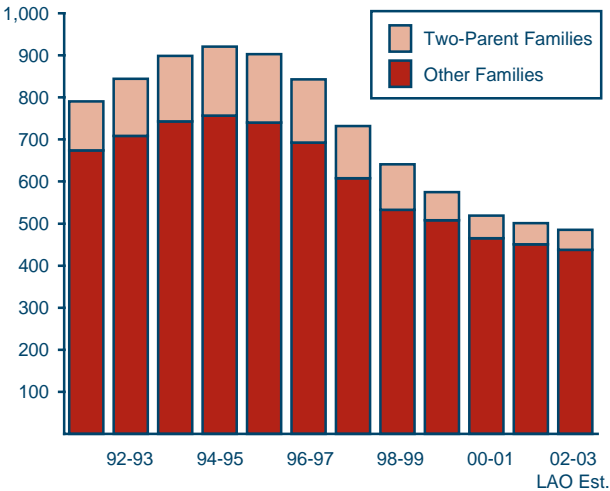
Cases in Thousands



- The SSI/SSP program provides cash assistance to low income persons who are elderly, disabled, or blind.
- The caseload leveled off in the mid-1990s, in part because of federal law changes that restricted eligibility for disabled children and certain noncitizens. Subsequent to these changes, caseload growth has remained steady at about 2 percent per year.
- In addition, about 11,000 recipients participated in the state-only program for certain legal noncitizens (created in 1998).

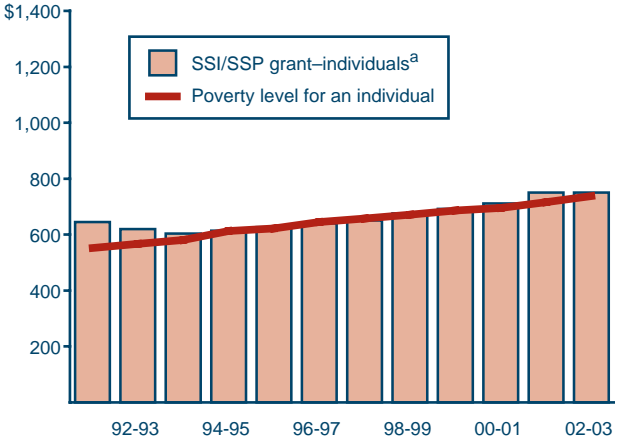
CalWORKs Caseload Decline Continues

Cases in Thousands

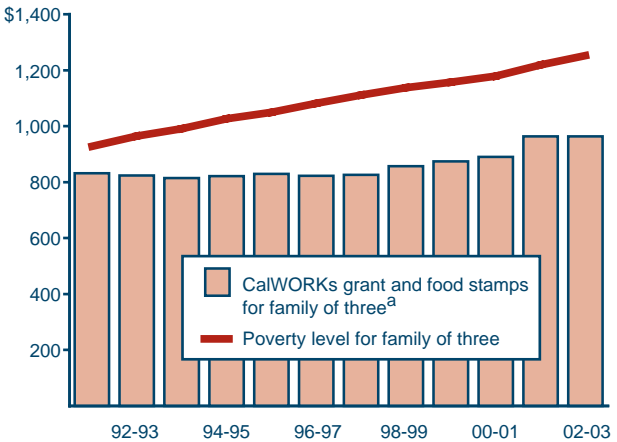


- After peaking in 1994-95, the caseload declined 46 percent through 2001-02. We project a further decline of about 3 percent in 2002-03.
- The caseload decline resulted from a combination of demographic trends (such as birth rates for young women), the economic expansion, and full implementation of California's welfare reform.
- From Federal Fiscal Year (FFY) 1996 through FFY 2001, the U.S. caseload declined by 53 percent, compared to 47 percent in California.

SSI/SSP Grant Is Just Above Poverty Level . . .



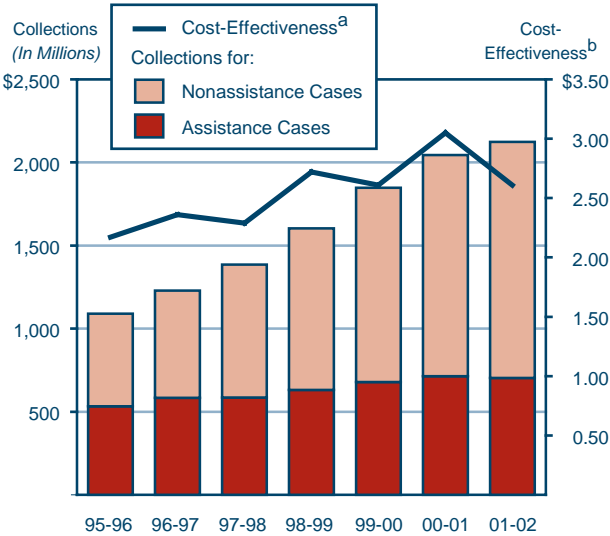
. . . While CalWORKs Grant Is Significantly Below Poverty Level



^aMaximum monthly grant.



Child Support Collections Rising but Cost-Effectiveness Lags Nation

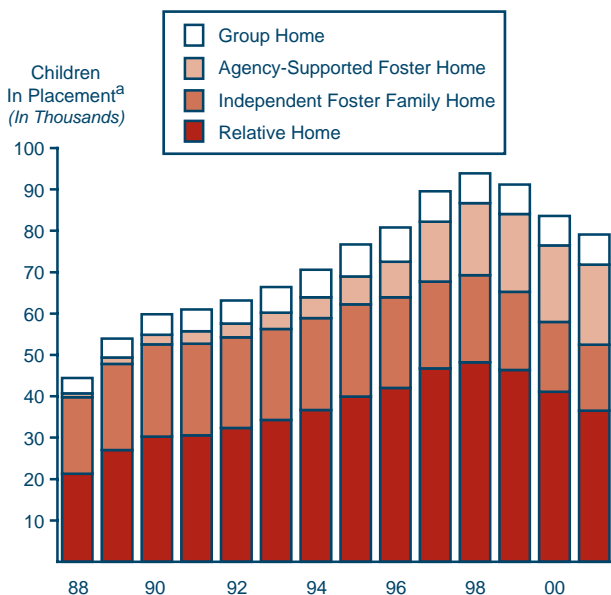


^aCost-effectiveness data are from federal fiscal years 1995 through 2001.

^bThe federal government defines cost-effectiveness as collections per administrative dollar spent.

- Child support collections for assistance (CalWORKs) and nonassistance families have increased steadily each year, from \$1.1 billion in 1995-96 to \$2.1 billion in 2001-02.
- State savings in CalWORKs grants due to the collection of child support increased from approximately \$249 million in 1995-96 to \$334 million General Fund in 2001-02.
- California collects between \$2 and \$3 in child support payments for each dollar spent on program administration. By comparison, the 2000 national average was over \$4 collected for each dollar spent.

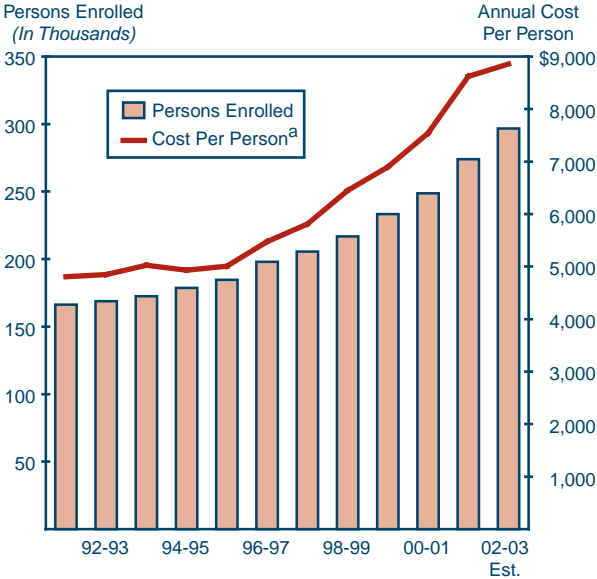
Foster Care Caseload Declined In Recent Years



^aExcludes foster youth supervised by county probation departments and children in shelters, adoptive placements, and guardianships.

- The total foster care population grew steadily throughout the 1990s, from about 44,000 in 1988 to about 94,000 in 1998. Since then, the caseload has declined over 15 percent, to 79,000.
- The decline in the foster care caseload is primarily due to two factors: (1) the advent of the Kinship Guardianship Assistance Payment (Kin-GAP) Program which allows children to exit the foster care system to relative caregivers and (2) an increase in the number of adoptions of foster children.

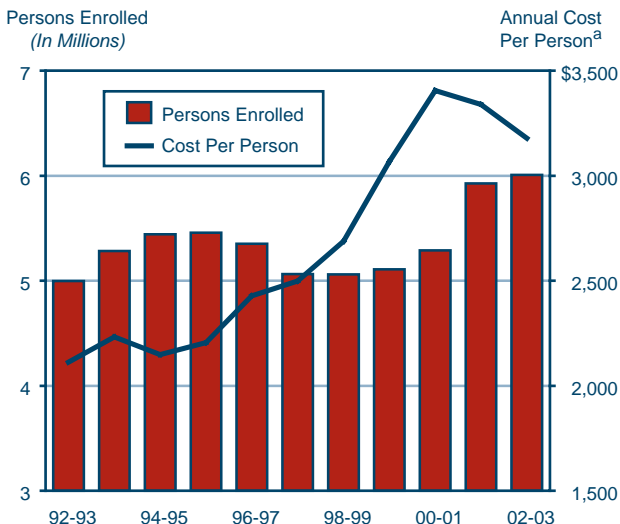
IHSS Cost Increases Have Outpaced Caseload Growth



^aIncludes state, federal, and county funds.

- The In-Home Supportive Services (IHSS) program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their homes without such assistance.
- Since 1996-97, the cost per person served has increased by 62 percent, while the caseload has risen by 50 percent.
- Wage increases—both discretionary and those mandated by minimum wage increases—are a major contributing factor to the cost increases.

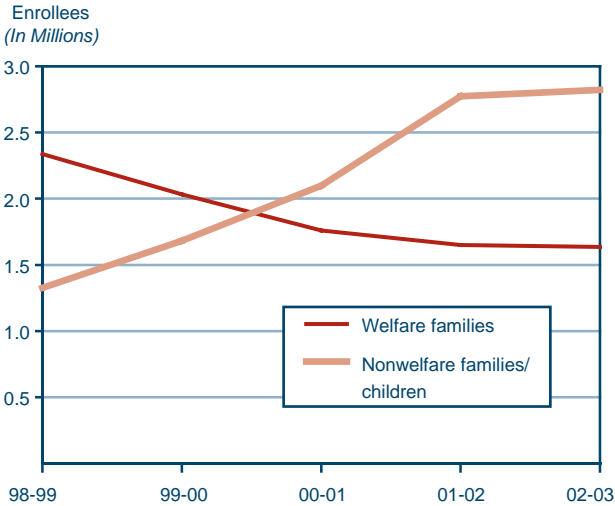
Medi-Cal Caseload Increasing As Cost Per Person Declines



^aIncludes federal funds. Excludes disproportionate share hospital payments and most pass-through funding for related programs.

- Medi-Cal caseload grew rapidly during the early 1990s as a result of eligibility expansions and recession, then declined as the economy recovered. Recent caseload growth results from actions to expand eligibility and increase outreach efforts.
- The annual cost increase per person for Medi-Cal benefits has averaged 4.5 percent since 1997-98 due to provider rate increases, eligibility expansions, increased spending on drugs, and other factors. The turnaround in the trend seen in 2001-02 and 2002-03 appears to be the result of an expansion of the caseload to families and children less likely on average to need medical care.

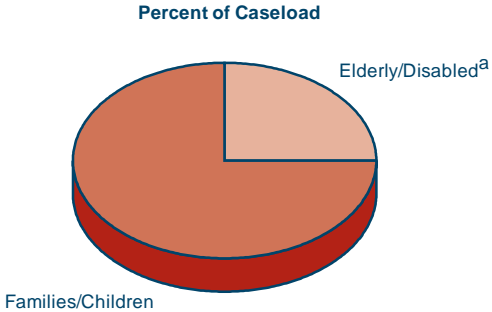
Most Medi-Cal Families/Children Are Not on Welfare



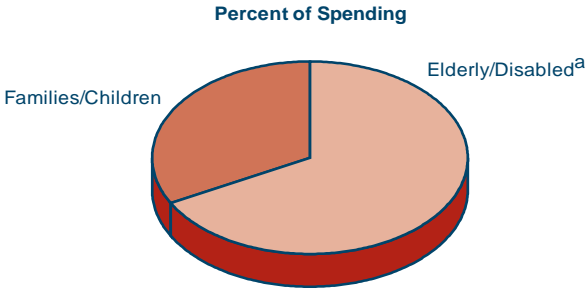
- By 2000-01, for the first time in the history of the Medi-Cal Program, welfare (CalWORKs) recipients accounted for less than half of the families (including pregnant women) and children enrolled in the program. This trend has continued and Medi-Cal enrollment of nonwelfare families and children now exceeds those on welfare by more than 1.2 million.
- The reduction in the welfare component of the Medi-Cal caseload is generally attributable to welfare reform and a strong job market. The growth in the nonwelfare component is due to recent legislative changes that have expanded and simplified Medi-Cal eligibility for low-income working families.

Medi-Cal Caseload is Primarily Families/Children...

2002-03



...While Most Medi-Cal Spending Is for Elderly/Disabled

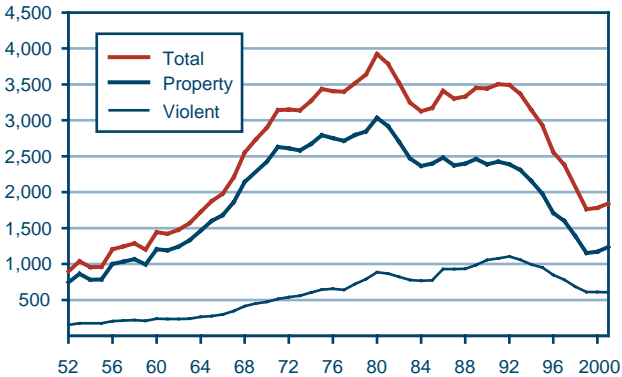


^aIncludes long-term care.



Crime Rate Up Slightly After Decade Decline

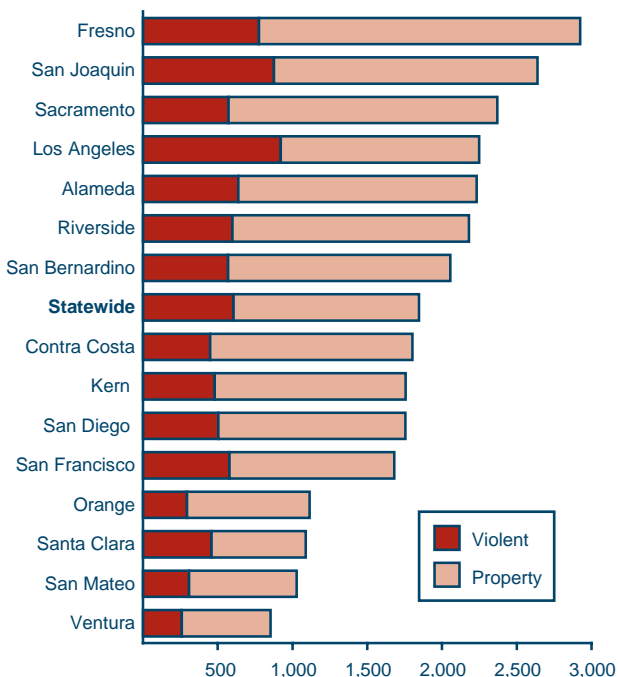
Rate Per 100,000 Population



- After nearly ten consecutive years of decline, California's crime rate increased slightly in 2000 and 2001. Nonetheless, crime in California remains at a low level not seen since the mid 1960s.
- As the above figure shows, this upward shift is driven by an increase in the level of property crimes such as burglary and motor vehicle theft. Violent crime, such as murder, rape, and assault has held relatively steady.
- There are probably many reasons for this slight increase, including changing demographics (growth in crime prone age groups), the weaker economy of the state, higher reporting of crimes, and improvements in policing and other law enforcement techniques.

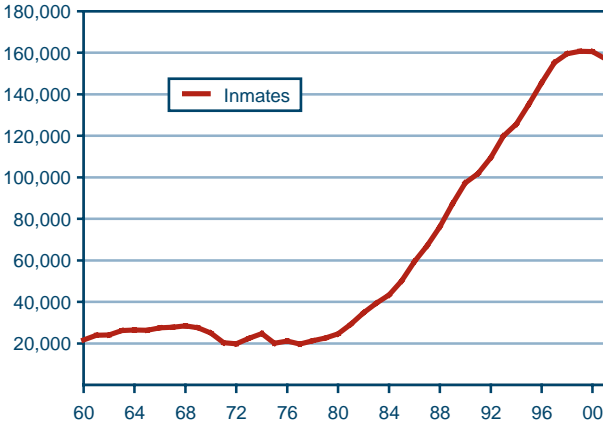
Crime Rates Vary Widely Among Large Counties

2001 Rates per 100,000 Population



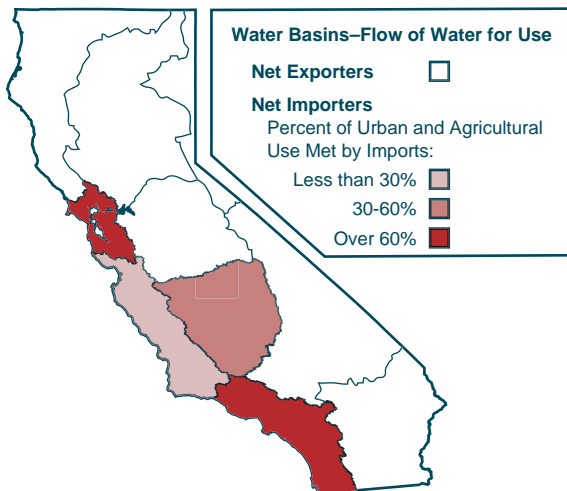
- Among the counties with populations of 500,000 or more, Fresno had the highest crime rate in 2001—about 58 percent higher than the statewide rate. Ventura's rate was the lowest and was less than half the statewide rate.
- Variations among county crime rates are probably explained by factors such as demography (areas with larger populations of young men tend to have higher crime rates), local economy, law enforcement resources, and degree of urbanization.

Prison Population Peaks and Declines Slightly After Two Decades of Growth



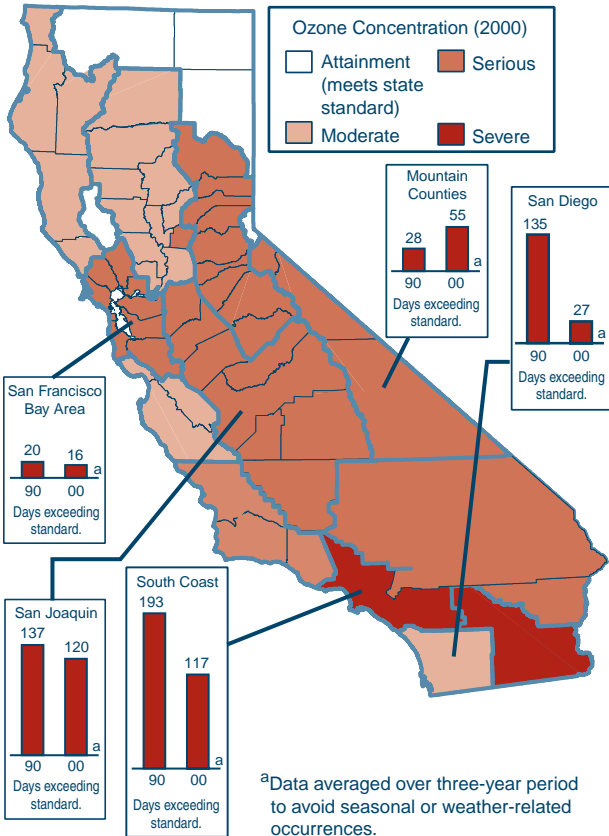
- Over twenty years, California's prison inmate population increased from about 23,000 inmates in 1979 to a peak of about 161,000 in 1999. This increase of over 600 percent has largely been attributed to changes in law that increased the length of prison sentences.
- Between 1999 and 2001, the prison inmate population declined by approximately 3 percent to about 157,000 inmates. This decline in population is due primarily to Proposition 36, the Substance Abuse and Crime Prevention Act, which went into effect on July 1, 2001 and redirects some drug offenders into treatment rather than prison.

Population Centers Rely Heavily On Water Imported From Other Regions of the State



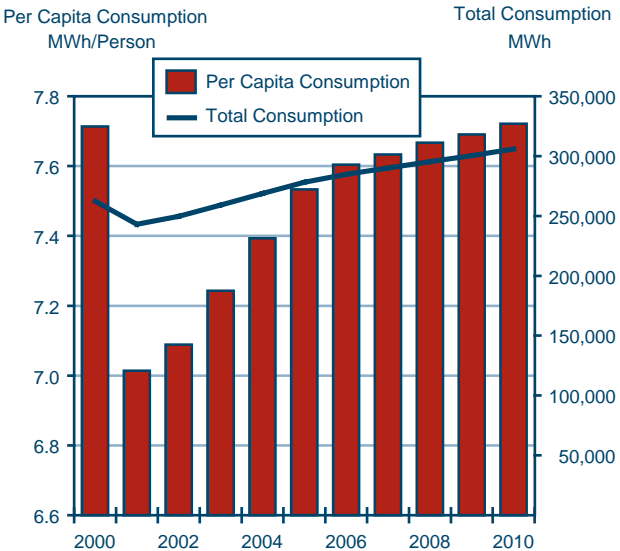
- Four of the state's ten water basins depend significantly on water imported from other regions of the state. These four basins, which are largely urbanized and/or agricultural regions in the central and coastal parts of the state, account for almost half of urban and agricultural water use statewide.
- As the state's water supply largely originates in its northern region, extensive surface water projects (dams, reservoirs, and aqueducts) have been built, supplying about 68 percent of statewide urban and agricultural water use.

State Failing Ozone Standard, But Air Quality Improving in Most Regions



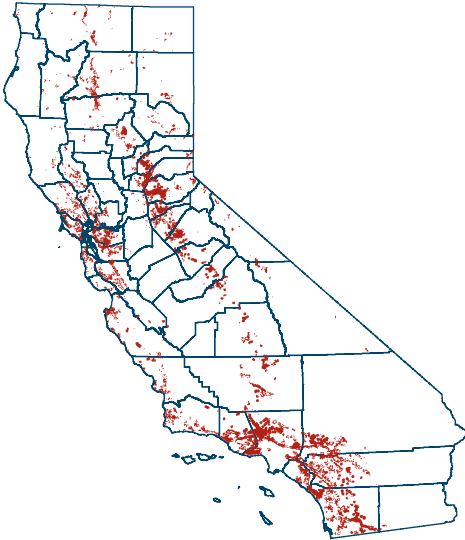
- Although ozone concentrations (a key component of smog) have decreased in most air basins since 1990 reflecting increasingly stringent air pollution controls, most of the state did not attain the state's air quality standard for ozone in 2000. Ozone levels and progress made to improve air quality vary regionally.

Per Capita Electricity Consumption Projected to Increase



- Per capita electricity consumption declined dramatically in 2001 due to conservation and price increases, as well as a general slowdown in the economy. Per capita consumption of electricity is projected to increase, but should remain significantly below the nationwide average—currently over 10 megawatt-hours (MWh) per person annually.
- Total electricity consumption is also projected to increase, growing an average of 2.6 percent annually over the next eight years due mainly to population growth and a projected economic recovery.

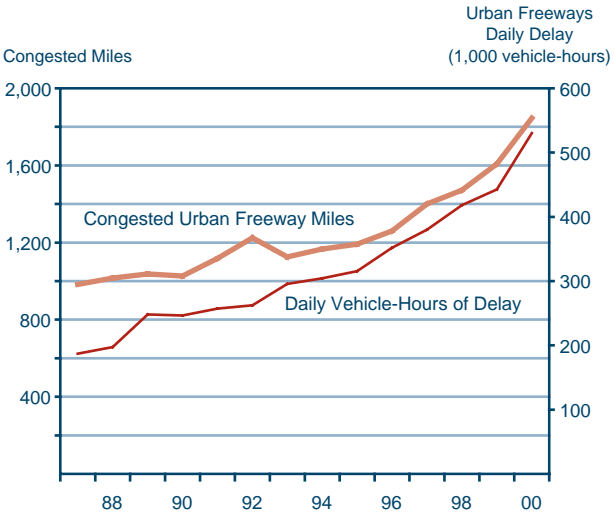
Wildland Fire Is a Particular Risk In Many Areas^a



^aAreas characterized by a history of fire, conditions on the ground favorable to wildland fire, and the presence of structures.

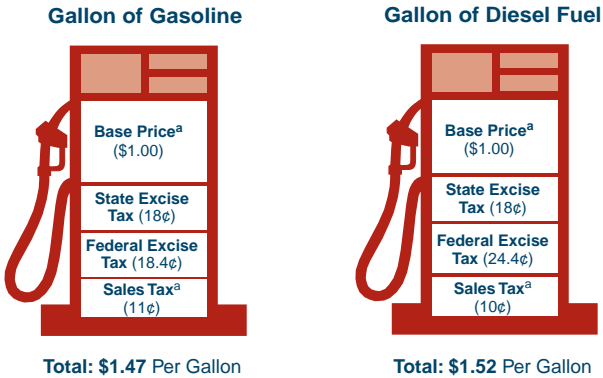
- A significant portion of the state is at risk from wildland fire. This includes about five million acres that are of special concern due to the presence of structures, a history of fire, and conditions on the ground favorable to wildland fire (vegetation, slope, and forest health).
- Areas of special concern are scattered throughout the state, with concentrations in the populated areas around the coastal and interior ranges of Southern California, the hillsides surrounding the San Francisco Bay, and the foothills of the Sierra Nevada.
- Wildland fire protection in a majority of these areas is a joint state and local responsibility.

Urban Highway Congestion Has Accelerated in Recent Years



- Vehicle hours of delay on urban freeways more than doubled from approximately 247,000 hours per day in 1990 to about 530,000 hours per day in 2000.
- In 2000, approximately 47 percent of the state's urban freeways (about 1,846 miles) were congested—up from 33 percent (about 1,027 miles) in 1990. Congestion occurs when vehicles are traveling on freeways at 35 mph or less during peak commute periods on a typical weekday.
- Caltrans estimates that for 2000, congestion on urban highways cost Californians \$12.8 million per day (or about \$4.7 billion per year) in time and fuel. This delay also resulted in an estimated 530 additional tons of emissions per day.

Multiple Taxes Are Collected At the Pump

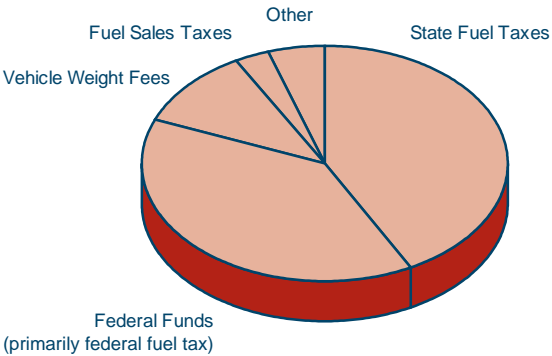


^aFor illustration purposes, assumes base price of \$1.00 and sales tax of 7.5 percent.

- About 50 cents of the retail price of each gallon of gasoline and diesel fuel sold in California is taxes.
- Californians pay the following taxes at the pump:
 - 18 cents in *state* "gas" tax for each gallon of gasoline and diesel fuel.
 - 18.4 cents in *federal* tax for each gallon of gasoline and 24.4 cents for each gallon of diesel fuel.
 - 7 percent minimum *state* and *local* sales tax, plus optional local sales taxes for transportation or other purposes varying by county. Beginning in 2003-04, most of the state sales tax proceeds will be dedicated to transportation purposes.

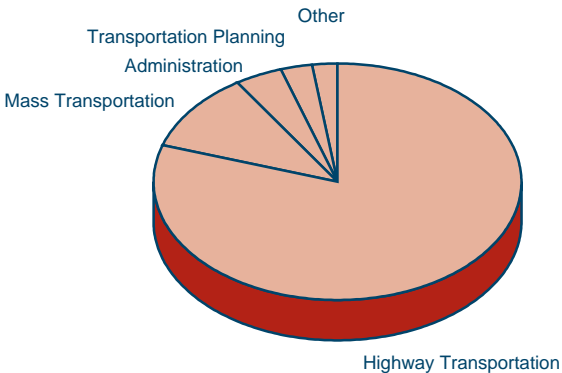
State Transportation Funding Comes Primarily From Fuel Taxes . . .

Total: \$7.5 Billion^a



. . . And Is Spent Primarily on Highway Transportation

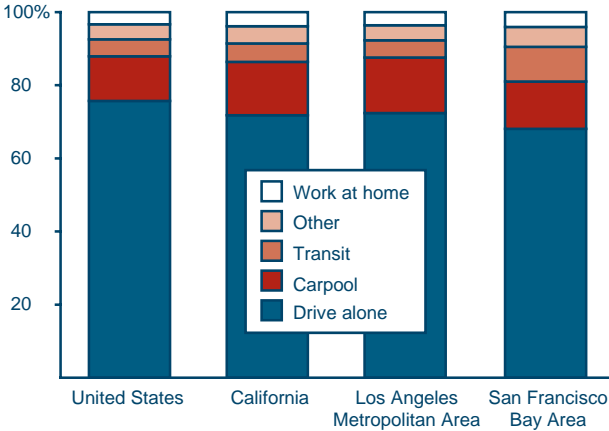
Total: \$7.8 Billion^b



^a 2001-02 budget estimate. Does not include local transportation funds.

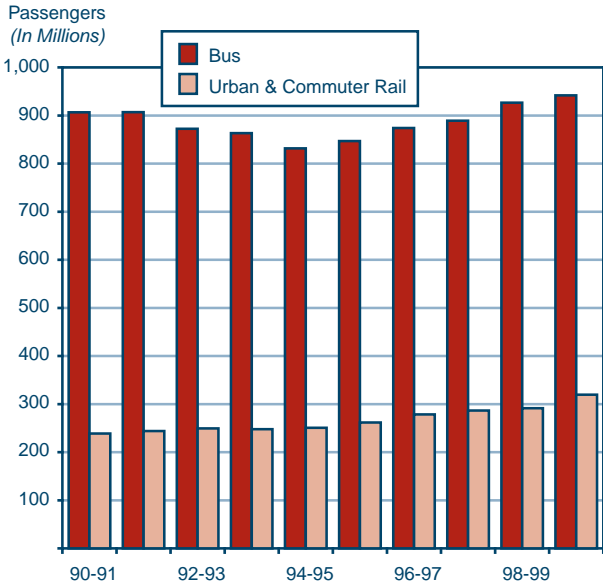
^b Amount includes expenditure out of prior year fund balance.

Californians Are Somewhat Less Likely to Drive to Work Alone



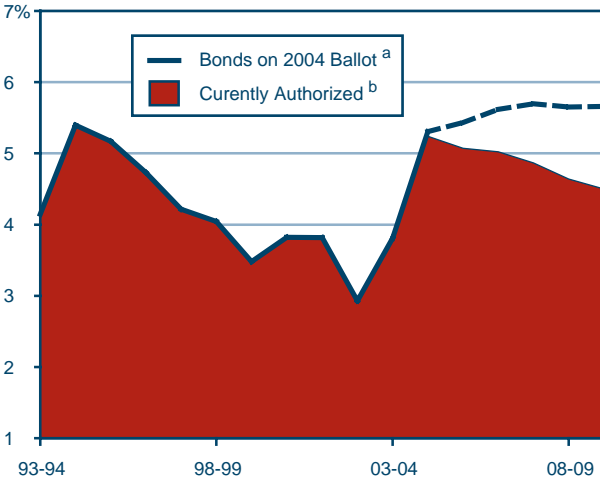
- In the Los Angeles Metropolitan Area and statewide, 72 percent of workers drove alone to work in 2000, while in the San Francisco Bay Area, 68 percent of workers drove alone to work. In comparison, nationwide 76 percent of workers drove alone to work in 2000.
- In the San Francisco Bay Area, 9.5 percent of workers used transit to get to work in 2000, while only 5 percent did so in the Los Angeles area and statewide. Nationwide, 5 percent of workers relied on transit as their primary mode of transportation to work.
- Carpooling is somewhat more common in the Los Angeles area where 15 percent of workers shared a ride to work compared to 13 percent in the San Francisco Bay Area, 14.5 percent statewide, and 12 percent nationwide.

Most Transit Riders Take the Bus and Rail Ridership Is Increasing



- In 1999-00, about 1.3 billion passengers used public transportation in the state. Over three-quarters (76 percent) of these passengers used buses while the remainder used urban and commuter rail services.
- Between 1990-91 and 1999-00, total public transportation ridership grew by 10 percent. This growth occurred mainly on urban and commuter rail. Due in part to new systems that came on line, total passengers on these rail services grew by about 34 percent. Over the same period, bus passengers grew by about 4 percent.

Debt Service Ratio to Stay In Moderate Range

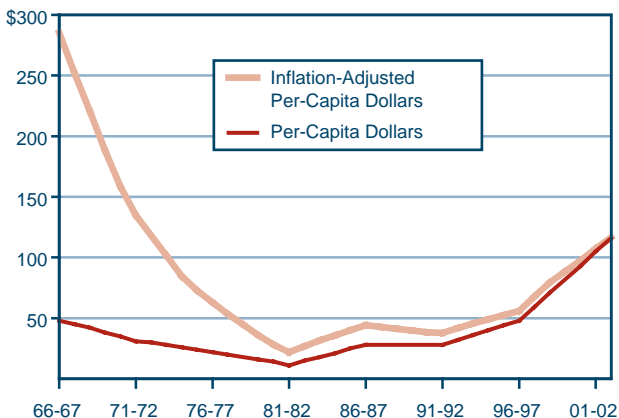


^aIncludes sale of all bonds authorized through November 2002 plus those currently authorized for the 2004 ballot.

^bIncludes sale of all bonds authorized through November 2002.

- The state's debt service ratio reflects the costs to pay principal and interest on state bonds as a percentage of projected General Fund revenues. California's ratio peaked at 5.4 percent in the early 1990s, before declining in the second half of the decade.
- We estimate that if all bonds that have been authorized through November 2002 are sold, the debt ratio will increase to a peak of 5.2 percent in 2004-05.
- If the additional \$22 billion in school and transportation bonds that will be placed before the voters in 2004 are approved and sold, the ratio would still remain in a moderate range, peaking at 5.7 percent in 2007-08.

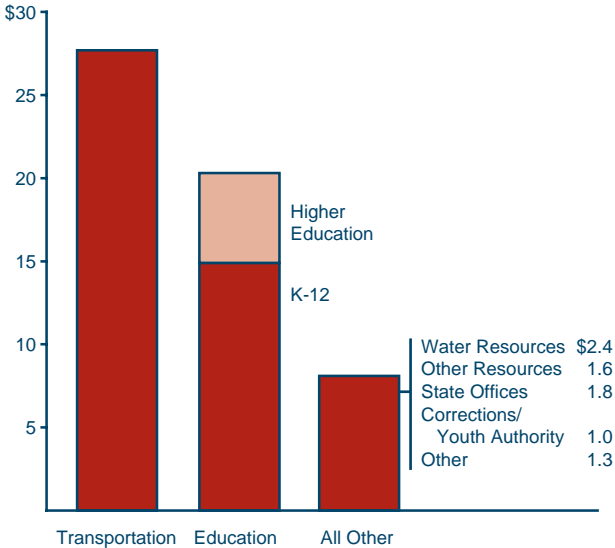
Trends in State Capital Outlay Spending Over Time



- Real per capita spending on state-supported infrastructure declined rapidly in California between 1966-67 and 1981-82. This decline reflected a reduction in spending on major programs such as transportation and higher education.
- Per capita spending has increased steadily since the early 1980s, but the \$132 per capita the state plans to spend for capital outlay in 2002-03 is less than half the level (adjusted for inflation) the state spent in 1966-67.
- Recent increases in per capita spending on infrastructure has been due to the extensive use of lease payment bonds and general obligation bonds for education, resources, and other purposes.

Infrastructure Plan Geared Towards Transportation and Education

Dollars in Billions (2002-03 Through 2006-07)



- The administration released in June 2001 its first comprehensive infrastructure plan. The plan provides detail on the administration's proposed capital outlay projects for the 2002-03 through 2006-07 period.
- Of the proposed \$56 billion in spending over the period, half would be in transportation and over one-third in education.
- While transportation projects would be financed almost entirely with federal funds and state special funds, education projects would be financed principally by General Fund-supported bonds.