
CAL FACTS

California's Economy and Budget in Perspective



December 2002

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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.

Elizabeth G. Hill
■ *Legislative Analyst*



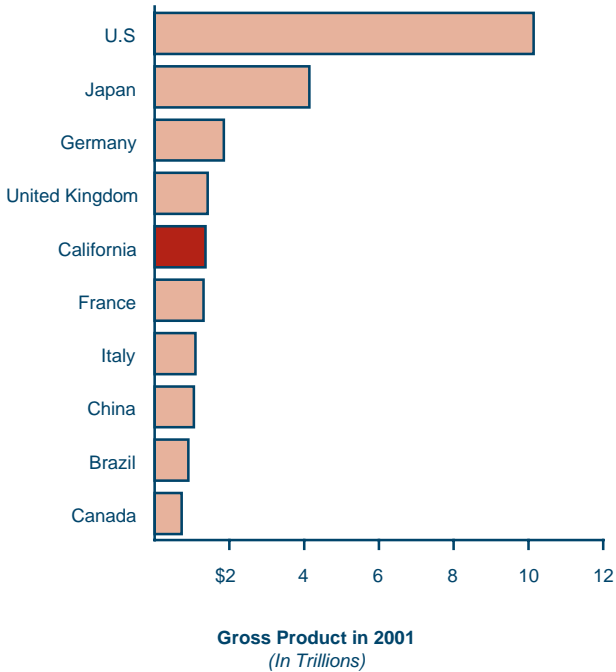
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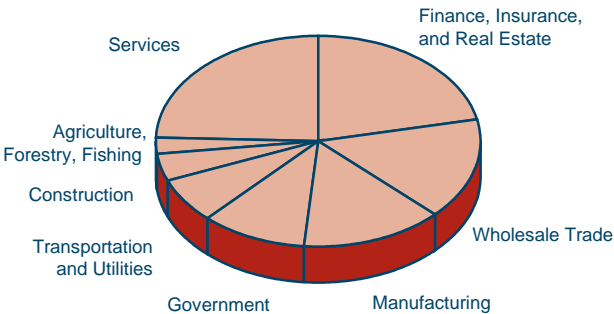
California Is the World's Fifth Largest Economy



- California's gross state product exceeds \$1.3 trillion, making it one of the world's largest economies.
- California accounts for 13 percent of the nation's output, and trails only Japan, Germany, and the United Kingdom.
- Our nation's next largest state economy—New York—is about 60 percent the size of California's.

California's Economy Is Highly Diversified

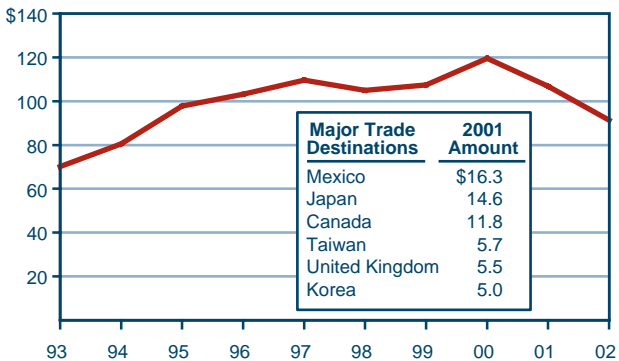
Share of Gross State Product in 2001



- California has a large number of jobs and businesses in many different industries.
- The largest industry is services, which accounts for nearly one-fourth of all output in the state. This industry includes such diverse sectors as computer and software design, motion picture production, engineering, legal, health care, child-care, and hotels.
- The next largest industries—finance, trade, and manufacturing—encompass such elements as banking activities, retail stores, import-export activities, and the manufacturing and sale of high-tech goods.

Foreign Trade Is an Important Element of California's Economy

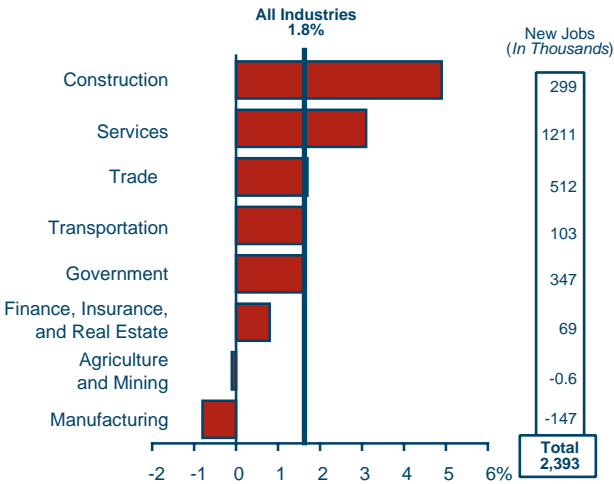
Total California Exports (In Billions)



- International trade is a major source of California economic activity. Total exports reached a peak of \$120 billion in 2000, accounting for 11 percent of the state's total output.
- California-produced computers and electronics account for over one-half of our exports. This is followed by agriculture, machinery, and transportation.
- Exports fell sharply in both 2001 and 2002, reflecting both a worldwide slowdown in the demand for high-tech goods and sluggish economic growth among our major trading partners.

Services Have Dominated Employment Growth Over The Past Decade

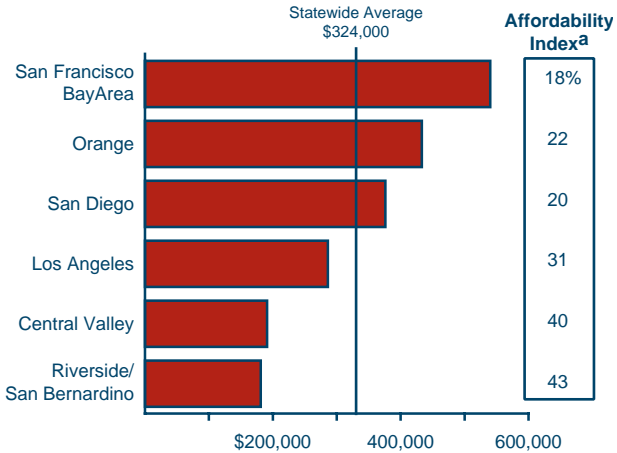
Annual Average Percent Change in California Jobs, 1992 Through 2002



- Over one-half of the nearly 2.4 million in new jobs created in California over the past decade have been in the services sector.
- Trade, government, and construction accounted for the bulk of the remaining job increases. The growth in these areas is generally consistent with California's expanding population.
- Manufacturing employment has fallen over the past decade, reflecting continued losses in the aerospace sector and recent declines in the commercial high-technology sector.

High California Home Prices Have Driven Down Affordability

Median Home Prices in July 2002

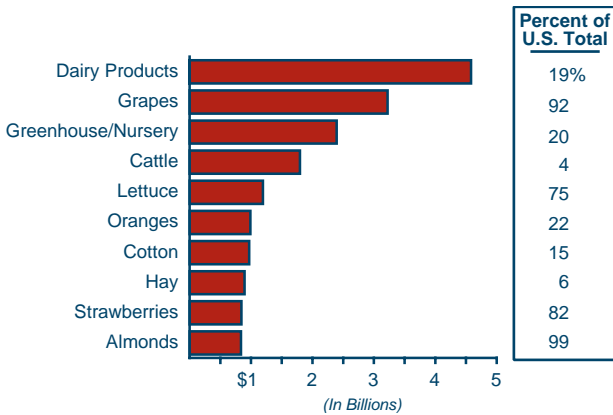


^a Percent of households that can afford to purchase a median-priced home in a given area.

- Home prices remained near all-time highs throughout the state in 2002, despite generally soft economic conditions. This is in contrast to apartment rents, which have softened since early 2001.
- The statewide median home price rose from \$175,000 in mid-1996 to \$324,000 in mid-2002. Currently, less than 30 percent of California households would have sufficient income if they had to purchase such a home today.
- By far, the highest cost region is the San Francisco Bay Area, which had a median home price of \$540,000 in mid-2002. At the other extreme, the median price was \$191,000 in the Central Valley.

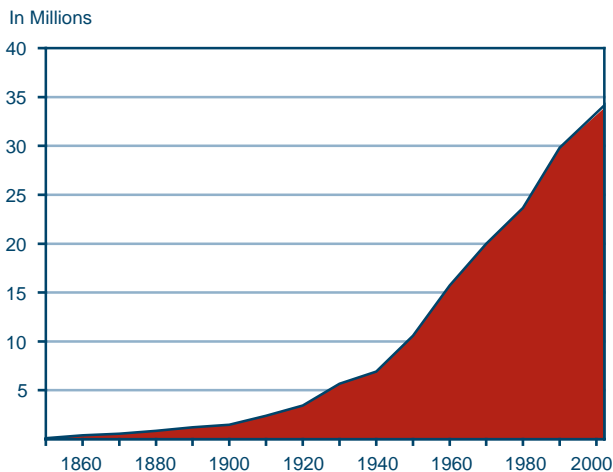
California Is the Nation's Leading Agricultural Producer

*Top Agricultural Products by Cash Receipts
2001*



- Total receipts from farming in California were \$27 billion in 2001. This amount represented about one-eighth of the national total, and was greater than Texas and Iowa (the next largest producers) combined.
- Major commodities in California include dairy, grapes, nursery products, cattle, lettuce, and cotton.
- The state also is a dominant producer of many specialty crops, such as strawberries, kiwis, and artichokes.

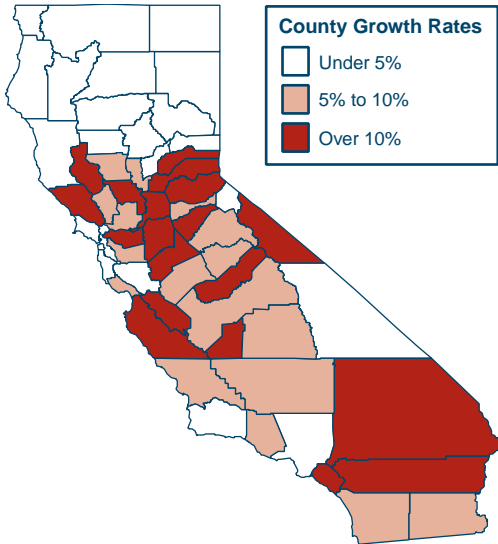
California's Population Has Increased Dramatically Over Time



- California is now home to roughly 35 million people, a 15 million increase over the past 30 years.
- It took about 100 years to reach the 10 million mark, but since then California has been adding 10 million people every 20 years.
- Currently, the state is adding about 550,000 persons annually—more than a city the size of Long Beach or a state the size of Wyoming.

The Inland Counties Have Been Growing the Fastest

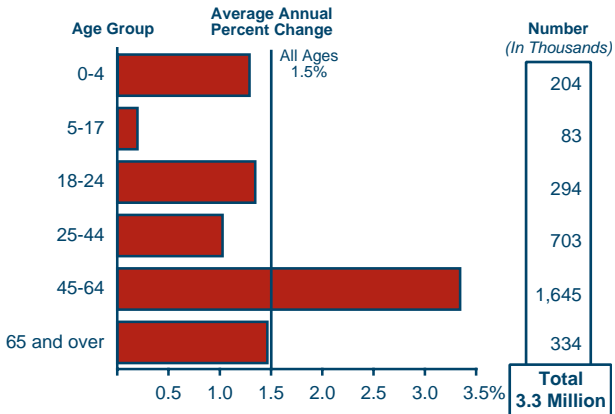
Total Growth, 1997 Through 2002



- The highest population growth rates have occurred mainly in the Central Valley and foothill counties, and in Riverside and San Bernardino Counties in Southern California.
- The five Southern California counties of Los Angeles, Orange, Riverside, San Bernardino, and San Diego account for 55 percent of California's total population in 2002, and 52 percent of the total increase in population since 1997.

Californian's Average Age Rising As Baby Boomers Grow Older

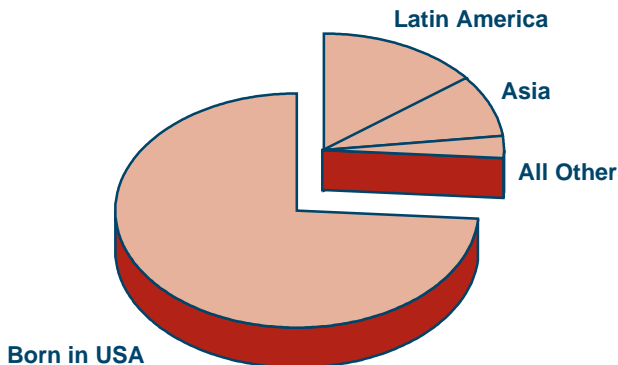
Population Change—2002 Through 2008



- Californians' average age is increasing, as baby boomers enter their 50s and continue to cause rapid growth of the 45-64 age group.
- The K-12 school-age population will grow the slowest of all groups, reflecting declines in birth rates over the past decade.

A Quarter of Californians Are Foreign Born

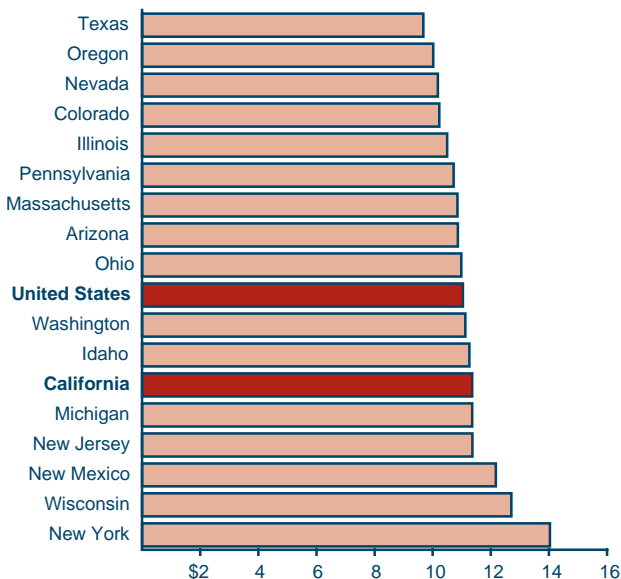
2000



- One-in-four of California's current residents—8.9 million people—were born outside of the United States. This compares to one-in-ten nationally.
- Almost four-fifths of foreign-born Californians live in the metropolitan areas of Los Angeles (5.1 million) or San Francisco (1.9 million).
- About half of foreign-born Californians are from Latin America, while another third are from Asia.

California's Tax Burden Is Somewhat Above Average

Taxes Per \$100 of Personal Income



Source: 1998-99 Census of Government, U.S. Census Bureau.

- California's overall tax burden—\$11.35 per \$100 of personal income—is somewhat above the \$11.04 average for the United States as a whole.
- Compared to other western states, California's overall tax burden is somewhat higher—although it is lower than that of many industrial states.
- Nontax collections add to the overall revenue burden in California—in an amount that is similar to the average for other states.

California's Governments Rely On a Variety of Taxes

State Taxes	Current Rate	Comments/Description
Personal Income	Marginal rates of 1% to 9.3% (7% AMT ^a)	Married couples with gross incomes of \$24,160 or less need not file. The top rate applies to married couples' taxable income in excess of \$76,582.
Sales and Use	6% ^b	Applies to final purchase price of tangible items, with exemptions for food and certain other items.
Corporation		
<i>General Corporations</i>	8.84% ^c (6.65% AMT)	Applies to net income earned by corporations doing business in California.
<i>Financial Corporations</i>	10.84% (6.65% AMT plus adjustment factor)	For financial corporations, a portion of the tax is in lieu of certain local taxes.
Vehicle Fuel	18¢/gallon of gasoline or diesel fuel	Tax is collected from fuel distributors or wholesalers with equivalent taxes levied on other types of vehicle fuels.
Alcohol and Cigarette		
<i>Wine and beer</i>	20¢/gallon	Tax is collected from manufacturers or distributors. Equivalent taxes are collected on sale of other tobacco products.
<i>Sparkling wine</i>	30¢/gallon	
<i>Spirits</i>	\$3.30/gallon	
<i>Cigarettes</i>	87¢/pack	
Estate^d	0.8% to 16%	The estate tax is a "pick-up" tax to take advantage of the maximum state credit allowed against the federal estate tax, at no net cost to taxpayers.
Horse Racing License Fees	0.4% to 2%	Fees/taxes are levied on amounts wagered. Rate is dependent on type of racing and bet, and where the wager is placed.

continued

California's Governments Rely On a Variety of Taxes *(Continued)*

State Taxes	Current Rate	Comments/Description
Insurance	2.35%	Insurers are subject to the gross premiums tax in lieu of all other taxes except property taxes and vehicle license fees.
Local Taxes	Current Rate	Comments/Description
Property	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.
Local Sales and Use	1.25% to 2.5%	Collected with state sales and use tax. Revenues go to cities, counties and special districts.
Vehicle License Fee	0.65% ^e	Tax is applied to depreciated purchase price. It is collected by the state and distributed to cities and counties.
Other Local	Varies by jurisdiction	Types of taxes and rates vary by jurisdiction. Includes utility users tax, business license tax, and transient occupancy taxes.

^a Alternative minimum tax.

^b Includes rates levied for state-local program realignment and local public safety.

^c A 1.5 percent rate is levied on net income of Subchapter S corporations.

^d Inheritance and gift taxes have been repealed, but still apply to gifts and deaths prior to 1982. The state credit is being phased-out, pursuant to 2001 federal law changes.

^e The state provides additional funding, which results in total revenues to local governments equivalent to a 2 percent VLF rate.

Initiative Measures Have Had Major State-Local Fiscal Implications

Measure/ Election	Major Provisions
Proposition 13/ June 1978	Limits general property tax rates to 1 percent. Limits increases in assessed value after a property is bought or constructed. Makes Legislature responsible for dividing property tax among local entities. Requires two-thirds vote for Legislature to increase taxes, and two-thirds voter approval of new local special taxes.
Proposition 4/ November 1979	Generally limits spending by the state and local entities to prior-year amount, adjusted for population growth and inflation (now per capita personal income growth). Requires state to reimburse local entities for mandated costs.
Proposition 6/ June 1982	Prohibits state gift and inheritance taxes except for "pickup" tax qualifying for federal tax credit.
Proposition 7/ June 1982	Requires indexing of state personal income tax brackets for inflation.
Proposition 37/ November 1984	Establishes state lottery and dedicates revenue to education. Places prohibition of casino gambling in State Constitution.
Proposition 62/ November 1986	Requires approval of new local general taxes by two-thirds of the governing body and a majority of local voters (excludes charter cities).
Proposition 98/ November 1988	Establishes minimum state funding guarantee for K-12 schools and community colleges.
Proposition 99/ November 1988	Imposes a 25 cent per pack surtax on cigarettes and a comparable surtax on other tobacco products. Limits use of surtax revenue, primarily to augment health-related programs.

continued

Initiative Measures Have Had Major State-Local Fiscal Implications (Continued)

Measure/ Election	Major Provisions
Proposition 162/ November 1992	Limits the Legislature's authority over PERS and other public retirement systems, including their administrative costs and actuarial assumptions.
Proposition 163/ November 1992	Repealed "snack tax" and prohibits any future sales tax on food items, including candy, snacks, and bottled water.
Proposition 172/ November 1992	Imposes half-cent sales tax and dedicates the revenue to local public safety programs.
Proposition 218/ November 1996	Limits authority of local governments to impose taxes and property-related assessments, fees, and charges. Requires majority of voters to approve increases in all general taxes, and reiterates that two-thirds must approve special taxes.
Proposition 10/ November 1998	Imposes a 50 cent per pack surtax on cigarettes, and higher surtax on other tobacco products. Limits use of revenues, primarily to augment early childhood development programs.
Proposition 39/ November 2000	Allows 55 percent of voters to approve local general obligation bonds for school facilities.
Proposition 42/ March 2002	Permanently directs to transportation purposes sales taxes on gasoline previously deposited in the General Fund.
Proposition 49/ November 2002	Requires that the state provide funds for after-school programs, beginning in 2004-05.

Approval Requirements for State and Local Revenues

State Level	Legislative Approval	Voter Approval
Taxes	2/3	None
General obligation bonds	2/3	Majority
Other debt ^a	Majority	None
Fees	Majority	None
Local Level	Governing Body Approval	Voter Approval
City or county "general" taxes (revenues used for unrestricted purposes)	2/3 (Majority for charter cities)	Majority
City or county "special" taxes (revenues used for specific purposes)	Majority	2/3
All school or special district taxes	Majority	2/3
General obligation bonds	Majority	2/3 ^b
Other debt	Majority	None
Property assessments	Majority	Majority of affected property owners. Votes weighted by assessment liability
Property—related fees	Majority	2/3 of voters or majority of affected property owners ^c
Fees—all other	Majority	None

^a Includes revenue and lease-revenue bonds and certificates of participation.

^b Exception: The Constitution specifies that a majority of voters can approve bonds used for repairing or replacing unsafe public school buildings and 55 percent of voters can approve bonds for new school facilities under certain conditions.

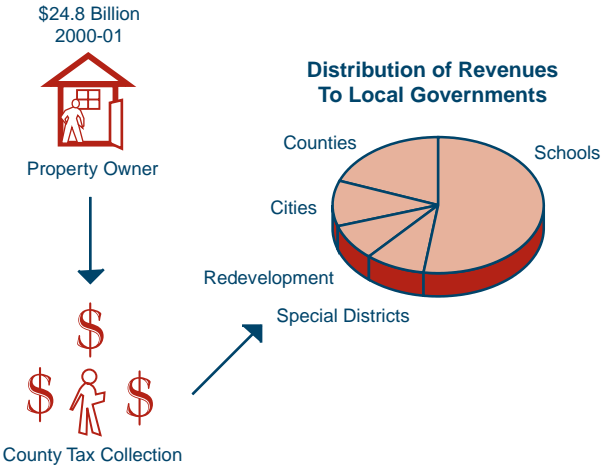
^c No vote required for gas, electric, water, sewer, refuse, or developer fees.

Californians Are Served by Over 6,000 Local Entities

Counties	58
Cities	477
Redevelopment agencies	408
Special districts	4,792
K-12 school districts	998
County offices of education	58
Community college districts	72
Total	6,863

- Most Californians are governed by several overlapping local governments: a city, county, school, and community college district, *plus* one or more special districts.
- Special districts provide specialized services, such as firefighting, water delivery, transit, or flood control. The count of special districts includes non-profit organizations and joint power agencies formed by local governments.
- About 60 percent of special districts have independently elected or appointed boards. Other special districts are governed by a board of supervisors or (less frequently) a city council.
- Measured on a per capita basis, California tends to have fewer cities, counties, and special districts than other states.

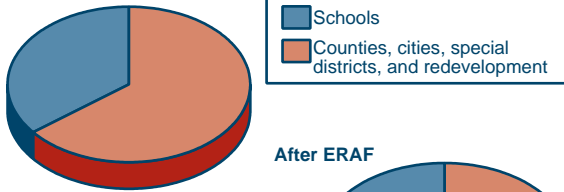
Property Taxes Are Distributed to Many Entities Within a County



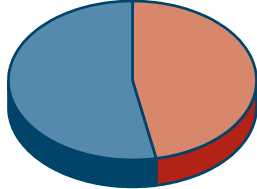
- Property taxes are collected by each county government. The revenues are then distributed to a variety of governments, including the county, cities, school districts, redevelopment agencies, and special districts.
- The property tax rate is limited to 1 percent by the Constitution, plus any additional rate necessary to pay for voter-approved debt. The average tax rate across the state in 2000-01 was 1.07 percent.
- Property tax revenues collected in a county can be distributed only to a governmental entity within that county.

School's Share of the Property Tax Has Changed Over the Years

Before ERAF^a



After ERAF



^aEducational Revenue Augmentation Fund.

- After passage of Proposition 13 in 1978, the state shifted property taxes from schools to other local governments—and backfilled schools' losses with increased state aid. This property tax shift reduced local governments' revenue losses resulting from Proposition 13's limit on the property tax rate.
- Beginning in 1992, the state modified the formulas for allocating property taxes again. Specifically, the state shifted property taxes from cities, counties, and special districts to schools. This shift is commonly called "ERAF," after the name of the fund into which the taxes are deposited. In 2001-02, about \$4.5 billion of property taxes are subject to this shift. About three-quarters of this amount is attributable to counties.
- The share of property taxes now allocated to schools is about the same as before Proposition 13.

How Much Property Taxes Do Counties and Cities Receive?

1999-00

Large Counties	Per Capita Property Taxes	Large Cities	Per Capita Property Taxes
Santa Clara	\$153	Oakland	\$147
Los Angeles	139	Los Angeles	142
Alameda	121	San Diego	118
Contra Costa	116	Long Beach	101
Sacramento	101	San Jose	82
San Diego	94	Fresno	62
Riverside	77	Anaheim	56
San Bernardino	66	Santa Ana	56
Orange	51	Riverside	43
Statewide County Average	\$115	Statewide City Average	\$85

- Four factors explain the large differences among property tax receipts. Cities and counties tend to receive more property taxes if they:
 - Have many valuable buildings, manufacturing plants, and other developed property within their borders.
 - Received a large share of countywide property taxes before Proposition 13.
 - Provide many municipal services, instead of relying upon other local governments to provide some services.
 - Have few large redevelopment projects within their borders.

Major Changes in the State-County Relationship During Past Decade

Property Tax Shifts

1992 and 1993 **Ongoing Revenue Shifts.** State shifted property taxes from counties and other local entities to schools in order to reduce state costs. Subsequently, these reduced county revenues were mostly offset by various mechanisms, including funding for public safety (Proposition 172 sales tax revenues, COPS funding, and changes to trial court funding) and general assistance mandate relief.

Health and Social Services

1991 **Realignment.** Shifted authority from the state to counties, and increased counties' share of costs, for many health and social services programs. Provided new revenue sources to counties to offset increased county costs.

1997 **Welfare Reform.** Provided counties with more flexibility regarding (1) delivery of welfare-to-work services and (2) recipient participation requirements. Provided fiscal incentives for counties to assist recipients in getting jobs.

Trial Court Funding

1988 **Brown-Presley Act.** Provided initial state funding through block grants to counties based on total judicial positions.

1997 **County Cap.** Placed a cap on county expenditures for trial courts, resulting in future increases in state costs.

2000 **Court Employees.** Established a new trial court employee personnel system, transferring the responsibility for their employment from the counties to the respective trial courts.

2002 **Court Facilities.** Specifies the process for transferring trial court facilities from counties to the state.

Transportation

2000 **Traffic Congestion Relief Program.** Authorized \$6.9 billion in new funds over six years for congestion relief and local streets and roads.

Major County Programs—2002-03

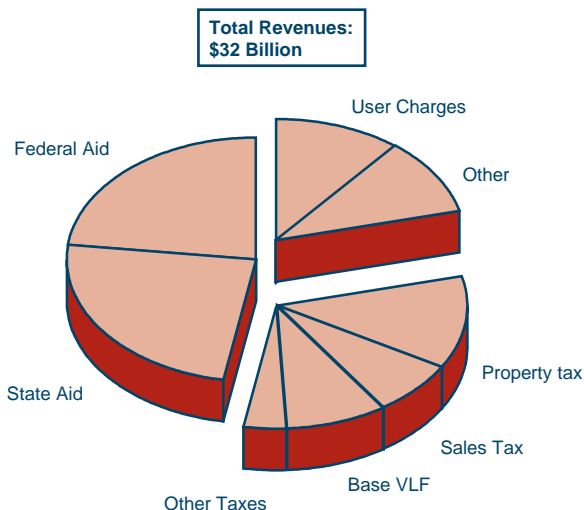
Program	Policy Control	Funding ^a
CalWORKs	State/Federal	
Child Welfare Services	State/Federal	
General Assistance	State/Counties	
Mental Health	Counties/State/Federal	
Public Health	Counties/State/Federal	
Substance Abuse Treatment	Counties/State/Federal	
Jails	Counties/State	
Probation	Counties/State	
Sheriff	Counties/State	
Trial Courts	State	
Libraries	Counties	
Parks and Recreation	Counties	
Roads	Counties	

Federal
 State
 County

^aAll funding distributions are LAO estimates.

An Overview of County Finance

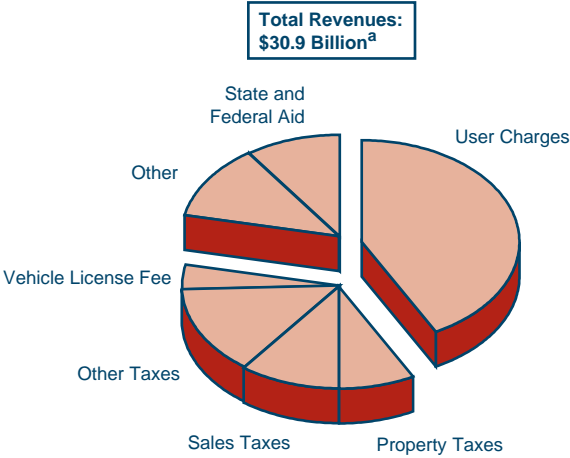
1999-00



- About one quarter of counties' spending comes from tax revenues. These are the counties' discretionary general purpose revenue sources. State and federal aid represent the largest sources of county revenues.
- About half of county spending is on various health and social services programs. An additional 30 percent of county spending is for public protection, including police and fire services.

An Overview of City Finance

1998-99



^aExcludes San Francisco.

- About one-third of city spending comes from discretionary general purpose revenues. The largest general purpose revenue for cities is the sales tax.
- About 40 percent of city revenues are from user charges (for electric, water, and other services) which offset the cost of providing these services.
- Cities spend about one-fourth of their revenues on public safety expenditures, such as police and fire services.

Total State Revenues

2002-03

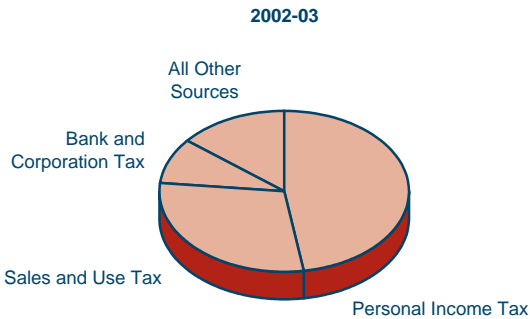
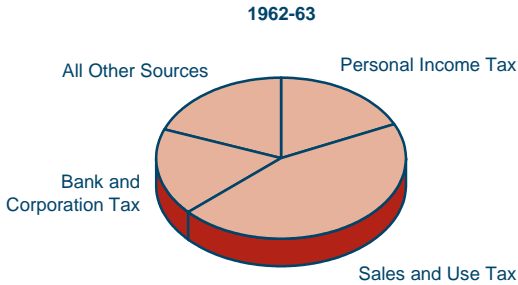
General Fund Revenues		Total State Revenues \$93.9 Billion	Special Funds Revenues	
Personal Income Tax	\$37.6		Motor Vehicle-Related Levies	\$7.2
Sales and Use Tax	23.0		Sales and Use Tax ^a	2.5
Bank and Corporation Tax	7.3		Tobacco-Related Taxes	1.0
All Other ^b	11.3		All Other	4.0
Total	\$79.2		Total	\$14.7

^a Consists of amounts for Local Revenue Fund and transportation-related purposes. Excludes \$2.3 billion allocated to Local Public Safety Fund, which is not shown in the budget totals.

^b Includes \$2.6 billion in transfers and loans plus \$4.5 billion from the securitization of future tobacco settlement receipts.

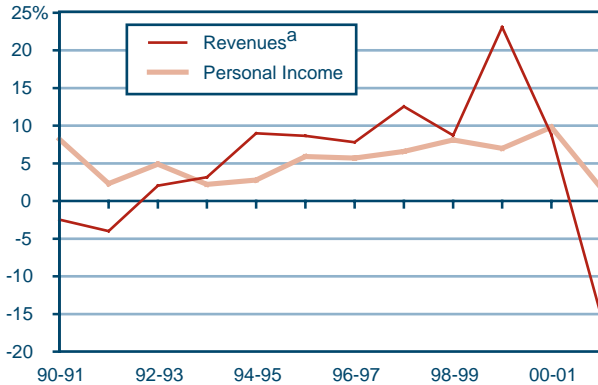
- General Fund revenues account for over 84 percent of total state revenues.
- Personal income taxes are the largest single revenue source, accounting for 48 percent of General Fund revenues and 40 percent of total revenues.
- Sales and use taxes and bank and corporation taxes are the second and third largest General Fund sources, accounting for 29 percent and 9 percent, respectively.
- Special funds are used for specific purposes, with motor vehicle-related levies the largest component.

The Composition of Revenues Has Changed Over Time



- Over the past four decades the importance of the personal income tax has increased dramatically—rising from 18 percent of General Fund revenues in 1962-63 to 48 percent in 2002-03.
- This growth is due to healthy growth in real incomes, the state's progressive tax rate structure, and increased capital gains.

Revenues Have Been Much More Volatile Than State's Economy

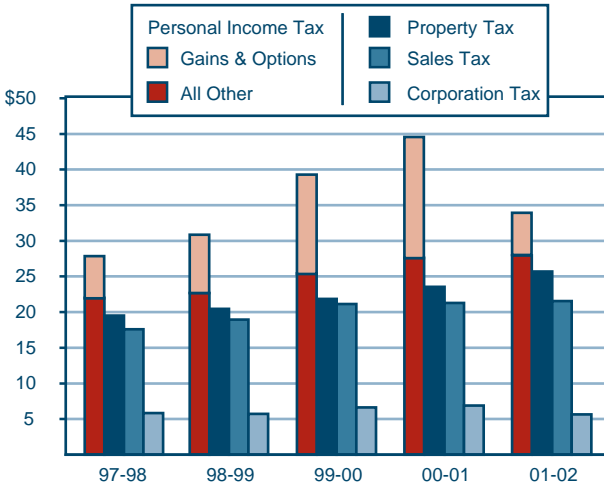


^a Excluding effects of law changes.

- Year-to-year revenue growth has fluctuated dramatically in the past decade—rising by as much as 23 percent and falling by as much as 14 percent.
- The large volatility generally reflects California's increased dependence on relatively few high-income taxpayers. More specifically, it reflects the tremendous swing in capital gains and stock options realized by many of these taxpayers during the decade.

Personal Income Taxes Have Been The Most Volatile Revenue Source

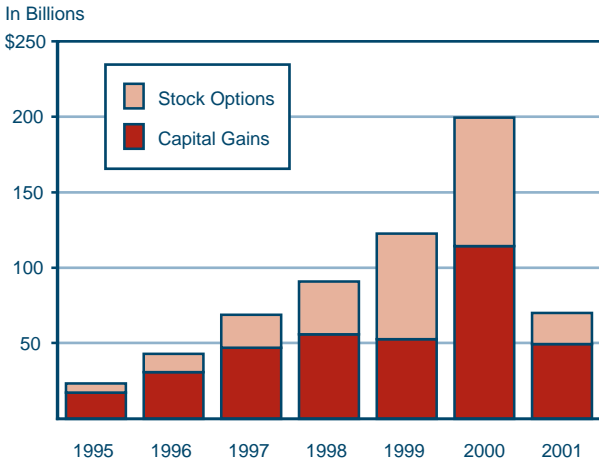
Major Tax Receipts, Billions of Dollars



- California's revenue boom in the late 1990s and its subsequent revenue bust in the early 2000s were primarily related to the personal income tax. This tax soared from \$28 billion in 1997-98 to a peak of nearly \$45 billion in 2000-01, before plummeting to below \$34 billion in 2001-02.
- In contrast, the state's other major tax sources have been more stable, increasing by less in the late 1990s but holding up during the recession. In fact, the property tax continued to grow during the recession, due to rising home prices and strong sales.

Capital Gains and Stock-Option Income Tumbled in 2001

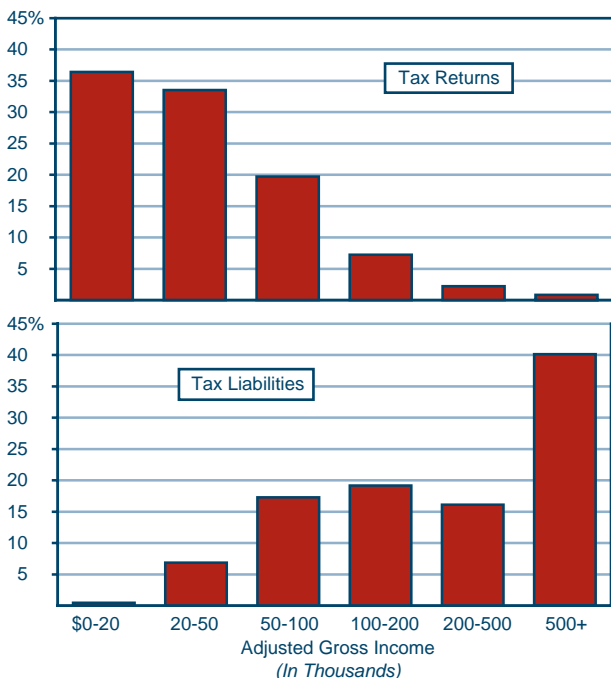
Income Reported on California Tax Returns



- California's taxable capital gains and stock options climbed dramatically in the late 1990s and peaked with the stock market in 2000. As a result, personal income tax revenues from these sources in 2000-01 accounted for nearly 23 percent of total General Fund revenues.
- Income from gains and options plunged by more than 65 percent in 2001, however. This was due to the fall in stock prices, and the fact that many individuals had "cashed out" gains in 2000.

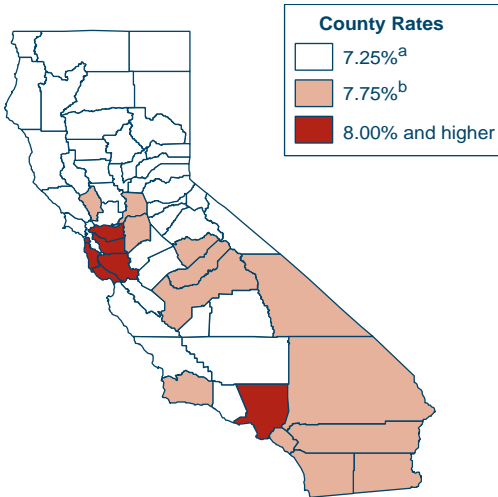
Distribution of Income Tax Returns And Liabilities by Income

1999



- California has a highly progressive personal income tax structure—that is, taxes as a percent of income rise as one's income increases. Marginal personal income tax rates range from 1 percent to 9.3 percent.
- Taxpayers with income over \$500,000 account for less than 1 percent of returns, but 40 percent of tax liabilities.

Sales Tax Rates Vary by County

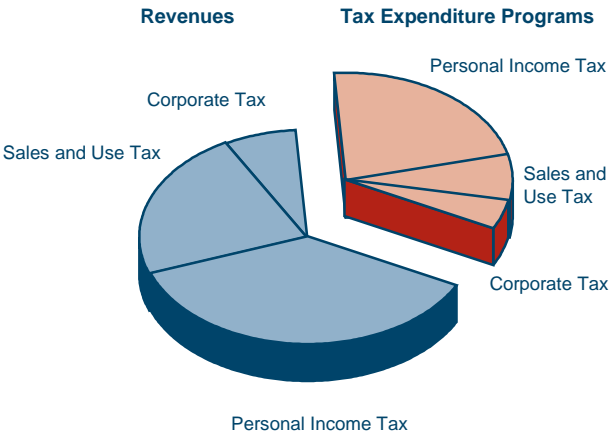


^aIncludes Stanislaus, Nevada, and Solano (7.375%), and Sonoma (7.50%).

^bIncludes Fresno (7.875%).

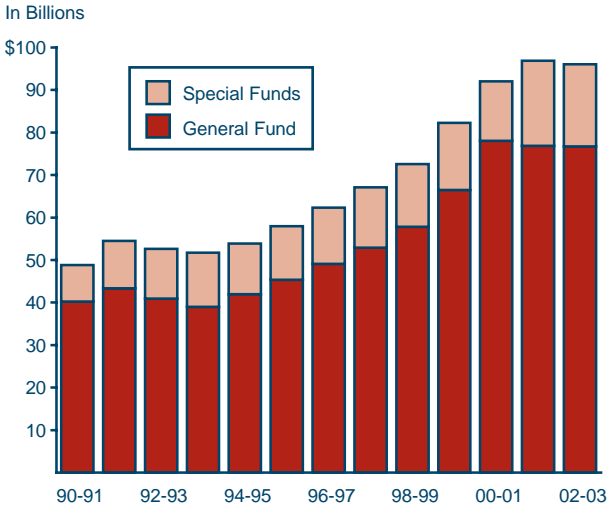
- Sales taxes vary from county to county because of the optional sales taxes that counties can choose to levy.
- Sales tax rates can vary within a county as well, to the extent cities and/or special districts adopt additional optional taxes.
- County sales tax rates range from 7.25 percent in counties with no optional taxes to 8.50 percent for the City and County of San Francisco. The statewide average county rate (weighted by sales) is about 7.9 percent.

Tax Expenditures Represent a Significant Portion of the Tax Base



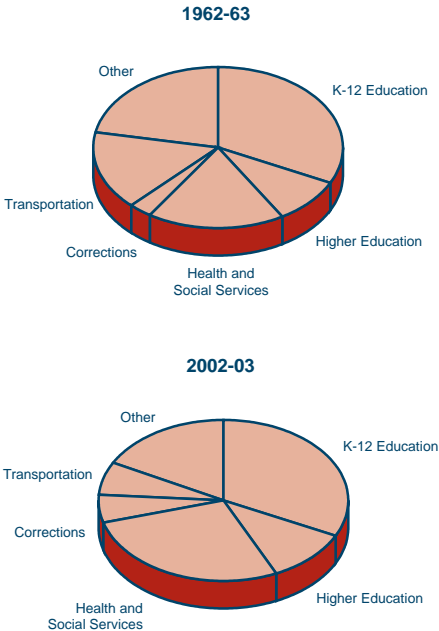
- Tax expenditure programs (TEPs) are special tax provisions that result in lower tax liabilities and are used to encourage particular activities, reward certain actions, or ease the overall tax burden.
- Some disagreement exists regarding what is and what is not a TEP. Broadly defined, they represent foregone revenues of about \$35 billion annually.
- Currently, the largest TEPs are the exclusion from income of pension contributions, the home mortgage interest deduction, the special tax treatment of S corporations, and the carryover of net operating losses.
- Despite their importance, TEPs are not annually reviewed as part of the regular budget process.

State Spending Flat After Rapid Growth in Late 1990s



- State spending declined in the early 1990s due to the recession. During the rest of the decade, however, spending grew relatively rapidly—averaging 5.8 percent per year for all spending and 8.9 percent for General Fund spending.
- Real per capita total spending, which adjusts for both population growth and inflation, has averaged 1.9 percent annually since 1990-91.
- In 2002-03, both total and General Fund spending will decline—the latter for the second year in a row.

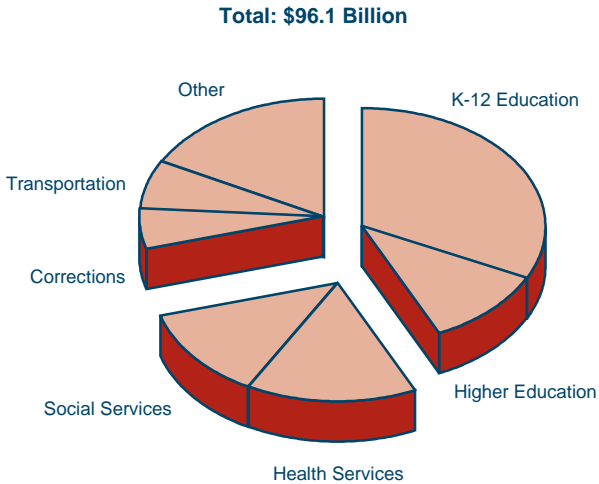
The Mix of State Expenditures Has Shifted



- The composition of state spending has evolved over time, with the most striking changes being the growth in health and social services programs and the decline in transportation.
- K-12 education remains the largest program area, accounting for almost a third of total spending.
- While a relatively small portion of the total, corrections' share of the budget has nearly doubled over the period.

Education, Health, and Social Services Dominate Spending

2002-03



- Together, education, health, and social services account for 71 percent of total state spending in 2002-03.
- Education's share of total spending is about 43 percent (\$41.4 billion). Its share of General Fund spending is higher—around 53 percent.
- Health and social services represent the next largest share of total spending at 28 percent (\$26.4 billion).

Annual Cost Per Participant Varies Widely Among Major Programs

2002-03

	Number of Participants (In Thousands)	Average Cost Per Participant	
		General Fund	Total Government
Corrections			
Prison	157	\$26,700	\$26,700
Youth Authority	6	49,200	49,200
Education—Students^a			
K-12	5,881	\$5,232	\$8,568
UC	185	17,392	17,392
CSU	317	8,488	8,488
Community Colleges	1,094	2,536	4,376
Health and Social Services—Beneficiaries			
Medi-Cal	6,009	\$1,589	\$3,178
Healthy Families ^b	603	414	1,069
CalWORKs	1,438	1,440	4,099
SSI/SSP	1,126	2,715	6,785
Foster Care	73	5,781	21,219
Developmental centers	4	93,606	171,430
Regional centers	182	7,972	12,045

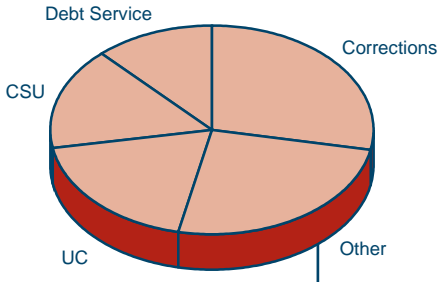
^a Does not include federal funds or lottery funds. K-12 participants are in average daily attendance and higher education are in full-time equivalents.

^b Includes tobacco settlement funds.

- The costs shown are average amounts. The range of individual costs is especially large in the Medi-Cal program. For example, children can cost around \$700 a year, while disabled nursing home patients cost about \$73,000 annually.

State Operations Is Concentrated in Four Areas

General Fund—2002-03

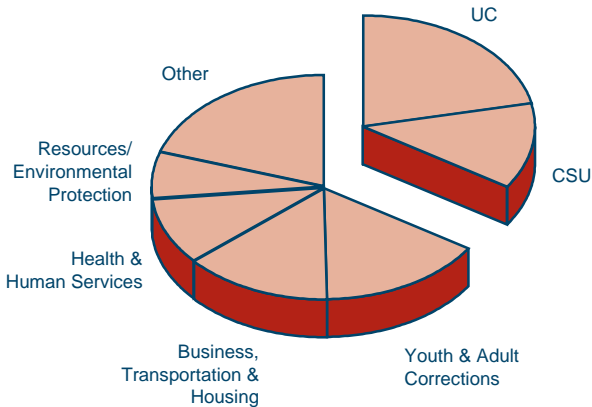


Other State Operations Spending	In Millions
Mental Health	\$500
Department of Forestry	410
Franchise Tax Board	409
Department of Developmental Services	362
Department of Justice	292
Department of Health Services	249
Board of Equalization	193

- Of the total \$76.7 billion 2002-03 General Fund budget, state operations comprise only one-fifth (\$16.9 billion). The remainder primarily involves local assistance—payments to K-14 school districts, other local governments, and individuals.
- About three-fourths of General Fund state operations is in just four areas: the Department of Corrections, the University of California, the California State University system, and debt service.
- The remaining one-quarter (\$4.3 billion) of state operations supports a wide range of programs, including the Department of Forestry, various health-related departments, and the tax-related agencies.

Higher Education Represents One-Third of State Employment

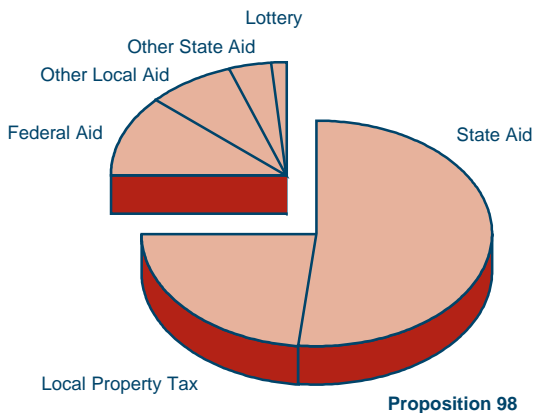
2001-02 Estimated State Employment



- In 2001-02, the state had an estimated 325,564 person-years (PYs). This represents filled positions in state government. Employees in higher education represent about one-third of the total.
- In the last 30 years, state employment has ranged from a high of 9.9 employees per 1,000 population in 1977-78 to a low of 8.4 during the 1990s. In 2001-02, there were an estimated 9.4 employees per 1,000 population.

K-12 School Revenues

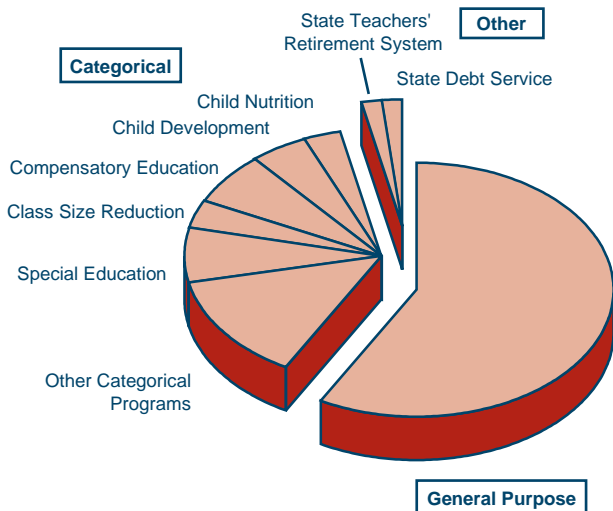
2002-03



- 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

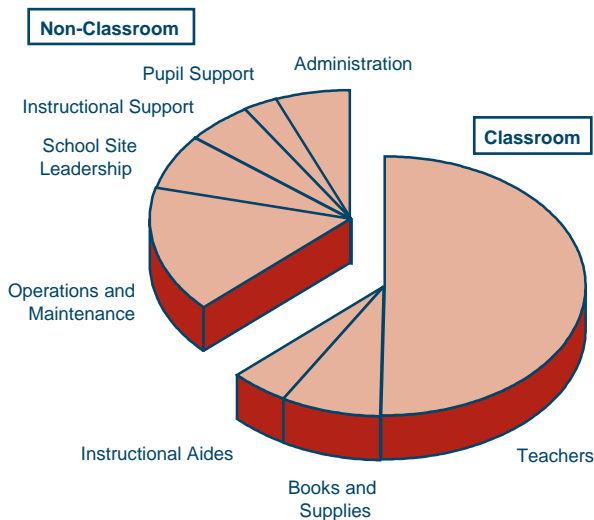
2002-03



- 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.

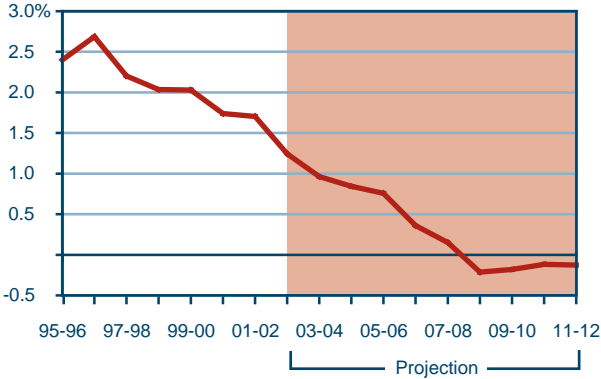
The Typical Cost of a California School

1999-00



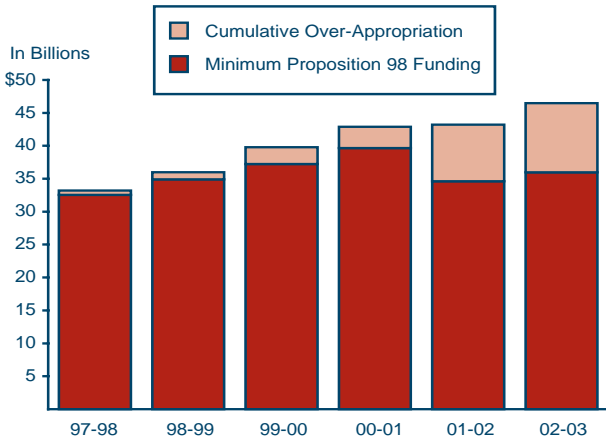
- In a typical K-12 school, classroom services account for almost two-thirds of all costs. Half of all K-12 costs are for teachers, with an additional 13 percent for instructional aides, books, and supplies.
- Other school site activities account for over one-third of all K-12 costs. These costs consist 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).

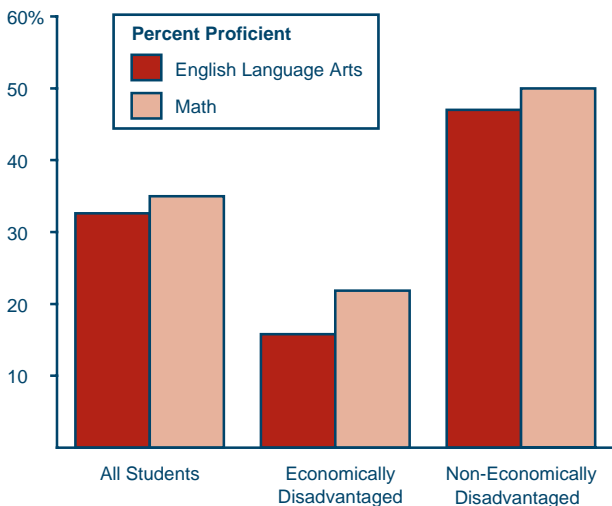
Proposition 98 and the Fiscal Impact Of Recent Over-Appropriations



^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

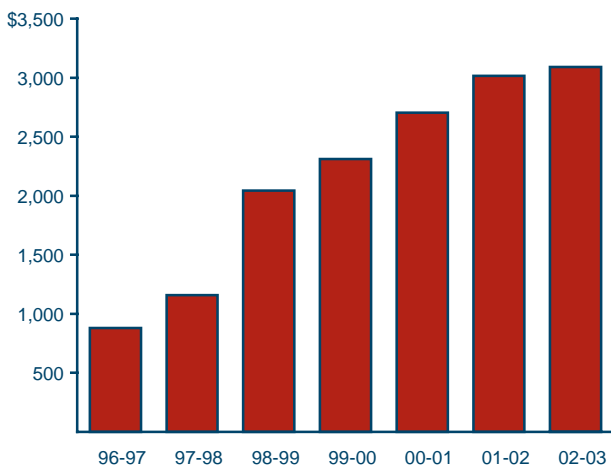


^aBased on 2002 results from the California Standards Test.

- 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.

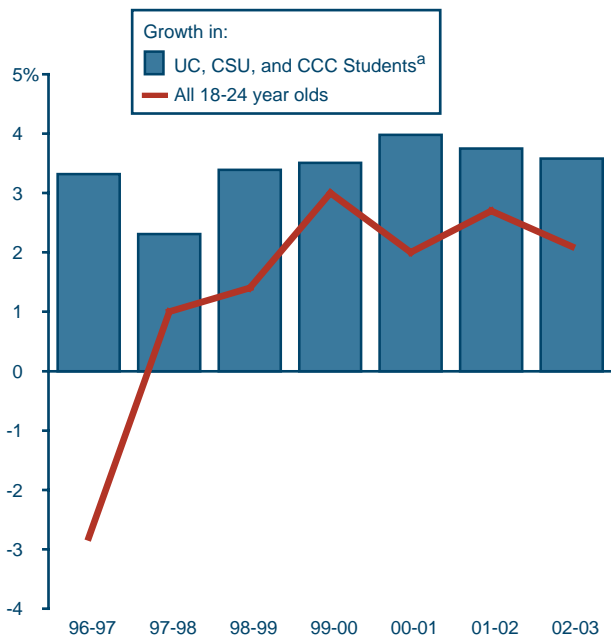
Spending on Child Care Programs Has Increased Significantly

*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

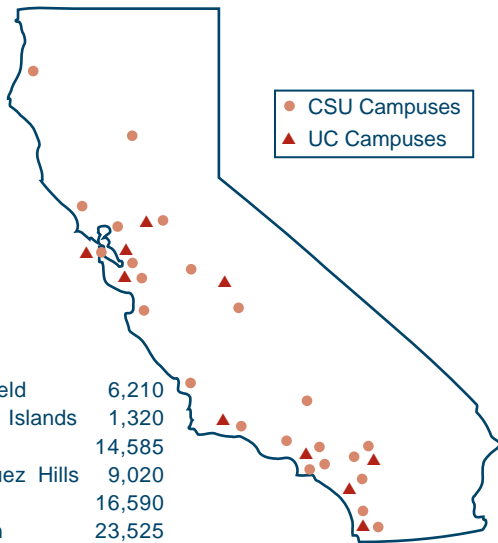


^aWeighted average of funded enrollment growth for the three segments.

- 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

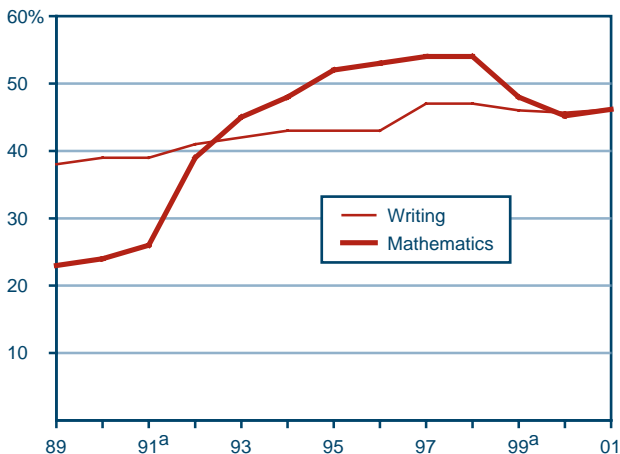
University of California

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

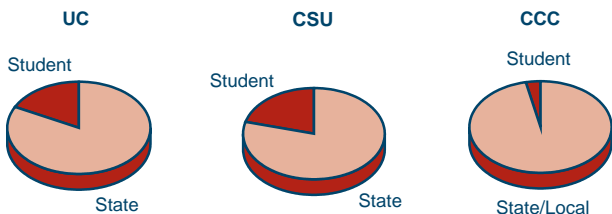


^aCSU made the mathematics exam more difficult in 1992, and allowed students to use calculators in 1999.

- 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

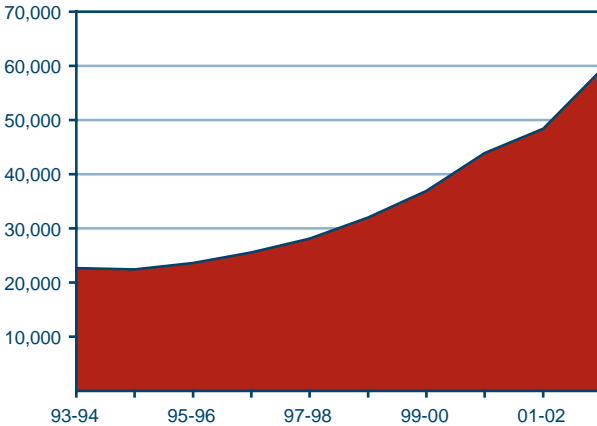
2002-03



- 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

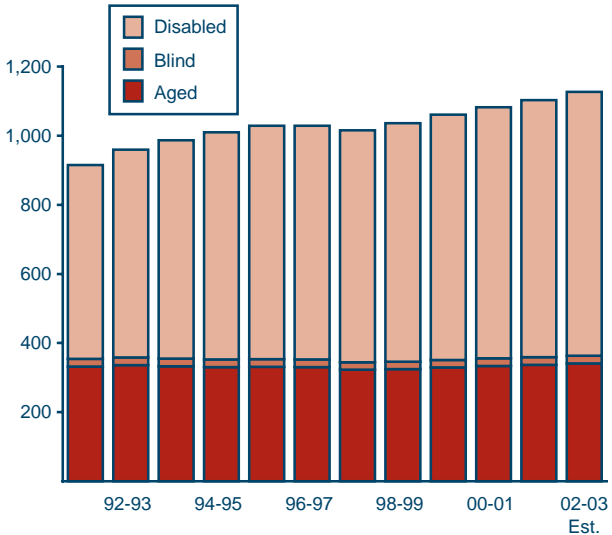
Cal Grant Recipients



- 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

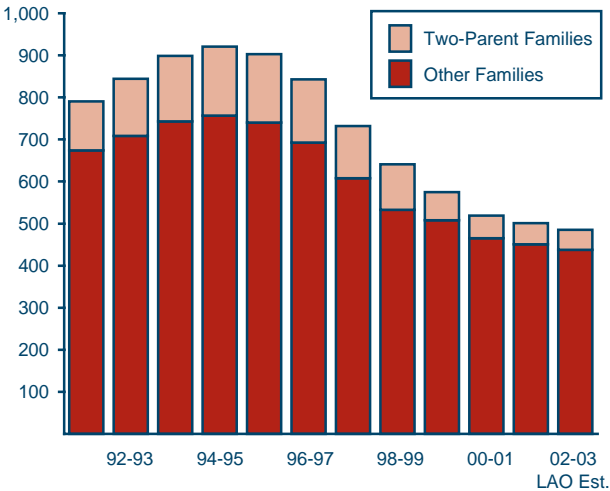
Cases in Thousands



- 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).

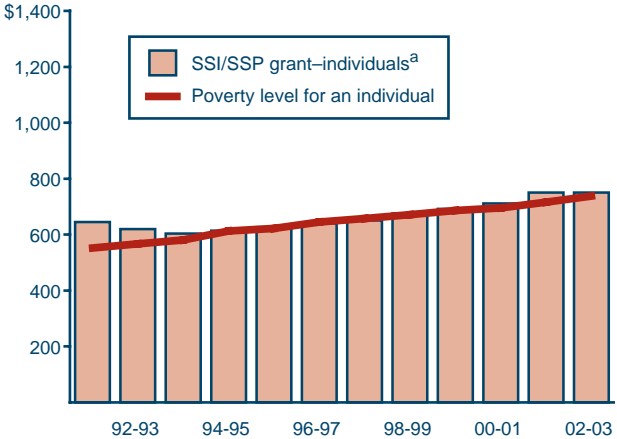
CalWORKs Caseload Decline Continues

Cases in Thousands

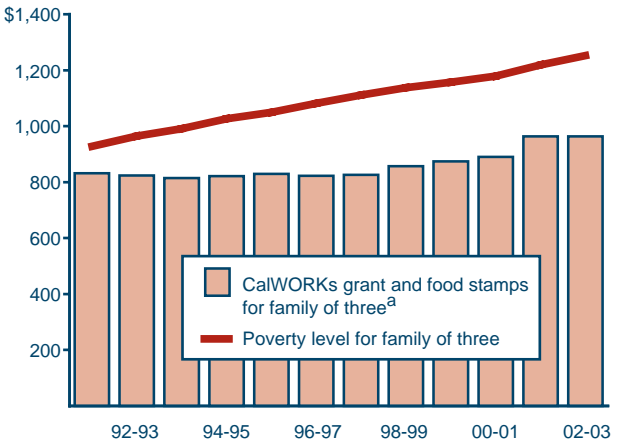


- After peaking in 1994-95, the caseload declined 46 percent through 2001-02. We project a further decline of about 3 percent in 2002-03.
- The caseload decline resulted from a combination of demographic trends (such as birth rates for young women), the economic expansion, and full implementation of 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 . . .



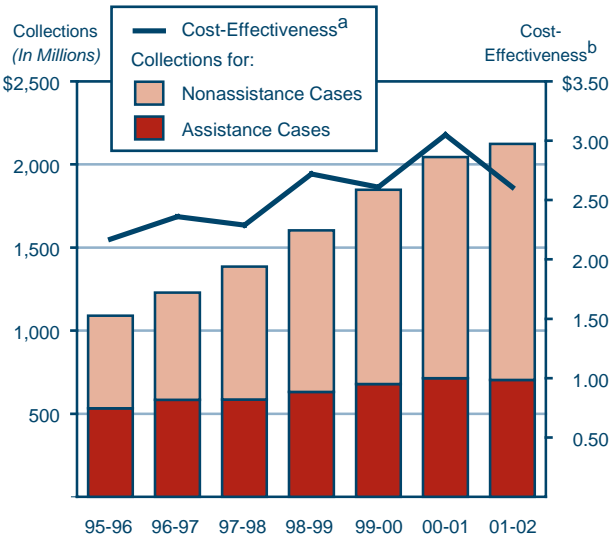
. . . While CalWORKs Grant Is Significantly Below Poverty Level



^aMaximum monthly grant.



Child Support Collections Rising but Cost-Effectiveness Lags Nation

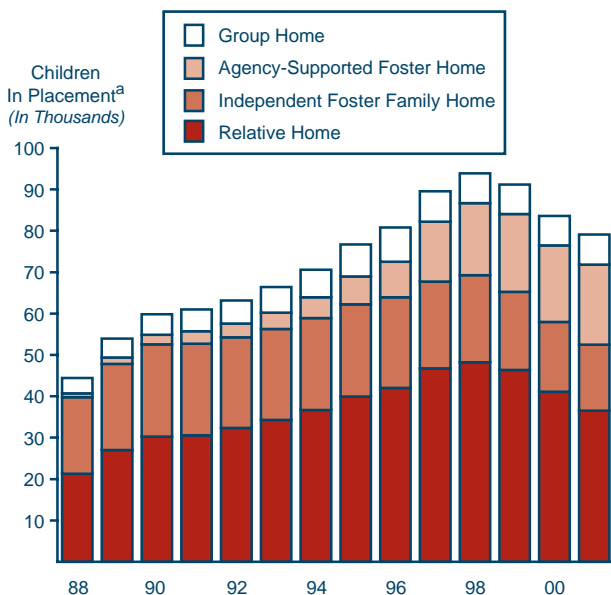


^aCost-effectiveness data are from federal fiscal years 1995 through 2001.

^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.

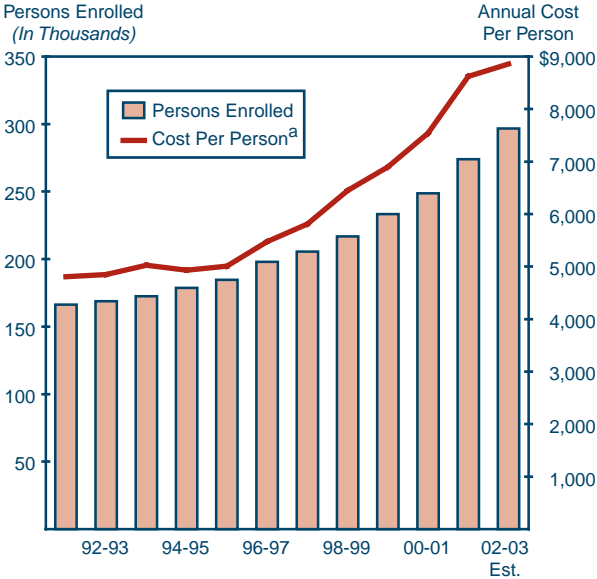
Foster Care Caseload Declined In Recent Years



^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.

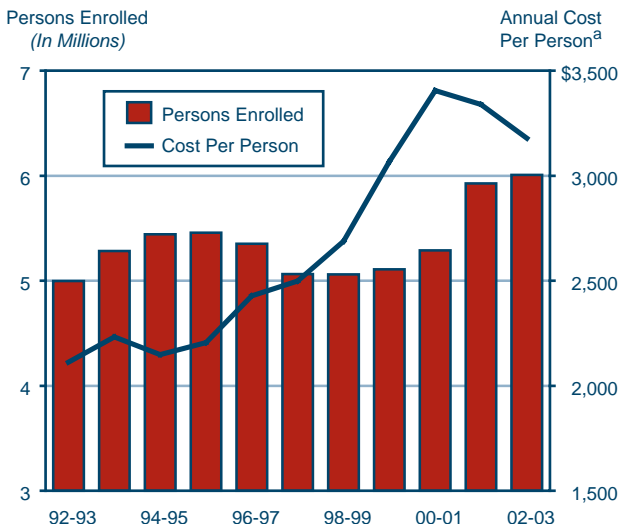
IHSS Cost Increases Have Outpaced Caseload Growth



^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.

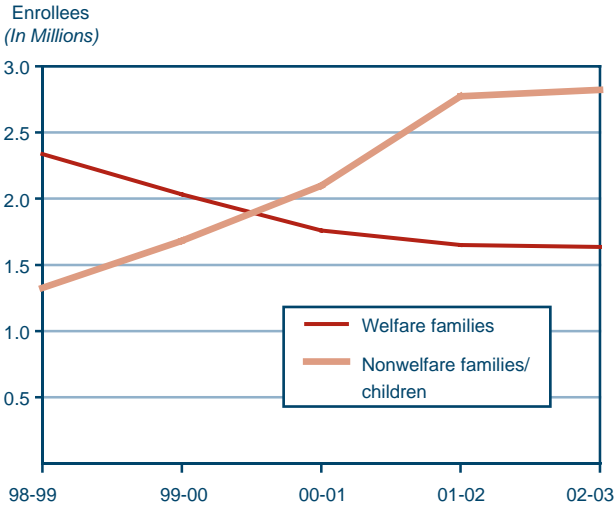
Medi-Cal Caseload Increasing As Cost Per Person Declines



^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.

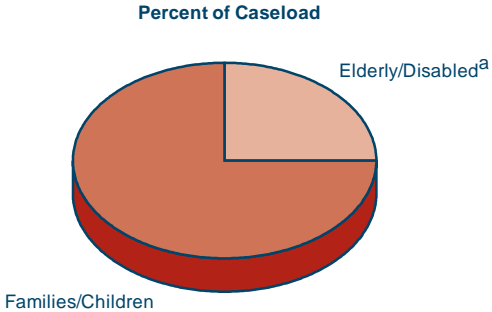
Most Medi-Cal Families/Children Are Not on Welfare



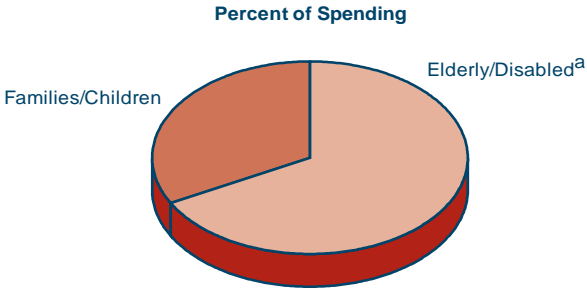
- By 2000-01, for the first time in the history of the Medi-Cal Program, welfare (CalWORKs) recipients accounted for less than half of the families (including pregnant women) and children enrolled in the program. This trend has continued and Medi-Cal enrollment of nonwelfare families and children now 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

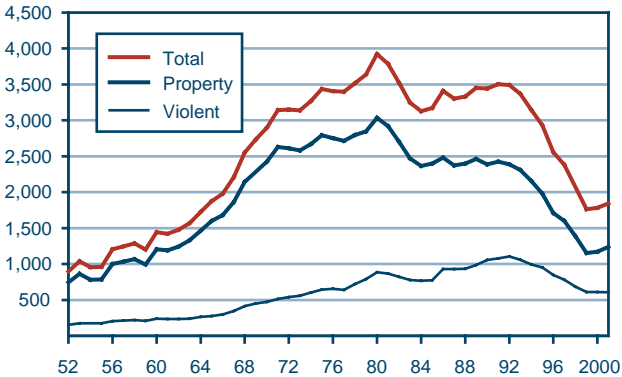


^aIncludes long-term care.



Crime Rate Up Slightly After Decade Decline

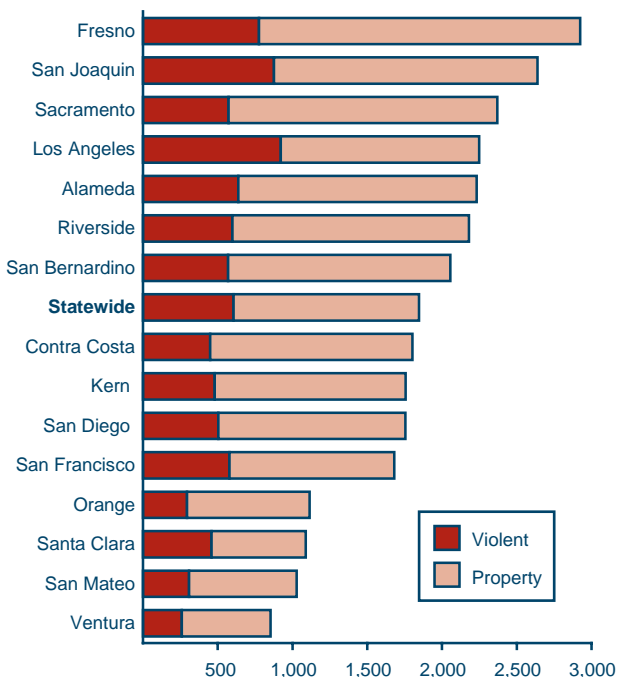
Rate Per 100,000 Population



- 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.

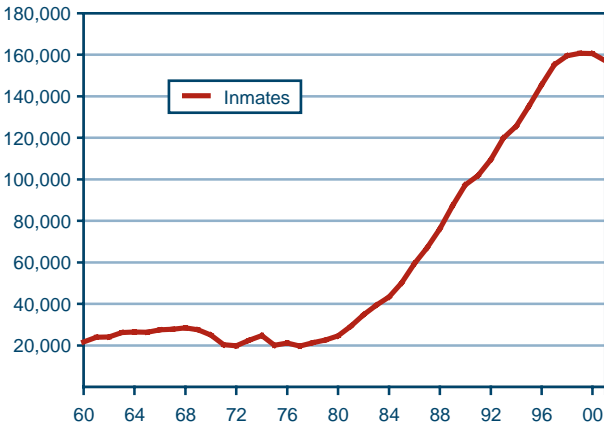
Crime Rates Vary Widely Among Large Counties

2001 Rates per 100,000 Population



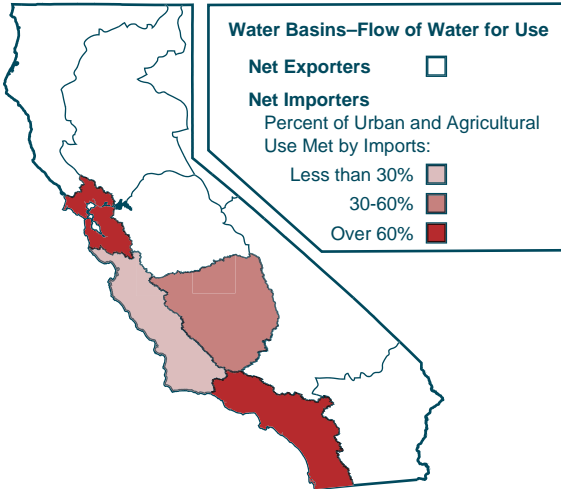
- Among the counties with populations of 500,000 or more, Fresno had the highest crime rate in 2001—about 58 percent higher than the statewide rate. Ventura's rate was the lowest and was less than half the statewide rate.
- Variations among county crime rates are probably explained by factors such as 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



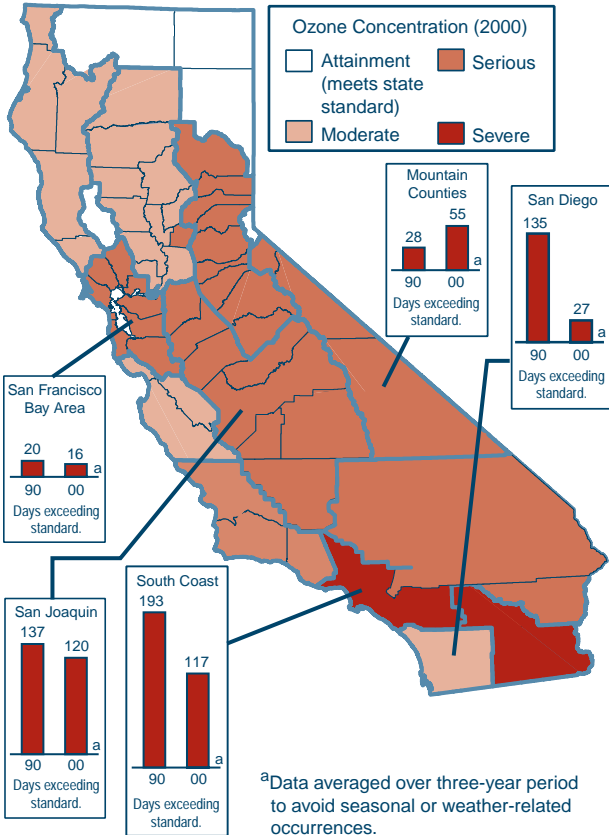
- Over twenty years, California's prison inmate population increased from about 23,000 inmates in 1979 to a peak of about 161,000 in 1999. This increase of over 600 percent has largely been attributed to changes in law that increased the length of prison sentences.
- Between 1999 and 2001, the prison 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



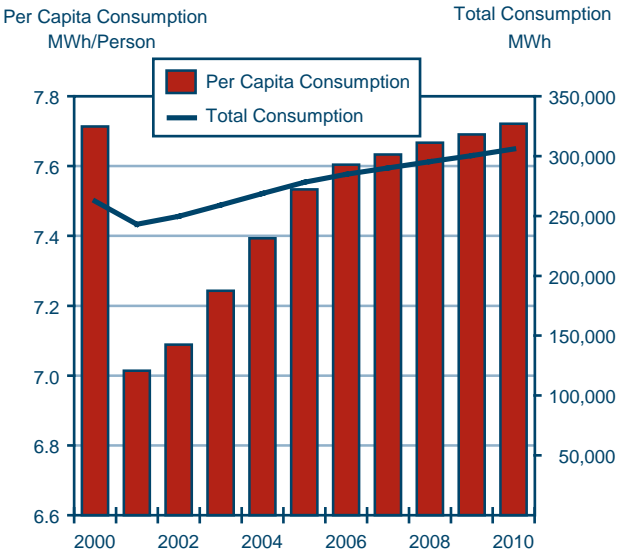
- Four of the state's ten water basins depend significantly on water imported from other regions of the state. These four basins, which are largely urbanized and/or agricultural regions in the central and coastal parts of the state, account for almost half of urban and agricultural water use statewide.
- 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



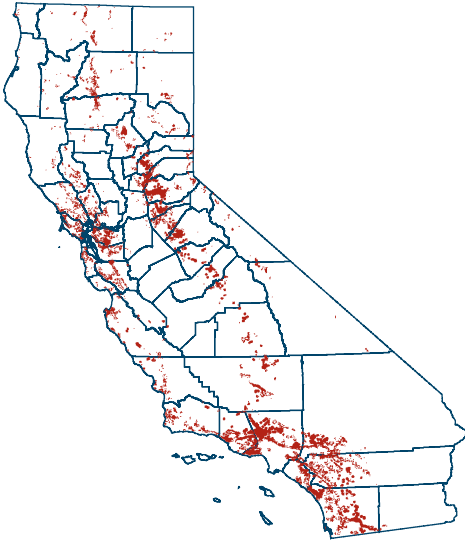
- Although ozone concentrations (a key component of smog) have decreased in most air basins since 1990 reflecting increasingly stringent air pollution controls, most of the state did not attain the state's air quality standard for ozone in 2000. Ozone levels and progress made to improve air quality vary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

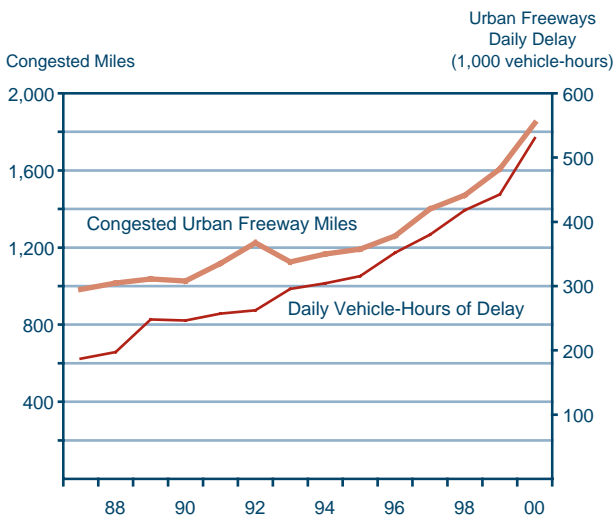
Wildland Fire Is a Particular Risk In Many Areas^a



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

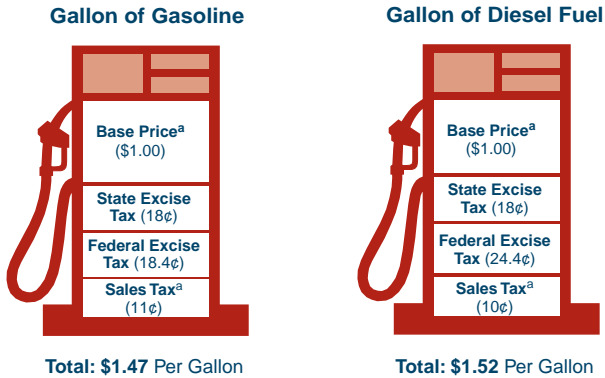
- A significant portion of the state is at risk from wildland fire. This includes about five million acres that are of special concern due to the presence of structures, a history of fire, and conditions on the ground favorable to wildland fire (vegetation, slope, and forest health).
- Areas of special 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

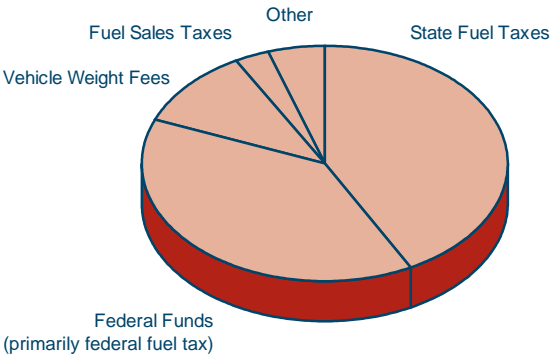


^aFor illustration purposes, assumes base price of \$1.00 and sales tax of 7.5 percent.

- 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.

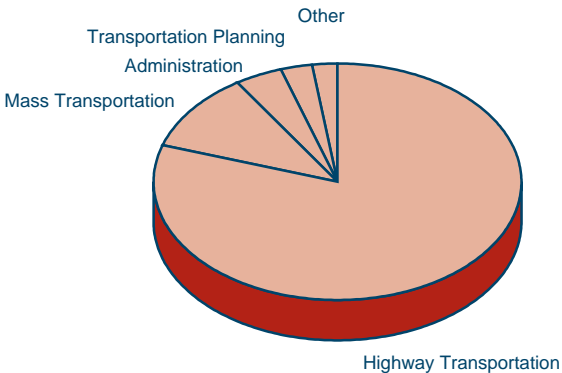
State Transportation Funding Comes Primarily From Fuel Taxes . . .

Total: \$7.5 Billion^a



. . . And Is Spent Primarily on Highway Transportation

Total: \$7.8 Billion^b

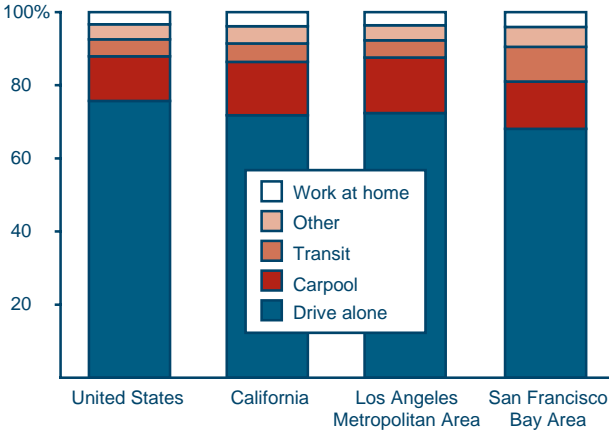


^a 2001-02 budget estimate. Does not include local transportation funds.

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

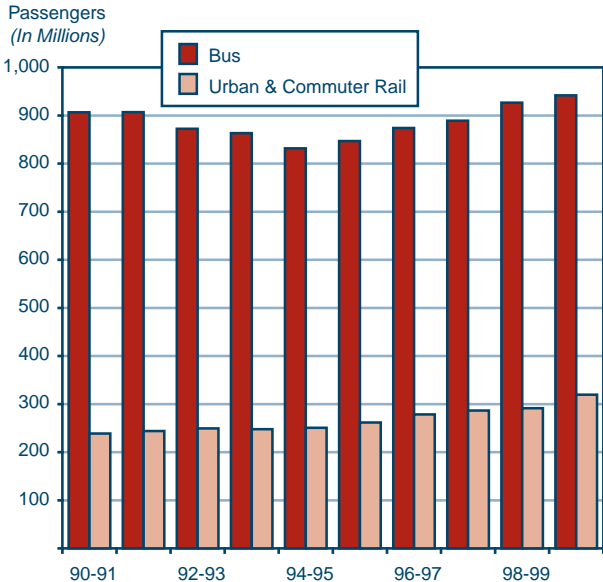


Californians Are Somewhat Less Likely to Drive to Work Alone



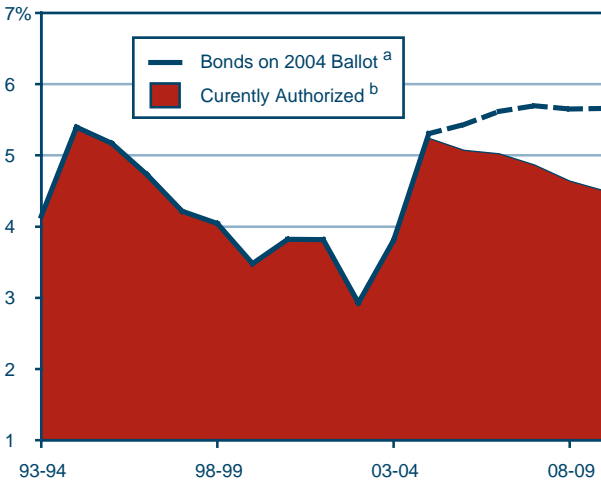
- In the Los Angeles Metropolitan Area and statewide, 72 percent of workers drove alone to work in 2000, while in the San Francisco Bay Area, 68 percent of workers drove alone to work. In comparison, nationwide 76 percent of workers drove alone to work in 2000.
- In the San Francisco Bay Area, 9.5 percent 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

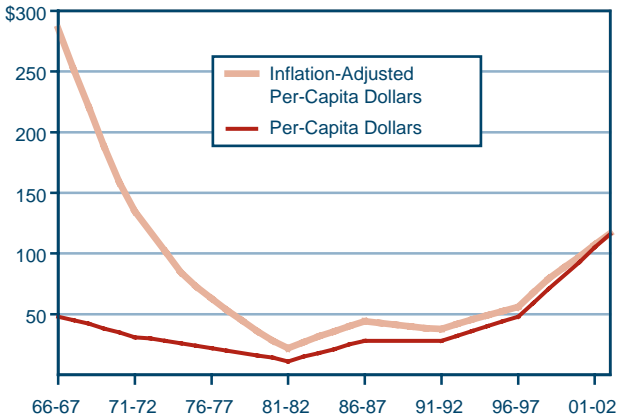


^aIncludes sale of all bonds authorized through November 2002 plus those currently authorized for the 2004 ballot.

^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.

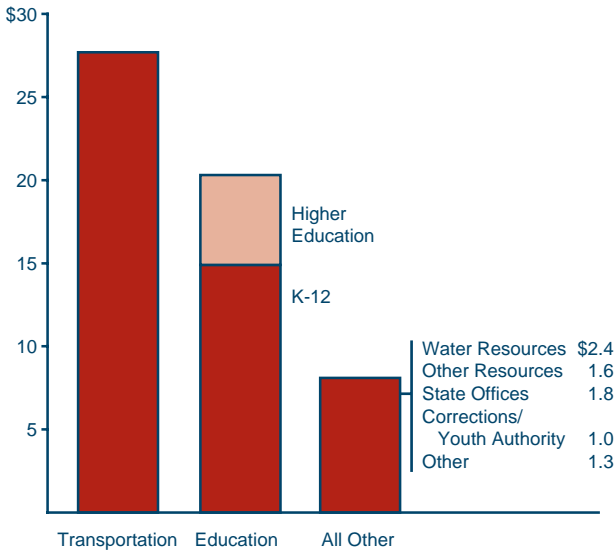
Trends in State Capital Outlay Spending Over Time



- 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.