
CAL FACTS

California's Economy and
Budget in Perspective



December 2006

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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*

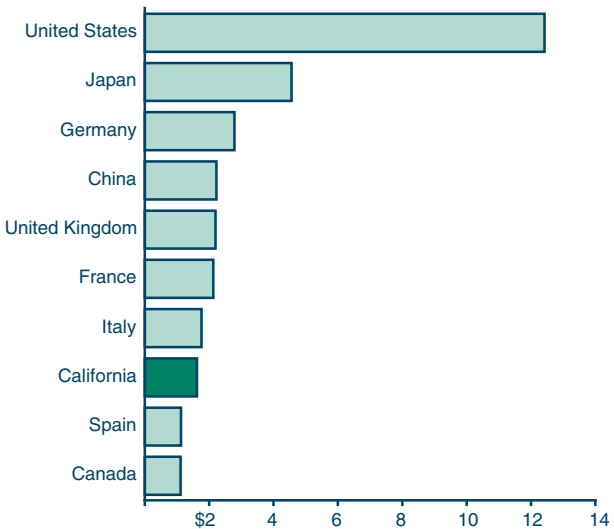
CONTENTS



INTRODUCTION	i
CALIFORNIA'S ECONOMY	1
STATE-LOCAL FINANCES	11
STATE BUDGET	23
PROGRAM TRENDS	
K-12	39
HIGHER EDUCATION	47
SOCIAL SERVICES.....	53
HEALTH	61
CRIMINAL JUSTICE	65
RESOURCES	69
TRANSPORTATION.....	75
INFRASTRUCTURE.....	82
LAO STAFF ASSIGNMENTS	85



California Ranks Among the World's Top Ten Economies



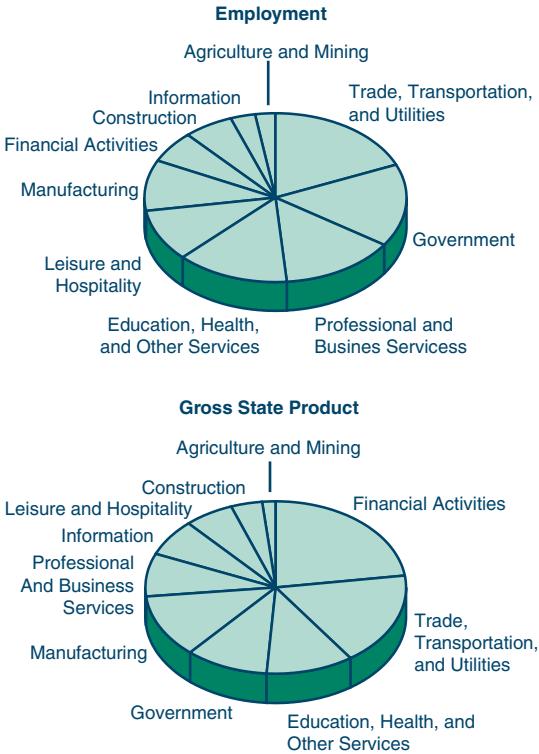
Gross Product in 2005
(In Trillions)

- California's gross state product is over \$1.6 trillion, making it one of the world's largest economies.
- California accounts for over 13 percent of the nation's output.
- Our nation's next largest state economy—Texas—is about 60 percent the size of California's.



California's Economy Is Highly Diversified

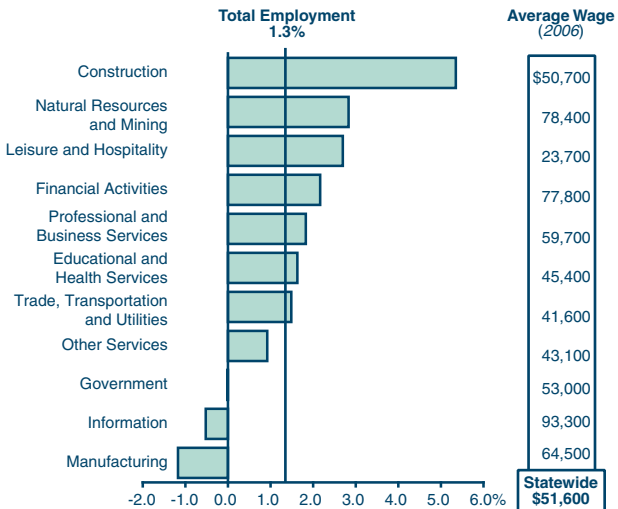
Share of State Employment and Output in 2006



- In terms of jobs, the largest sectors in California are trade, transportation, and utilities; government; and professional and business services.
- In terms of output, the largest sector is finance, followed by trade, transportation, and utilities.

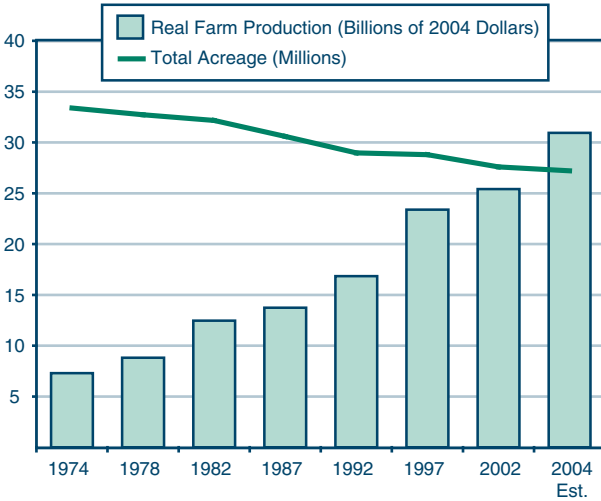
Construction Has Led Job Growth in the Current Expansion

Annual Average Percent Change in California Jobs 2003 Through 2006



- California added about 576,000 jobs between 2003 and 2006, an annual growth rate of 1.3 percent.
- Job growth has occurred in high-wage, moderate-wage, and low-wage industries.
- The fastest growing sector has been construction, which has grown at an average rate of 5.3 percent per year. Small declines occurred in manufacturing and information.

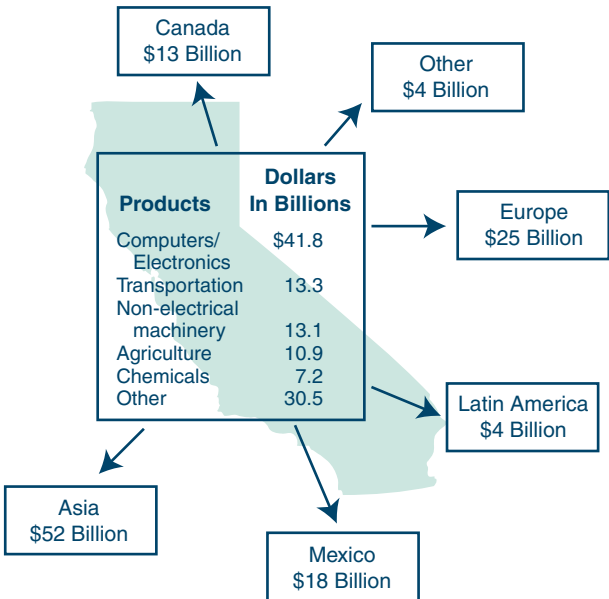
Farm Production Has Risen Despite Declines in Acreage



- Farming-related sales have more than quadrupled over the past three decades, from \$7.3 billion in 1974 to nearly \$31 billion in 2004.
- This increase has occurred despite a 15 percent decline in acreage devoted to farming during the period. Factors contributing to the growth in sales-per-acre include more intensive use of active farmlands and technological improvements in crop production.
- The largest production categories in California are fruits and nuts (about one-third of the statewide total), livestock and poultry (about one-fourth of the statewide total), and vegetables and melons (roughly one-fifth of the statewide total).

Foreign Trade—An Important Source Of California Economic Activity

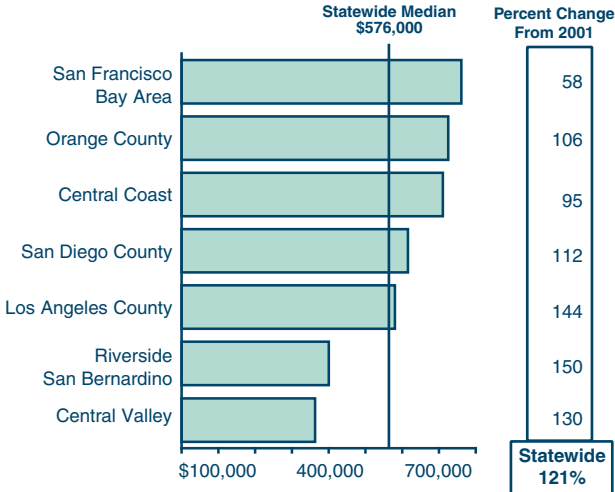
California Exports, 2005



- Exports of goods made in California totaled \$117 billion in 2005. Based on partial-year data, it appears that exports will increase by another 10 percent in 2006.
- The largest category of exports is computers/electronics.
- Asia accounts for most California sales abroad, followed by Europe, Mexico, and Canada.

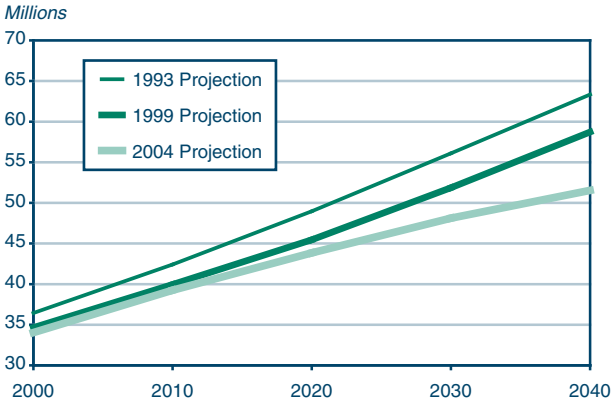
Median Home Prices Reached All-Time High in California

Mid-2006



- The median California home price was \$576,000 in mid-2006—more than double the level in mid-2001. Price increases have been widespread, with all but two major economic regions experiencing more than 100 percent increases during this five-year period.
- Median prices ranged from between \$350,000 and \$400,000 in major inland regions, to almost \$750,000 in coastal regions of the state.
- Compared to income levels, home prices were at all-time highs—and home affordability at all-time lows—in mid-2006. The lack of affordability contributed to a subsequent slowing in housing markets, with some regions experiencing modest price declines as of late 2006.

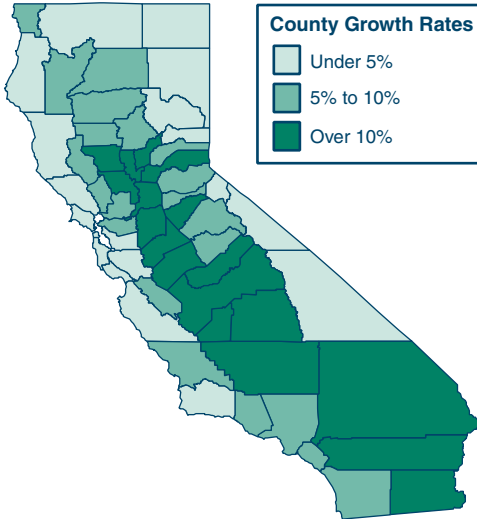
State's Population Projections Lowered Due to Reduced Birth Rates



- The Department of Finance has consistently lowered its long-run California population projections in recent years. Its latest projection for the state's population in 2040 is 12 million less than was projected 11 years earlier.
- The largest factor behind the downward revisions to state population projections is an assumed decline in the number of births per woman of childbearing age ("fertility rate").
- Reductions in Hispanic fertility rates have been especially significant. In 1993, it was assumed that the Hispanic fertility rate would decline from 3.4 in 1990 to 3.0 in 2040. Instead, it has already fallen to about 2.6, and the 2004 projection expects a slight additional decrease over the next 40 years.

The Inland Counties Have Been Growing the Fastest

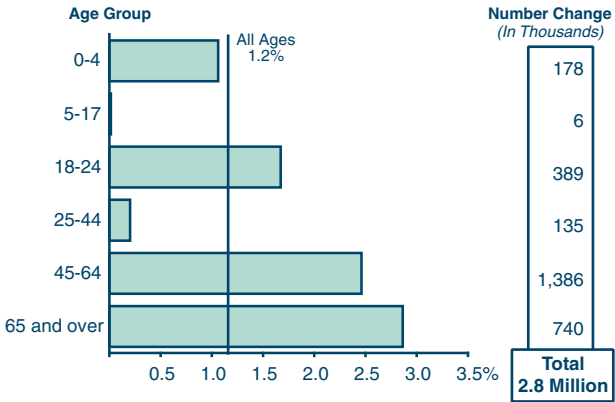
Total Population Growth, 2001 to 2006



- 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 accounted for 55 percent of California's total population in 2006, and 58 percent of the total increase in population since 2001.
- Los Angeles County experienced the largest absolute increase since 2001—600,000 new people, or over one-fifth of statewide growth.

California's Age Mix Changing As Baby Boomers Grow Older

Population Change—2006 Through 2012
(Average Annual Percent Change)

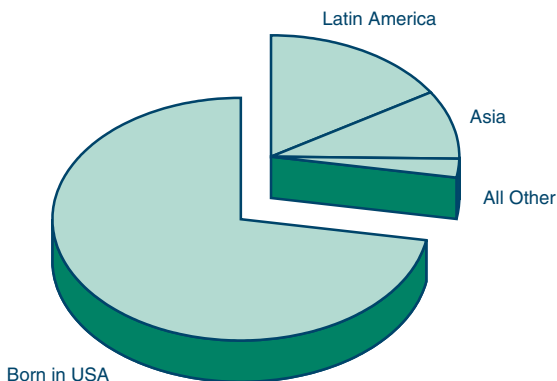


- Californians' average age is increasing, as the oldest baby boomers enter their 60s and the group as a whole continues to cause rapid growth of the 45-64 age cohort.
- The K-12 school-age population will grow the slowest of all groups, reflecting the aging of the children of baby boomers, declines in birth rates over the past decade, and somewhat lower in-migration in recent years.



Over One-Quarter of Californians Are Foreign Born

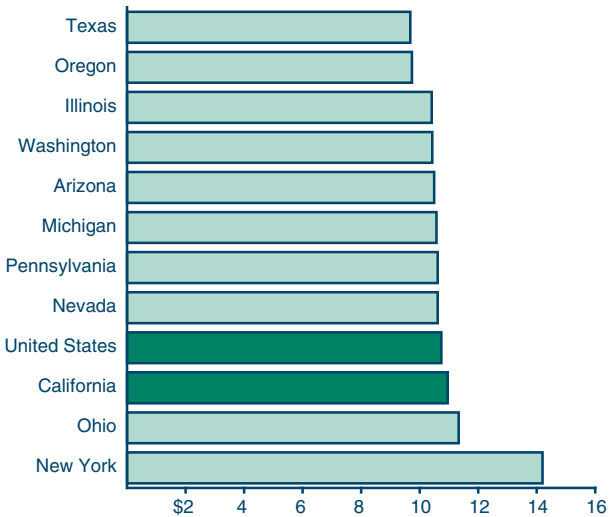
2005



- Due to strong past in-migration from other nations, more than one-in-four (28 percent) of California's current residents—10 million people—were born outside of the United States. This compares to one-in-eight (12 percent) nationally.
- Almost 60 percent of foreign-born Californians are from Latin America, while another one-third are from Asia. About 4.6 million (46 percent) are from Mexico, the largest source of foreign-born Californians.
- Net foreign in-migration currently totals around 200,000 persons annually. This represents roughly 40 percent of California's annual population growth.

California's Tax Burden Is Slightly Above Average

Combined State-Local Taxes per \$100 of Personal Income



Source: 2003-04 Census of Government, U.S. Census Bureau.

- California's overall tax burden—\$10.96 per \$100 of personal income—is slightly above the \$10.74 average for the United States as a whole.
- Compared to other western states, California's overall tax burden is somewhat higher—although it is in the same general range as that of many large industrial 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% Additional 1% surcharge on high incomes (7% AMT ^a)	Married couples with gross incomes of \$27,426 or less need not file. The top rate applies to married couples' taxable income in excess of \$86,934. The surcharge is placed on taxable incomes of \$1 million or more.
Sales and Use	6.25% ^b	Applies to final purchase price of tangible items, except 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)	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		Tax is collected from manufacturers or distributors.
<i>Wine and beer</i>	20¢/gallon	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	
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.
Insurance	2.35%	Insurers are subject to the gross premiums tax in lieu of all other taxes except property taxes and vehicle license fees.

Continued

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

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% to 2.5% ^d	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, and repayment of deficit-financing bonds.

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

^d A portion of sales and use tax revenues formerly received by local governments (0.25 percent) is used for debt service on the state's deficit-financing bonds. Local governments are compensated through additional property taxes.

^e 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.

Initiative Measures Have Had Major State-Local Fiscal Implications

Measure/Election	Major Provisions
Proposition 13/ June 1978	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 locals for mandated costs.
Proposition 6/ June 1982	<ul style="list-style-type: none"> • Prohibits state gift and inheritance taxes.
Proposition 7/ June 1982	<ul style="list-style-type: none"> • Requires indexing of state personal income tax brackets for inflation.
Proposition 37/ November 1984	<ul style="list-style-type: none"> • Creates state lottery and allots revenue to education. • Places prohibition of casino gambling in State Constitution.
Proposition 62/ November 1986	<ul style="list-style-type: none"> • Requires approval of new local general taxes by two-thirds of the governing body and a majority of local voters (excludes charter cities).
Proposition 98/ November 1988	<ul style="list-style-type: none"> • Establishes minimum state funding guarantee for K-12 schools and community colleges.
Proposition 99/ November 1988	<ul style="list-style-type: none"> • 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.
Proposition 162/ November 1992	<ul style="list-style-type: none"> • Limits the Legislature's authority over PERS and other public retirement systems, including their administrative costs and actuarial assumptions.
Proposition 163/ November 1992	<ul style="list-style-type: none"> • Repealed "snack tax" and prohibits future sales tax on food items, including candy, snacks, and bottled water.

Continued

Initiative Measures Have Had Major State-Local Fiscal Implications

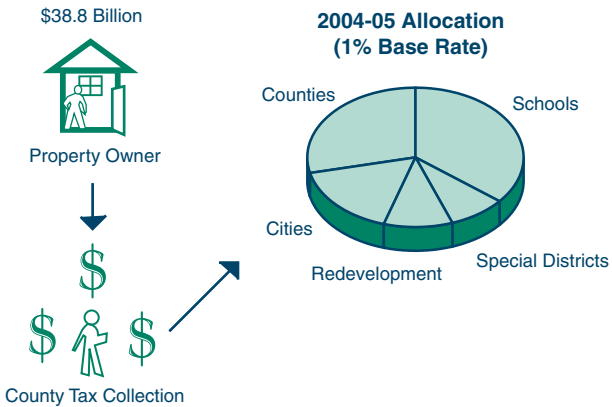
Measure/Election	Major Provisions
Proposition 172/ November 1993	<ul style="list-style-type: none"> Imposes half-cent sales tax and dedicates the revenue to local public safety programs.
Proposition 218/ November 1996	<ul style="list-style-type: none"> Limits authority of local governments to impose 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Allows 55 percent of voters to approve local general obligation bonds for school facilities.
Proposition 42/ March 2002	<ul style="list-style-type: none"> Permanently directs to transportation purposes sales taxes on gasoline previously deposited in the General Fund. Authorizes state to retain gasoline sales taxes in General Fund when state faces fiscal difficulties.
Proposition 49/ November 2002	<ul style="list-style-type: none"> Requires that the state fund after-school programs at a specified funding level.
Proposition 57/ March 2004	<ul style="list-style-type: none"> Authorizes \$15 billion in bonds to fund budgetary obligations and retire the state's 2002-03 deficit.
Proposition 58/ March 2004	<ul style="list-style-type: none"> Requires a balanced budget, restricts borrowing, and mandates creation of a reserve fund.
Proposition 1A/ November 2004	<ul style="list-style-type: none"> Restricts state's ability to reduce local government revenues from the property tax, sales tax, and vehicle license fee.
Proposition 63/ November 2004	<ul style="list-style-type: none"> Imposes an additional 1 percent tax on incomes of \$1 million and over to fund mental health services.
Proposition 1A/ November 2006	<ul style="list-style-type: none"> Limits state's ability to retain gasoline sales taxes in General Fund and constitutionally requires repayment of past-year loans to transportation.

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

Measure	Approval Requirement	
	Governing Body	Voters
State		
Tax	2/3	None
Fee or assessment	Majority	None
General obligation bond	2/3	Majority
Other debt	Majority	None
Initiative proposing new revenue or debt	None	Majority
Local		
Tax		
Funds used for general purposes	2/3 ^a	Majority
Funds used for specified purposes	2/3 ^a	2/3
Property assessment	Majority	Majority ^b
Fee	Majority	None
General obligation bond		
K-14 districts	2/3	55%
Cities, counties, and special districts	2/3	2/3
Other debt	Majority	None
^a For most local agencies. ^b Only affected property owners vote. Votes weighted by assessment liability.		

- At the local level, most types of revenue increases require approval of both the governing body and the voters.

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 2004-05 was 1.09 percent.
- Property tax revenues collected in a county can be distributed only to a local entity within that county.
- Until the state's deficit-financing bonds are completely paid off, about one-tenth of the schools' share of property taxes is redirected to cities and counties. The state backfills the school losses.

California's Property Tax Has Changed Significantly

Dollars in Billions

Tax Distribution					
Years ^a	Revenue	Schools	Counties	Cities	Other ^b
1977	\$10.3	53%	30%	10%	7%
1979	5.7	39	32	13	16
1994	19.3	52	19	11	18
2005	35.4	34	28	19	19

^a Information for 1977 includes debt levies. Data for 2005 is estimated.

^b Redevelopment agencies and special districts.

- 1977—Before 1978, local agencies determined the property tax rate and its distribution of revenues.
- 1979—Proposition 13 (1978) 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.
- 1994—Facing fiscal pressure in the early 1990s, the state modified the distribution of property taxes to give a greater share to schools (thereby reducing state school spending).
- 2005—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

	Percent of 2004-05 Countywide:	
	Property Value Under Redevelopment	Property Taxes to Redevelopment
Top Four Counties		
Butte	38%	26%
Riverside	33	24
San Bernardino	35	25
Santa Cruz	26	16
Statewide Average	15	10
Selected Other Counties		
Los Angeles	16%	10%
Sacramento	7	5
San Francisco	7	7

- 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 2 acres to over 46,000 acres. Local agencies in four counties have placed so much property under redevelopment that more than one-quarter of their countywide assessed property value is under redevelopment.
- Statewide, redevelopment agencies receive 10 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 more than 77 percent of property taxes paid in the city.

Paying for County, City, and Special District Services

2003-04

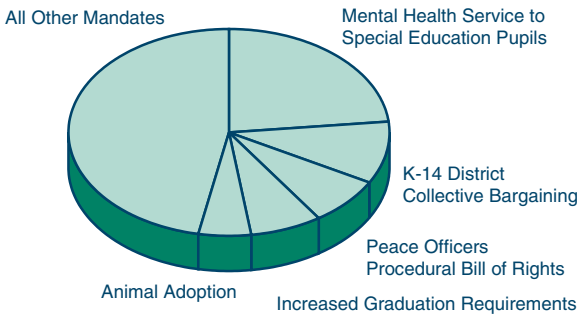
	Counties	Cities	Special Districts ^a
Total Revenues (In Billions)	\$46.3	\$42.8	\$8.6
Sources of Revenues			
Property taxes	13%	7%	24%
Sales and other taxes	7	28	—
User charges, permits, assessments, fines	20	43	53
Intergovernmental aid	52	8	12
Other revenues	9	13	11

^a 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-fifth 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. Cities spend about one-fourth of their revenues on public safety programs, such as police and fire.
- Special district financing varies significantly based on the type of service the district provides.

Five State Mandates Account for Half of the State's Payments

\$440 Million
(Estimated 2006-07 Costs)



- 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.
- School districts, counties, and other local governments currently implement over 80 state reimbursable mandates. Five mandates account for about half of the state's annual mandate payments.
- The state has accumulated a large backlog of unpaid mandate bills, which it is beginning to pay. In 2006-07, these mandate bills totaled more than \$1 billion.
- 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 2006-07, the state budget suspended more than 30 mandates. Some of these mandates have been suspended annually for over a decade.

Major Local Programs—2006-07

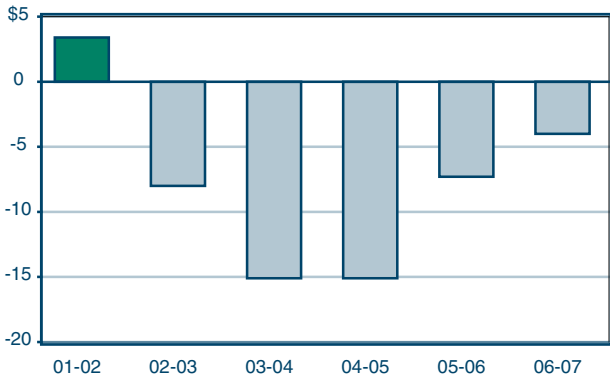
Program	Policy Control	Funding ^a
Education (K-14)	School Districts/State	
CalWORKs	State/Federal	
Child Welfare Services	State/Federal	
General Assistance	Counties/State	
Mental Health	Counties/State/Federal	
Substance Abuse Treatment	Counties/State/Federal	
Jails	Counties/State	
Probation	Counties/State	
Police/Sheriff	Local/State	
Trial Courts	State	
Parks and Recreation	Local	
Streets and Roads	Cities/Counties	



^aAll funding distributions are LAO estimates.

2001 Revenue Decline Contributed To Large Budget Shortfalls

Projected Operating Surplus/Deficit at Beginning of Each Budget Cycle^a (In Billions)



^aBased on LAO projections made in November preceding each fiscal year shown. Represents difference between current-law revenues and expenditures, excluding carry-in balances and budget borrowing.

- California policymakers have been dealing with large shortfalls in the state's budget for most of this decade.
- A precipitating cause of these operating deficits was the major stock market-related decline in General Fund revenues that occurred at the beginning of the decade. Tax receipts fell by over 15 percent between 2000-01 and 2001-02, leading to estimated annual shortfalls of \$15 billion for two years.
- Recent rebounds in revenues, coupled with various budget savings actions, resulted in a narrowing of these shortfalls, although significant imbalances remained as of mid-decade.

Total State Revenues—Over Three-Fourths Are General Fund

2006-07

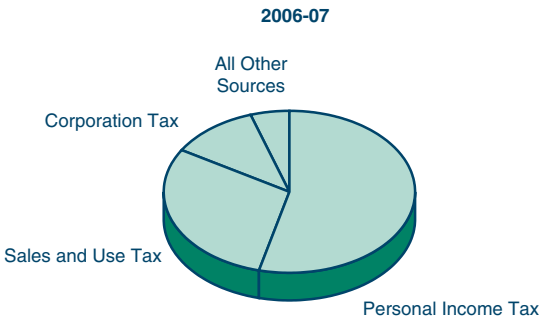
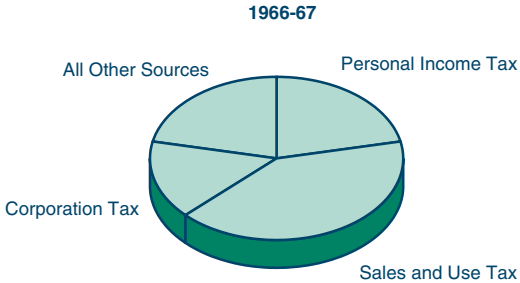
General Fund Revenues		Total State Revenues \$122.2 Billion	Special Funds Revenues	
Personal Income Tax	\$50.9		Motor Vehicle-Related Levies	\$8.7
Sales and Use Tax	28.1		Sales and Use Tax ^a	5.4
Corporation Tax	10.5		Tobacco-Related Taxes	1.0
All Other	4.8		All Other ^b	12.6
Total	\$94.4		Total	\$27.8

^a Consists of amounts for Local Revenue Fund, transportation-related purposes, and allocation of local sales taxes for repayment of deficit-financing bonds. Excludes \$2.8 billion allocated to Local Public Safety Fund, which is not shown in the budget totals.

^b Includes a wide variety of sources, including regulatory taxes and licenses (\$4.9 billion), certain bond proceeds (\$1.4 billion), California State University fees (\$1.2 billion), and other sources (\$5.2 billion).

- General Fund revenues account for nearly 80 percent of total state revenues.
- Personal income taxes are the largest single revenue source, accounting for 54 percent of General Fund revenues and 43 percent of total revenues.
- Sales and use taxes and corporation taxes are the second and third largest General Fund sources, accounting for 30 percent and 11 percent, respectively.
- Special funds are used for specific purposes, with motor vehicle-related levies the largest single component.

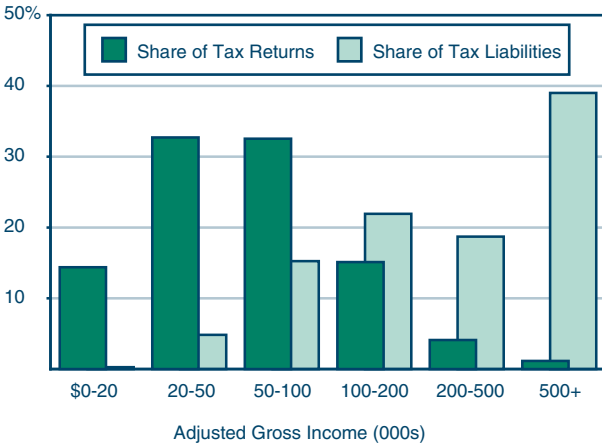
The Composition of Revenues Has Changed Over Time



- Over the past four decades, personal income tax revenues have increased dramatically—rising from 22 percent to 54 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.

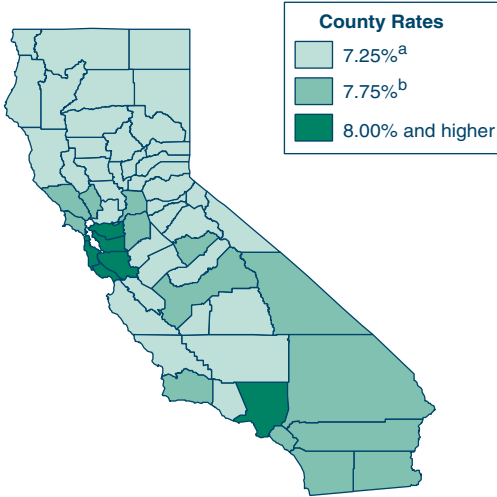
Small Share of Individuals Pays the Majority of Income Taxes

2004



- California has a highly progressive personal income tax structure—that is, taxes as a percent of income rise as one's income increases. Basic marginal personal income tax rates range from 1 percent to 9.3 percent.
- In 2004, taxpayers with income of \$500,000 and over accounted for about 1 percent of returns, but 39 percent of tax liabilities.
- The recent passage of Proposition 63, imposing an additional tax of 1 percent on the portion of incomes above \$1 million beginning in 2005, has likely increased the tax share of high-income taxpayers from that shown above.

Sales Tax Rates Vary by County



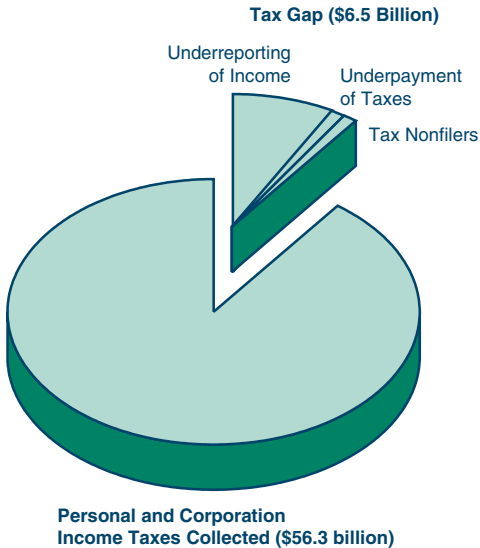
^aIncludes Stanislaus, Nevada, and Solano (7.375%).

^bIncludes Fresno (7.975%).

- 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 8.75 percent in Alameda County, and the cities of Richmond (Contra Costa County), Avalon (Los Angeles County), and National City (San Diego County). The statewide average county rate (weighted by sales) is 7.94 percent.

California's Income Tax Gap Is in the Billions of Dollars Annually

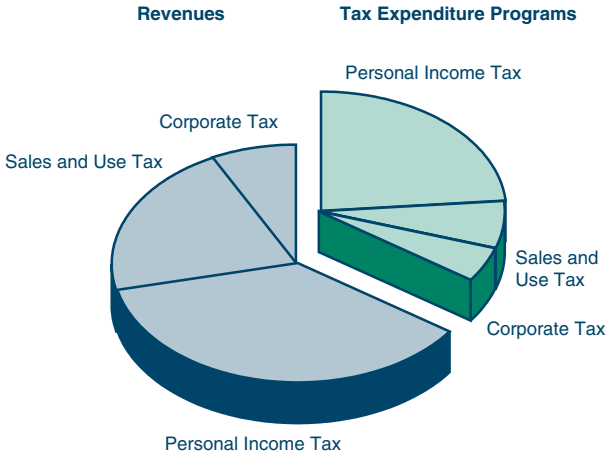
2006-07



- The tax gap is defined as the difference between what taxpayers owe and what is actually collected by the tax agencies.
- Individuals represent about 85 percent of the income tax gap and businesses the remaining 15 percent.
- In addition to income taxes, there are also significant tax gaps associated with sales and use taxes and certain state excise taxes.

State Tax Expenditures Are Significant

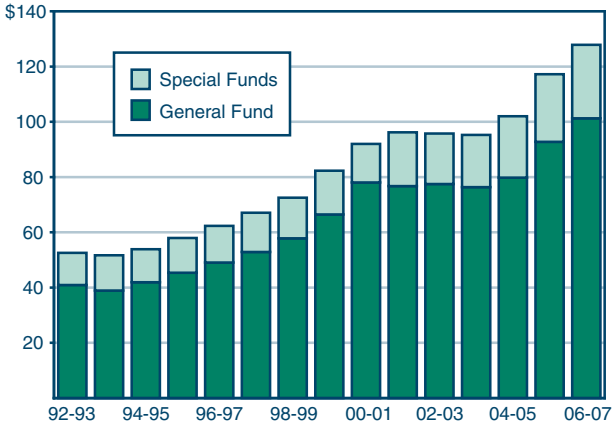
2006-07



- 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 provide tax relief.
- Broadly defined, TEPs represent foregone revenues of roughly \$40 billion annually. This compares to revenues collected of about \$90 billion.
- Currently, the largest income tax TEPs are the home mortgage interest deduction, the exclusion from income of pension contributions, the exclusion of employer contributions to health plans, and the special tax treatment of S corporations.

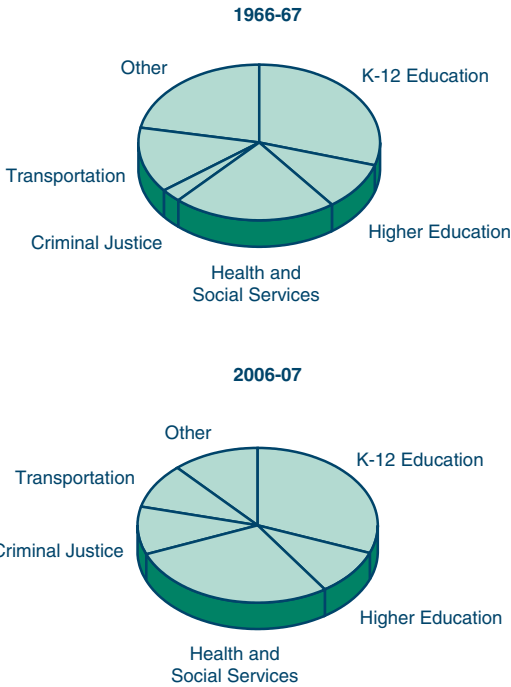
State Spending Growth Has Resumed Following the Recession

In Billions



- State spending declined in the early 1990s due to the recession. During the rest of the decade, however, spending grew rapidly—averaging 8.1 percent per year for all spending and 9.3 percent for General Fund spending.
- Spending was relatively flat following the 2001 recession, but growth has returned.
- Real per capita total spending, which controls for both population growth and inflation, has averaged 1.9 percent annually since 1992-93.

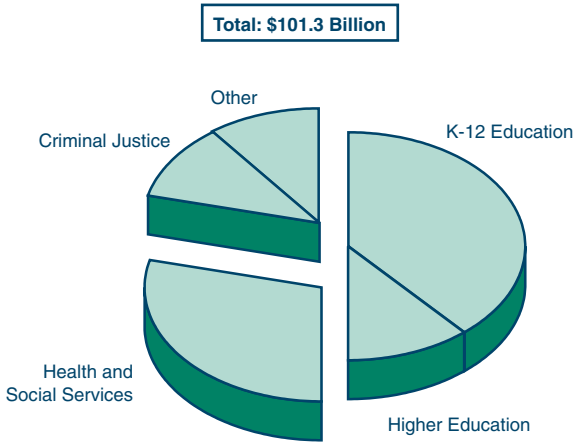
The Mix of Total State Expenditures Has Shifted



- The composition of total state spending (General Fund plus special funds) has evolved over time. Health and social services programs' share has increased over the period while transportation's share has declined. While a relatively small portion of the total, criminal justice's share of the budget has nearly tripled.
- K-12 education remains the single largest program area, accounting for almost a third of total spending.

Education, Health, and Social Services Dominate Spending

General Fund—2006-07



- Together, education, health, and social services account for nearly 80 percent of total General Fund spending in 2006-07.
- Education's share of General Fund spending is over \$50 billion—around 50 percent.
- Health and social services represent the next largest share of total General Fund spending at 29 percent (\$29.3 billion).

Annual Cost Per Participant Varies Widely Among Major Programs

2006-07

	Number of Participants (In Thousands)	Average Cost Per Participant	
		General Fund	Total Government
Corrections			
Adults	174	\$36,600	\$36,600
Youths	3	140,000	145,000
Education—Students^a			
K-12	5,957	\$6,576	\$11,264
Community Colleges	1,181	3,473	5,499
CSU	334	8,345	10,610
UC ^b	182	16,998	20,231
Health and Social Services—Beneficiaries			
Medi-Cal	6,665	\$1,836	\$3,671
SSI/SSP	1,241	2,917	7,210
CalWORKs	1,191	1,582	4,257
Healthy Families	859	429	1,186
In-Home Supportive Services	378	3,522	10,549
Regional centers ^c	212	9,840	15,259
Foster Care	75	5,677	21,159
Developmental centers	3	136,137	248,487

^a K-12 participants are in average daily attendance and higher education participants are in full-time equivalents.

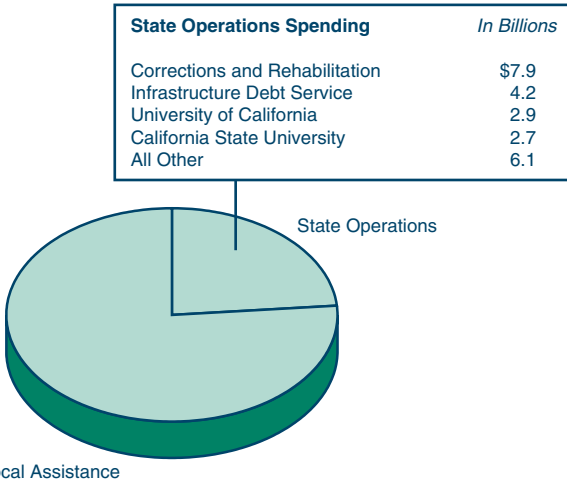
^b Excludes medical schools.

^c Includes funds for the Habilitation Services Program.

- The costs shown are average amounts. The range is especially large in the Medi-Cal program, as children can cost around \$1,000 a year while disabled nursing home patients can cost about \$70,000 annually.

Most State Spending Is for Local Assistance

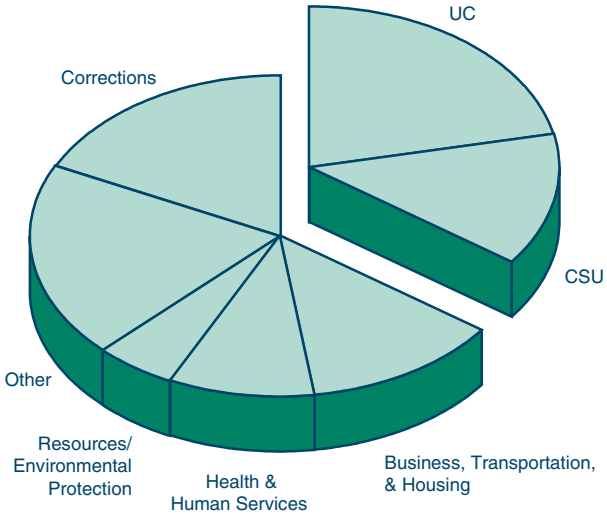
General Fund—2006-07



- Of the total \$101.3 billion 2006-07 General Fund budget, state operations comprise only about one-quarter (\$23.8 billion). These state operations include the various expenses incurred at the state government level, such as state employee salaries.
- In contrast, the remaining three-quarters primarily involves local assistance—that is, monies spent at the local level—including funds for education, health, and social services programs.
- About three-fourths of General Fund state operations is in just four areas: the Department of Corrections and Rehabilitation, debt service, the University of California, and the California State University system.

Higher Education Represents Over One-Third of State Employment

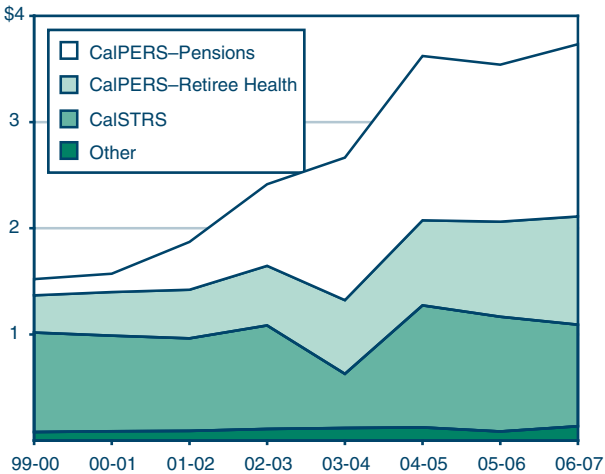
2005-06



- In 2005-06, the state employed the equivalent of 330,140 full-time staff at a salary cost of roughly \$19.3 billion (all funds). Employees in higher education represented more than one-third of the total.
- The state has many positions that are authorized but not filled. The current vacancy rate is about 13 percent.
- 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 employees during the 1990s. In 2005-06, there were an estimated 8.9 employees per 1,000 population. On this basis, California ranks 48th among states in the level of state government employees.

State Costs for Retirement Benefits Have Increased Sharply

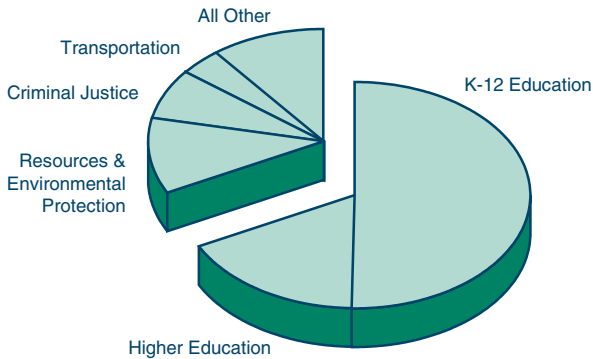
General Fund (In Billions)



- In 2006-07, General Fund costs for state employee and teacher retirement benefits are an estimated \$3.7 billion.
- Unfunded liabilities of California's two largest state pension systems currently total \$45 billion.
- We estimate that state government's unfunded liabilities for retiree health benefits are between \$40 billion and \$70 billion or perhaps more. Under new governmental accounting guidelines, actuaries will determine the amount of this liability for the first time in 2007.

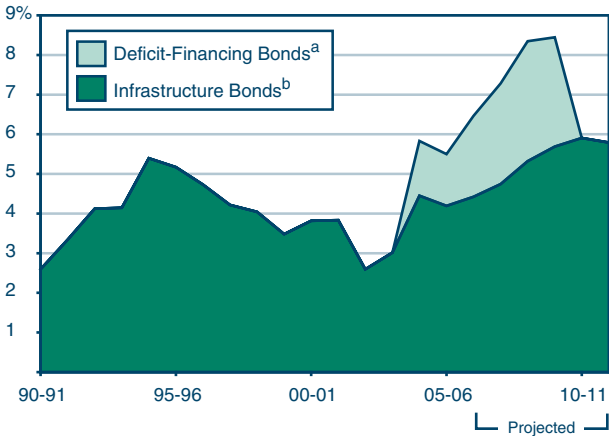
Most Bond Debt Is for Education

General Fund Outstanding Bond Debt (2006)



- As of September 2006, the state had \$44.5 billion of infrastructure-related debt outstanding. Of this amount, \$36.7 billion involved general obligation bonds and \$7.7 billion was for lease-revenue bonds.
- K-12 education's share of total infrastructure-related debt is \$22.4 billion—or about 50 percent. Higher education represents the next largest share at 17 percent (\$7.7 billion).
- Prior to the November 2006 election, the state had a total of \$26.6 billion of voter-approved general obligation debt that was not issued. (About two-thirds of this amount, however, has been committed to projects.) This is mostly in the areas of K-12 education, resources and environmental protection, and stem cell research.
- The voters approved \$37.3 billion in additional general obligation bond debt in November 2006 which will be sold in future years.

Debt-Service Ratio Rising



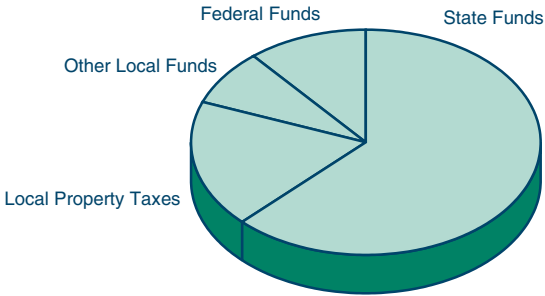
^aReflects deficit-financing bond payments from all sources.

^bIncludes general obligation and lease-revenue bond payments.

- The level of General Fund debt-service payments stated as a percentage of state revenues is commonly 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 for infrastructure bonds increased in the early 1990s and peaked at 5.4 percent, before falling back to below 3 percent in 2002-03. It stood at about 4.2 percent in 2005-06, but is expected to increase to a peak of 5.9 percent in 2010-11 as currently authorized infrastructure-related bonds are sold in the future.
- When deficit-financing bonds authorized by the voters in Proposition 57 are included, the DSR stood at about 5.5 percent in 2005-06, and will increase to a peak of 8.4 percent in 2009-10 when the deficit-financing bonds are scheduled to be fully repaid.

State Is Primary Source of Revenue For K-12 Schools

2006-07

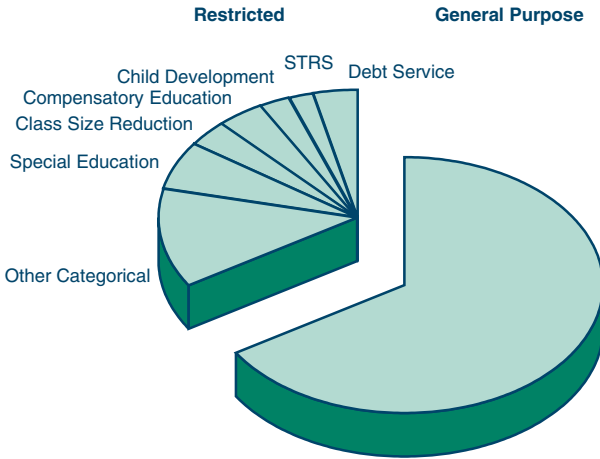


- In 2006-07, the state provided almost two-thirds of all K-12 school revenue. Less than 2 percent came from the state lottery.
- Local government (through property taxes and other local incomes) provided about one-quarter of all K-12 school revenue.
- The federal government provided slightly more than 10 percent of all K-12 revenue.



About One-Third of K-12 Funding Has Strings Attached

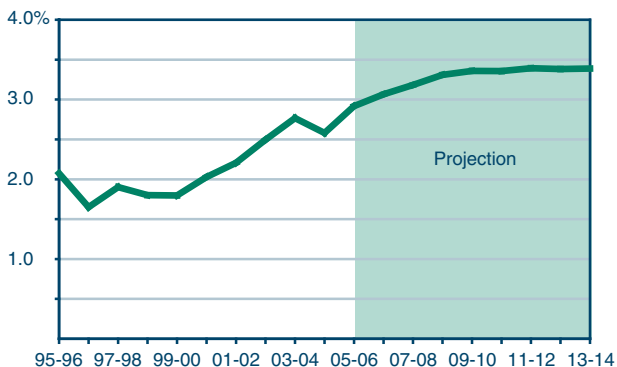
2006-07



- Of all state budgeted K-12 school funds, about two-thirds is provided as general purpose, or “revenue limit,” funding. These monies support basic school operations.
- Most of the remaining funds are for specific “categorical” programs, such as the state’s K-3 Class Size Reduction program. These monies must be used to fulfill the various requirements associated with each categorical program.
- In addition, the state annually spends roughly \$2 billion for debt service (on school facilities) and \$1 billion for the State Teachers’ Retirement System.

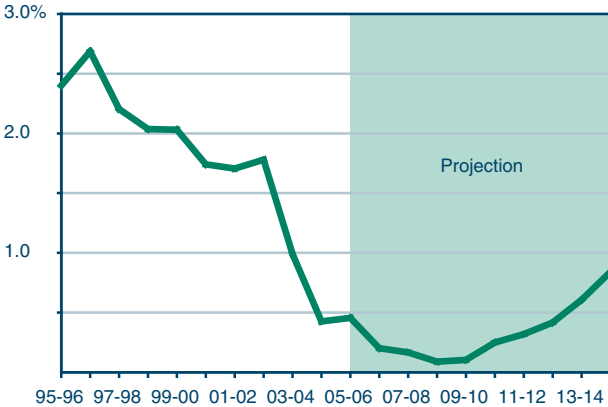
Teacher Retirement Rates On the Rise

CalSTRS Annual Retirement Rate



- The retirement rate of CalSTRS members (close to 80 percent of whom are K-12 teachers) is expected to jump notably in the next few years. This is because the number of active members close to retirement age is increasing significantly. For example, the number of active members age 59 increased by 25 percent from 2004-05 to 2005-06.
- Whereas the average annual retirement rate from 1995-96 through 2004-05 was 2.1 percent, the average annual retirement rate from 2004-05 through 2013-14 is projected to be 3.2 percent.

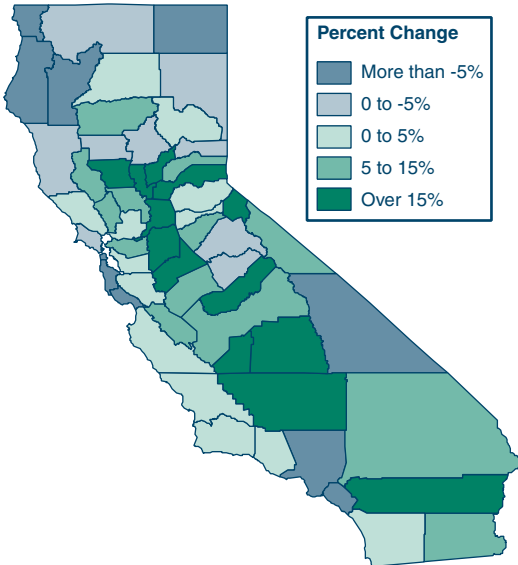
K-12 Enrollment Expected to Be Virtually Flat in Near Term



- Over the next several years, virtually no growth is expected in total K-12 enrollment.
- Elementary enrollment began declining in 2004 and is expected to continue declining modestly for a few more years before experiencing a small, upward growth trend.
- High school enrollment is expected to grow modestly for the next few years and then decline over the subsequent period.

K-12 Enrollment Trends Vary Greatly by County

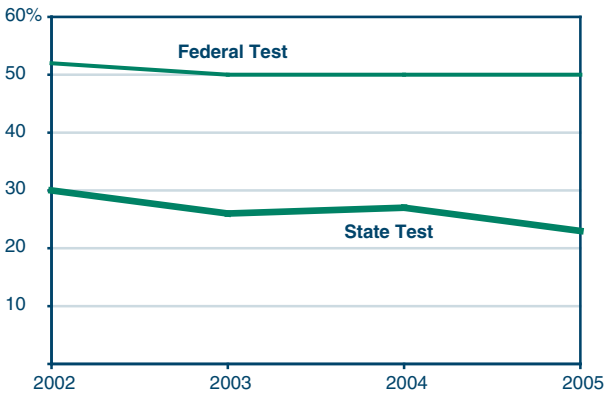
Projected Change, 2004 to 2014



- From 2004 to 2014, county enrollment trends are expected to vary greatly—with declines of almost 20 percent projected for Modoc County and increases of almost 40 percent projected for Riverside County.
- Declines of 5 percent or more are expected in several large urban counties, including Los Angeles (10 percent), San Francisco (8 percent), and Orange Counties (5 percent).
- Increases of 5 percent or more are expected in several medium-sized counties, including San Joaquin (26 percent), Kern (18 percent), and Sacramento (16 percent).

Percentage of Low-Performing Students on the Decline

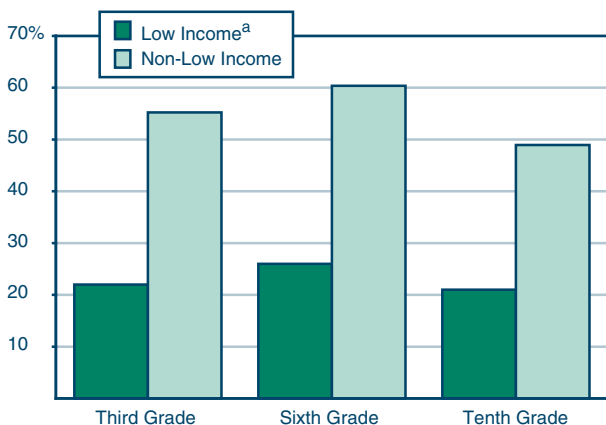
Percent of Fourth-Grade Students Scoring "Below Basic" in Reading



- Since 2002, the percentage of low-performing students (those scoring below basic) has been declining. This trend holds whether examining state or federal standardized test results, though the trend is more noticeable for state test results.
- Despite similar trends, state and federal tests in fourth-grade reading show very different results in absolute terms. Whereas the 2005 results on the state test show only about one-quarter of students scoring below basic, the federal test shows one-half of students are scoring below basic.
- The discrepancy between the state and federal test results is smaller in math, with the 2005 results on the state test showing 24 percent of students scoring below basic and the federal test showing 29 percent of students scoring below basic.

Large Achievement Gap Exists Across Grade Levels

Percent Scoring at Proficient or Advanced on 2006 State Standardized English Language Arts Exam

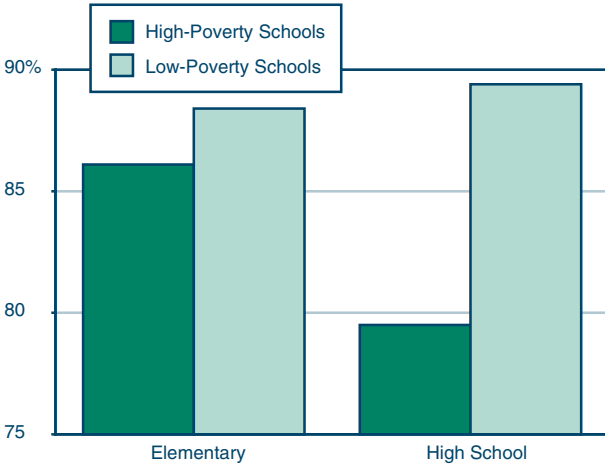


^aLow income is based on eligibility for federally subsidized meal programs.

- A large achievement gap exists between students from low-income families and other students. For example, in 2006 26 percent of low-income sixth-graders scored proficient or advanced on the state's English-Language Arts exam whereas 60 percent of non-low-income students scored proficient or advanced.
- State test results suggest the achievement gap in both English language arts and mathematics has increased slightly in recent years.

High-Poverty Schools Have Fewer "Highly Qualified" Teachers

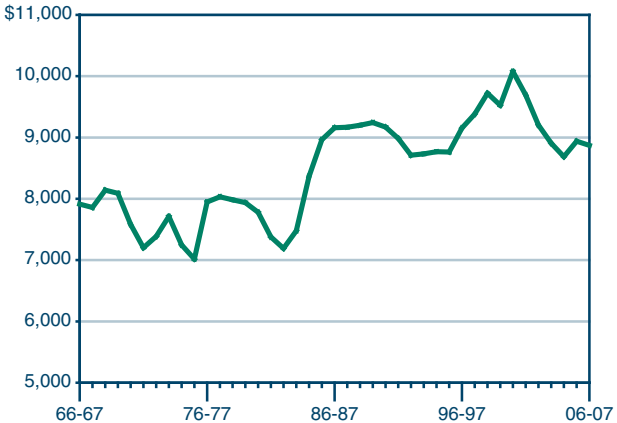
Percent of Highly Qualified Teachers



- Federal law requires all teachers of core academic subjects to demonstrate they are competent (or “highly qualified”) in each of the subjects they teach. Teachers generally demonstrate subject matter competency by passing an exam or completing certain coursework.
- High-poverty elementary schools have slightly fewer core academic classes taught by highly qualified teachers than low-poverty elementary schools.
- The difference at the high school level is more notable. High-poverty high schools have about 80 percent of core classes taught by highly qualified teachers, whereas, about 90 percent of core classes are taught by highly qualified teachers at low-poverty high schools.

Funding Per College Student Has Outpaced Inflation

2006 Dollars^a

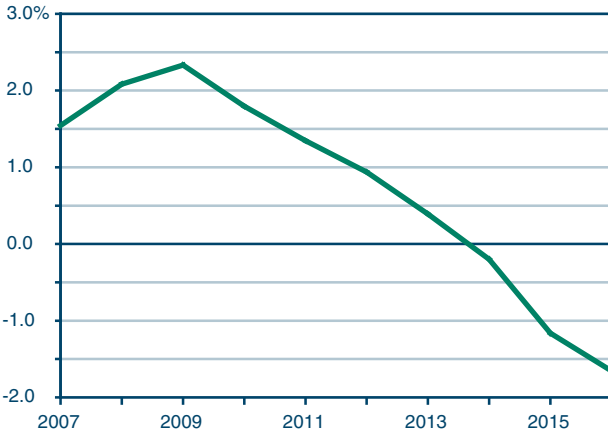


^aAverage total support (General Fund, property taxes, and student fee revenue) per FTE student in public colleges and universities.

- After adjusting for inflation, the average funding California public colleges and universities have received for each student has increased about 12 percent over the past four decades.
- Per-student funding varies by segment. The University of California receives almost four times as much as the California Community Colleges (CCC), and the California State University receives about twice as much as CCC.
- The segments have used the additional per-student funding in various ways, such as expanding student support services, outreach programs, and research programs.

Growth in College-Age Population To Slow Sharply After 2009

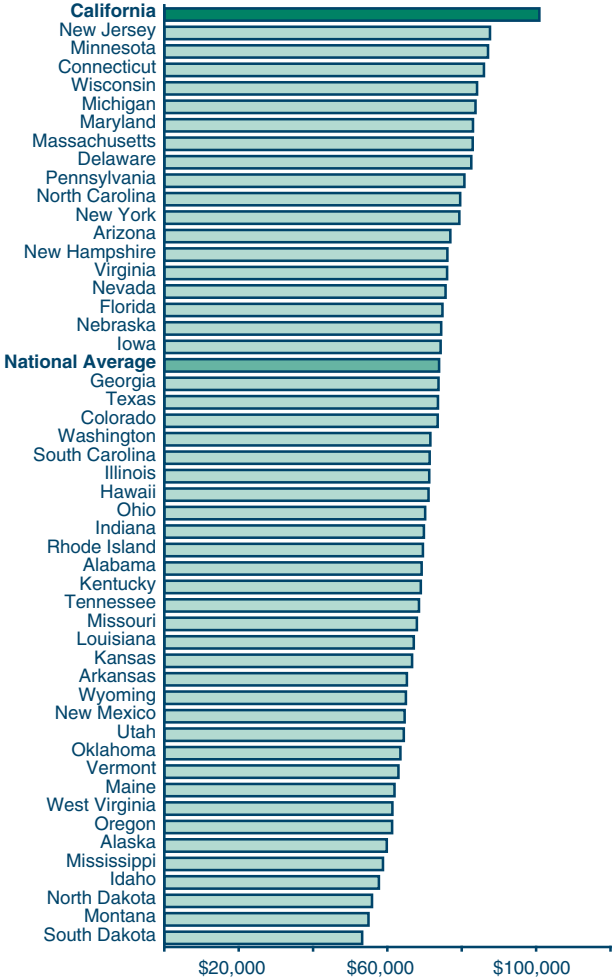
Projected Annual Change in 18- to 24-Year-Olds



- Growth in the state's population of 18- to 24-year-olds (a key determinant of enrollment demand) will slow starting in 2009. This population group will actually decline beginning in 2014.
- The state's population of 25- to 44-year olds is expected to remain relatively flat during this period, with average annual growth of less than 0.4 percent.
- These trends will reduce annual enrollment growth cost pressures. At the same time, other factors—such as changing participation rates by different age, gender, and ethnic groups—will affect future higher education spending.

California's Public Universities Have Highest Average Faculty Salary

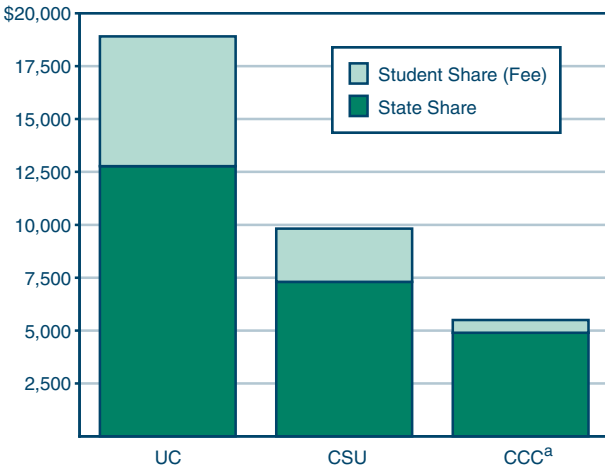
2004-05



Source: Chronicle of Higher Education

Student Fees Cover Small Share Of Higher Education Costs

*Average Cost Per FTE Undergraduate Student
2006-07*



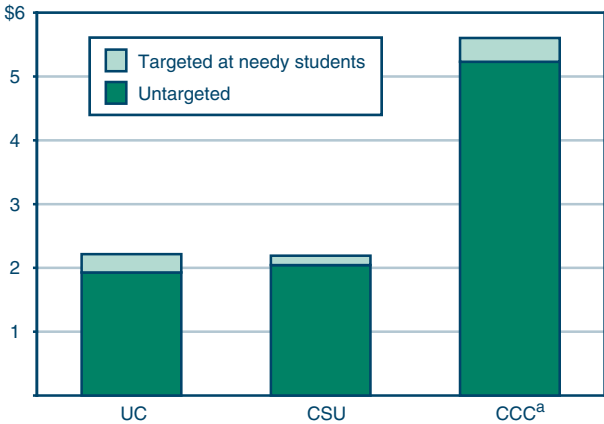
^aReflects fee reduction that goes into effect January 2007.

- The resident undergraduate fee at the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) represents about one-third, one-fourth, and one-eighth, respectively, of each system's average education costs per full-time equivalent undergraduate student.
- Currently, the UC resident undergraduate fee is the second lowest and the CSU fee is the lowest of their respective public comparison institutions. The CCC per-unit fee is by far the lowest of all public community college systems in the nation.

Most Higher Education Subsidies Not Targeted to Needy Students

Total General Fund Support for Undergraduate Students in 2005-06

In Billions

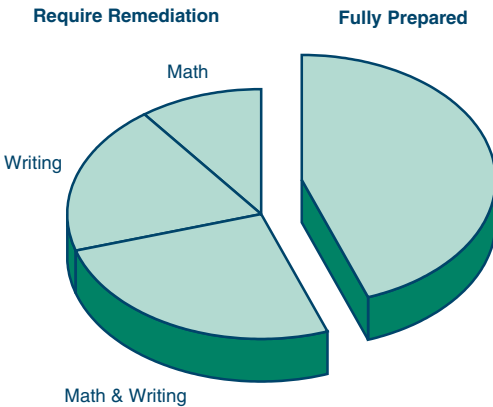


^aIncludes local property taxes under Proposition 98.

- The state subsidizes public higher education in two ways. As illustrated on the facing page, the state funds higher education institutions for most of the cost of serving each student—financially needy or not. The state also provides additional subsidies to needy students, mostly in the form of grants and fee waivers.
- As illustrated above, only a fraction of the funding the state uses to subsidize undergraduate public education is targeted at needy students. Targeted funds make up about 12 percent of state support for undergraduate programs at the University of California, and 6 percent at both the California State University and the California Community Colleges.

Most CSU Freshmen Require Remediation

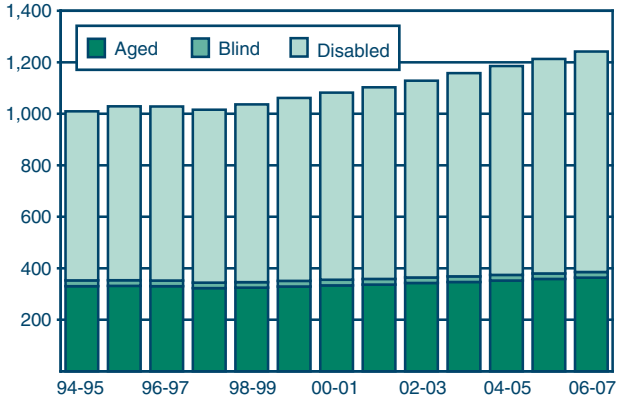
Regularly Admitted Freshmen in Fall 2005



- Over 55 percent of regularly admitted California State University (CSU) freshmen required remediation in either college-level math or writing (or both) in the fall of 2005. Only about 45 percent of freshmen were proficient in both subject areas.
- In 1996, CSU set a goal to reduce the percentage of unprepared freshmen to no more than 10 percent in both math and writing by 2007.
- The state pays about \$7,500 per full-time equivalent student to provide remedial courses.

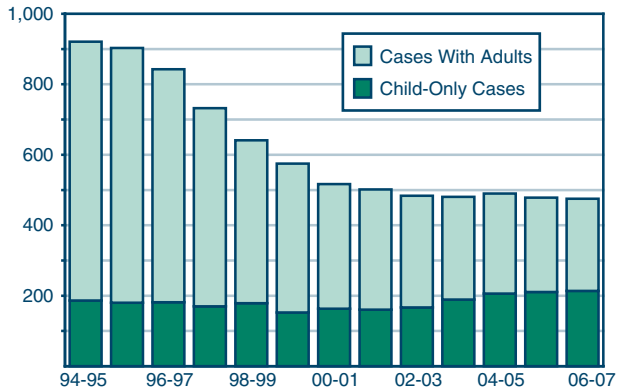
SSI/SSP Caseload Continues to Grow

Cases in Thousands

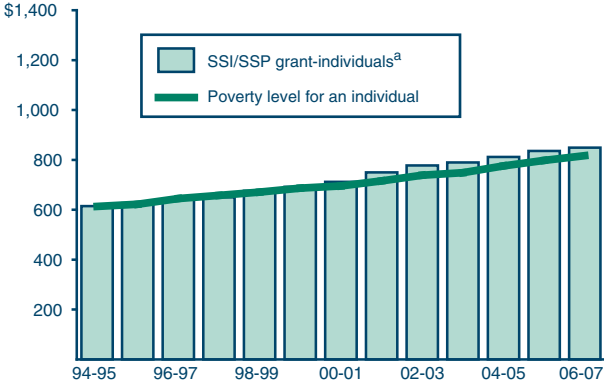


CalWORKs Caseload Flattens; Share of Child-Only Cases Increases

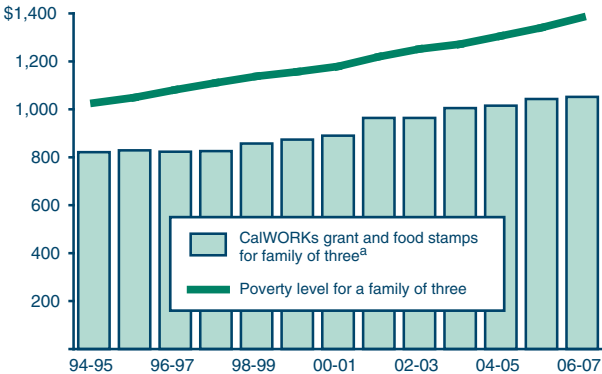
Cases in Thousands



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



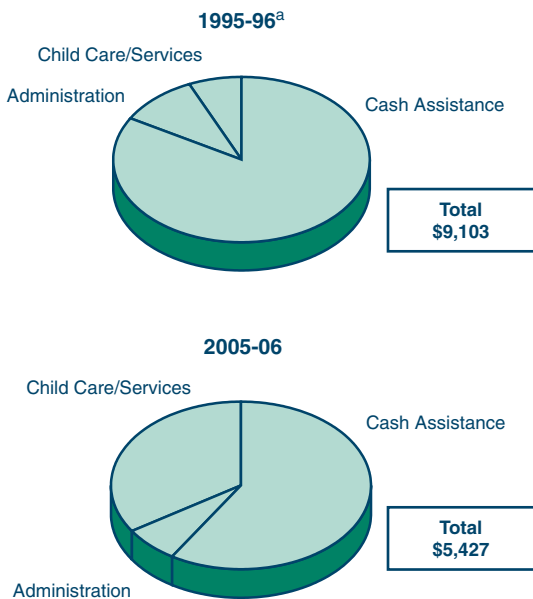
. . . While CalWORKs Grant Is Significantly Below Poverty Level



^aMaximum monthly grant.

Welfare Spending Shifts From Cash Assistance to Services

Expenditures in Millions

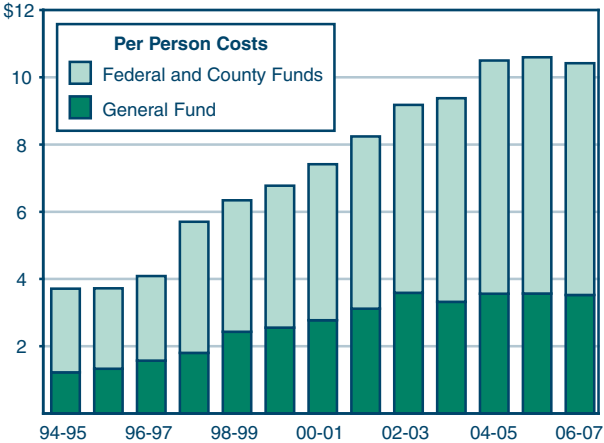


^aAdjusted for inflation.

- In response to federal welfare reform, CalWORKs shifted the focus of welfare assistance from providing cash aid to furnishing child care and other services to help parents find work. Specifically, the share of spending dedicated to services and child care increased from 7 percent to 34 percent.
- Total spending decreased from \$9.1 billion in 1995-96 to \$5.4 billion in 2005-06, a 40 percent reduction, mostly attributable to caseload decline.

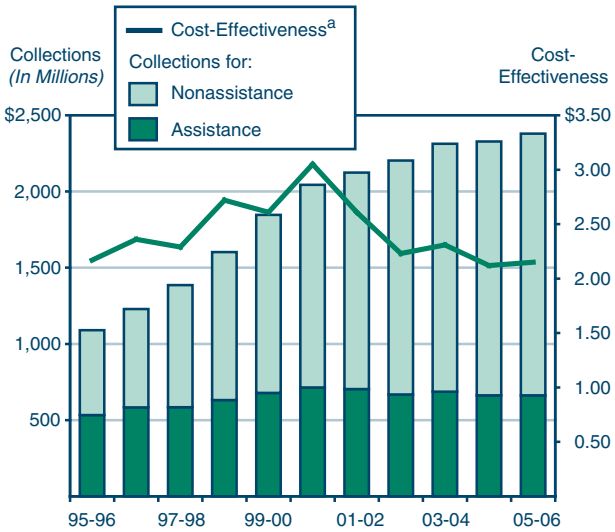
IHSS Cost Per Person Leveling Off

In Thousands



- From 1995-96 through 2005-06, In-Home Supportive Services (IHSS) costs rose very rapidly from less than \$4,000 per person to over \$10,000 per person, an average increase of 9.8 percent per year. Most of this change is attributable to higher wages paid to providers.
- General Fund spending per person has leveled off over the last four years due to increased federal funding. This increased federal support came from (1) one-time federal fiscal relief funds in 2003-04 and (2) approval of a waiver authorizing federal financial participation in the formerly state-only "residual" IHSS program beginning in 2004-05.

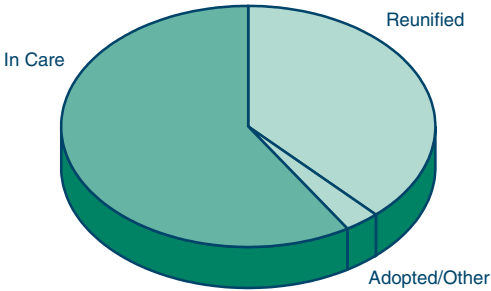
Child Support Collections Rising but Cost-Effectiveness Lags Nation



^aThe federal government defines cost-effectiveness as collections per administrative dollar spent. Data are from federal fiscal years 1995 through 2005.

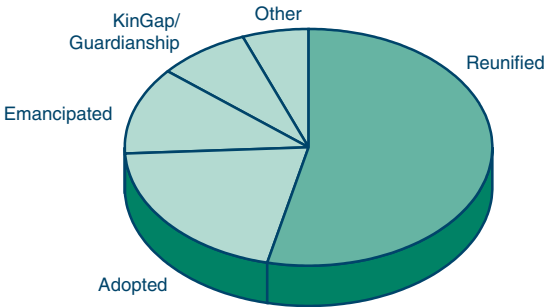
- California's child support collections have increased steadily each year, from \$1.1 billion in 1995-96 to \$2.4 billion in 2005-06. However, assistance (CalWORKs) collections have declined from a peak in 2000-01 primarily due to CalWORKs caseload reductions.
- In terms of cost-effectiveness, defined as collections per dollar spent on program administration, California ranked 49th among the 50 states in 2005. Specifically, California collected \$2.15 for every dollar spent, while the national average was \$4.58.

One Year After Entering Foster Care, Most Children Are Still in Care



Data for children entering care during 2004-05.

Of Those Who Leave in a Given Year, One-Half Return to Their Family

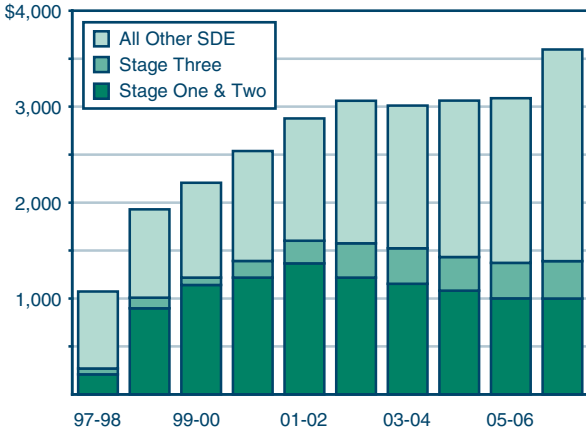


Data for children leaving during 2005.

- Adoption and "aging out" (emancipated) are the next most common types of exits. Over 20 percent are adopted while 12 percent exit foster care when they reach age 18.

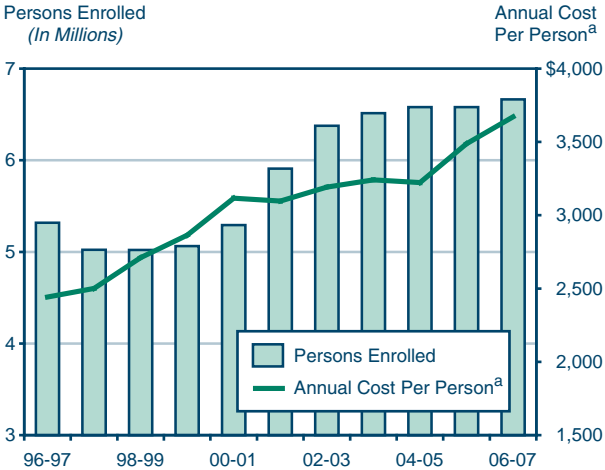
Spending on Child Care Has Increased Significantly

Dollars in Millions



- Spending on state subsidized child care increased from about \$1.1 billion in 1997-98 to about \$3 billion in 2002-03. After three years of essentially level funding, expenditures increased in 2006-07, mostly due to a major expansion of after school and preschool programs.
- The percentage of total child care spending for current and former CalWORKs families grew from about one-quarter of all spending in 1997-98 to a peak of about 56 percent in 2001-02. Since then, the share for CalWORKs has declined because of (1) modest caseload reduction and (2) new expenditures for non-CalWORKs after school and preschool programs.

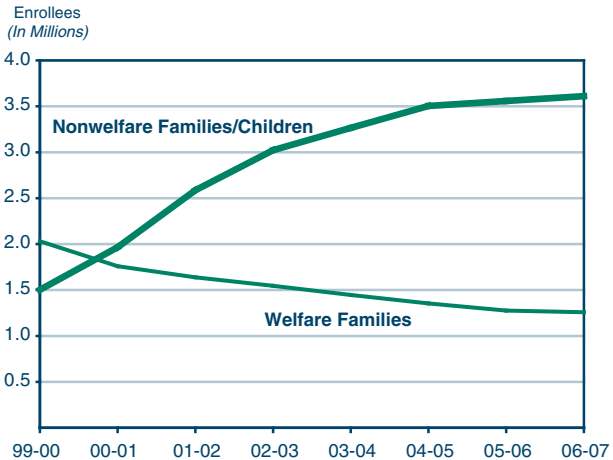
Medi-Cal Caseload Growth Slowing While Cost Per Person Increases



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

- The Medi-Cal caseload declined between 1996-97 and 1997-98 as the economy recovered, then remained flat for a couple years. Various eligibility expansions and simplified eligibility processes caused a rapid growth in caseload in 2001-02 and 2002-03. Since then, the caseload has continued to grow, but at a slower rate.
- The annual cost increase per Medi-Cal beneficiary trended steadily upward until 2001-02. The decline that year appears to be partly the result of an increase in the number of healthy beneficiaries, rather than a decrease in costs. More recently, costs have generally shown steady growth, interrupted for one year in 2004-05 when the state adopted certain one-time savings actions.

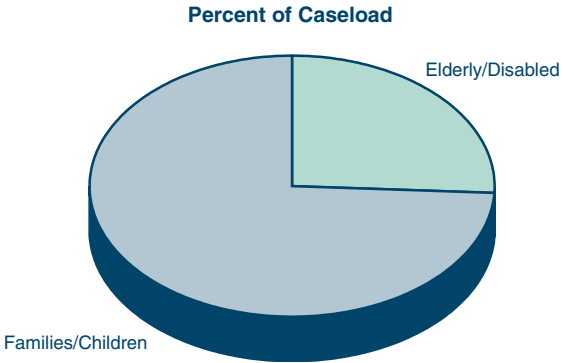
Most Medi-Cal Families/Children Are Not on Welfare



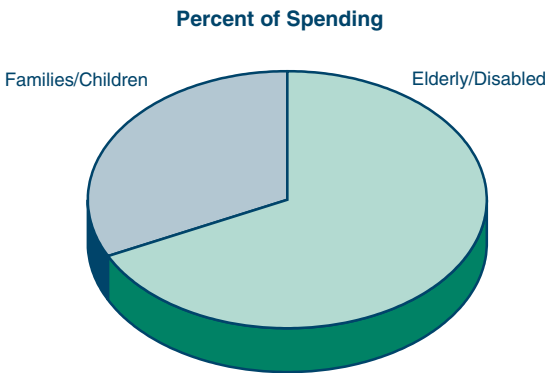
- By 2000-01, for the first time in the history of the Medi-Cal Program, welfare (CalWORKs) recipients accounted for less than one-half of the families and children enrolled in the program. This trend has continued and Medi-Cal enrollment of nonwelfare families and children now exceeds those on welfare by more than 2 million persons.
- The reduction in the welfare component of the Medi-Cal caseload is generally attributable to welfare reform. The growth in the nonwelfare component is due to legislative changes primarily in 2000-01 that expanded and simplified Medi-Cal eligibility for low-income working families.

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

2006-07

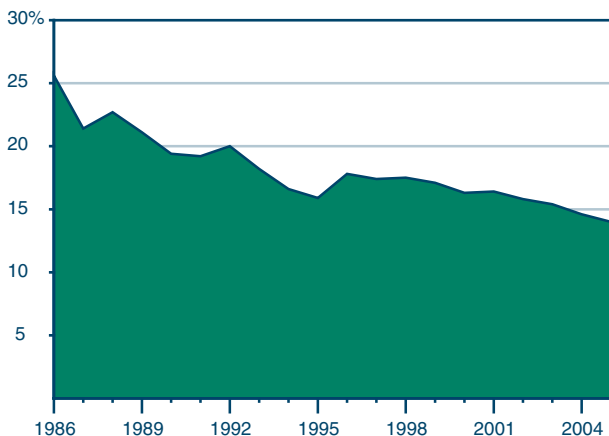


. . . While Most Medi-Cal Spending Is for Elderly/Disabled



Smoking Has Declined Among California Adults

*Prevalence of Smoking Among Adults
18 and Older^a*

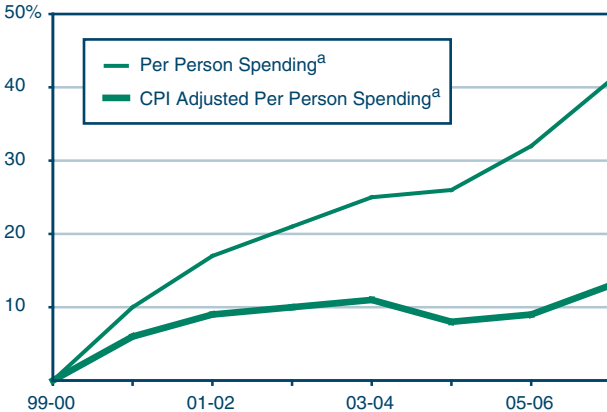


^aThe state definition of who is considered a smoker changed in 1996 to include more occasional smokers.

- The prevalence of smoking among adults dropped significantly over time from about 26 percent in 1986 to about 14 percent in 2005. The prevalence of smoking among high school students declined dramatically since 2000 from about 22 percent to about 13 percent in 2004, but increased to about 15 percent in 2006.
- Proposition 99 of 1988 imposed a 25 cent per pack tax on cigarettes and earmarked the proceeds for various tobacco prevention, health, and resources programs. Proposition 10 of 1998 imposed a further 50 cent per pack tax on cigarettes that is devoted to childhood development programs.

Regional Center Spending Up Significantly

Percent Change Since 1999-00

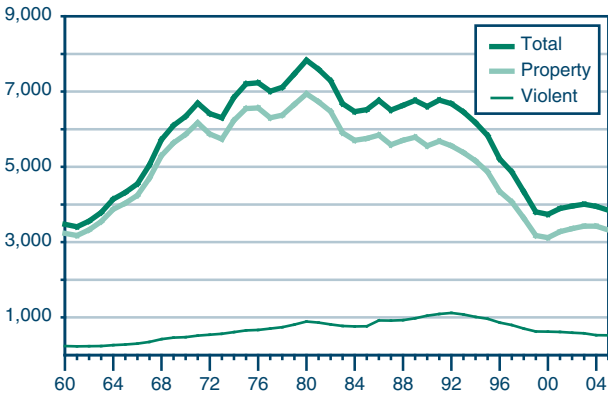


^aData adjusted to reflect programmatic changes.
CPI: Consumer Price Index

- The state provides community-based services to about 212,000 developmentally disabled individuals through 21 nonprofit corporations known as regional centers (RCs). Between 1999-00 and 2006-07 real growth has occurred in this program as average per person spending, after adjusting for inflation, has gone up 13 percent. During the same period, unadjusted spending per person has gone up by 41 percent.
- The increases in costs are attributable to several factors. New medical technology, treatments, and equipment are broadening the scope of services available to the developmentally disabled. Other factors include increased life expectancies of RC clients, increases in the number of diagnosed cases of autism, and the comparatively higher costs of treating autistic clients.

Crime Rate Up After Decade Decline

Rate Per 100,000 Population

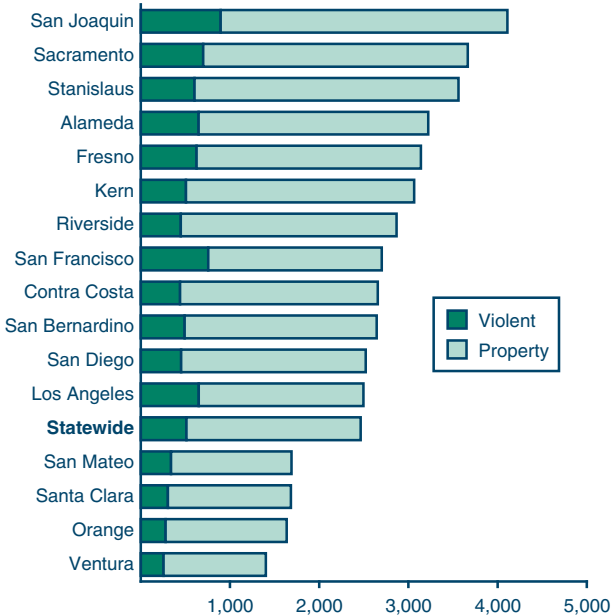


Source: FBI Crime Index

- After nearly ten consecutive years of decline, California's crime rate increased somewhat since 2000. Nonetheless, crime in California remains at a 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 theft. Violent crime, such as murder, rape, and assault, has continued to slowly decline.
- There are probably many reasons for this slight increase in the overall crime rate, including the changing demographics (growth in crime prone age groups), higher reporting of crimes, and improvements in policing and other law enforcement techniques.

Crime Rates Vary Widely Among Large Counties

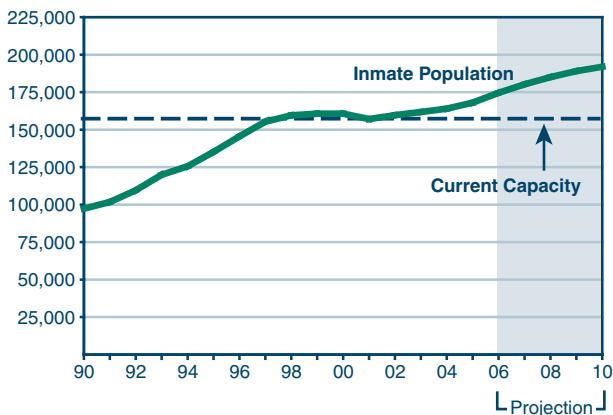
2005 Rates Per 100,000 Population



- Among the counties with populations of 500,000 or more, San Joaquin had the highest crime rate in 2005, about 67 percent higher than the statewide rate. Ventura's rate was the lowest and was about 43 percent lower than 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 Exceeds Permanent Capacity

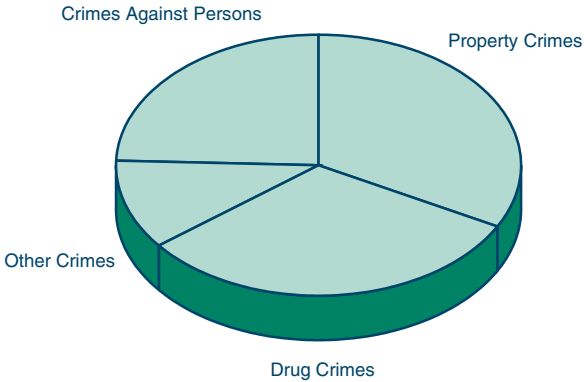
1990 Through 2010



- Over 15 years, California's prison inmate population increased from about 97,000 inmates in 1990 to about 168,000 in 2005. This increase of about 4 percent annually results from a number of factors including growth in the state population and local law enforcement personnel, as well as changes in law that increased the length of prison sentences.
- The prison population is projected to grow by an additional 24,000 inmates to about 192,000 inmates by 2010. However, the permanent cell and dormitory capacity of the prison system is currently about 157,000 beds.
- If the inmate population grows as projected, the state will need to implement population management strategies, and/or construct additional capacity to house these inmates. Completed in 2005, Kern Valley State Prison was the most recent prison constructed in California.

Offenders Sent to Prison for Various Offense Types

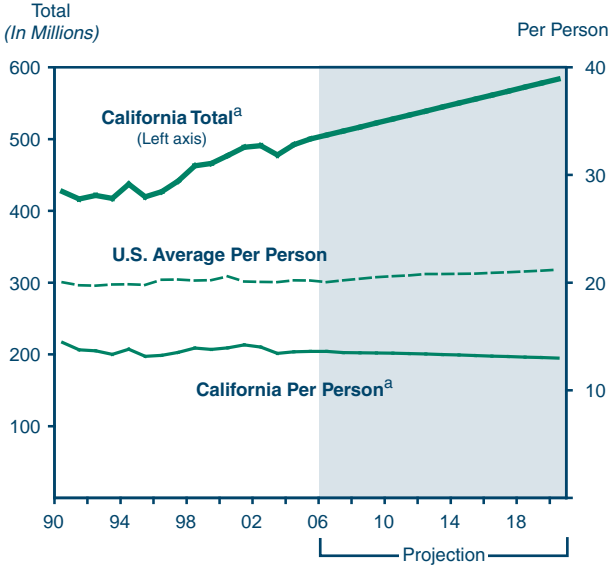
2005



- There were more than 68,000 admissions to prison from the courts in 2005.
- Almost two-thirds of admissions are for property and drug crimes, including burglary, auto theft, and drug possession and sale.
- Among inmates convicted of crimes against persons, the most common offenses are assault and robbery.

Total Human-Made Greenhouse Gas Emissions Climbing

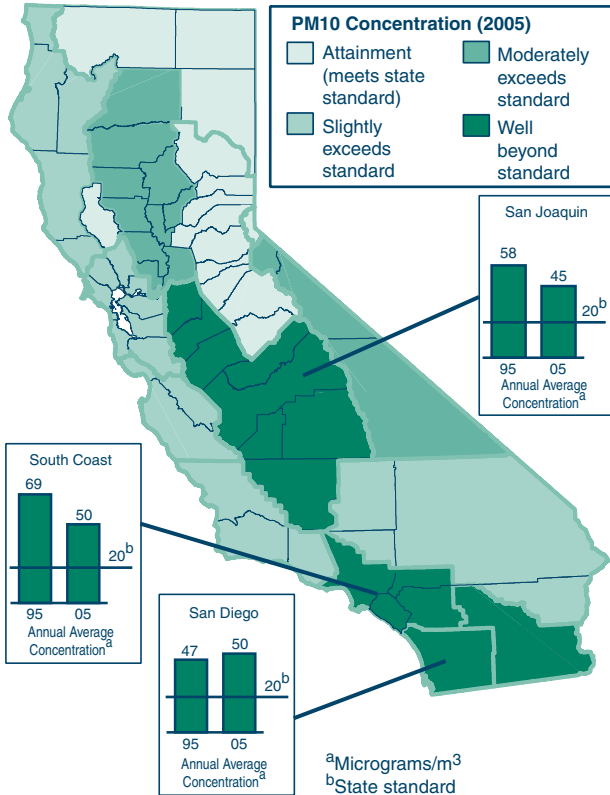
In Metric Tons



^aData for 2006 onward reflect preliminary California Energy Commission projections (September 2006), absent corrective action to curb emissions.

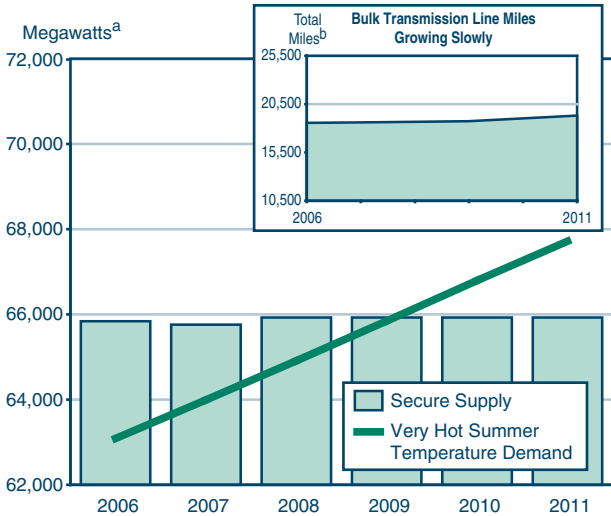
- Energy efficiency programs and a mild climate allow California to emit far fewer tons of greenhouse gases (GHG) per person than does the United States on average. Nonetheless, California’s overall GHG emissions are projected to continue to increase as the state’s economy and population grow.
- California’s human-made GHG emissions currently come from a variety of sectors, including transportation (41 percent), industry (23 percent), electrical power generation (20 percent), agriculture and forestry (8 percent), and other sources (8 percent).

Most Regions Failing Particulate Matter (PM10) Standard



- PM10 consists of tiny airborne particles that may increase the risk of heart and lung disease. Burning fuels and wind-blown dust produce much of the PM10 pollution.
- Despite moderate PM10 air quality improvements in many regions during the previous decade, PM10 pollution remains well above the state standard in much of the state.

Electricity Supply and Transmission Flat While Demand Grows

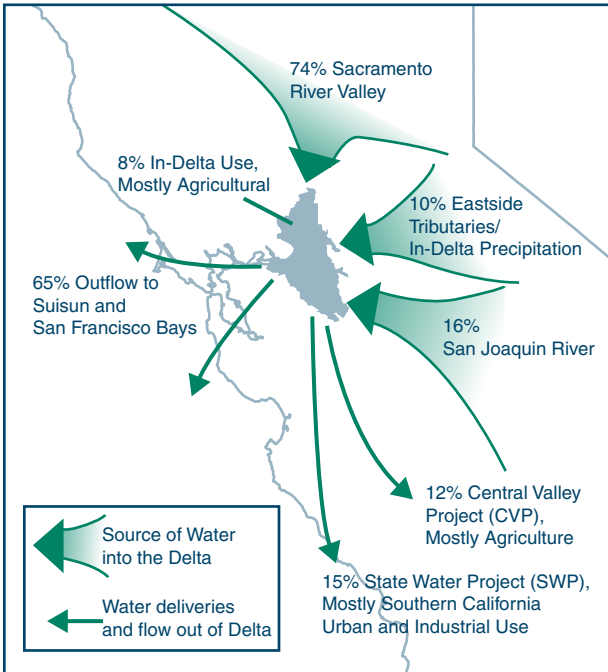


^aElectricity supplied and demanded at the time of peak demand for the year (typically the afternoon peak of a very hot summer day).

^bBulk transmission lines carry over 200 kilovolts of electricity.

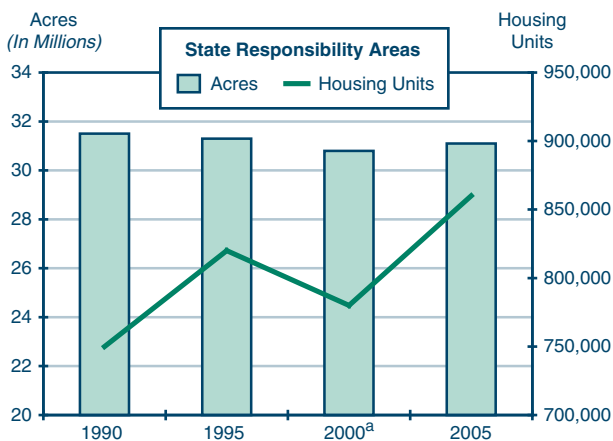
- Over the next five years, electricity demand is projected to increase at an average annual rate of 1.4 percent, while the secure supply (existing generation, high probability new and out-of-state generation) is projected to grow more slowly at an average annual rate of less than 0.1 percent.
- Meeting projected demand in part requires increased transmission capacity. However, the number of transmission line miles is projected to grow slowly, limiting the state’s ability to provide bulk electricity to many regions, particularly Southern California, during peak hot summer demand. Projects planned to come on line beginning in 2009 may lessen these constraints.

Delta Is at the Heart of California's Water System



- Water flowing through the Sacramento-San Joaquin River Delta (the Delta) is the main source of supply for two major California water delivery projects, the State Water Project and the federal Central Valley Project. From these projects, a majority of Californians rely on water flowing through the Delta for all or part of their drinking water. In addition, approximately one-third of the state's cropland uses water flowing through the Delta.
- The state has spent over \$2 billion over the past five years in the CALFED Bay-Delta program to help protect and restore the Delta.

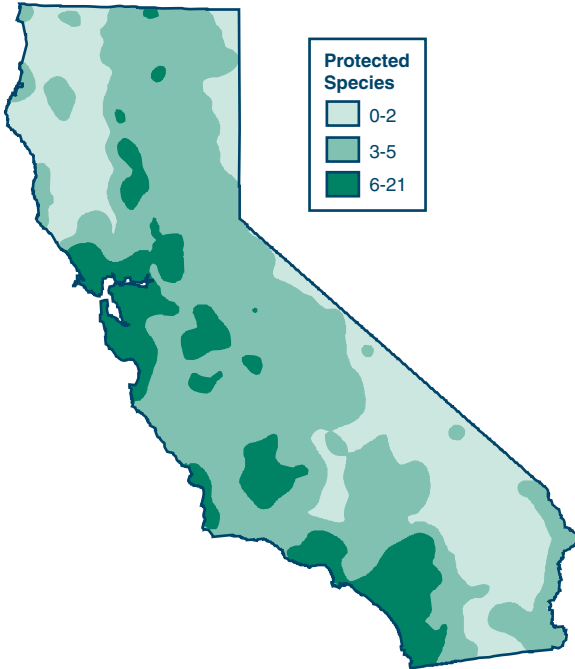
Increasing Development Where State Fights Wildland Fires



^aIn the late 1990s in Southern California, local governments annexed large parcels of land thereby shifting a significant amount of land and housing units from state to local firefighting responsibility. However, the long-term trend shows increasing housing units in SRA.

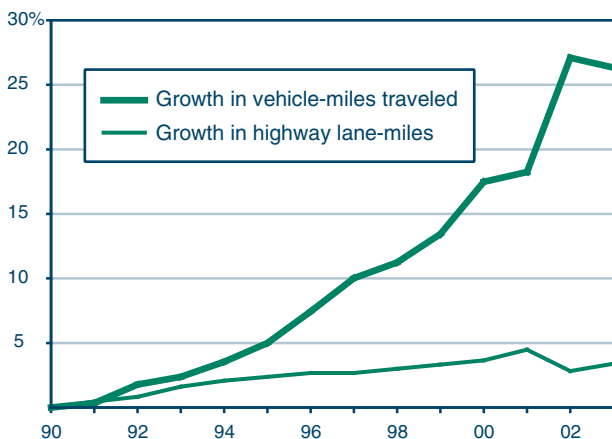
- The Department of Forestry and Fire Protection is responsible for wildland firefighting in State Responsibility Areas (SRA)—generally privately owned forests, grasslands, and watersheds, with minimal *urban* development. When such lands are incorporated into cities or exceed a certain density, local governments become solely responsible for firefighting.
- As shown, while the acreage in SRA has remained fairly constant, the number of housing units has increased significantly. This has increased state firefighting costs by requiring more resources to protect human life and structures, limiting fire prevention and suppression tactics, and increasing wildland fire risk from human activities.

Protected Species Concentrated in Heavily Developed Areas



- Both federal and state law allow for the listing of plant or animal species as threatened or endangered. Fish and wildlife agencies may issue permits that allow for a listed species to be incidentally harmed by a project, provided mitigation requirements are met.
- There are 405 protected species found throughout the state, largely concentrated in highly developed areas, such as the Bay Area, coastal Southern California, and increasingly in the Central Valley. As development continues to reduce available habitat, protected populations may decline further and/or additional species may be listed.

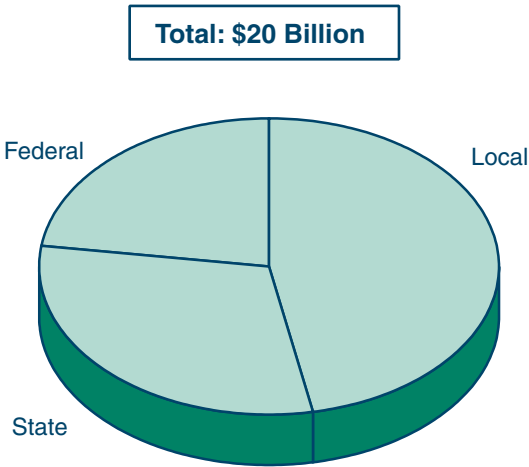
Growth in Travel on State Highways Outpaces Capacity Increases



- Between 1990 and 2003, travel on the state highway system increased by 26 percent. Meanwhile, highway lane-miles increased by only 3 percent.
- Today, California has about 50,500 miles of highways maintained and operated by Caltrans. An additional 327,000 miles of local roads are maintained and operated by cities and counties.
- Because of the imbalance between road supply and travel demand, delay on California's urban highways has nearly doubled from 262,000 hours per day in 1992 to 512,000 hours per day in 2002.

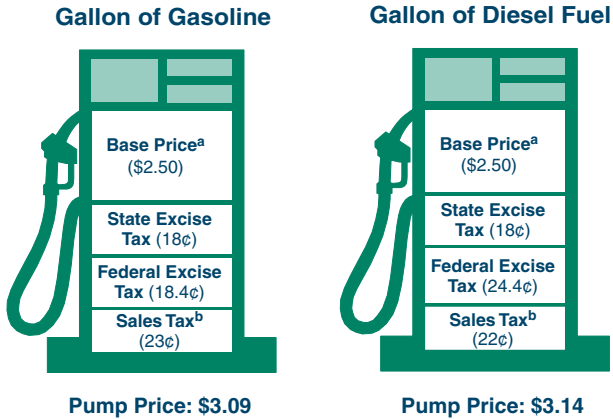
Local Funds Provide Almost One-Half of Transportation Revenues

2005-06



- Ongoing state funding sources for transportation include mainly the state excise tax on gasoline and diesel fuel, truck weight fees, and state sales tax on motor fuels.
- About one-third of local funds for transportation are from optional local sales taxes dedicated for transportation uses. Currently, 17 counties have adopted such sales taxes. Other local funding sources include local general funds (including property tax revenues), transit fares, and the one-quarter cent uniform sales tax dedicated to transit purposes.
- Federal transportation funds are apportioned to California based primarily on the state's contribution to federal fuel tax revenues.

Most State and Federal Transportation Revenues Come From Fuel Taxes



^aAssumes base price of \$2.50 for illustration purposes.

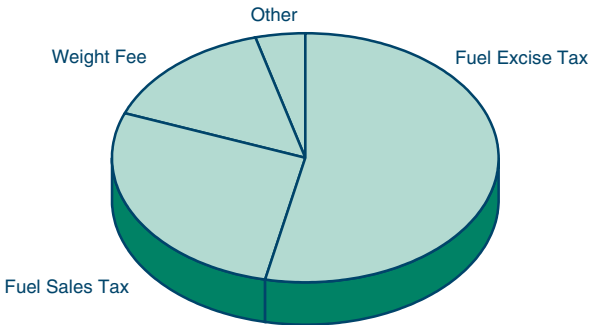
^bAssumes average state and local sales tax of 7.94 percent.

- Taxes paid at the pump on gasoline and diesel fuel provide the majority of state and federal funds for transportation. Some of these taxes also contribute to local transportation funding.
- 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.
 - 7.25 percent minimum *state* and *local* sales tax, plus optional local sales tax for transportation or other purposes varying by county. (The statewide average sales tax level is 7.94 percent once optional local sales taxes are considered.)

State Transportation Funding Comes Primarily From Fuel Taxes . . .

2005-06

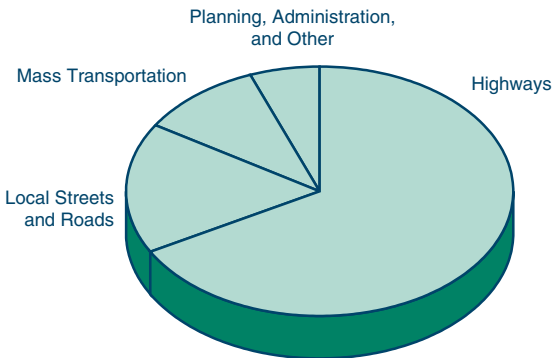
Revenues: \$6.1 Billion



. . . And Goes Primarily for Highways

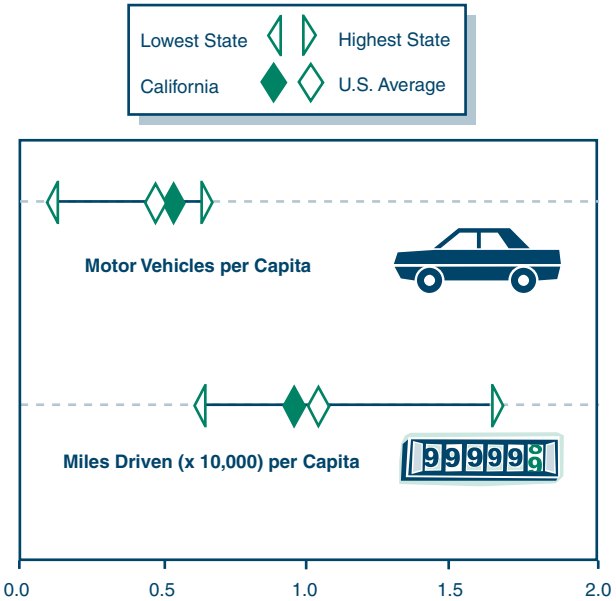
2005-06

Expenditures: \$6.6 Billion^a



^aAmount includes expenditure out of prior-year fund balance.

Are Californians Really in Love With Their Cars?

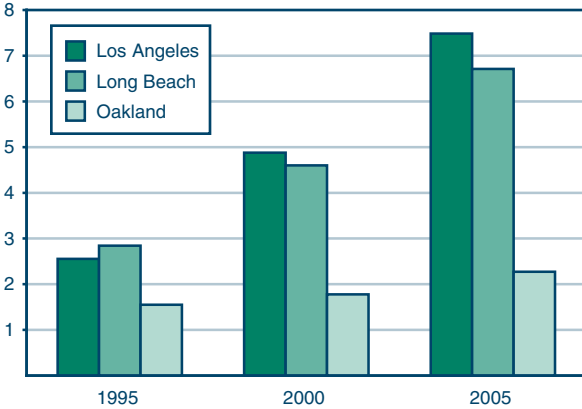


- While the conventional wisdom is that Californians are infatuated with their automobiles, some data suggest that this is not the case.
- For instance, when compared to the average American, Californians tend to drive fewer miles.
- Californians do have slightly more vehicles than the average American.



California Ports Handle Increasing Amount of Goods

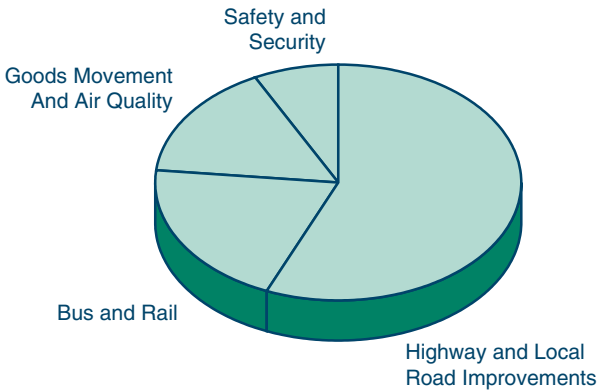
Container Units
(In Millions)



- The amount of container-goods handled by California's busiest ports—Los Angeles, Long Beach, and Oakland—has steadily increased over the past decade. Between 1995 and 2005, the amount handled by the Ports of Los Angeles and Long Beach more than doubled. The Port of Oakland had a slightly smaller increase, growing by 47 percent during the same period.
- In 2005, the Ports of Los Angeles, Long Beach, and Oakland handled approximately 39 percent of all United States container traffic. These three ports also accounted for about 30 percent of the total value of all goods handled by United States ports in 2005.
- Other California ports, including the Ports of San Francisco and San Diego, handle mainly noncontainerized goods, such as cars, lumber, and cement. Relative to the state's busiest ports, these other ports handle only a small share of container-goods (up to 120,000 combined container units per year).

Bond Funds Will Provide Substantial One-Time Infusion to Transportation

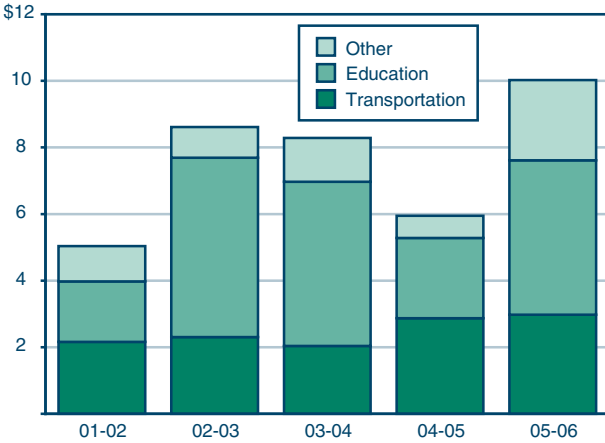
Total: \$19.925 Billion



- Proposition 1B, the *Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006*, approved by voters in November 2006, allows the state to sell \$20 billion in general obligation bonds to fund projects that will relieve congestion, improve air quality, and enhance the safety and security of the transportation system.
- These bond funds constitute a major one-time infusion of state funds that will be spent over multiple years.
- Proposition 1B creates several new transportation funding programs (for example, Corridor Mobility Improvement and Trade Corridors Improvement), and provides additional funds for existing construction programs.

Infrastructure Spending Focused on Transportation and Education^a

In Billions

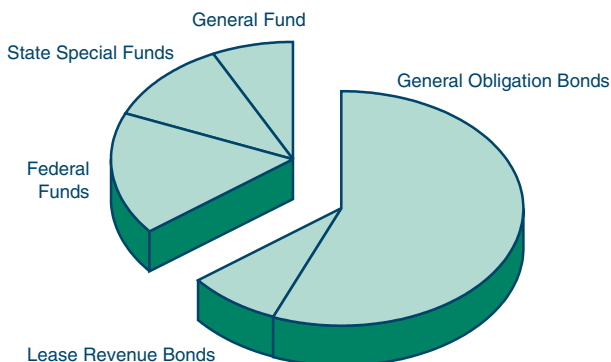


^aExcludes spending on self-financed projects and State Water Project.

- Over the past five years, the state has spent about \$38 billion on infrastructure.
- Over that time period, transportation projects and education facilities (both K-12 and higher education) have accounted for a total of 83 percent of all state infrastructure spending. The remaining spending was for other state facilities, such as office buildings, prison facilities, state parks, open space, and wildlife habitat.
- About three-fourths of the spending on education facilities was allocated to local school districts, with the remainder spent on state higher education facilities.

Bonds Provide About Two-Thirds of Infrastructure Funding

2001-02 Through 2005-06



- Over the past five years, bonds—both general obligation and lease revenue—have been the source of funding for roughly two-thirds of the state’s infrastructure spending. Education and resources projects have received the most funds from these types of bonds.
- Over the period, transportation projects were generally funded with federal funds and state special funds.
- Given the state’s budget problems over this period, direct General Fund appropriations for infrastructure accounted for less than 10 percent of infrastructure spending.