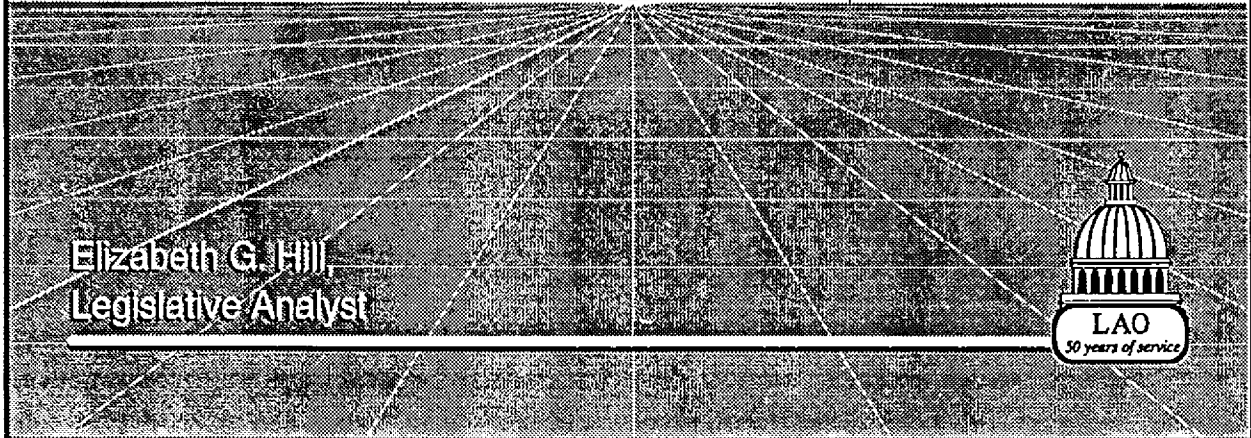

California's Economy and Budget

In Perspective



Elizabeth G. Hill,
Legislative Analyst

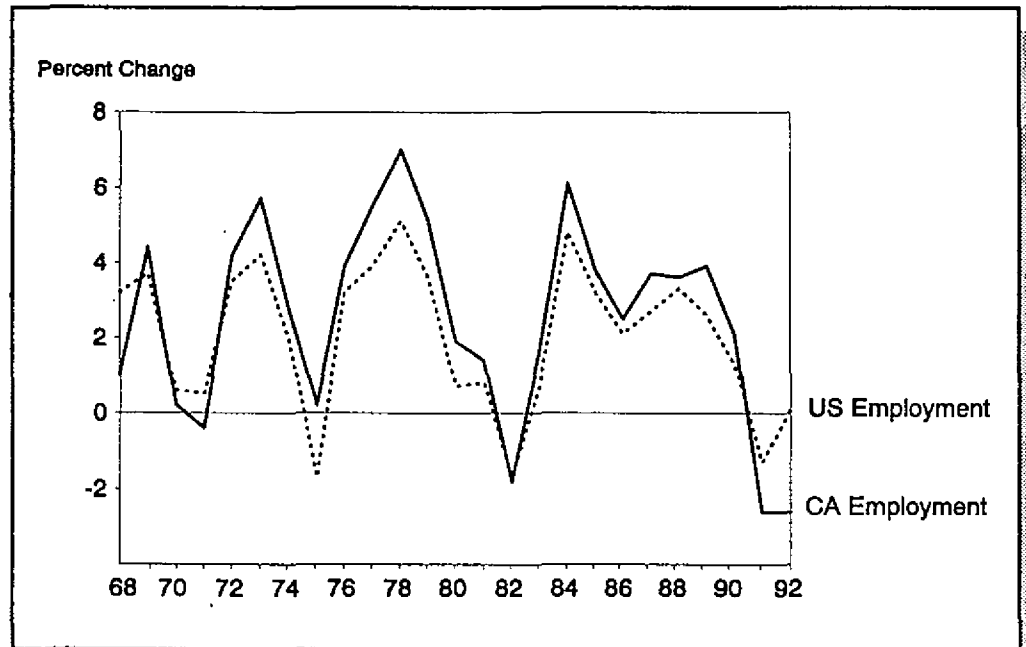


January 6, 1993

LEGISLATIVE ANALYST'S OFFICE



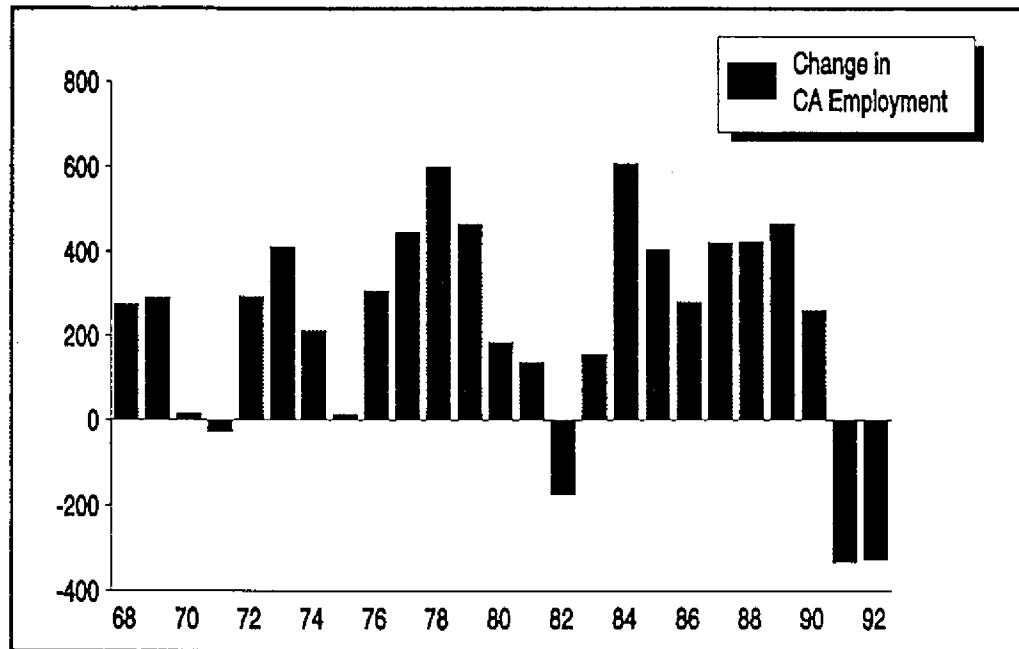
California Jobs Have Failed to Rebound In Current Recession



- Generally, the greatest single influence on California's economic performance is the nation's economic performance.
- California's employment continued to decline in 1992, despite the national recovery.
- The most important factor in California's relatively weak economic performance is the decline in defense spending, the state's largest "industry," including both contracts and military bases.
- The last time that California was hit by both a national recession and declining real defense expenditures was in 1970-71.
- Other factors related to the state's severe economic problems include a precipitous decline in construction, high business and housing costs, the drought, and government regulatory issues.



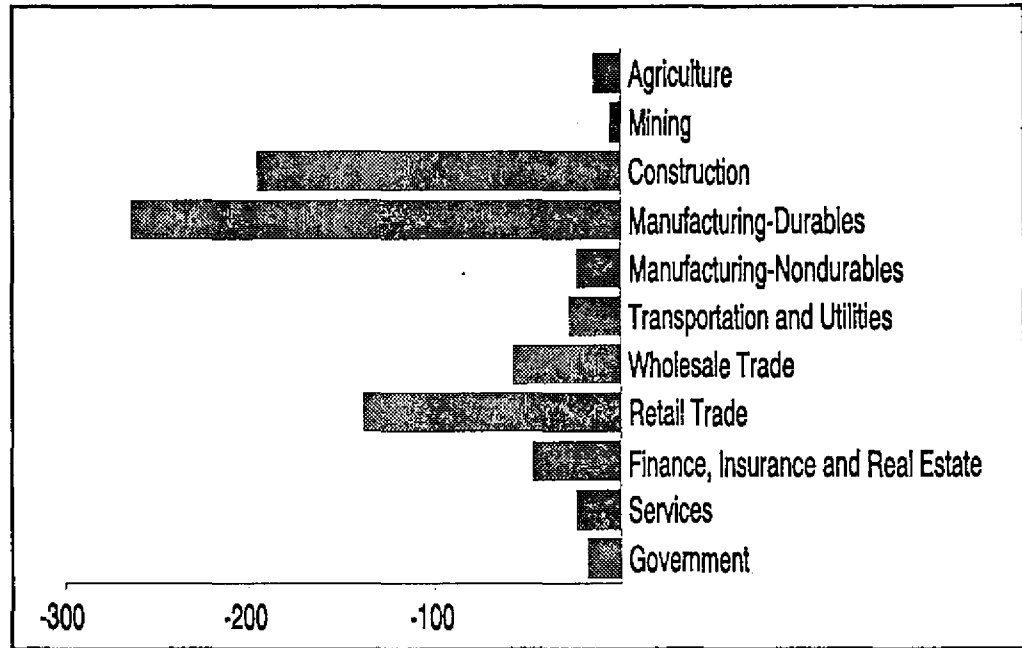
California Job Loss During The Past Two Years Is Unprecedented (Jobs In Thousands)



- In recent decades, the most serious period of job loss for the state until 1991-92 was during the deep 1982 national recession.
- Total job losses since June 1990 have been over 800,000 (-6 percent).
- Current forecasts suggest that the state will suffer a further decline of 100,000 jobs in 1993.



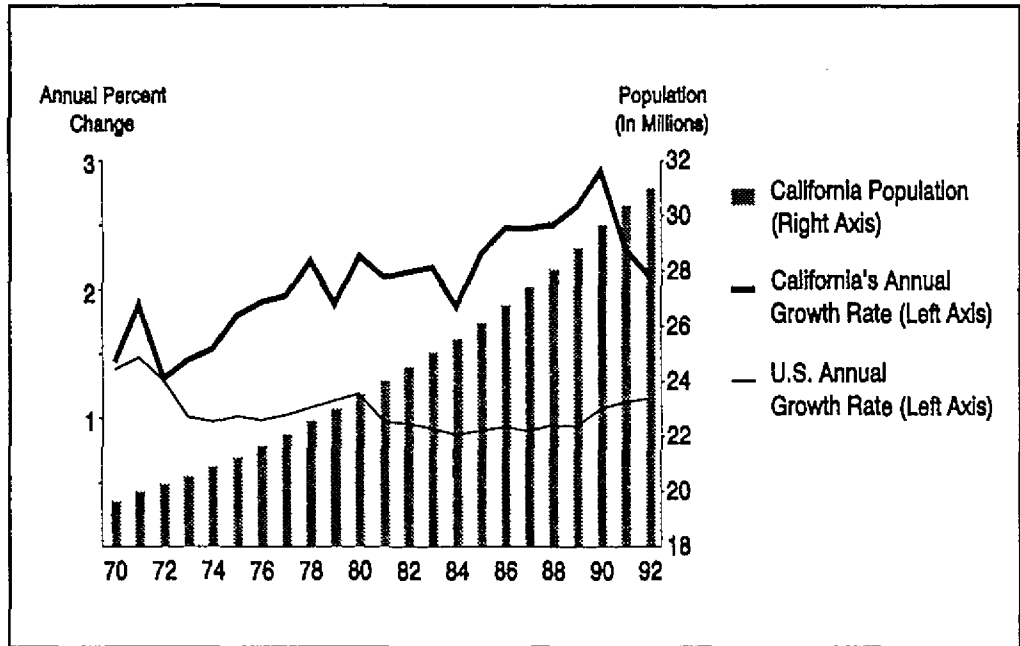
California Jobs Declined In Every Sector From May 1990 Through November 1992 (Jobs In Thousands)



- The greatest numbers of job losses have occurred in durables manufacturing (-260,000), construction (-200,000), and retail trade (-140,000).
- The greatest job losses in percentage terms have been in construction (-29 percent), durables manufacturing (-19 percent), and mining (-15 percent).
- High technology dominates the job losses in durables manufacturing, including defense, commercial aircraft, and electronic components.



California's Rapid Population Growth: Twice As Fast As The Nation 1970 to 1992

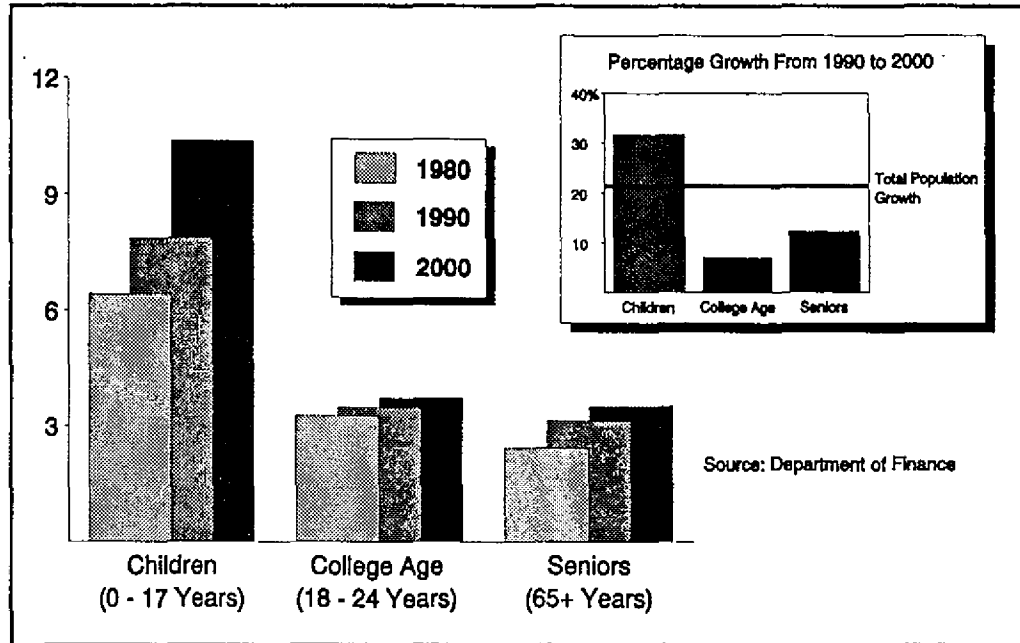


- After 1972, California's population growth accelerated, while the nation's growth rate stayed relatively flat.
- California's growth rate peaked at almost 3 percent in 1990—adding more than 800,000 people (more than San Francisco's population).
- Recently, California's growth rate has slowed—probably due in part to lower net migration because of the state's poor job situation. California still is growing faster than the nation, however, due to high fertility and continued foreign immigration.



Children Are The Fastest Growing Population Group In California

(Population In Millions)

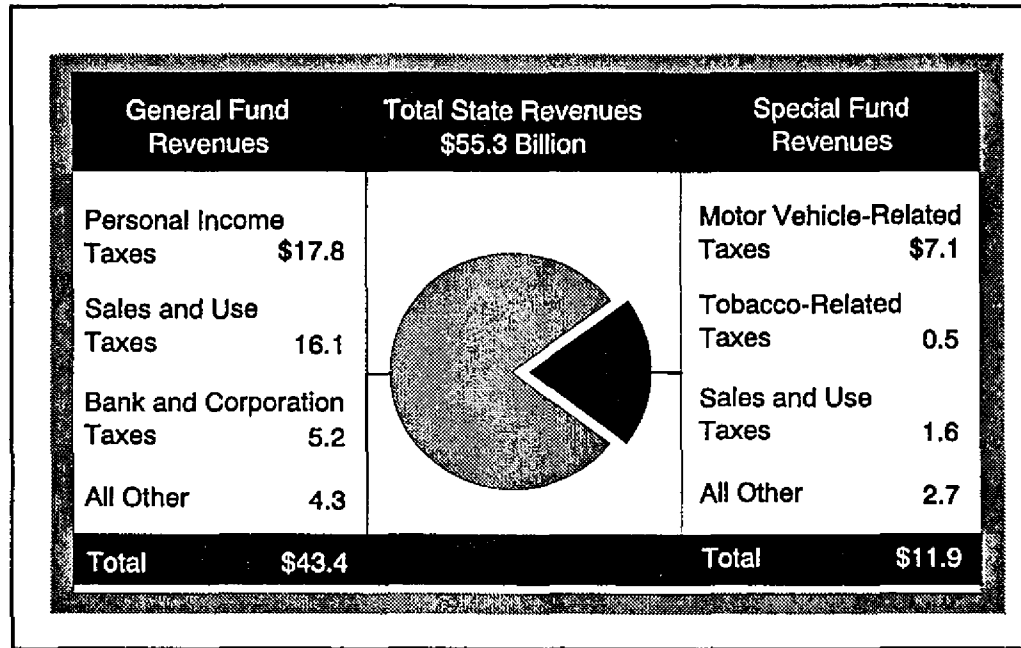


- It is projected that the number of children will grow by almost one-third during the 1990s, putting pressure on schools and other services needed by kids.
- The number of seniors will continue to grow during the 1990s, but at a more modest pace than during the 1980s.
- The working-age population (25-64) will grow by 21 percent in the 1990s, with most of the growth in the over-45 segment as the baby boomers age.



State Revenues Come Primarily From Income And Sales Taxes

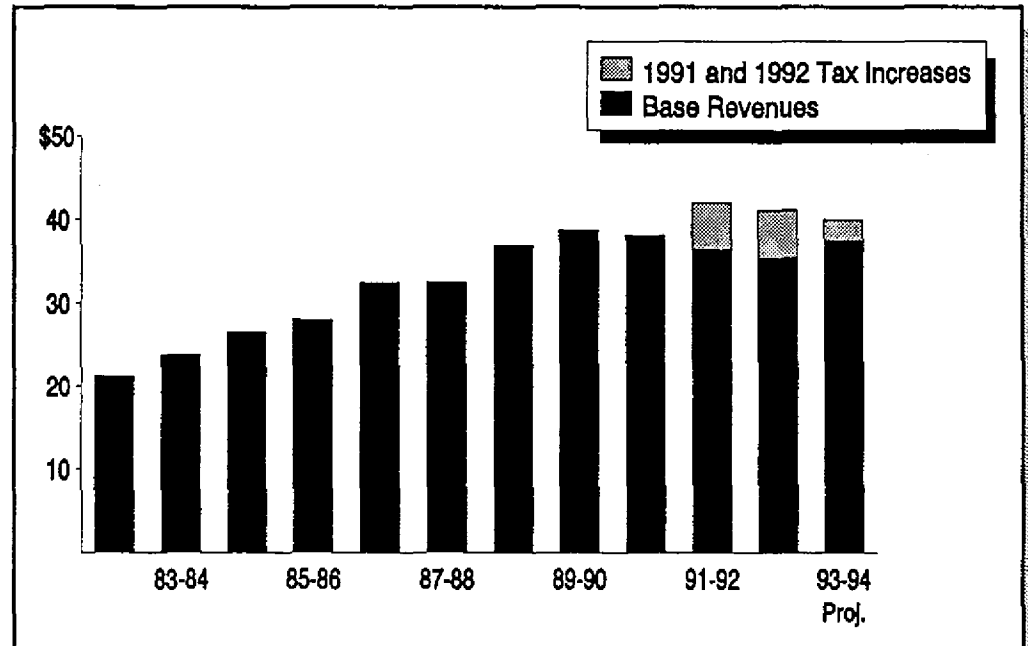
1992-93 (In Billions)



- The General Fund receives most (78 percent) of the state's revenues.
- General Fund revenues come primarily from the personal income tax (PIT) and the sales and use tax. The largest sources of special (earmarked) fund revenue are motor-vehicle-related taxes and fees.
- A portion of the sales and use tax (realignment funding) is allocated to the special fund category.



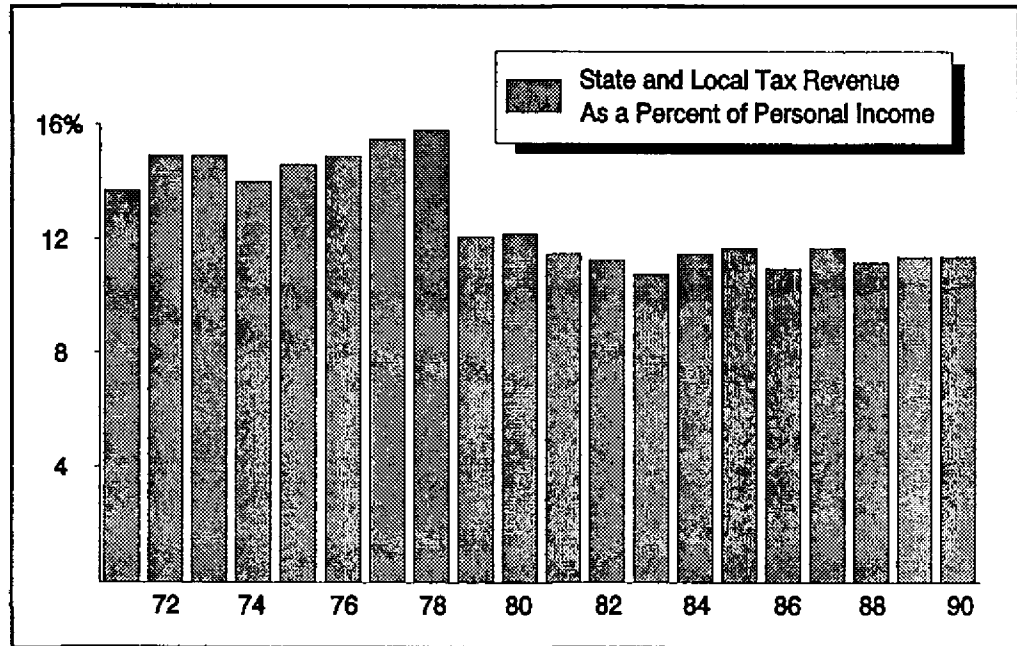
Despite Recent Tax Increases, State General Fund Revenues Have Declined (In Billions)



- California's General Fund revenues increased strongly throughout the early and middle 1980s, leading to an income tax rebate in the 1987-88 fiscal year.
- The onset of the recession brought about a revenue decline in 1990-91.
- While tax increases in 1991-92 generated additional revenues, these increases were not sufficient to offset the effects of the recession.



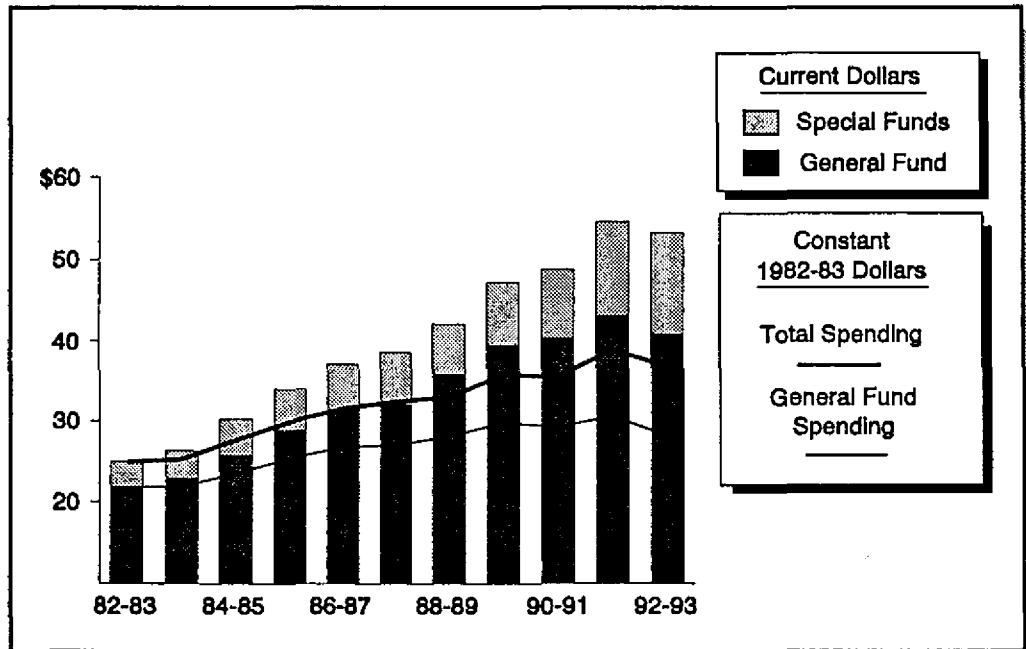
California's Tax Burden Declined Slightly In the Post-Proposition 13 Era



- During the eight years prior to Proposition 13, the state's total state and local tax burden was approximately fifth highest in the nation.
- Proposition 13 began an era of a slowly declining California tax burden, so that by 1990, California ranked around 20th from the top among the 50 states.
- The recent state and local tax increases are estimated to have raised the overall California tax burden.



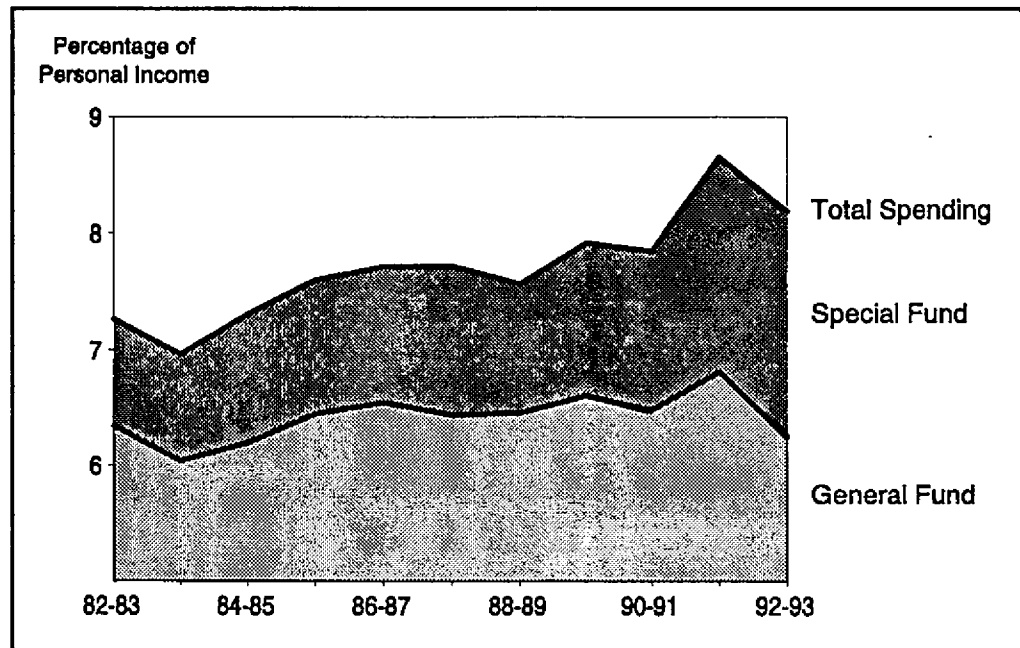
State Spending Drops in 1992-93 (In Billions)



- The decline in spending in 1992-93 is due to a \$2.2 billion drop in General Fund spending. Special fund spending, however, increases by \$1 billion.
- Since 1982-83, special fund spending has grown rapidly, so that it now is almost one-third the amount of General Fund spending.
- General Fund spending in constant dollars (adjusted for inflation) was essentially flat from 1989-90 through 1991-92.



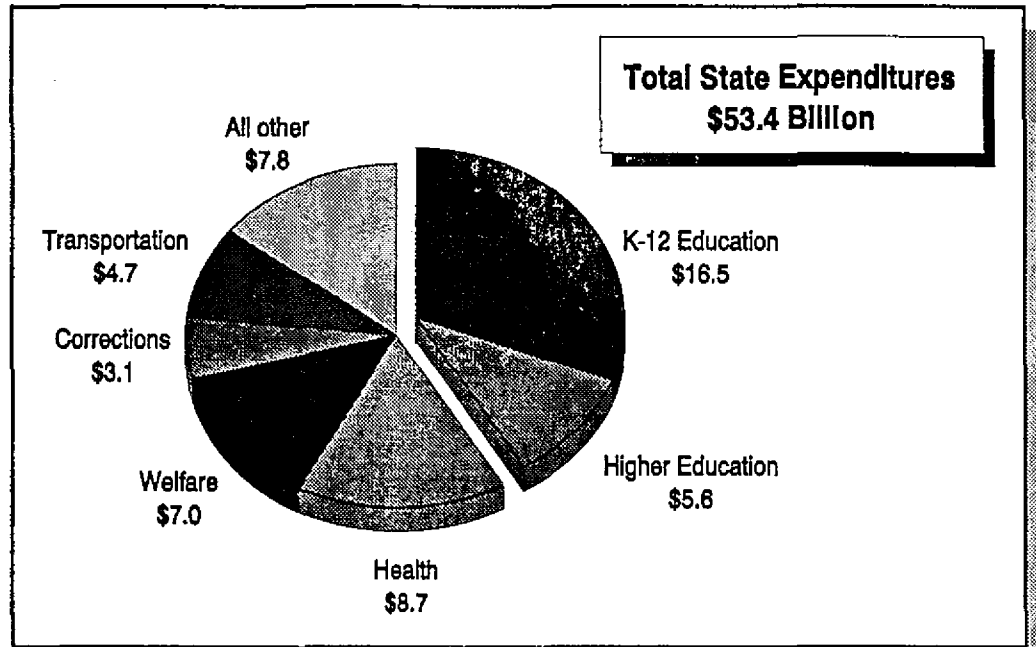
Special Funds Drive State Spending Growth



- General Fund spending as a percentage of personal income in the state has been relatively flat since 1982-83.
- Total state government spending has grown from 7.3 percent to 8.2 percent of California personal income over this time due to increased spending from special funds.
- Major reasons for special fund increases are state/local realignment funding, Proposition 111 gas tax increases, Proposition 99 cigarette tax increases, and various new fee-supported recycling and environmental programs.



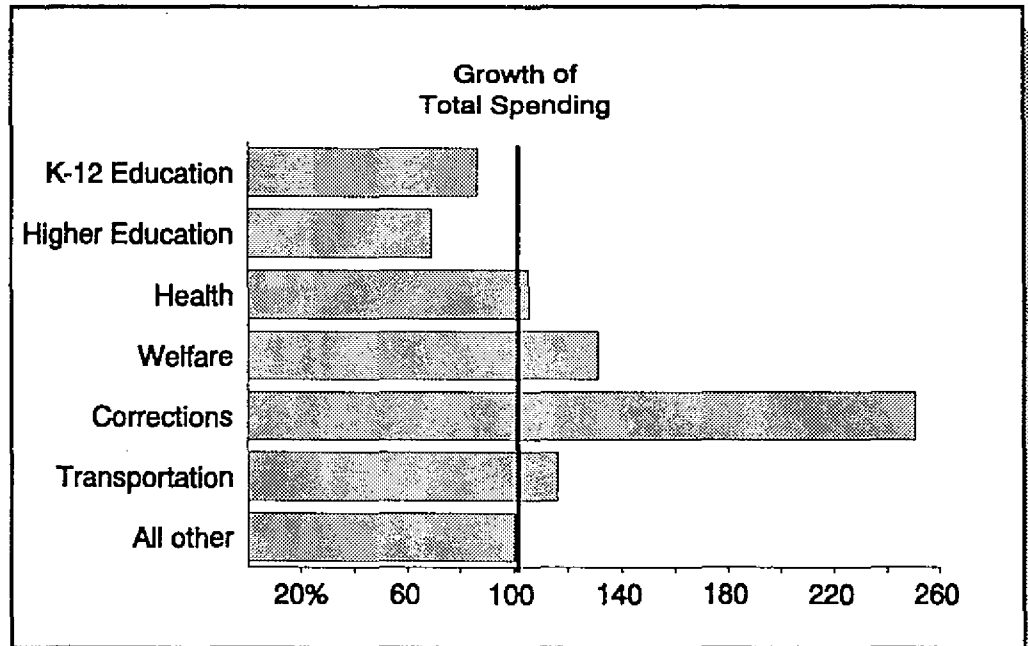
Education Accounts for Largest Share Of State Spending in 1992-93



- Education's share of *total* spending is about 42 percent (\$22.2 billion).
- Education's share of *General Fund* spending is higher—53 percent.
- Together, education, health and welfare, and corrections account for more than 75 percent of total state spending in 1992-93.



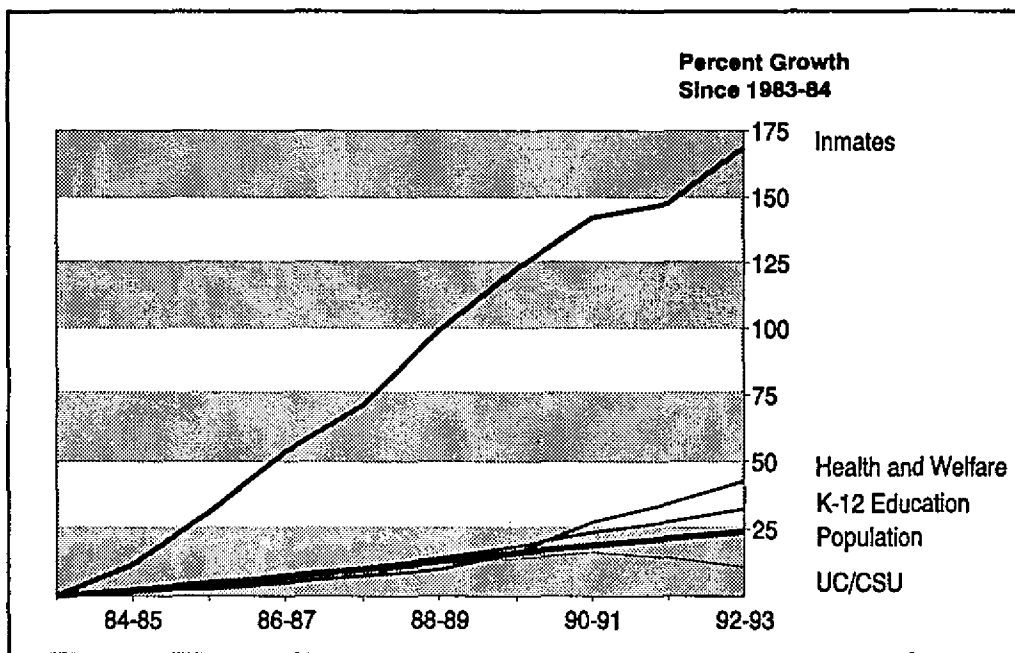
Corrections Spending Has Grown Fastest Since 1983-84



- Corrections spending increased more than three-fold, from \$870 million to \$3.1 billion—mandatory and longer sentences and the costs of operating new prisons have helped push spending up.
- Corrections still is less than 6 percent of total spending, however.
- State expenditures for education have grown more slowly than other programs. In large part, this reflects the shift of \$1.4 billion of local property taxes to the schools in order to offset state funding reductions for education as part of the 1992-93 budget solution.



Prison Population is Growing Significantly Faster Than Other Caseloads



- The number of prison inmates has been growing much more rapidly than any other group since 1983-84, in part due to mandatory and longer sentences.
- The rapid rise in the number of health and welfare beneficiaries began in 1989-90. The health increases are primarily due to the growth in welfare caseloads (AFDC and SSI/SSP recipients qualify for Medi-Cal) and additional federally mandated eligibility categories. The welfare increases are due to a number of demographic and societal factors (see our February 1991 Issue Paper on AFDC).
- Enrollment at UC and CSU has declined in the last two years. The CSU reduction, which has been more dramatic than at UC, is due to budget constraints.



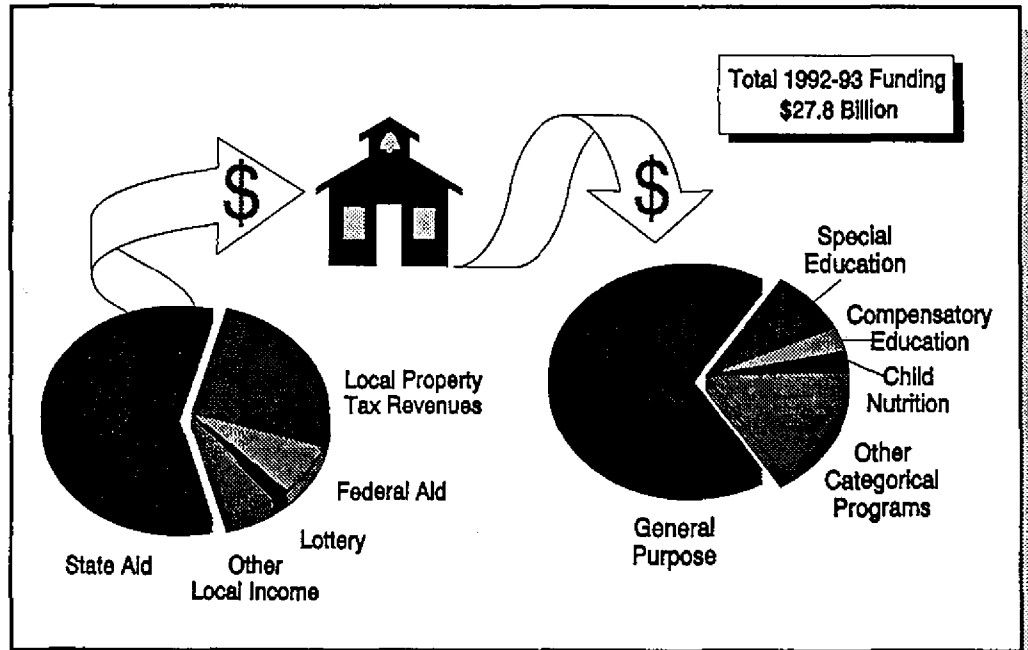
Annual Cost Per Participant Varies Widely Among Major Programs

Program	Number of Participants (In Millions)	Annual Cost per Participant	
		General Fund	Total Governmental
Education- students			
K-12	5.2	\$2,930	\$4,200
UC	0.2	12,300	12,300
CSU	0.3	5,800	5,800
Health and Welfare - beneficiaries			
Medi-Cal	5.0	1,100	2,100
AFDC	2.5	1,138	2,360
SSI/SSP	1.0	2,303	5,110
Corrections			
Prison Inmates	0.1	20,900	20,900

- Prison inmates have the highest cost but are the least numerous.
- The costs shown are averages. The range of individual costs is especially large in Medi-Cal. Nursing home patients, for example, cost about \$25,000 annually to support.
- On a per-student basis, UC is twice as expensive as CSU.



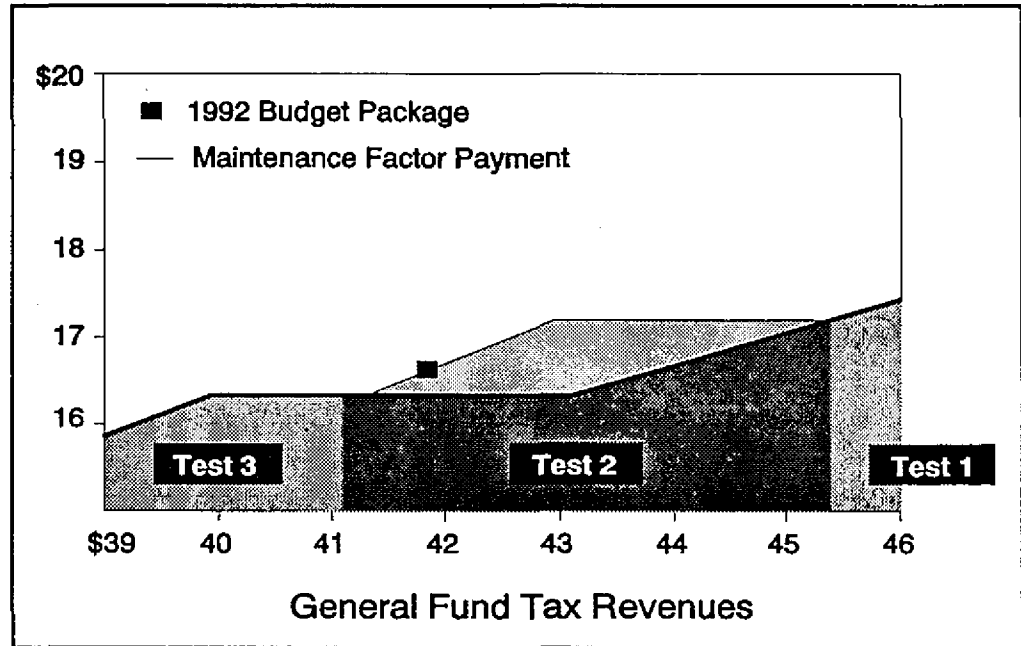
Where Schools Get Dollars And Where They Spend Them



- State aid provides more than half of total school funds.
- Lottery revenues provide the smallest share of school funding.
- One-third of school spending is for “categorical” programs targeted at specific groups of students or particular needs.



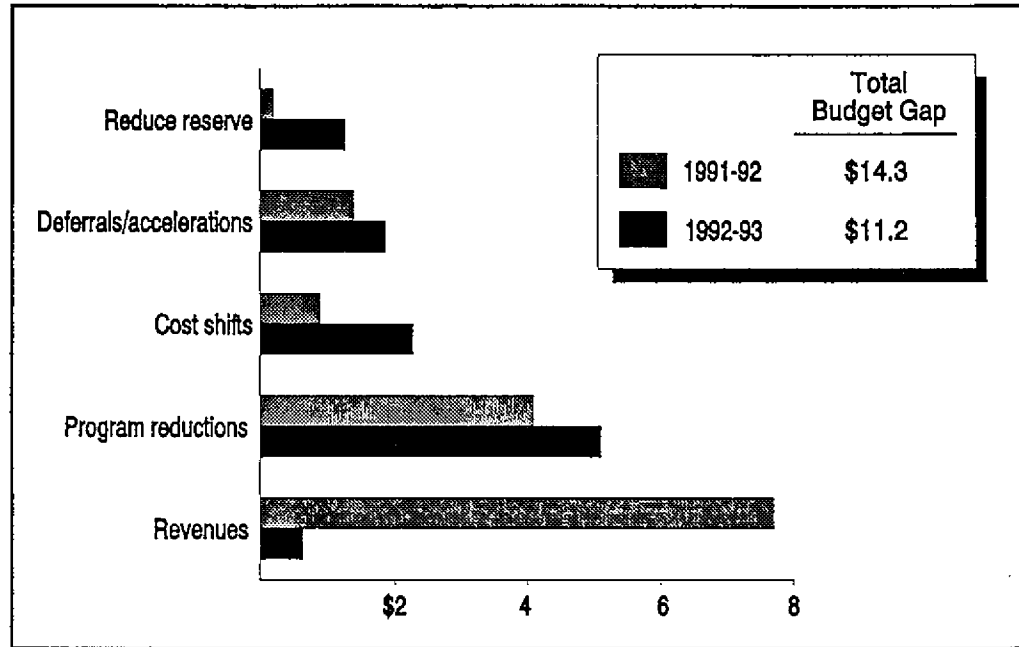
Proposition 98 Funding Guarantee 1992-93 (In Billions)



- The guarantee covers combined General Fund support to K-12 schools and community colleges. The formula is complex, but the basic idea is to maintain K-14 education's share of General Fund revenues and to provide at least prior-year combined state and local funding plus a growth factor for inflation and enrollments.
- The chart shows how the guarantee amount depends on state revenues.
- The state's portion of the guarantee for 1992-93 is \$16.6 billion, based on last May's revenue estimate.
- If actual revenues were to drop by \$2 billion, the guarantee would fall by \$325 million, but legislative action would be needed to achieve savings.



Balancing the Budget Relied Primarily On Revenues in 1991-92 and Program Reductions in 1992-93 (In Billions)



- Tax increases provided \$7.2 billion toward resolving the \$14.3 billion 1991-92 budget gap (fee increases provided another \$500 million).
- No general tax increases were adopted to resolve the 1992-93 budget gap.
- Program reductions (\$5.1 billion) and shifting costs to the local and federal levels (\$2.3 billion) accounted for most of the solutions to the \$11.2 billion 1992-93 budget gap.