

# CAL --- FACTS

MAC TAYLOR • LEGISLATIVE ANALYST • JANUARY 2011



With a state as big, as populous, and as complex as California, it would be impossible to quickly summarize how its economy or state budget works. The purpose of *Cal Facts* is more modest. By providing various "snapshot" pieces of information, we hope to provide the reader with a broad overview of public finance and program trends in the state.

*Cal Facts* consists of a series of charts and tables which address questions frequently asked of our office. We hope the reader will find it to be a handy and helpful document.

*Mac Taylor*  
■ *Legislative Analyst*



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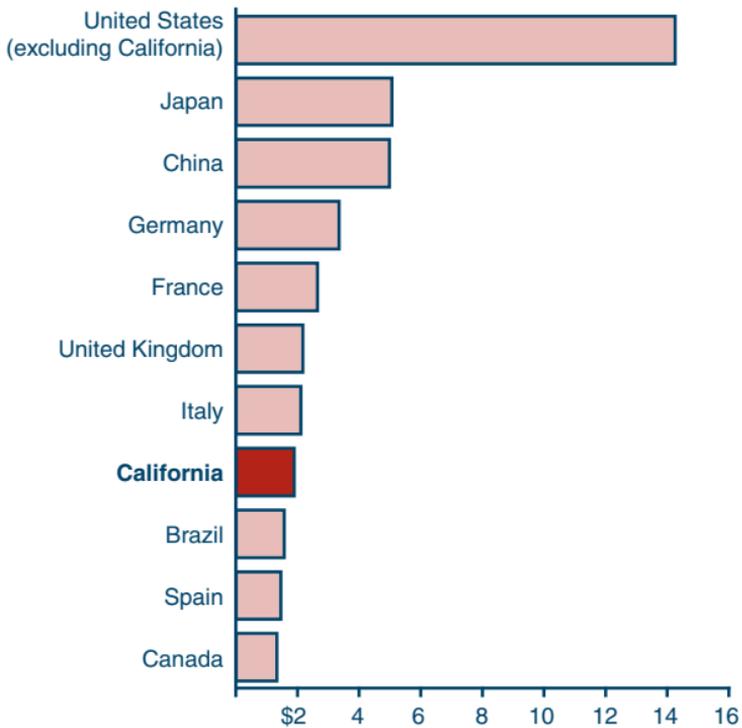
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## California Ranks Among the World's Top Ten Economies

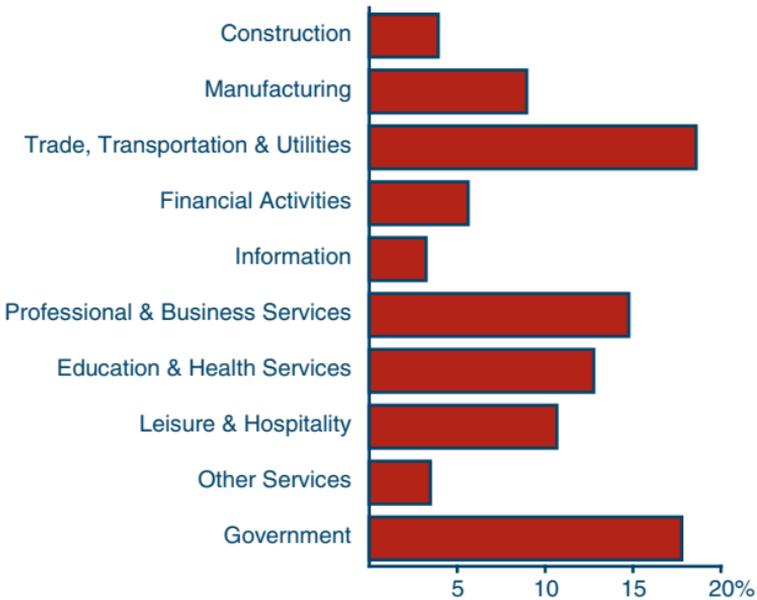
*Gross Product in 2009 (In Trillions)*



- California's gross state product, the total value of final goods and services produced in state, was about \$1.9 trillion in 2009, making it one of the world's largest economies.
- California accounts for 13 percent of the nation's output.
- The next largest state economy—Texas—is about 60 percent the size of California's.

## California's Employment Base Is Diversified

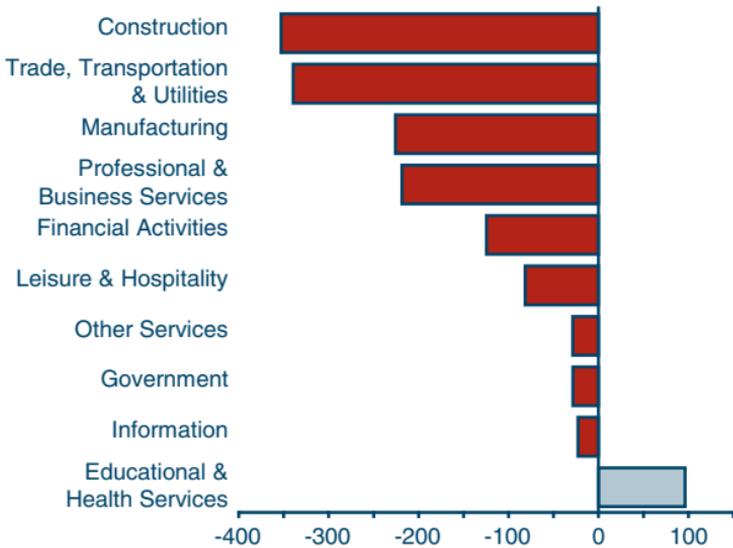
*(Share of State Employment in July 2010)*



- California's distribution of jobs by sector is very similar to the nation's. Services, information, and government jobs are a slightly higher share of California's employment base, as compared to the rest of the country.

## Construction Jobs Hit Hard During Recession

*Change in Employment, July 2007-2010  
(In Thousands)*



- The state added an estimated 844,000 jobs between July 2003 (the previous low point) and July 2007. Between July 2007 and July 2010, however, the state lost 1.3 million jobs.
- The construction sector lost the most jobs of any sector since 2007. Construction employment is nearly 40 percent below the level of July 2007.
- The only sector to add jobs between 2007 and 2010 was educational and health services.

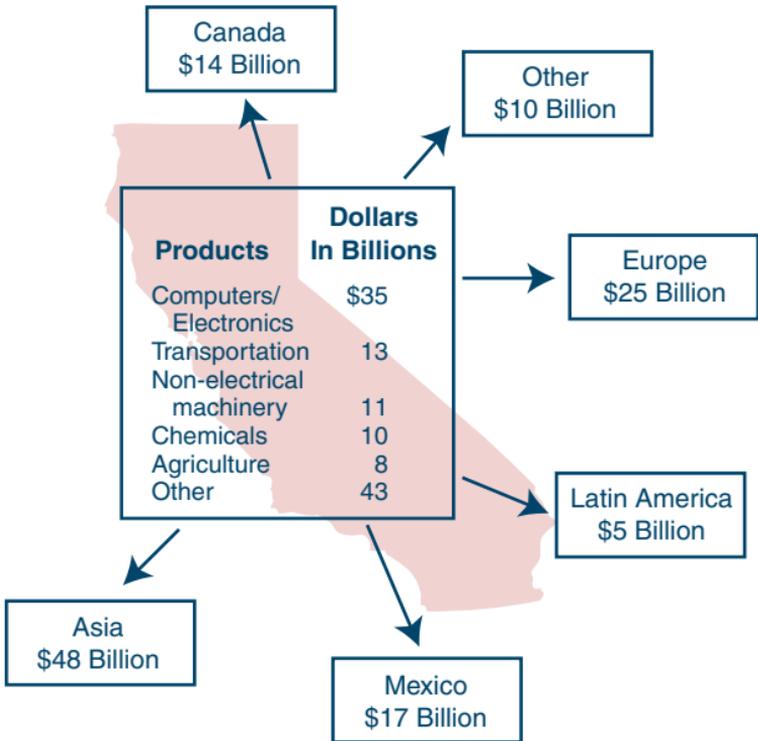
## Personal Income in California Declined in 2009



- The bulk of personal income consists of employee pay and benefits and proprietors' income, which are good measures of the health of the state's economy.
- Personal income declined by 2.4 percent in 2009. This was the first time that personal income declined in California since 1938. As shown above, in recent recessions (1990-91 and 2001), personal income growth in the state slowed, but did not decline.

## Trade—An Important Source of California Economic Activity

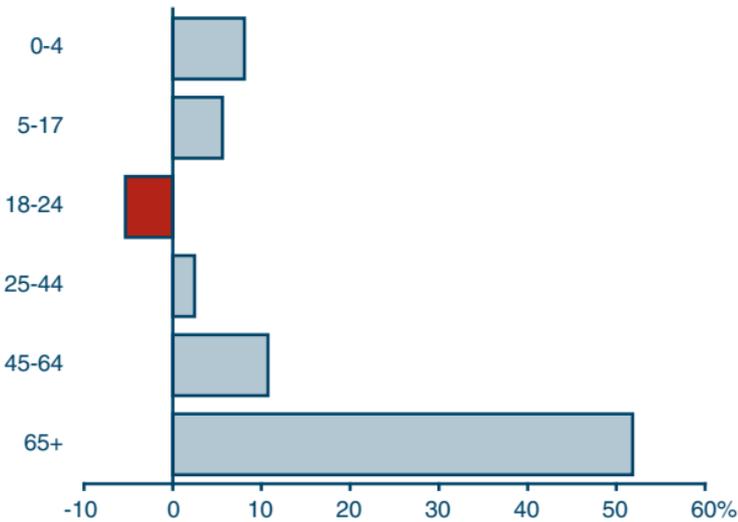
*California International Exports, 2009*



- International exports of goods from California totaled \$120 billion in 2009—down from \$145 billion in 2008. Asia accounts for the largest share of California sales abroad, followed by Europe, Mexico, and Canada.
- In 2007 (the latest year of data available), \$480 billion of California goods were shipped to other U.S. states—led by shipments to Texas (\$53 billion).
- The largest category of international and domestic exports is electronics and related equipment.

## Baby Boomers Will Swell Over-65 Population

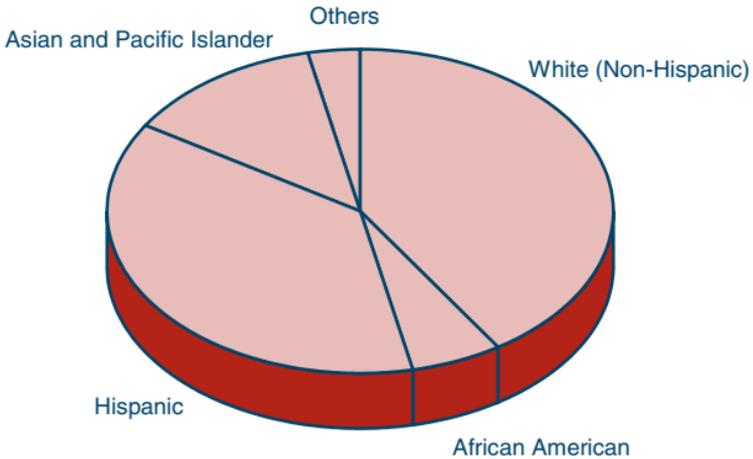
*Projected Percentage Increase in Population (2010 Through 2020)*



- The state should see more than a 50 percent increase in the population over age 65 during the next decade. The enormous post-World War II baby boom generation will start turning 65 starting in 2011.
- The 18-24 age group should see a modest decline during the 2010s. They are the offspring of the relatively small “Generation X”—those born in the two decades after the baby boom.

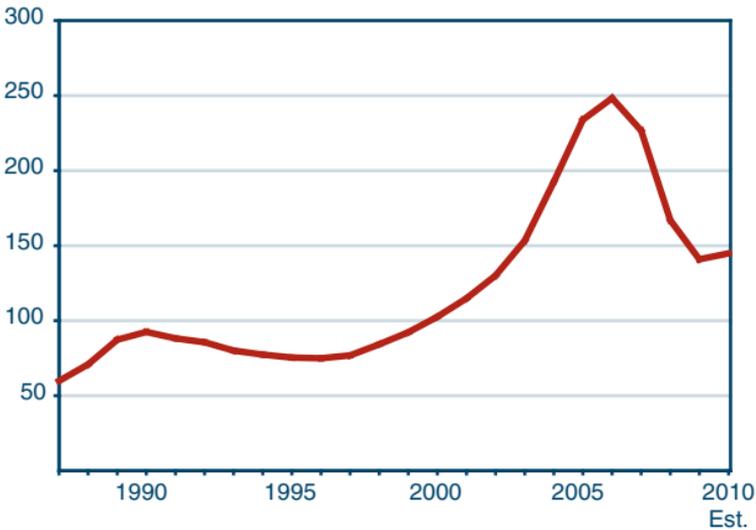
## California Is Very Diverse, Racially and Ethnically

2008



- Between 2000 and 2008, the share of Californians who are Hispanic has climbed from 33 percent to 37 percent of the population. Asian Americans and Pacific Islanders have grown from 11 percent to 13 percent.
- By comparison, non-Hispanic white Californians have declined from 47 percent of the population to 41 percent. African Americans have declined from 6 percent to 5 percent of the state population during this same period.
- Nationally, non-Hispanic whites are 65 percent of the population, Hispanics 16 percent, African Americans 13 percent, and Asian Americans and Pacific Islanders 5 percent.

## California Housing Prices Have Fallen Substantially From Peak<sup>a</sup>

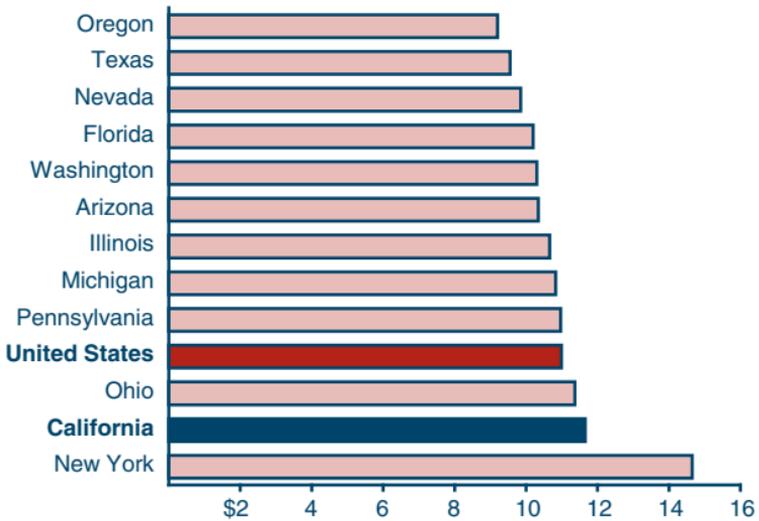


<sup>a</sup>Uses Case-Shiller data for the California metropolitan areas it covers and Federal Housing Finance Agency data for the rest of the state. First quarter of 2000 = 100.

- The burst of the “housing bubble”—illustrated above as the collapse of elevated housing prices since 2006—has crippled California’s economy. Only recently have house prices begun to stabilize, which, in turn, has helped stabilize the state’s economy since the end of the recent recession.
- One benefit of the bubble bursting is that homeownership has become much more affordable—for those households able to pay cash or secure credit to purchase a home. The cost of a 30-year fixed-rate mortgage for a median-priced home dropped to about 50 percent of median household income by 2009 due to declines in home prices and record-low interest rates. In 2006, this measure was almost 90 percent of income.

## California's Tax Burden Is Somewhat Above Average

*Combined State-Local Taxes Per \$100 of Personal Income, 2007-08*



- In 2007-08, California's state and local tax burden—\$11.66 per \$100 of personal income—was somewhat above the \$10.99 average for the U.S. as a whole.
- California's tax burden was higher than that of all neighboring states. Of other major states, only New York's tax burden was considerably higher.
- A surge of income taxes from capital gains in 2007-08 may have exaggerated somewhat the differences shown in tax burdens between California and states with no personal income tax, such as Florida, Texas, Nevada, and Washington.

## California's Governments Rely On a Variety of Taxes

State Taxes	Base Rate	Comments/Description
<b>Personal Income Tax</b>	Marginal rates of 1% to 9.3% Additional 1% surcharge on high incomes (7% AMT <sup>a</sup> )	In 2009 and 2010, each marginal base rate is increased by 0.25% (taking the top rate, for example, to 9.55%). Married couples with gross incomes of \$29,508 or less need not file. The top rate applies to married couples' taxable income in excess of \$93,532. The surcharge is placed on taxable incomes of \$1 million or more.
<b>Sales and Use Tax</b>	7.25% <sup>b</sup>	Applies to final purchase price of tangible items, except for food and certain other items. In addition to the base rate, an additional 1% rate for the state General Fund is in effect until June 30, 2011.
<b>Corporation Tax</b>		
General Corporations	8.84% <sup>c</sup> (6.65% AMT)	Applies to net income earned by corporations doing business in California.
Financial Corporations	10.84% (6.65% AMT plus adjustment)	For financial corporations, a portion of the tax is in lieu of certain local taxes.
<b>Excise Taxes</b>		
Vehicle Fuel	35.3¢/gallon of gasoline or 18¢/gallon of diesel fuel	Effective November 3, 2011, these taxes may be changed as a result of the passage of Proposition 26 (2010). Effective July 1, 2011, the diesel fuel tax will be 13.6¢/gallon.

State Taxes	Base Rate	Comments/Description
Wine and beer	20¢/gallon	
Sparkling wine	30¢/gallon	
Spirits (100 proof or less)	\$3.30/gallon	
Cigarettes	87¢/pack	
<b>Insurance Premium Tax</b>	2.35%	Insurers are subject to the gross premiums tax in lieu of all other taxes except property taxes and vehicle license fees.
<b>Property Tax</b>	1% (plus any rate necessary to cover voter-approved debt)	Tax is levied on assessed value (usually based on purchase price plus the value of improvements and a maximum annual inflation factor of 2%) of most real estate and various personal and business property. Revenues are allocated to local governments and school districts within the county.
<b>Vehicle License Fee</b>	0.65% <sup>d</sup>	Tax is applied to depreciated purchase price. It is collected by the state and distributed to cities and counties. In addition to the base rate, an additional 0.5% rate (for a total of 1.15%) is levied to benefit the General Fund through June 30, 2011.

<sup>a</sup> Alternative minimum tax.

<sup>b</sup> State and local combined. Includes rates levied for state-local program realignment, local public safety, and repayment of deficit-financing bonds. Excludes local optional rates, which average 0.85 percent.

<sup>c</sup> A 1.5 percent rate is levied on net income of Subchapter S corporations.

<sup>d</sup> The state shifted additional property tax revenues to cities and counties beginning in 2004-05 to compensate for the vehicle license fee rate reduction from 2 percent.

## Ballot Measures Have Had Major State-Local Fiscal Implications

Measure/Election	Major Provisions
<b>Proposition 13/</b> June 1978	<ul style="list-style-type: none"> <li>• Limits general property tax rates to 1 percent, and limits increases in assessed value after a property is bought or constructed.</li> <li>• Makes Legislature responsible for dividing property tax among local entities.</li> <li>• Requires two-thirds vote for Legislature to increase taxes, and two-thirds voter approval of new local special taxes.</li> </ul>
<b>Proposition 4/</b> November 1979	<ul style="list-style-type: none"> <li>• Limits spending by the state and local entities to prior-year amount, adjusted for population growth and per capita personal income growth.</li> <li>• Requires state to reimburse locals for mandated costs.</li> </ul>
<b>Proposition 62/</b> November 1986	<ul style="list-style-type: none"> <li>• Requires approval of new local general taxes by two-thirds of the governing body and a majority of local voters (excludes charter cities).</li> </ul>
<b>Proposition 98/</b> November 1988	<ul style="list-style-type: none"> <li>• Establishes minimum state funding guarantee for K-12 schools and community colleges.</li> </ul>
<b>Proposition 99/</b> November 1988	<ul style="list-style-type: none"> <li>• Imposes a 25 cent per pack surtax on cigarettes and a comparable surtax on other tobacco products, and limits use of surtax revenue, primarily to augment health-related programs.</li> </ul>
<b>Proposition 162/</b> November 1992	<ul style="list-style-type: none"> <li>• Limits the Legislature's authority over CalPERS and other public retirement systems, including their administrative costs and actuarial assumptions.</li> </ul>
<b>Proposition 172/</b> November 1993	<ul style="list-style-type: none"> <li>• Imposes half-cent sales tax and dedicates the revenue to local public safety programs.</li> </ul>
<b>Proposition 218/</b> November 1996	<ul style="list-style-type: none"> <li>• Limits authority of local governments to impose taxes and property-related assessments, fees, and charges.</li> <li>• Requires majority of voters to approve increases in all general taxes, and reiterates that two-thirds must approve special taxes.</li> </ul>

Continued

## Ballot Measures Have Had Major State-Local Fiscal Implications

Measure/Election	Major Provisions
<b>Proposition 10/</b> November 1998	<ul style="list-style-type: none"> <li>• Imposes a 50 cent per pack surtax on cigarettes, and comparable surtax on other tobacco products.</li> <li>• Limits use of revenues, primarily to augment early childhood development programs.</li> </ul>
<b>Proposition 39/</b> November 2000	<ul style="list-style-type: none"> <li>• Lowers voter approval from two-thirds to 55 percent for local general obligation bonds for school facilities.</li> </ul>
<b>Proposition 42/</b> March 2002	<ul style="list-style-type: none"> <li>• Permanently directs to transportation purposes sales taxes on gasoline previously deposited in the General Fund.</li> <li>• Authorizes state to retain gasoline sales taxes in General Fund when state faces fiscal difficulties.</li> </ul>
<b>Proposition 49/</b> November 2002	<ul style="list-style-type: none"> <li>• Requires that the state fund after-school programs at a specified funding level.</li> </ul>
<b>Proposition 57/</b> March 2004	<ul style="list-style-type: none"> <li>• Authorizes \$15 billion in bonds to fund budgetary obligations and retire the state's 2002-03 deficit.</li> </ul>
<b>Proposition 58/</b> March 2004	<ul style="list-style-type: none"> <li>• Requires a balanced state budget, restricts borrowing, and mandates creation of a reserve fund.</li> </ul>
<b>Proposition 1A/</b> November 2004	<ul style="list-style-type: none"> <li>• Restricts state's ability to reduce local government revenues from the property tax, sales tax, and vehicle license fee.</li> </ul>
<b>Proposition 63/</b> November 2004	<ul style="list-style-type: none"> <li>• Imposes an additional 1 percent tax on incomes of \$1 million and over to fund mental health services.</li> </ul>
<b>Proposition 1A/</b> November 2006	<ul style="list-style-type: none"> <li>• Limits state's ability to retain gasoline sales taxes in General Fund and constitutionally requires repayment of past-year loans to transportation.</li> </ul>
<b>Proposition 22/</b> November 2010	<ul style="list-style-type: none"> <li>• Reduces the state's authority to use or redirect state fuel tax revenues and local property tax revenues.</li> </ul>
<b>Proposition 26/</b> November 2010	<ul style="list-style-type: none"> <li>• Broadens the definition of "taxes" to include many payments previously considered to be state and local fees and charges.</li> </ul>

## Votes Required to Increase Taxes, Fees, Assessments, or Debt

Measure	Approval Needed	
	Governing Body	Voters
<b>State</b>		
Tax	2/3	None
Fee	Majority	None
General obligation bond	2/3	Majority
Lease revenue bond	Majority	None
Initiative proposing revenue or debt	None	Majority
<b>Local</b>		
Tax:		
Funds used for general purposes	2/3 <sup>a</sup>	Majority
Funds used for specific purposes	2/3 <sup>a</sup>	2/3
Property assessment	Majority	Majority <sup>b</sup>
Fee	Majority	None <sup>c</sup>
General obligation bond:		
K-14 districts	2/3	55%
Cities, counties, and special districts	2/3	2/3
Other debt	Majority	None
<sup>a</sup> For most local agencies.		
<sup>b</sup> Votes weighted by assessment liability of affected property owners.		
<sup>c</sup> Except for certain fees on property.		

- At the local level, most types of revenue increases require approval of both the governing body and the voters.
- Proposition 26, recently approved by the state's voters, expands the definition of "taxes" to include some revenue measures that state and local governments formerly considered to be fees and charges.

## Allocation of Property Tax Has Varied Over Time

(Dollars in Billions)

Selected Years <sup>a</sup>	Tax Distribution				
	Revenue	Schools	Counties	Cities	Other <sup>b</sup>
1977	\$10.3	53%	30%	10%	7%
1979	5.7	39	32	13	16
1994	19.3	52	19	11	18
2008	45.2	37	27	18	18

<sup>a</sup> Information for 1977 includes debt levies. Data for 2008 is estimated.

<sup>b</sup> Redevelopment agencies and special districts.

- Before 1978, local agencies determined the property tax rate and its distribution of revenues.
- In 1978, Proposition 13 set a maximum tax rate of 1 percent and shifted control over the distribution of property taxes to the state. The state basically prorated these revenues among local agencies except that it gave a smaller share to schools and backfilled the schools' losses with state aid.
- In 1992 and 1993, the state modified the distribution of property taxes to give a greater share to schools (thereby reducing state school spending).
- In 2004, the state shifted a greater share of property taxes to cities and counties to offset their losses due to the (1) reduction in the vehicle license fee rate and (2) use of local sales taxes to pay the state's deficit-financing bonds.

## Extensive Use of Redevelopment by Local Agencies in Some Counties

	Property Taxes to Redevelopment
<b>Selected Counties</b>	
San Bernardino	31%
Riverside	26
Butte	20
Solano	20
<b>Selected Other Counties</b>	
Los Angeles	12%
Sacramento	5
San Francisco	8
<b>Statewide Totals</b>	<b>12%</b>

- If a city or county creates a redevelopment project area to address urban blight, its redevelopment agency receives the future growth in property taxes from the area. (Absent redevelopment, schools and other local agencies receive these tax revenues.)
- Redevelopment projects range from 1 acre to over 85,000 acres. Some agencies have placed so much property under redevelopment that as much as one-fifth of their countywide assessed property value is under redevelopment.
- Statewide, redevelopment agencies receive 12 percent of property taxes paid by property owners, but this percentage varies significantly at the local level. The City of Fontana's redevelopment agency receives about two-thirds of property taxes paid in the city.

## Paying for County, City, and Special District Services

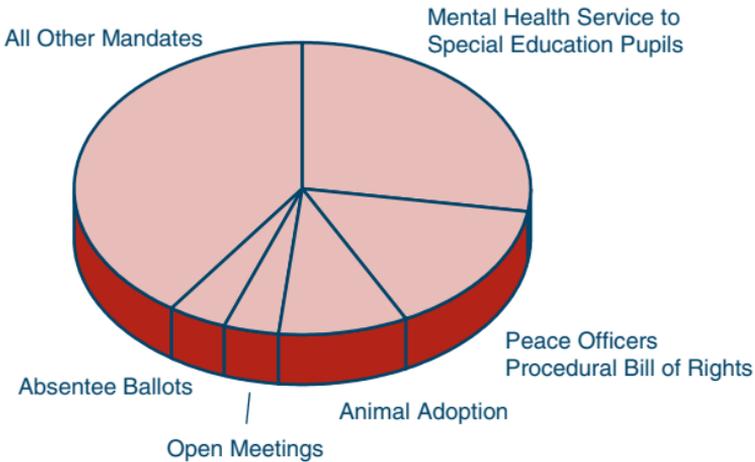
2007-08

	Counties	Cities	Special Districts <sup>a</sup>
<b>Total Revenues</b> <i>(In Billions)</i>	<b>\$50.4</b>	<b>\$58.1</b>	<b>\$12.1</b>
<b>Sources of Revenues</b>			
Property taxes	23%	8%	29%
Sales and other taxes	3	26	—
User charges, permits, assessments, fines	17	44	55
Intergovernmental aid	54	8	13
Other revenues	3	14	3

<sup>a</sup> Nonenterprise special districts only.

- Counties receive roughly half of their revenues from the state and federal government and must spend these funds on specific health and social services programs. About one-quarter of county revenues come from local taxes. Counties use tax revenues to pay for public protection and other local programs, as well as paying the required “match” for state and federal programs.
- Cities receive over 40 percent of their revenues from various user charges. Cities use these funds to pay for electric, water, and other municipal services. Over one-third of city revenues come from local taxes, the largest of which is the sales tax.
- Special district financing varies significantly based on the type of service the district provides.

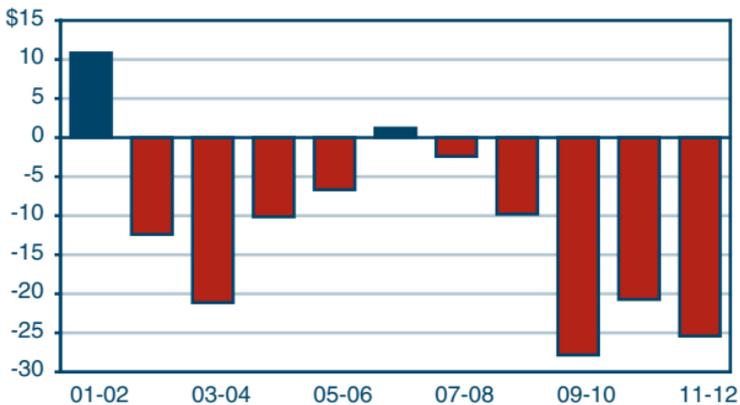
## Five State Mandates Account for Much of the State's \$1 Billion Backlog



- If the state mandates that a local government provide a new program or higher level of service, the Constitution generally requires the state to provide reimbursement.
- The state has accumulated a large backlog of unpaid mandate bills. In 2009-10, the state owed counties, cities, and special districts more than \$1 billion for mandates. Five mandates, shown above, account for about 60 percent of this liability.
- The Legislature may “suspend” a mandate in the budget act. Suspending a mandate makes local agency implementation of the mandate optional for one year. In 2010-11, the state budget suspended more than 50 mandates. Some of these mandates have been suspended annually for over a decade.

## Significant State Budget Shortfalls Since 2001

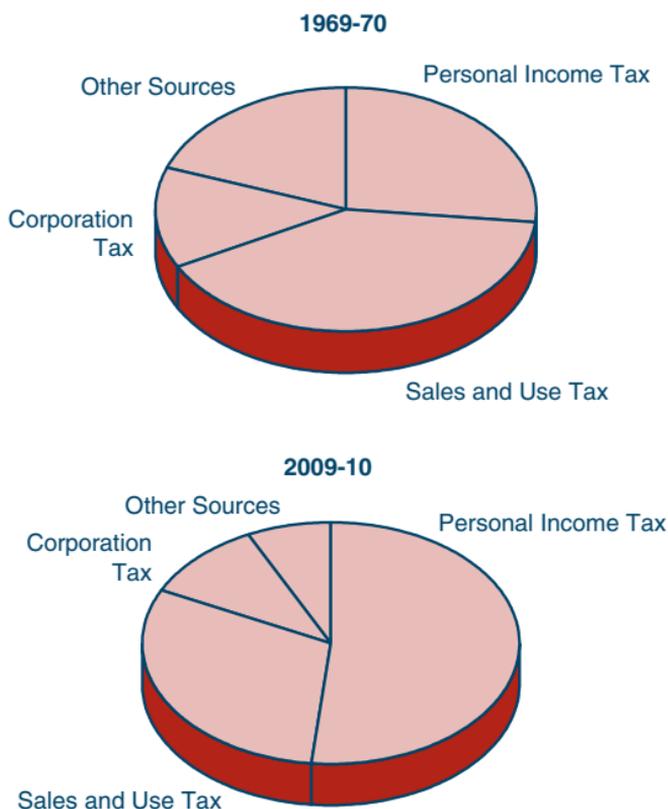
*(Projected Budget Problem at Beginning of Each Budget Cycle<sup>a</sup>, in Billions)*



<sup>a</sup> Based on LAO projections made in November preceding each fiscal year shown. Represents difference between current-law resources (including reserves) and expenditures.

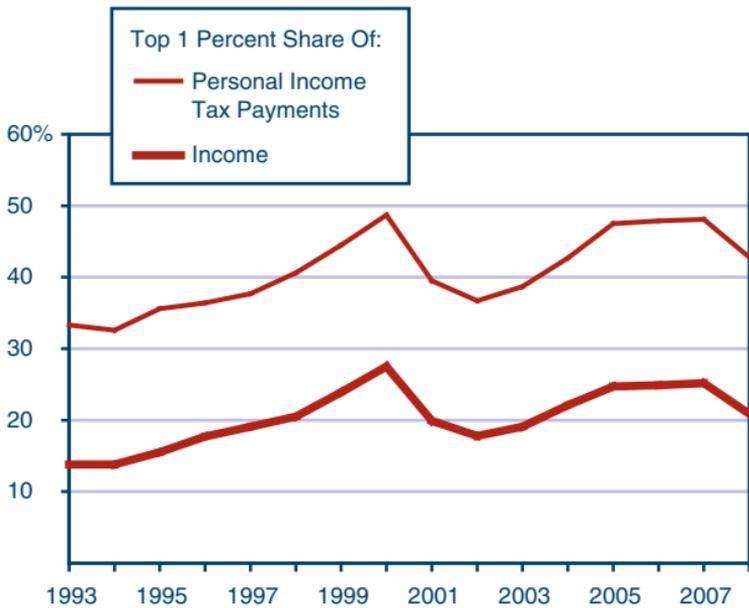
- California has dealt with large state budget shortfalls since 2001. The 2001 recession and the “Great Recession” of 2007 to 2009 were major causes of the shortfalls. In addition, major new program and tax cut commitments were made in 1999 and 2000 that raised the level of state spending.
- The state’s fiscal condition deteriorated rapidly in the months following the near collapse of world credit markets in late 2008. Eventually, the Legislature had to enact about \$60 billion of one-time and ongoing actions to address the 2009-10 budget shortfall. In 2010-11, the enacted budget, as well as 2010 special session actions, contained about \$20 billion of budget solutions.

## The Composition of Revenues Has Changed Over Time



- Over the past four decades, personal income tax revenues to the General Fund have increased dramatically—rising from 27 percent to 51 percent of General Fund revenues.
- This growth is due to growth in real incomes, the state's progressive tax structure, and increased capital gains.
- The reduced share for the sales tax reflects in part the increase in spending on services, which generally are not taxed.

## Top 1 Percent of Income Earners Pay Up to One-Half of Income Taxes



- The fraction of the personal income tax paid by the 1 percent of returns reporting the most income has varied from just above 30 percent in the early 1990s to nearly 50 percent in 2000 at the height of the tech boom.
- As the graph indicates, this group's share of the personal income tax burden rises or falls with their share of taxable income. Compared to other taxpayers, this group reports proportionately much more business income and capital gains, which are far more volatile than wage and salary income.

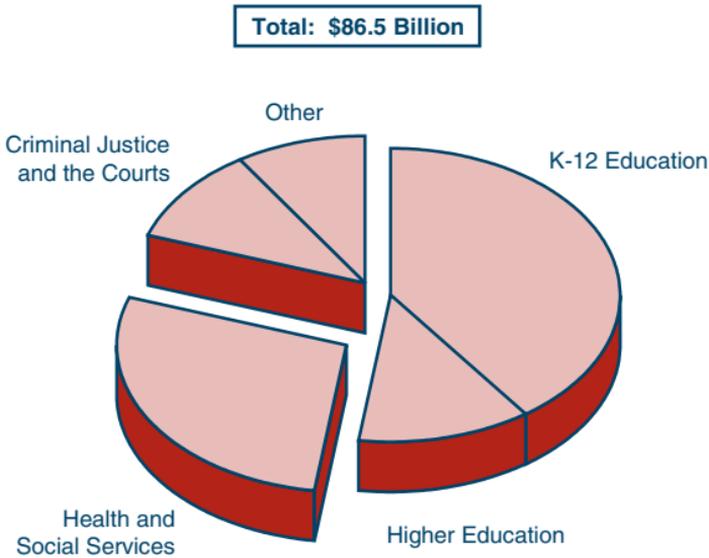
## Sales and Use Taxes Levied for State and Local Purposes

Rate	Purpose
5.00%	State General Fund
0.25	State Fiscal Recovery Fund (to repay deficit-financing bonds)
0.50	Local Revenue Fund—for local health and social services programs (1991 “Realignment”)
0.50	Local Public Safety Fund—for local criminal justice activities
1.00	Bradley-Burns local sales and use tax—for city and county operations (0.75 percent) and county transportation purposes (0.25 percent)
(7.25%)	Subtotal (base state and local tax rate)
0.85%	Local optional statewide average.
(8.10%)	Subtotal (base state and local tax rate, plus average local optional rate)
1.00%	Temporary state General Fund sales and use tax, until July 1, 2011
<b>9.10%</b>	<b>Total, Average State and Local Tax Rate (Through July 1, 2011)</b>

- Including the temporary 1 percent sales and use tax (SUT) for the state’s General Fund, the average state and local SUT rate paid by California consumers currently is 9.1 percent.
- In 2008-09, total state and local SUT collections were \$39.9 billion—down 10.1 percent from 2007-08—due to a decline in taxable sales. Taxable sales are not forecasted to return to 2006-07 levels until 2012-13.

## Education, Health, and Social Services Dominate Spending

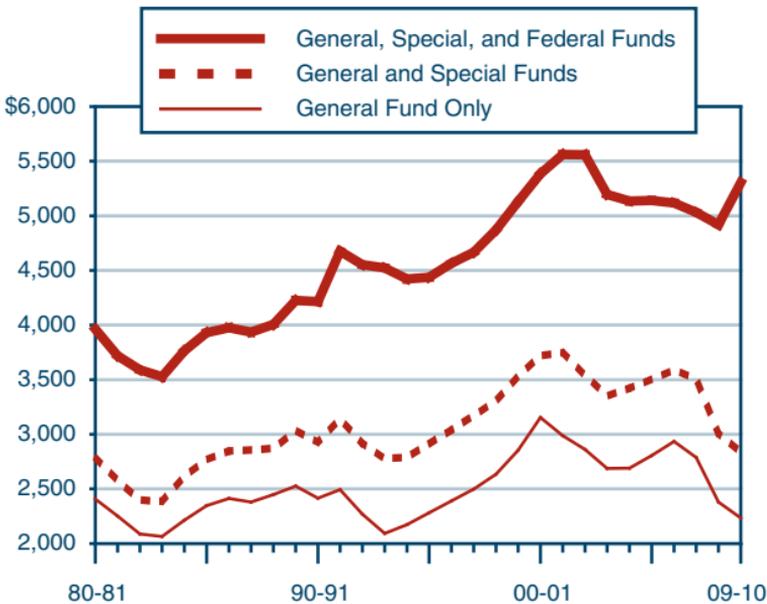
*General Fund—2009-10*



- The General Fund spent \$45 billion in 2009-10—52 percent of the total budget—on education, including payments to school districts, community colleges, and universities. Health and social services spending accounted for \$24 billion (28 percent).
- In 2009-10, \$67 billion—77 percent of the total General Fund budget—was paid to local governments (including school districts and counties) and the university systems. State personnel costs, excluding university employees, accounted for about 10 percent of the budget.

## Real Per Capita State Spending Typically Dips During Recessions

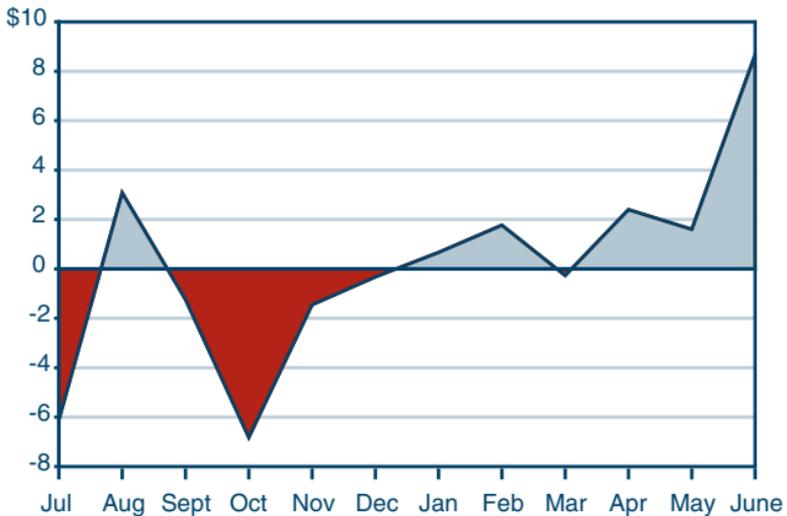
*2009-10 Base Year, State and Local Government Deflator*



- Real per capita state expenditures—a measure that controls for population growth and inflation—tend to decline during and just after economic recessions.
- Spending increases in 2009-10 were driven by federal funds made available through the American Recovery and Reinvestment Act (the federal economic stimulus legislation).
- Real per capita General Fund spending declined 24 percent between 2006-07 and 2009-10, as annual expenditures declined from \$101 billion to \$86 billion during that period.

## Large Seasonal Cash Flow Deficits Each Summer and Autumn

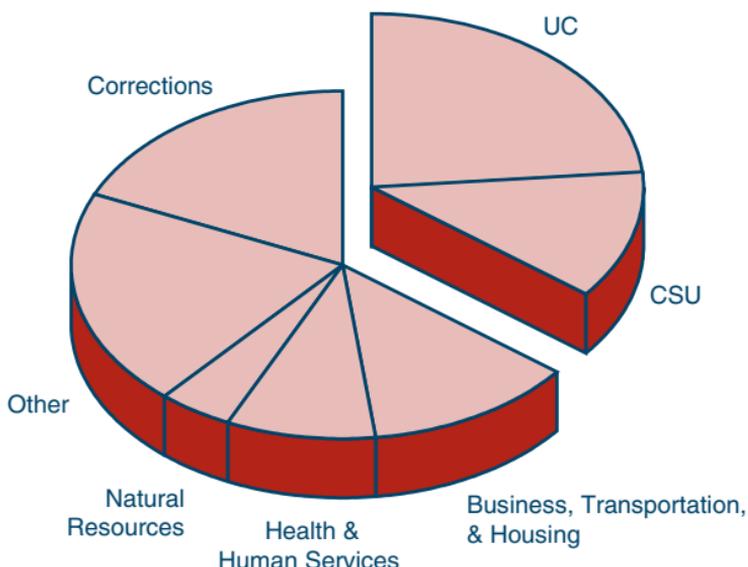
2009-10 (Monthly State General Fund Operating Surplus or Deficit, In Billions)



- The state *spends* 60 percent of its budget during the *first half* of the fiscal year—from July to December. The state *collects* most of its cash receipts during the *second half* of the fiscal year, when residents and businesses pay large portions of their income taxes. Many governments, including the state, have to borrow each year to manage these seasonal cash flow issues.
- The state General Fund has struggled with its cash situation since 2008-09. State government operations have continued due to heavy borrowing from special funds and the financial markets, as well as payment delays authorized by the Legislature or implemented by the Controller.

## Higher Education Represents Over One-Third of State Employment

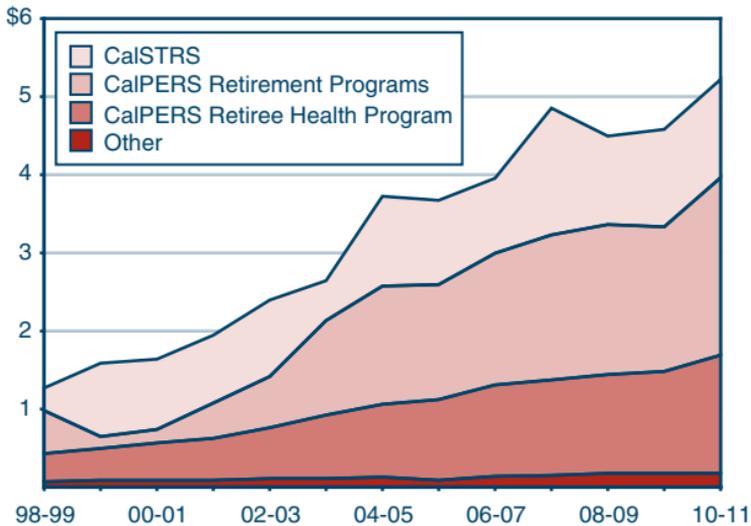
2009-10



- In 2009-10, the state employed the equivalent of 356,436 full-time staff at a salary cost of roughly \$22.2 billion (all funds). Employees in higher education represented more than one-third of these totals.
- Two-thirds of State General Fund salary costs (excluding universities) are for corrections and rehabilitation employees.
- The state has many positions that are authorized but not filled. The current vacancy rate is about 12.3 percent.
- Over the past 30 years, state employment has averaged 8.8 state employees per 1,000 population. In 2009-10, there were about 9.3 employees per 1,000 population. On this basis, California ranks 47<sup>th</sup> among the states.

## State Costs for Retirement Programs Have Increased Substantially

General Fund (In Billions)



- State contributions to pension and retiree health programs for state employees, as well as contributions to the teachers' pension program, have increased substantially in recent years. The primary reasons for this increase are the weak performance of retirement system investments in several recent years and rapid increases in retiree health costs. In addition, costs have increased due to increases in pension benefits adopted at the beginning of the last decade.
- In general, as a result of measures passed by the Legislature in 2010, state employees hired beginning in 2011 will receive lower levels of pension benefits—similar to those in effect prior to 1999.
- The state does not have plans in place to address substantial unfunded liabilities in the teachers' pension program, state employee retiree health programs, and retirement programs for University of California employees.

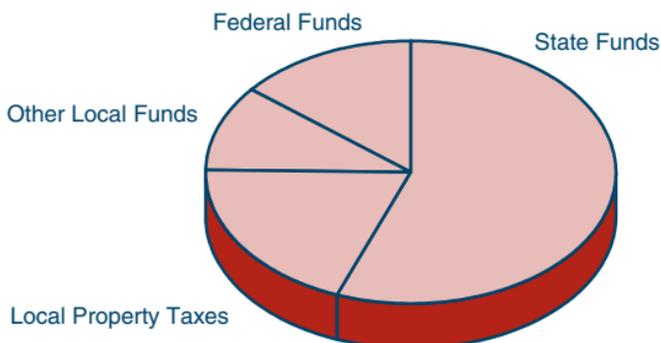
## Cost Per Participant for Major Government Programs

2009-10

	Number of Participants (In Thousands)	Average Cost Per Participant	
		General Fund	Total <sup>a</sup>
<b>Corrections</b>			
Adults	167	\$43,500	\$46,700
Youth	2	198,931	208,766
<b>Education</b>			
K-12	5,922	\$5,691	\$11,405
CCC	1,162	3,212	5,071
CSU	343	6,854	6,987
UC	198	11,743	11,885
<b>Health and Social Services</b>			
Medi-Cal	7,276	\$1,929	\$3,980
SSI/SSP	1,249	2,363	7,243
CalWORKs	1,347	1,508	4,513
Healthy Families	881	250	1,256
IHSS	439	3,369	13,002
Regional centers	237	9,261	16,957
Foster Care	60	7,276	29,364
Developmental centers	2	17,254	276,640
<sup>a</sup> Reflects total spending flowing through the state budget. Excludes student fees for higher education and hospital payments and county funds for Medi-Cal.			

## State Is Primary Source of Revenue For K-12 Schools

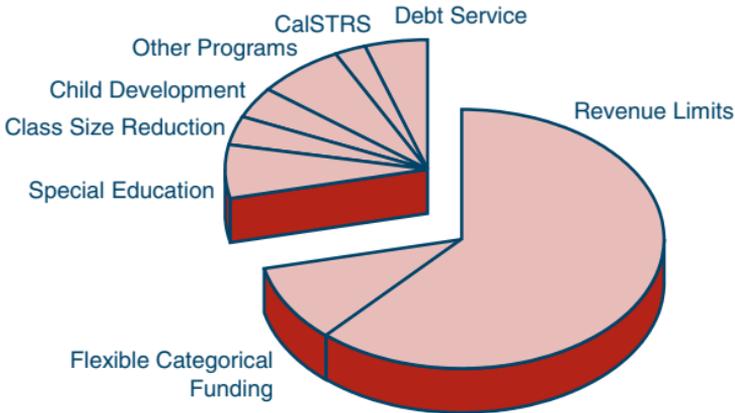
2009-10



- In 2009-10, the state provided 56 percent of all K-12 school revenue, including approximately 1 percent from the state lottery.
- Local sources (through property taxes and other local incomes) provided about 30 percent of all K-12 school revenue.
- The federal government provided 14 percent of all K-12 revenue. This amount is higher than in previous years, primarily due to additional funds provided through the American Recovery and Reinvestment Act.

## One-Third of K-12 Funding Comes With Strings Attached

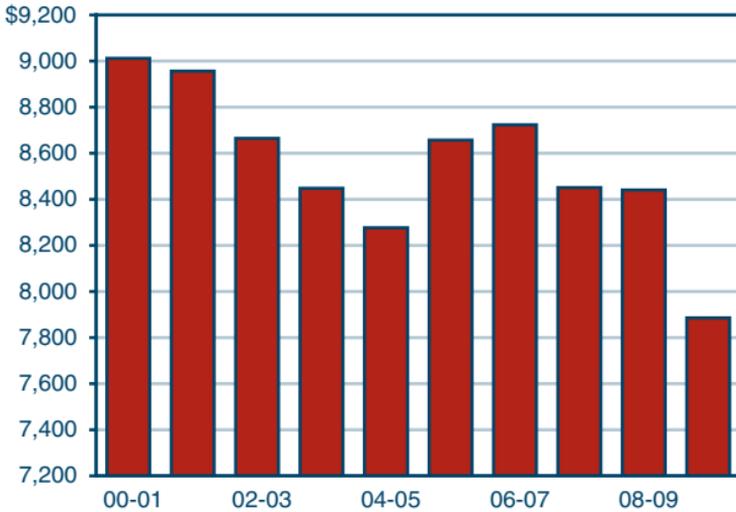
2009-10



- About 70 percent of state-budgeted funding for school districts may be used for any educational purpose. The largest share of general purpose funding is “revenue limits” (essentially per-pupil grants to districts).
- The remaining general purpose funding is flexible categorical funding. From 2008-09 through 2012-13, the state is allowing school districts to use monies from about 40 categorical programs for any purpose.
- Most of the remaining funds are for specific categorical programs (such as K-3 Class Size Reduction) for which districts must continue to fulfill the various associated program requirements.
- In addition, the state annually spends roughly \$2 billion for debt service on school facilities and \$1 billion for the California State Teachers’ Retirement System (CalSTRS).

## Programmatic Per K-12 Pupil Funding Has Fallen in Recent Years

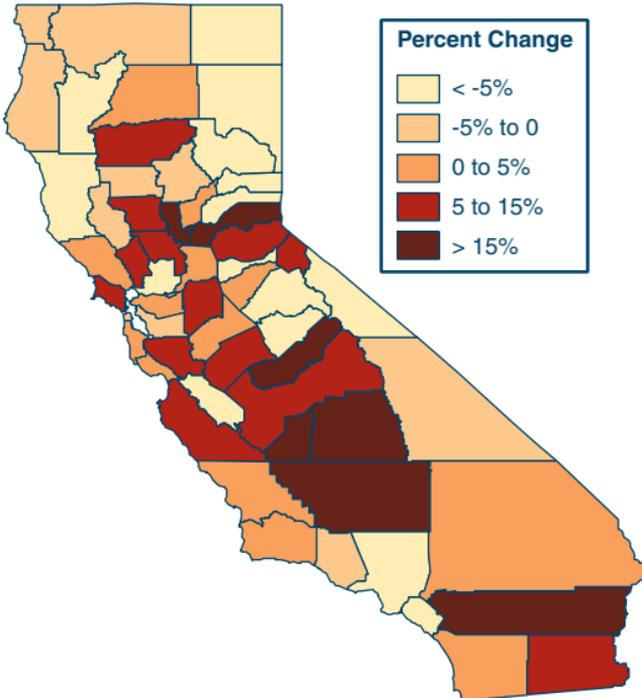
*2009-10 Inflation-Adjusted Dollars*



- After significant funding increases in the late 1990s through 2000-01 (due to spikes in state revenues from the dot-com boom), per-pupil funding began to decline in 2001-02 due to a sharp drop in state General Fund revenues.
- Per-pupil funding rose in 2005-06 and 2006-07 before starting another decline due to the economic recession and the state's budget problems.
- The amounts displayed in the chart include ongoing Proposition 98 funding, payment deferrals, funding swaps, and one-time federal stimulus funding. The chart is intended to reflect the amount of per-pupil funding within the Legislature's purview.

## K-12 Enrollment Trends Vary Greatly By County

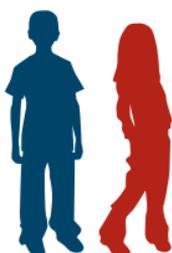
*Population Growth, 2005-06 to 2015-16*



- Although statewide K-12 enrollment is projected to grow only 1 percent from 2005-06 to 2015-16, trends are expected to vary greatly by county. Generally, above-average enrollment growth is expected in inland counties, while declines are expected in coastal counties and along the Sierra Nevada.
- Declines of 5 percent or more are expected in 15 counties, including Lassen (23 percent), Los Angeles (12 percent), and Mendocino (8 percent).
- Increases of 10 percent or more are expected in 11 inland counties, including Sutter (36 percent), Riverside (33 percent), and Placer (27 percent).

## California's Public Schools Serve Diverse Population

California's Public Schools Enroll More Than 6 Million K-12 Students:



About 1 in 2 is from a low-income family.



About 1 in 4 is an English language learner (ELL).

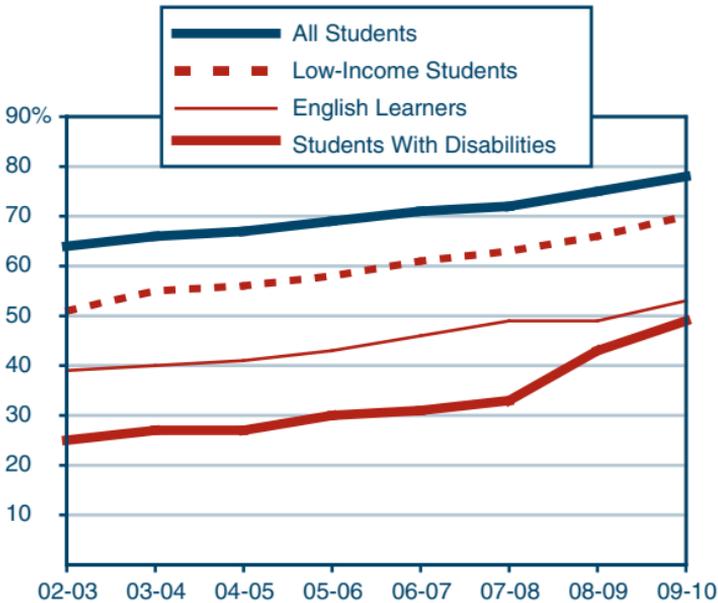


About 1 in 10 receives special education services.

- Students are considered low income if their family's income is at or below 185 percent of the federal poverty level (\$40,793 for a family of four).
- Of the state's ELL students, 85 percent are native Spanish speakers. The next most common language is Vietnamese (2 percent).

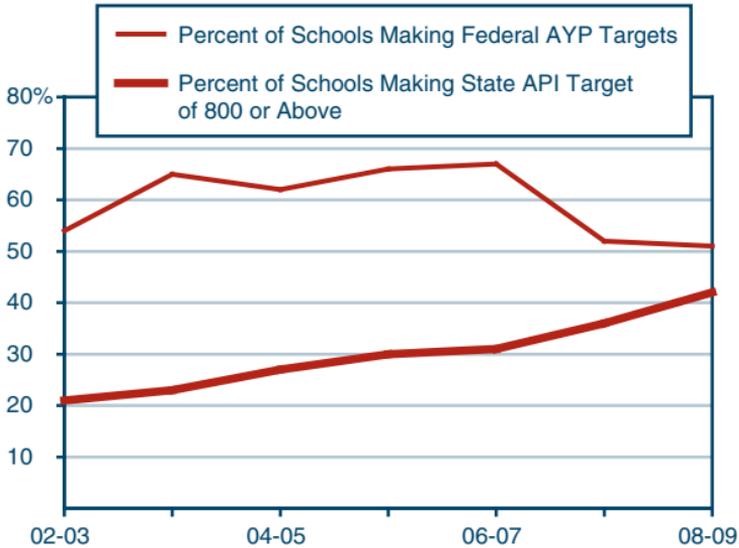
## Student Achievement Rising Over Time

*Percent Basic or Better*



- The percent of sixth-grade students scoring at or above basic on the California Standards Test (CST) in math has been rising over time.
- Trends in English Language Arts scores closely mirror trends in math scores.
- Recent achievement gains for students with disabilities could be partially attributable to fewer students taking CSTs (more students with disabilities are now taking a separate test and are excluded from the CST data).

## More California Schools Making State Accountability Targets, Fewer Making Federal Targets



Note: State Academic Performance Index (API) data exclude alternative schools, special education schools, and very small schools, whereas federal Adequate Yearly Progress (AYP) data include all these types of schools.

- Public schools in California are expected to meet state and federal performance targets that are based primarily on students' test scores, but the proficiency level that California uses for federal purposes is higher.
- The percent of schools meeting the state performance target has grown steadily over time whereas the percent of schools meeting federal targets has decreased significantly in recent years. This is largely attributable to significant yearly increases in the percentage of students expected to be proficient.

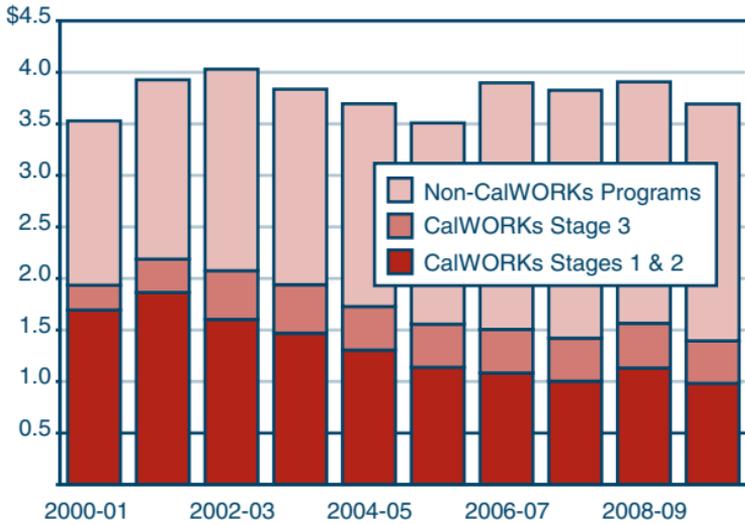
## California's State School Rankings Are a Mixed Bag

	California	United States	State Ranking
Average teacher salary	\$66,064	\$53,168	1
Spending per student <sup>a</sup>	\$9,015	\$9,509	31
Student/teacher ratio	20.8	15.3	49
Math achievement <sup>b</sup>	59%	71%	48
Reading achievement <sup>b</sup>	64%	74%	49
<p>Note: Reflects most recent data available from the National Center for Education Statistics. Teacher salary and ratio data from 2008-09, expenditure data from 2007-08, and achievement data from 2009.</p> <p><sup>a</sup> Excludes expenditures on capital outlay and interest on long-term debt.</p> <p><sup>b</sup> Reflects percent of eighth grade students scoring basic or above on the National Assessment of Educational Progress.</p>			

- California has the highest average teacher salary of any state in the country but also has among the highest numbers of students per teacher.
- California ranks 31<sup>st</sup> in per pupil spending.
- California ranks almost last in student achievement.

## Total Spending on Child Care Has Not Changed Significantly

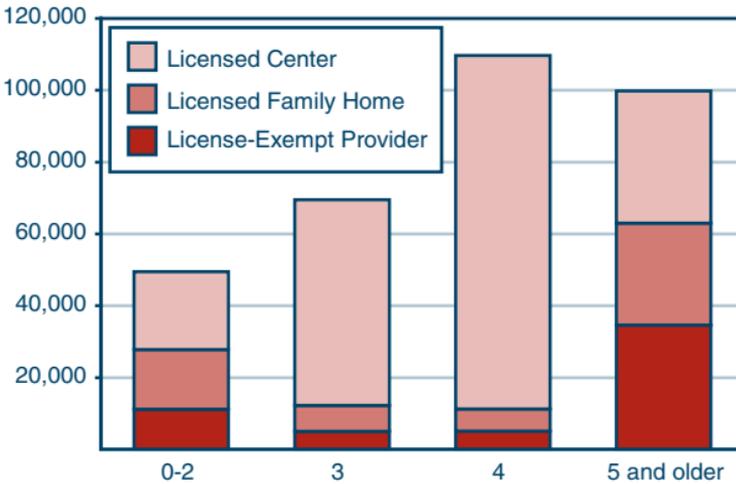
*In Billions*



- Over the period shown, the state subsidized child care for low-income families currently or recently participating in the state's cash assistance program (California Work Opportunity and Responsibility to Kids [CalWORKs] Stages 1 and 2) and who used to receive CalWORKs cash aid (CalWORKs Stage 3). In 2010-11, however, the Governor vetoed all state funding for CalWORKs Stage 3 child care.
- The state also subsidizes child care and preschool for other low-income families and funds after school programs for children of all income levels (non-CalWORKs programs). After school programs expanded significantly in 2006-07 as a result of Proposition 49.

## Mix of Child Care Providers Varies by Age of Child

*Children Served by Type of Provider, 2009-10*

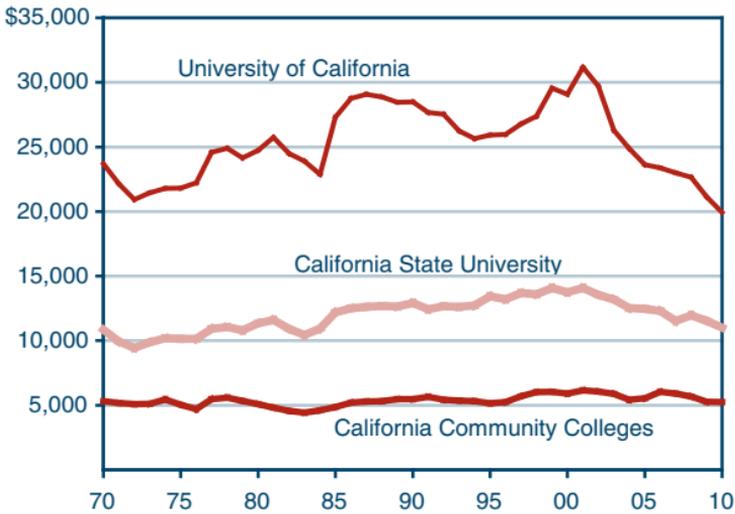


Note: Excludes children participating in CalWORKs Stage 1 child care, as comparable data are not available.

- Of the almost 330,000 children receiving state-subsidized care, more than 80 percent receive care from a licensed provider, while fewer than 20 percent are cared for by license-exempt individuals (usually relatives).
- Almost 90 percent of four year olds in subsidized care attend a center-based preschool program.
- Though not reflected in the chart, over 500,000 K-12 students participate in school district-run after school programs.

## Per-Student Higher Education Funding Has Declined in Recent Years

Total Funding Per FTE Student in Constant 2010 Dollars<sup>a</sup>

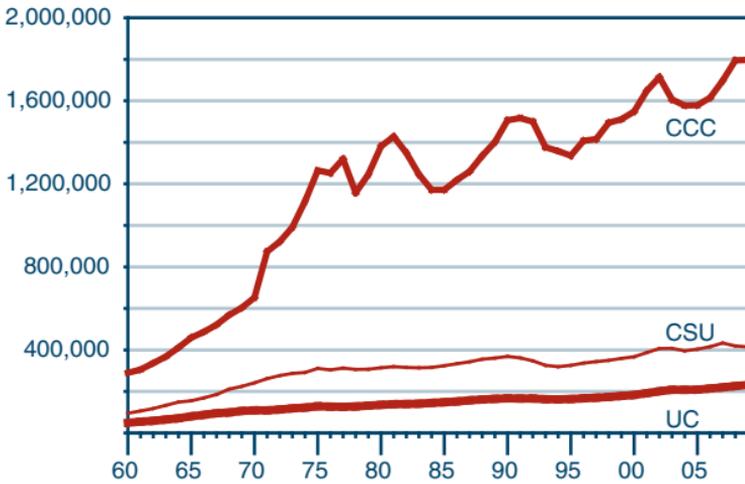


<sup>a</sup>Includes state General Fund, local property tax, and student fee revenues.

- Despite recent declines, total funding per full-time equivalent student has generally kept pace with inflation for most of the last several decades at the California Community Colleges and California State University. Funding has been more volatile at the University of California, rising faster during periods of budget growth and declining more sharply during periods of contraction.
- Student fees have constituted a growing share of total support over this time period. This growth has been uneven, however. When the state has experienced fiscal difficulties, students have been asked to pay a larger share. In 2009-10, student fees represented 27 percent of total revenues.

## Growth in College Enrollment Focused at Community Colleges

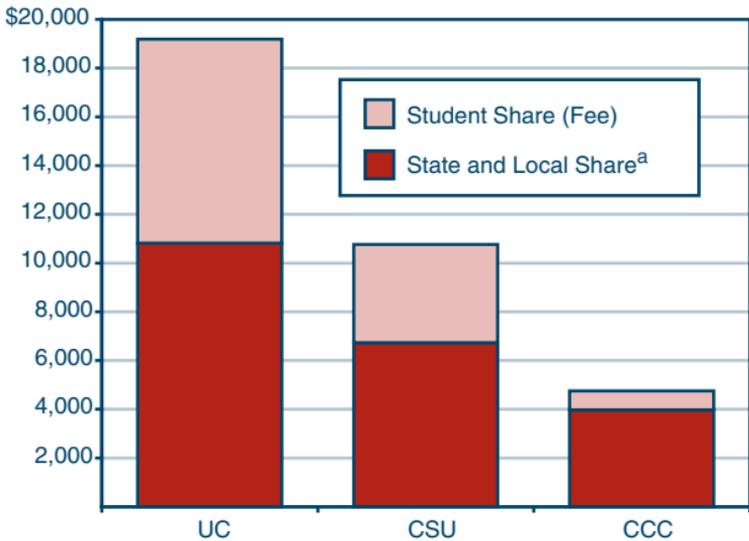
*Number of Students Enrolled, by System*



- Since 1960, student enrollment at the state's public universities has grown by an average of about 3 percent per year. This has generally tracked with population growth.
- Community college enrollment has been much more volatile, and more than quadrupled over the first 15 years of this period. The average annual increase over the full period is 3.8 percent. Community college enrollment is especially responsive to economic conditions and the prevailing job market.

## Higher Education Costs Are Shared By Students and the Public

*Average Cost Per FTE Undergraduate Student  
2009-10*

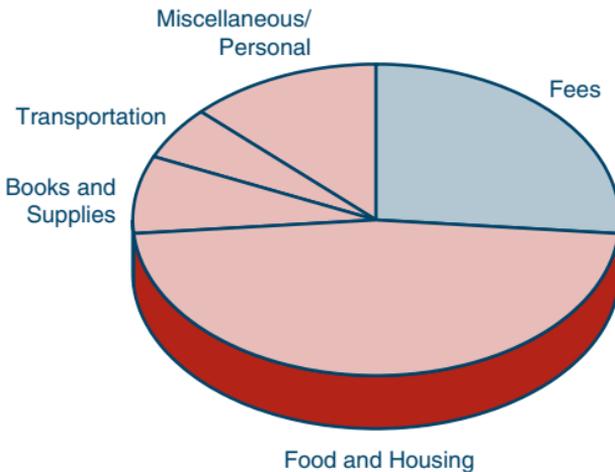


<sup>a</sup>Includes federal stimulus funds for CCC.

- In 2009-10, resident undergraduate fees at UC, CSU, and CCC represented about 45 percent, 35 percent, and 15 percent of each system's average education costs per full-time equivalent undergraduate student. More than one-third of students do not pay education fees due to grants or waivers.
- Currently, the annual fee for resident undergraduates at UC (\$10,302) is lower than at three of its four public university comparison institutions. The CSU fee (\$4,230) is lower than at 15 of its 16 peers. The CCC per-unit fee (\$26) is by far the lowest of all public community college systems in the nation.

## Fees Comprise Only a Portion of Student Costs...

*Average Annual Student Budget: \$19,700  
CSU Resident Undergraduate*

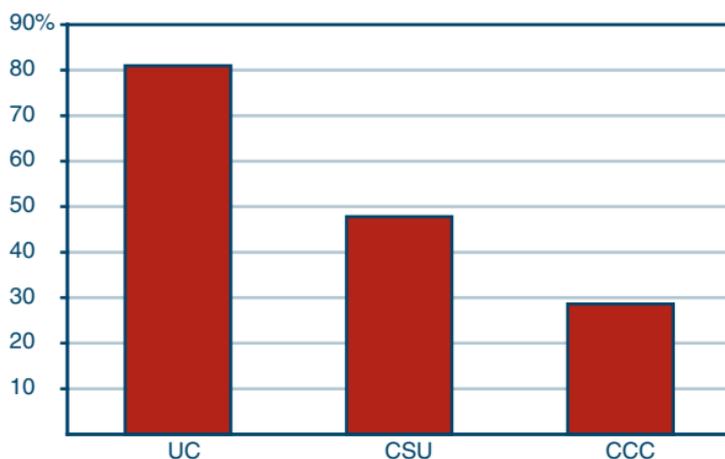


## ... Many Sources of Financial Aid Offset These Costs

- More than one-half of undergraduates at UC and CSU and nearly one-third of community college students receive financial aid of some type.
- **Federal grants** (including Pell Grants) provided an estimated \$1.7 billion in aid to undergraduates at California's public colleges and universities in 2009-10.
- **State grants (including Cal Grants)** provided about \$750 million in the same year.
- **Institutional aid** from UC and CSU provided more than \$800 million, and CCC fee waivers exceeded \$250 million.

## Student Completion Rates Vary Significantly by Segment

*Six-Year Undergraduate Completion Rates<sup>a</sup>*

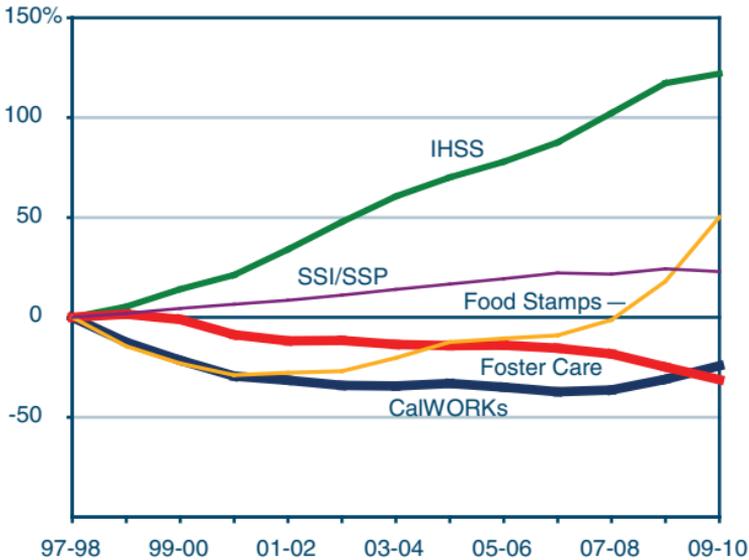


<sup>a</sup>Percentage of students enrolled as freshmen in 2000-01 who graduated within six years (seven years for degree- or transfer-seeking CCC students).

- The systemwide graduation rate for University of California (UC) students is about 80 percent, compared with just under 50 percent at the California State University (CSU). Only about 30 percent of California Community College (CCC) students who endeavor to transfer or graduate with an associate's degree or certificate actually do so.
- Variations in completion rates are due in part to the pools of students from which the three segments draw. Currently, the top 12.5 percent of all graduating high school students are eligible for admission to UC, the top 33.3 percent are eligible for admission to CSU, and all persons 18 years or older are eligible to attend CCC.

## Caseload Growth for Major Social Services Programs

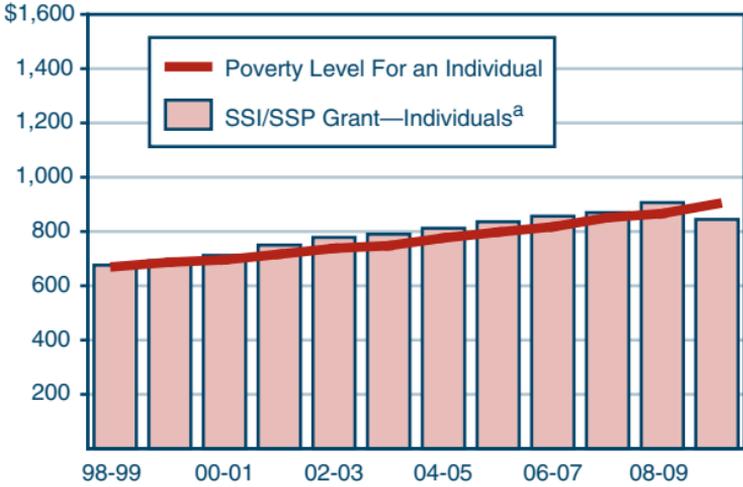
*Percent Change in Caseload Since 1997-98*



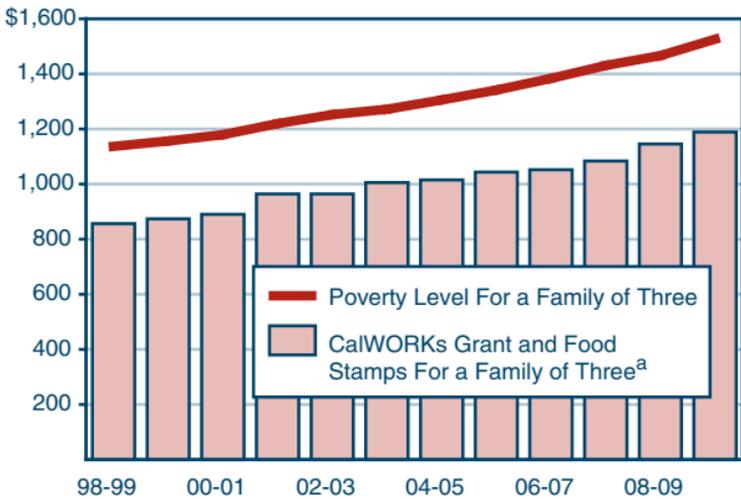
- The IHSS caseload has more than doubled over the past 12 years, but more recently has experienced significantly slower growth.
- The SSI/SSP caseload, which experienced modest annual increases, and the Foster Care caseload, which experienced modest annual declines, appear to be unaffected by the economy.
- The Food Stamps<sup>a</sup> caseload increases during times of economic contraction. To a lesser extent, this is also true of CalWORKs.

<sup>a</sup> The Food Stamps program was recently renamed CalFresh in California.

## SSI/SSP Grant Is Near Poverty Level . . .



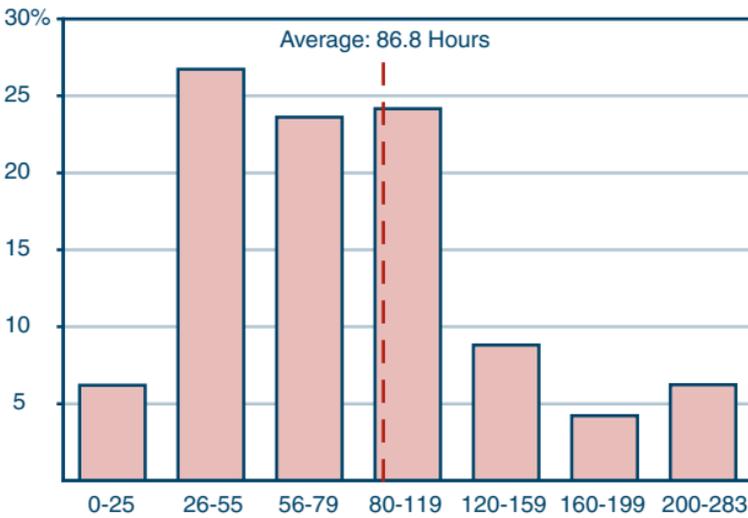
## . . . While CalWORKs Grant Is Significantly Below Poverty Level



<sup>a</sup>Maximum monthly grant.

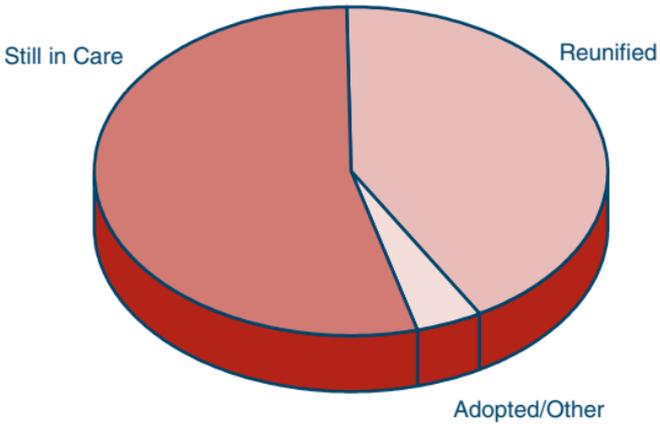
## Number of In-Home Supportive Services Hours Varies

*Percentage of Recipients According to Monthly Authorized Hours*

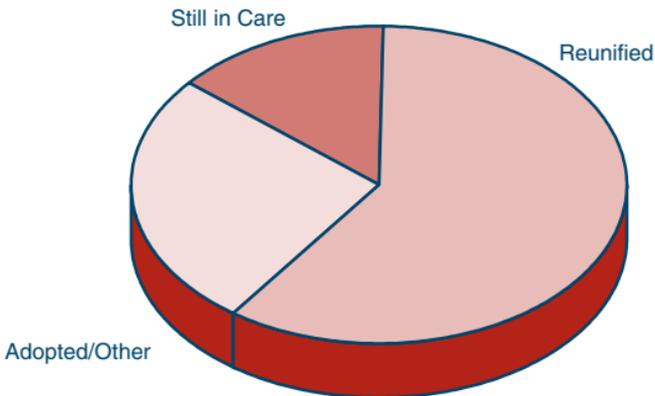


- IHSS recipients may receive up to 283 hours of authorized services per month. Most receive between 26 and 119 hours per month. Only a small percentage receive more than 200 hours or less than 25 hours of care each month.
- The average annual cost per person in IHSS was about \$13,000 in 2009-10. The cost for a particular recipient varies based on the number of hours of services authorized and the wage of the IHSS provider.

## One Year After Entering Foster Care, One-Half of Children Remain in Care



## Within Three Years of Entering Care, Most Reunite With Their Families

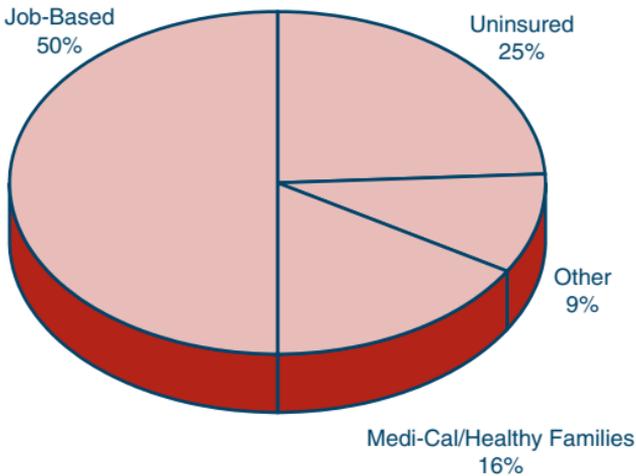


Data for children entering foster care between January and June 2006. The "Adopted/Other" category includes children who left foster care through adoption, guardianship, or emancipation.



## Health Coverage, 2009

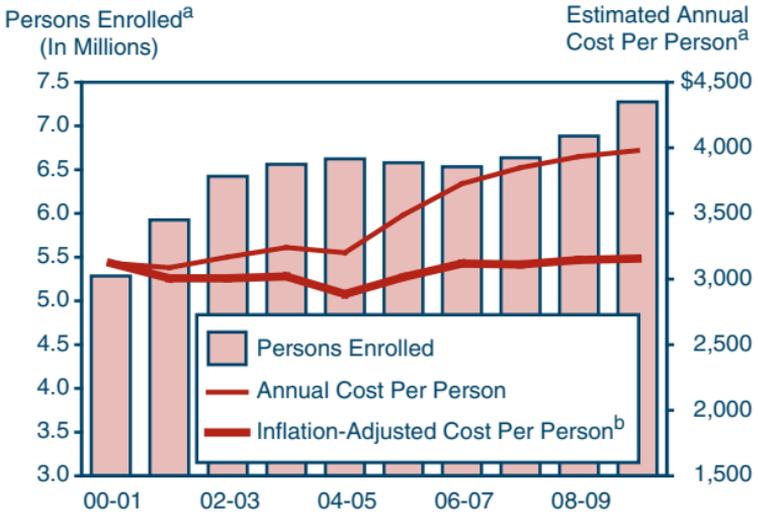
Nonelderly, Age 0 to 64



Source: UCLA Center for Health Policy Research.

- In 2009, about 50 percent of nonelderly Californians, or 17 million persons, had job-based health insurance coverage.
- Approximately 25 percent, or 8 million, lacked any form of health insurance at some point during 2009.
- About 16 percent, or about 6 million individuals, received care through the Medi-Cal and Healthy Families programs. The remaining 9 percent had “Other” forms of coverage, such as private health insurance and veteran’s benefits.

## Medi-Cal Inflation-Adjusted Costs Per Person Relatively Stable



<sup>a</sup>Expenditures are total funds. Excludes certain hospital payments and county funds.

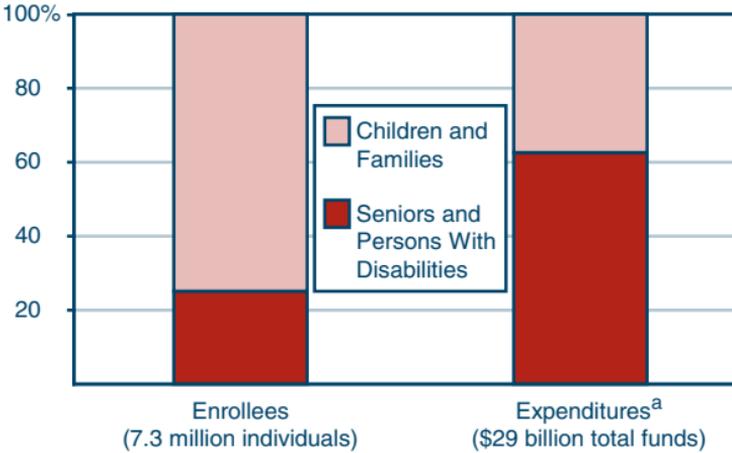
<sup>b</sup>California Consumer Price Index used to adjust all values to 2000-01 dollars.

- The estimated annual cost per Medi-Cal enrollee increased slightly over the past decade. However, after adjusting for inflation, annual cost per enrollee was relatively stable.
- Various eligibility expansions and simplified eligibility processes caused Medi-Cal caseloads to grow in 2001-02 and 2002-03. Growth in the last two years is largely due to higher unemployment rates as a result of the recession.



## Disproportionate Share of Medi-Cal Spending for Seniors and Disabled

2009-10 Estimates

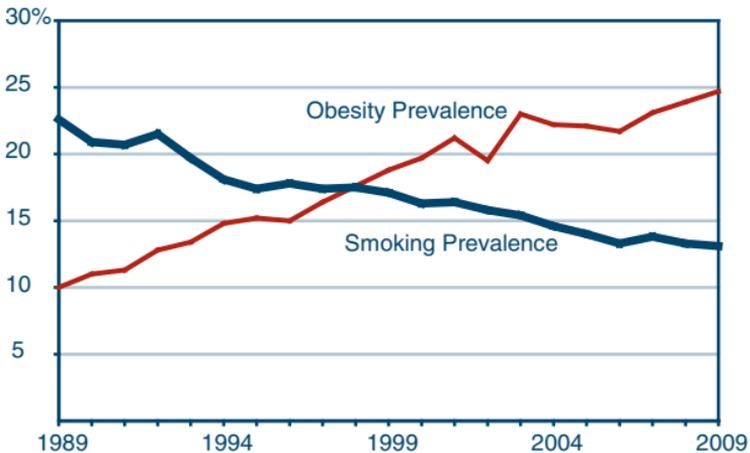


<sup>a</sup>Excludes certain hospital payments and county funds.

- While the largest group of beneficiaries (75 percent) is families and children, a disproportionate share of Medi-Cal spending (63 percent) is for seniors and persons with disabilities (SPDs).
- About half of Medi-Cal enrollees, representing mostly families and children, are enrolled in a managed care plan, while most SPDs are in so called fee-for-service arrangements.

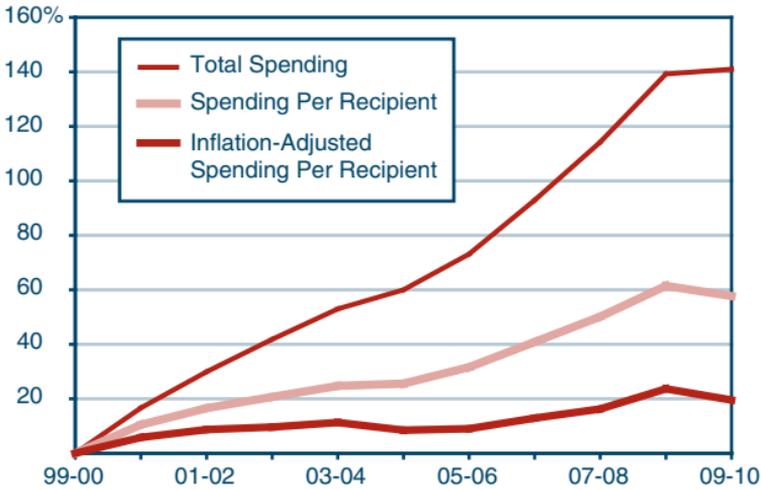
## Smoking Rate Levels Off, While Obesity Rate Climbs

*Prevalence of Smoking and Obesity Among  
Adults 18 and Older*



- Between 1989 and 2009, smoking rates have declined significantly, in part due to higher cigarette prices as a result of increased cigarette taxes. However, the percentage of adults who smoke—approximately 13 percent in 2009—has remained largely unchanged since 2006. The percentage of youth who smoke—15 percent in 2008—has increased slightly since 2004.
- Over the same period, the adult obesity rate has more than doubled, from 10 percent in 1989 to nearly 25 percent in 2009. A majority of California adults are overweight or obese.
- Smoking and obesity are major risk factors for poor health and chronic diseases such as heart disease, stroke, and cancer. Rates of smoking and obesity vary significantly by ethnicity and socioeconomic status.

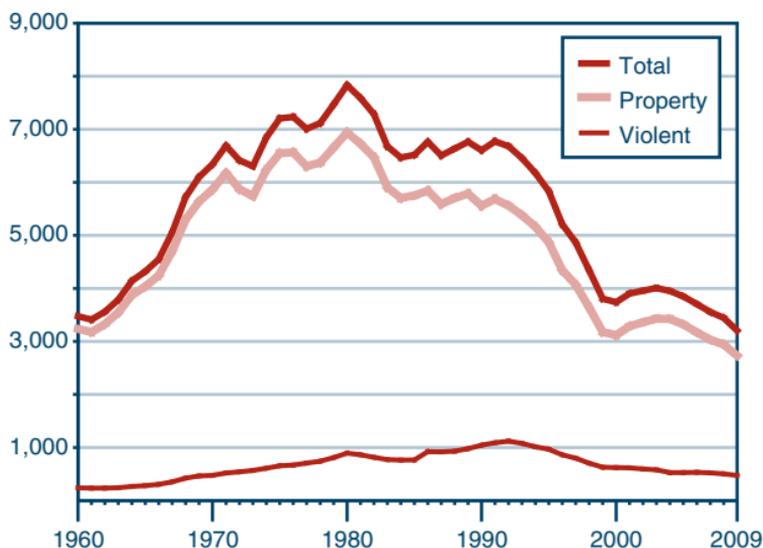
## Regional Center Spending Up Significantly



- Regional Centers (RC) provide state and federal funded community-based services to about 240,000 developmentally disabled individuals. Between 1999-00 and 2009-10, total spending grew by 145 percent. Average per person spending went up by 58 percent. Adjusted for inflation, per person spending went up 20 percent.
- The increase in costs is attributable to several factors. New medical technology, treatments, and equipment have broadened the scope of services available to the developmentally disabled. Other factors include increased life expectancy of RC clients, increased diagnosis of autism, and the comparatively higher costs of treating autism.

## Crime Rate at Historic Low

Rate Per 100,000 Population

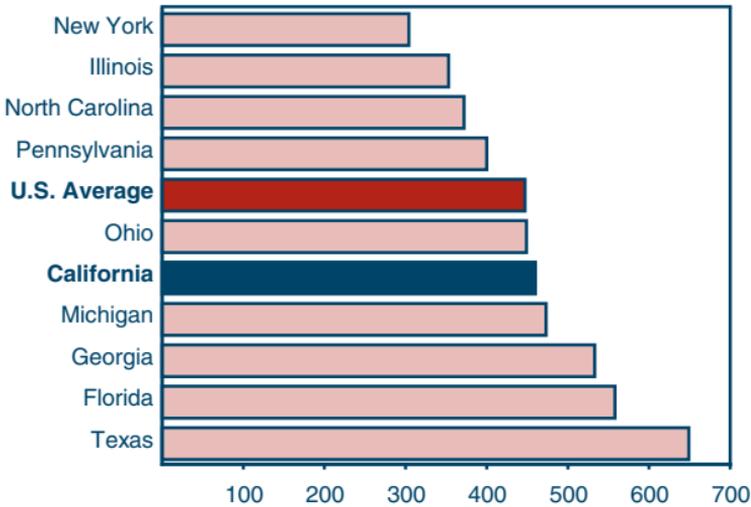


Source: FBI Uniform Crime Report.

- California's crime rate has declined each year since 2003, reaching its lowest level in the past 50 years. This trend is similar to declines in crime patterns in the rest of the United States.
- In 2009, about 3,200 crimes were committed in California per 100,000 residents (a total of roughly 1.2 million incidents). Most were property crimes such as burglary and theft.
- The state's property crime rate is lower than the nationwide rate. However, the rate of violent crime (such as murder, rape, and assault) in California remains consistently higher than the United States as a whole.

## California Prison Incarceration Rate Similar to U.S. Average

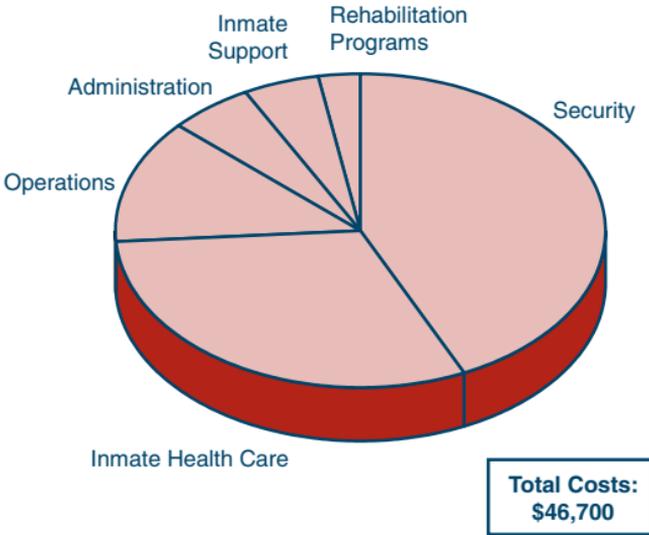
*Prison Incarceration Rate per 100,000 Population, 2009*



- California has about 460 inmates in prison per 100,000 population, which is very close to the national average. Of the ten largest states in the nation, California has the fifth highest incarceration rate.
- However, due to the size of its population, California has one of the largest prison populations in the country. Currently, there are about 165,000 inmates in California's prisons. The state is currently the subject of a federal court order related to prison overcrowding.

## Most Inmate Costs Related to Security and Health Care

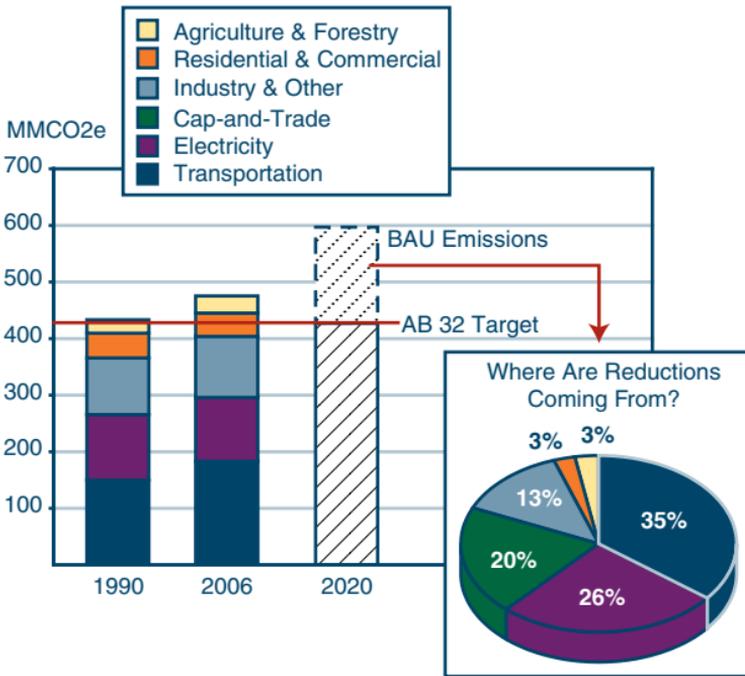
2009-10



- In 2009-10, the average cost to incarcerate an inmate in state prison was about \$46,700. About three-quarters of this total cost was related to security and inmate health care.
- Over the past ten years, the average cost to incarcerate an inmate has more than doubled. The primary reasons are significant increases in employee compensation as well as federal court orders and settlements that have required specific program improvements (such as inmate medical care).



## Addressing Rising Greenhouse Gas Emissions

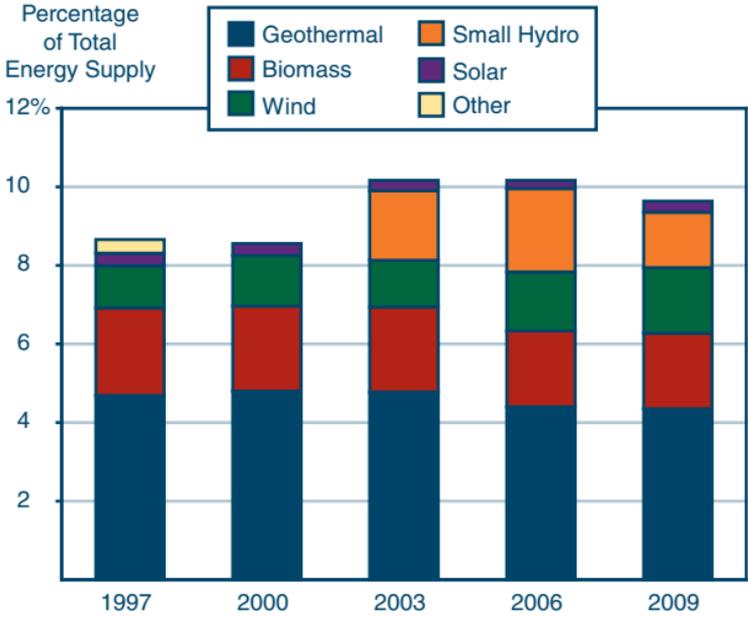


MMCO<sub>2</sub>e = Million Metric Tons of Carbon Dioxide Equivalent.

Business as Usual (BAU) 2020 forecast based on 2008 data.

- Assembly Bill 32 (2006) requires the Air Resources Board to develop a plan for the state to reduce its greenhouse gas emissions to 1990 levels by 2020. The plan calls for emission reductions from sectors that are roughly proportional to their emissions. 20 percent of reductions would come from a new market-based approach to regulation known as “cap-and-trade,” under which the energy sector is expected to make the majority of emission reductions.

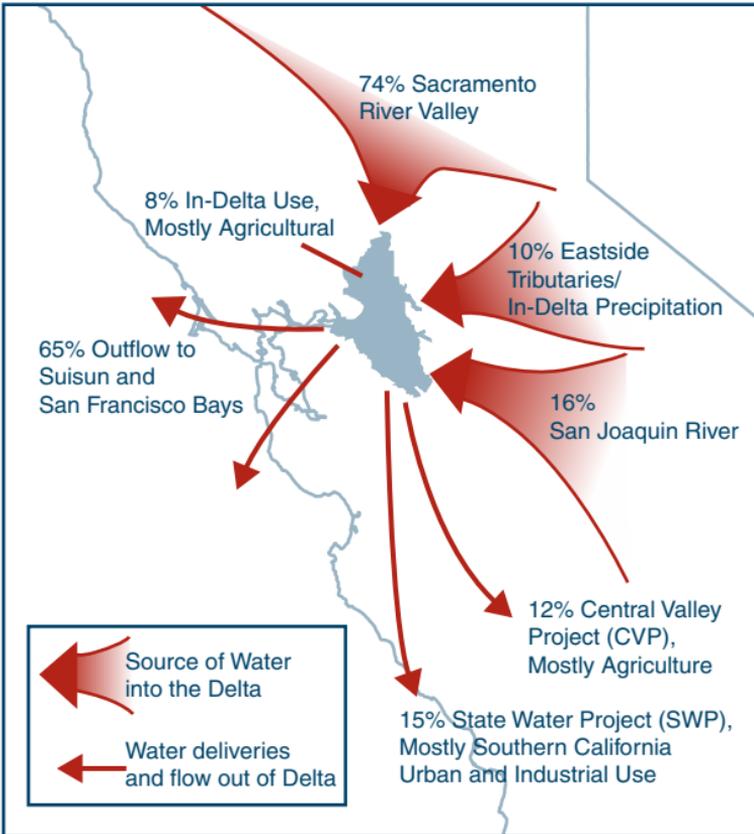
## Total Energy Demand Outpacing Renewable Development



- Renewable energy development in the state, while growing, has not kept pace with the 16 percent increase in the state’s energy demand between 1997 and 2009. Thus, renewable resources, as a percentage of total supply, have actually declined in recent years.
- Siting of power plants and transmission lines present challenges which must be addressed to reach the state’s renewable energy goals.



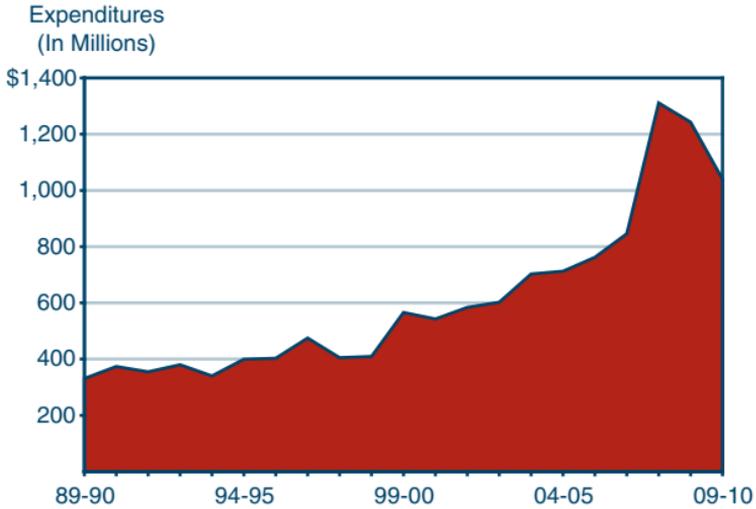
## Delta Is at the Heart of California's Water System



- Water flowing through the Sacramento-San Joaquin River Delta (the Delta) provides drinking water for a majority of Californians and water for about one-third of the state's cropland.
- In 2009, the Legislature established water supply reliability and ecosystem restoration as "co-equal" state goals for the Delta. To meet these goals, the new Delta Stewardship Council is developing a plan to guide management of Delta resources by multiple agencies.

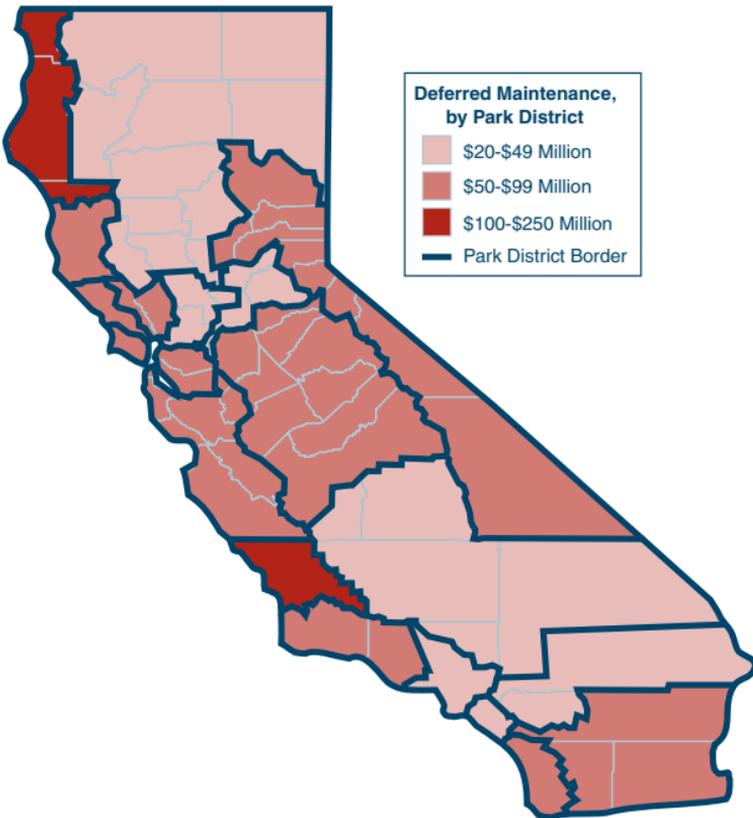
## Various Factors Raising Wildland Firefighting Costs

### *CalFire Fire Protection Budget*



- As shown, CalFire's wildland firefighting expenditures have risen from \$331 million in 1989-90 to \$1 billion in 2009-10. This expenditure growth is caused by several factors.
- Major cost drivers include (1) an increase in housing units inside and around state responsibility areas for wildland fire protection, (2) increased labor costs, and (3) increased fire risk from build-up of fuel in wildland areas.

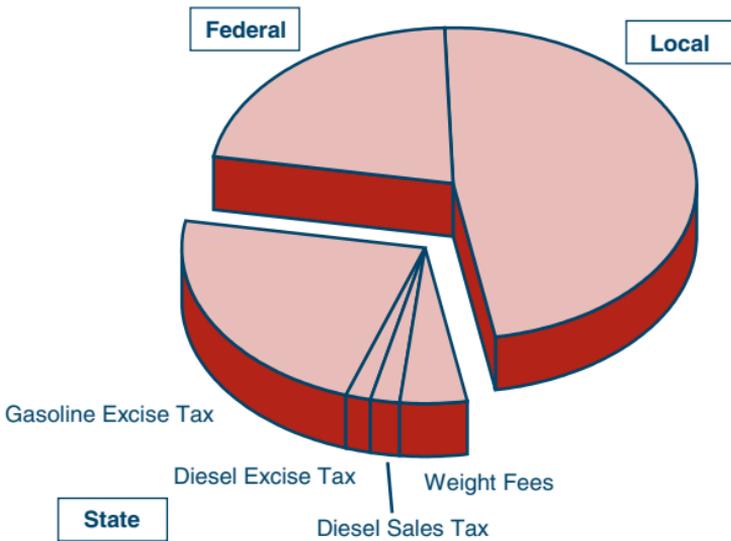
## Deferred Maintenance in State Parks Is Substantial and Growing



- An average annual shortfall of \$120 million for ongoing maintenance and operation of state parks has resulted in a large and growing backlog of deferred maintenance. At current funding levels, the current \$1.3 billion backlog in deferred maintenance—of which 43 percent reflects health and safety projects—could increase to \$2 billion by 2020.

## Transportation Funding Comes From Multiple Sources

2010-11



- Roughly \$7 billion annually comes from the state for transportation funding. These funds come primarily from the state excise tax on gasoline.
- About \$11 billion per year from local fund sources is used for transportation purposes. These sources include optional local sales taxes, a statewide 0.25 percent sales tax on all goods and services, and transit fares.
- Federal funds provide around \$5 billion annually to the state for transportation and consist primarily of federal excise taxes on motor fuels and other monies.
- While the passage of recent propositions will not significantly change the amount of state transportation funding, they will create uncertainty in the division of future state revenues.

## Annual Spending on Highway Repairs Falls Short of Needs

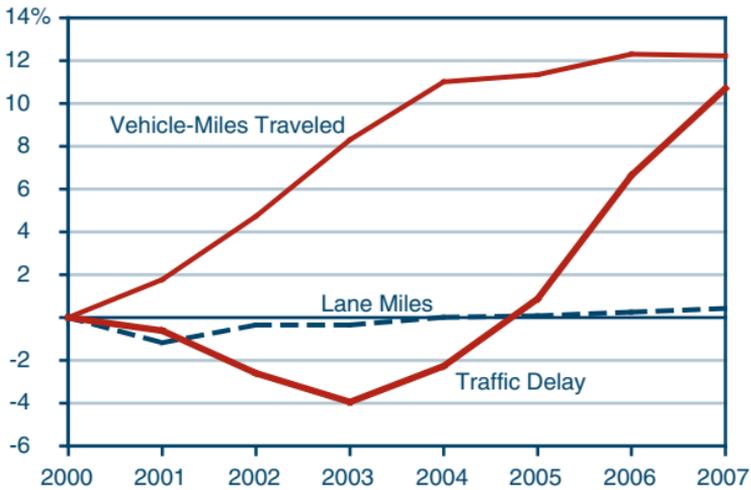
(In Billions)



- Many of California's over 50,000 lane miles of state highways are reaching the end of their useful life.
- In 2009, Caltrans estimated it needed \$6.3 billion each year to repair the state's aging highway system. However, the state only spends about \$1.5 billion each year on repairs.
- One way the state can slow the growth of highway repair costs is to adequately fund and perform maintenance to extend the useful life of roads.

## Minimal New Highway Capacity, Mixed Traffic Impacts

*Changes Since 2000*



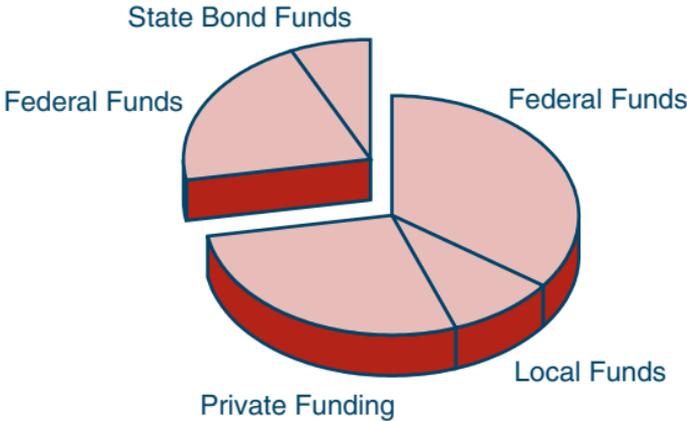
- Between 2000 and 2007, the number of lane miles in the state highway system remained fairly level. During the same period, travel on the state's highways increased by about 12 percent and the average number of hours spent per day stuck in traffic increased 11 percent.
- Today, California has about 50,500 miles of highways maintained and operated by Caltrans.
- During this period, about 5 percent of Californians used public transit.

## Phase One of High-Speed Rail System Development Underway



### Secured Funding

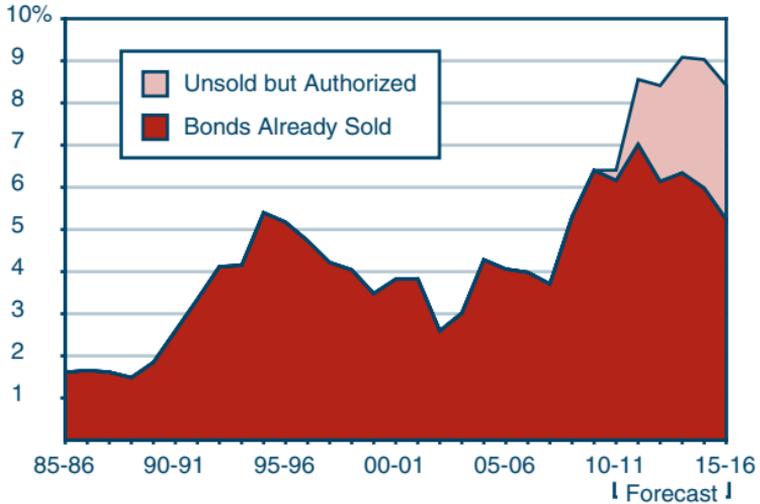
### Unsecured Funding



**Estimated Cost: \$43 Billion**

- Preliminary efforts are underway for the first phase of the project from San Francisco to Anaheim. Construction may begin in 2012 if funds are available.

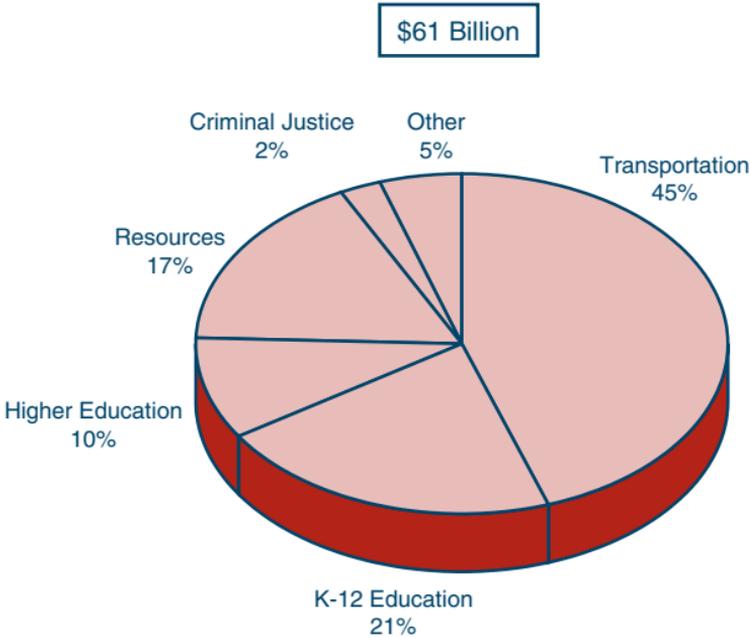
## Debt-Service Ratio Rising



- The state uses General Fund revenues to pay debt-service costs for principal and interest payments on two types of bonds used primarily to fund infrastructure—voter-approved general obligation bonds and lease-revenue bonds approved by the Legislature.
- Annual General Fund debt-service payments stated as a percentage of General Fund revenues commonly is referred to as the state's debt-service ratio (DSR). This ratio is used as one indicator of the state's debt burden.
- The DSR increased sharply starting in 2007-08 due to the recent approval of large, new bond measures and declines in General Fund revenues related to the recession. The DSR stood at 6.4 percent in 2009-10, but is expected to increase to over 9 percent at its peak in 2013-14 as additional authorized infrastructure-related bonds are sold.

## Most State Infrastructure Spending Is for Transportation and Education

*Infrastructure Spending, 2005-06 to 2009-10*



- Over the past five years, transportation projects and education facilities (K-12 and higher education) accounted for 75 percent of state infrastructure spending.
- State infrastructure spending included approximately \$28 billion in local assistance, mainly to K-12 school districts and local transportation agencies.
- State general obligation bonds provided 60 percent of infrastructure funding. Special funds accounted for about 35 percent.

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67

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