

Structural Challenges to Budgeting in California

LEGISLATIVE ANALYST'S OFFICE

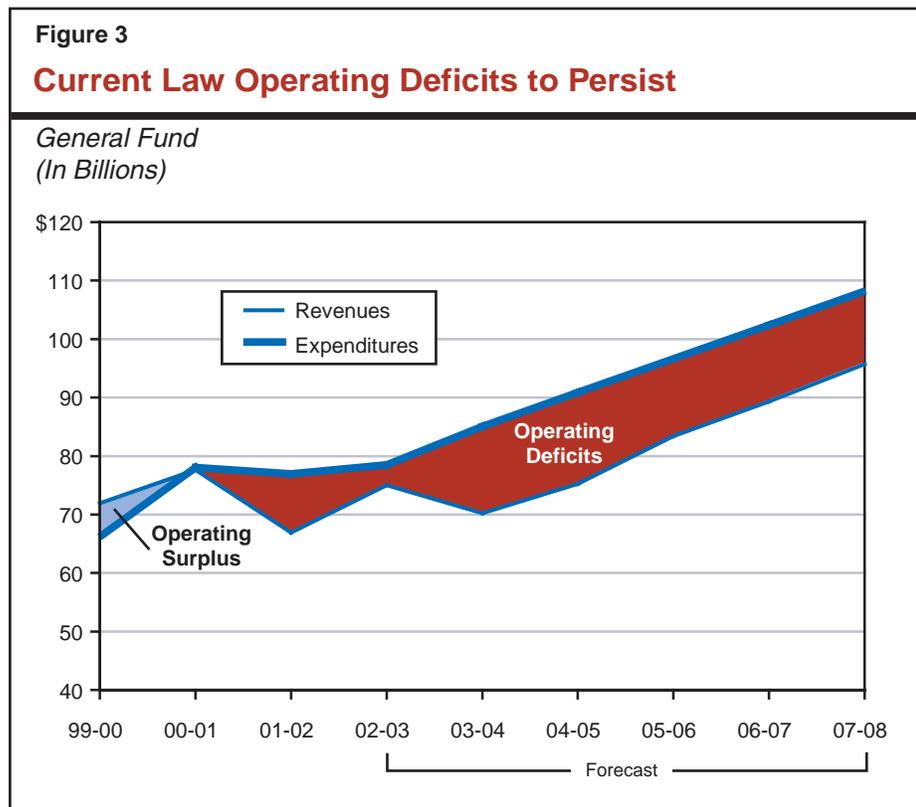
Presented To:
Assembly Commission on
Structural Challenges to Budgeting in California





Structural Budget Problem

- ☑ Annual Current Law Expenditures Exceed Current Law Revenues
 - Operating balances (fiscal year only).
 - General Fund condition (reflects carry-in of surplus or deficit).



California's Fiscal Outlook, November 2002



Structural Challenges to Budgeting

- Mix of One-Time Versus Multiyear Solutions

- Accurately Predicting and Effectively Dealing With Revenue Volatility

- Voter-Imposed Limitations on Decision-Making Flexibility

- Interdependencies Between the State and Local Governments



Total State Revenues

2002-03

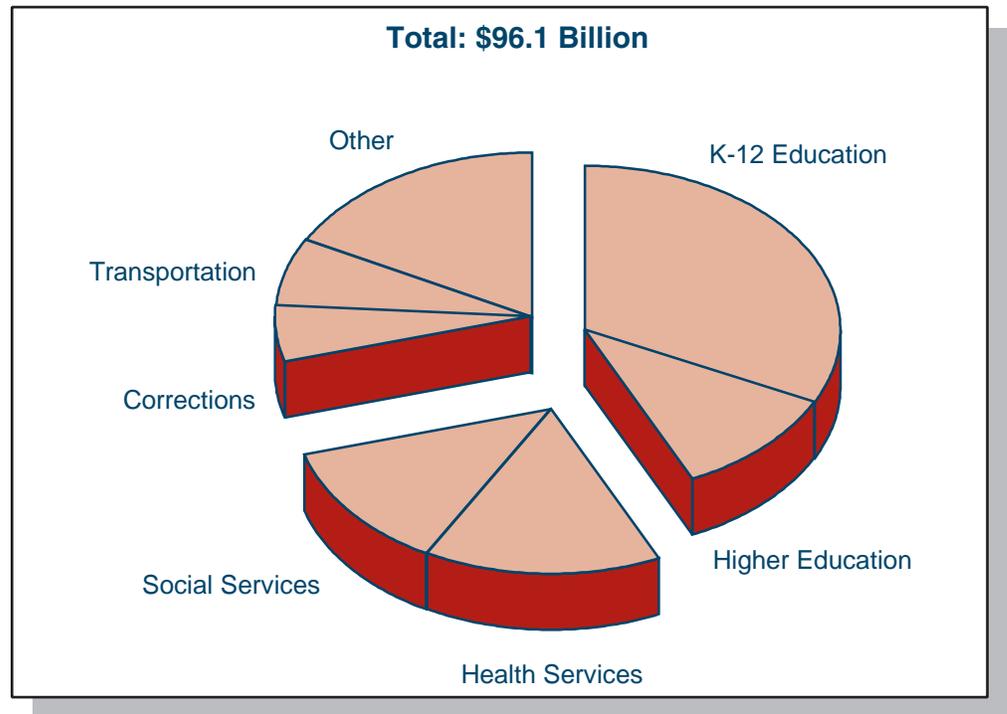
General Fund Revenues	Total State Revenues \$93.9 Billion	Special Funds Revenues
Personal Income Tax \$37.6	<p>A pie chart illustrating the composition of total state revenues. The chart is divided into two segments: a large light brown segment representing General Fund Revenues at 79.2%, and a smaller dark red segment representing Special Funds Revenues at 14.7%. The dark red segment is slightly exploded from the rest of the chart.</p>	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
<p>^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.</p> <p>^b Includes \$2.6 billion in transfers and loans plus \$4.5 billion from the securitization of future tobacco settlement receipts.</p>		

Cal Facts, December 2002



Education, Health, and Social Services Dominate Spending

2002-03

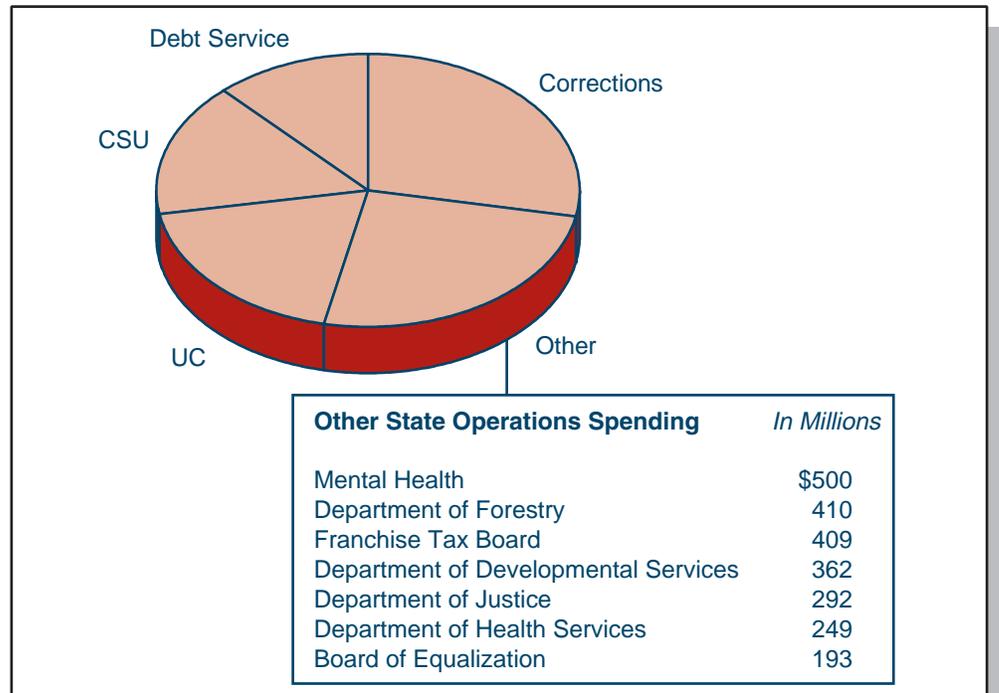


Cal Facts, December 2002



State Operations Is Concentrated In Four Areas

General Fund—2002-03

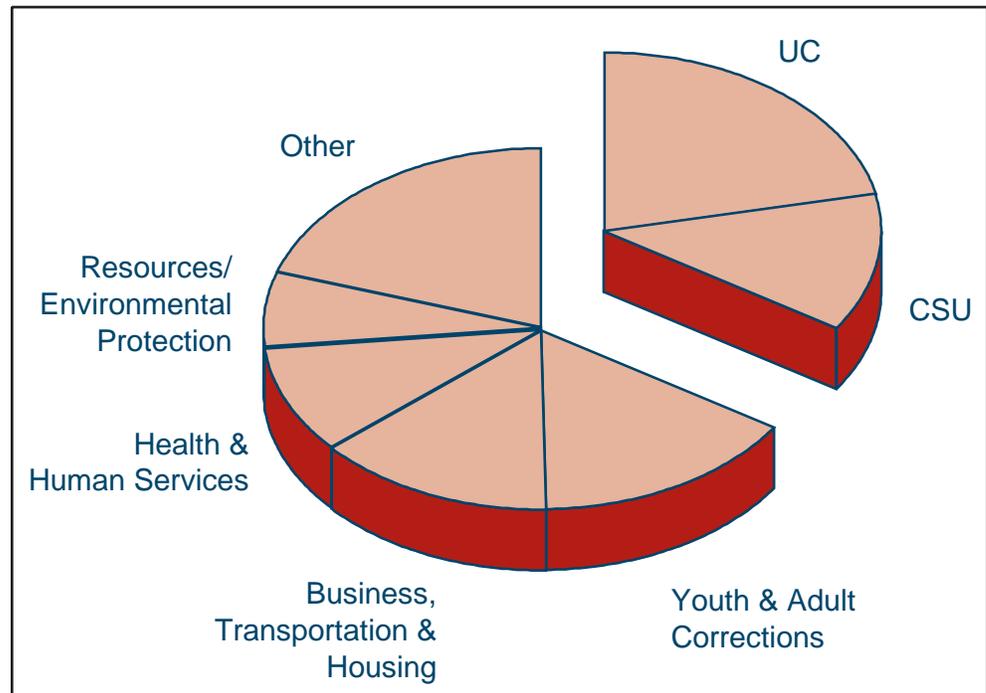


Cal Facts, December 2002



Higher Education Represents One-Third of State Employment

2001-02—Estimated State Employment

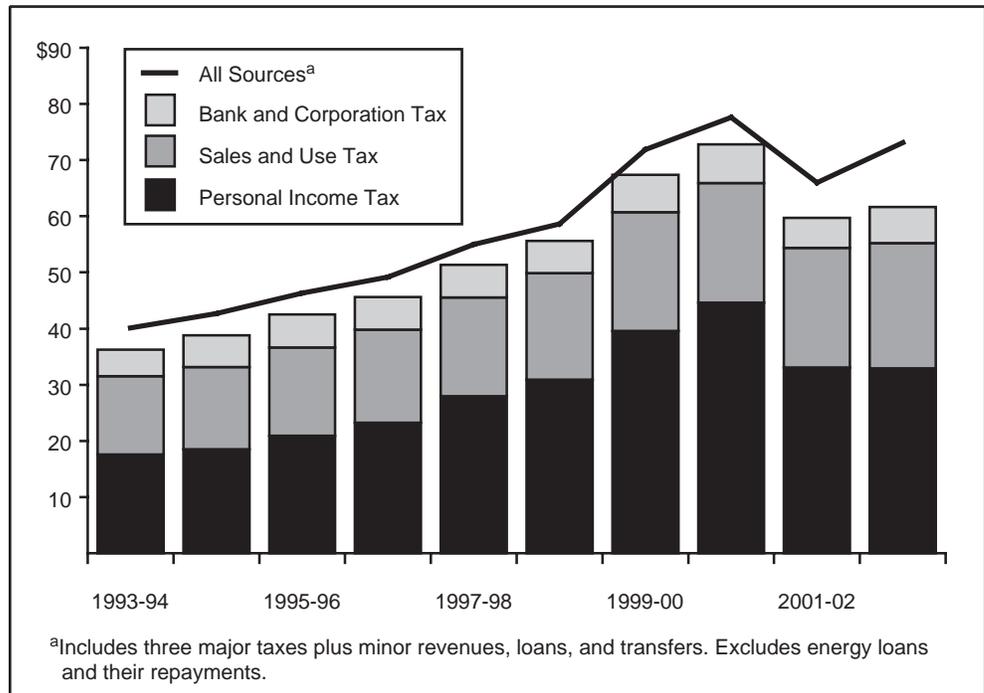


Cal Facts, December 2002



General Fund Revenues From Three Major Taxes

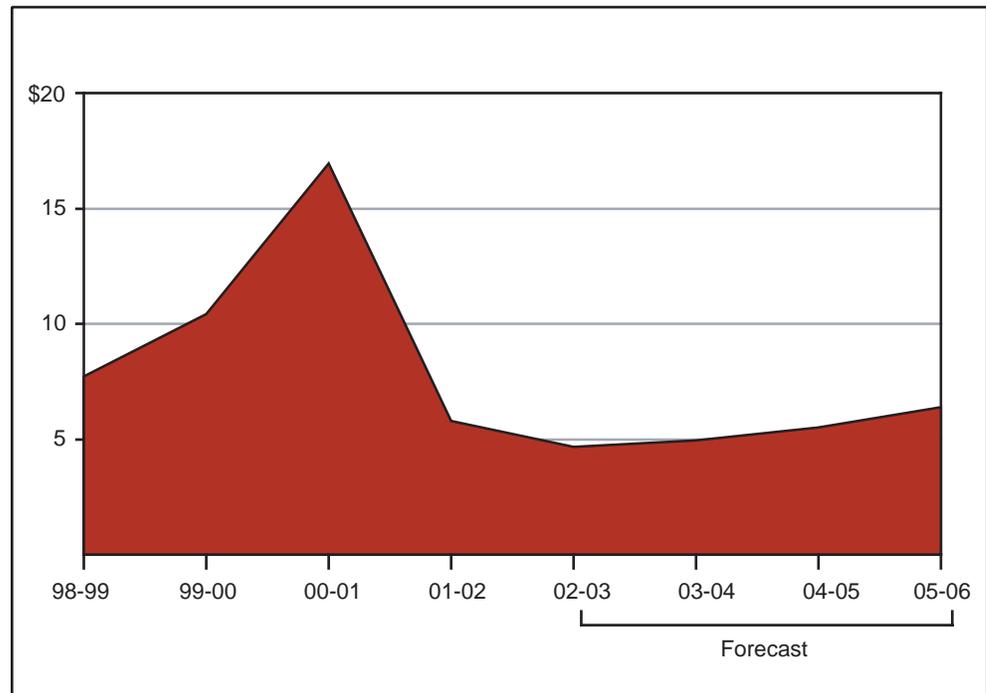
In Billions





Revenues From Capital Gains and Stock Options Down Sharply

In Billions

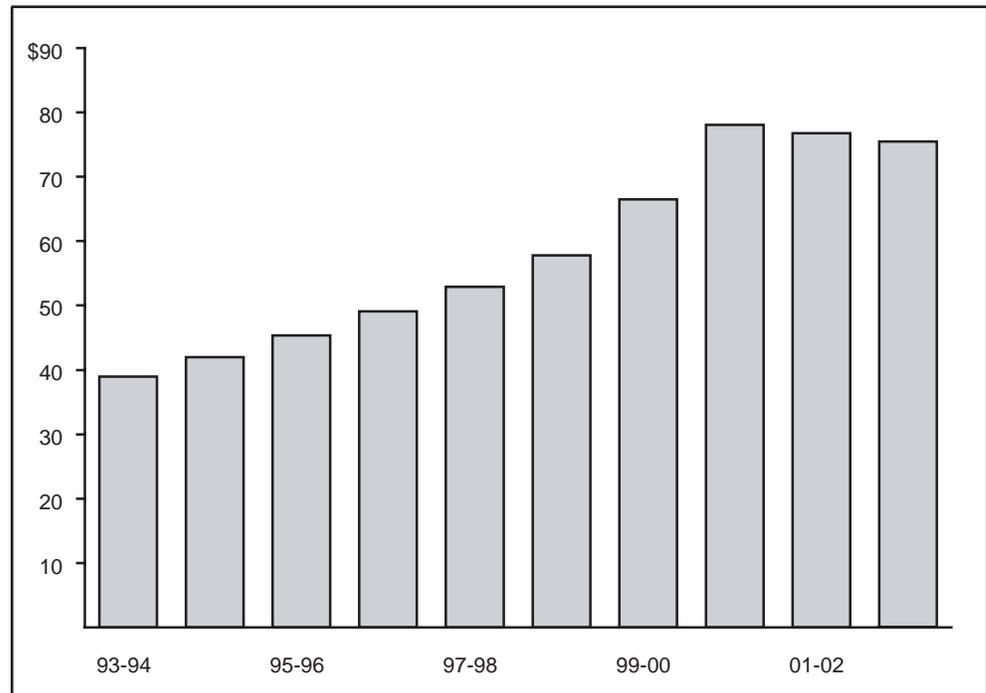


California's Fiscal Outlook, November 2002



General Fund Expenditures

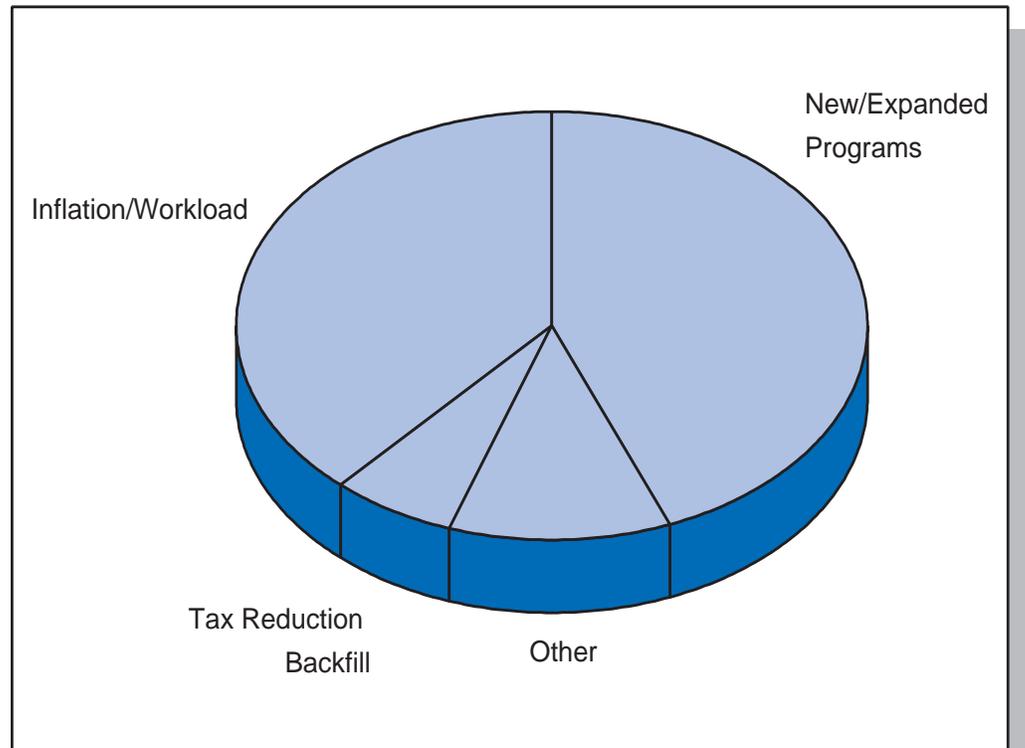
In Billions





Key Components of General Fund Expenditure Growth

1993-94 Through 2001-02

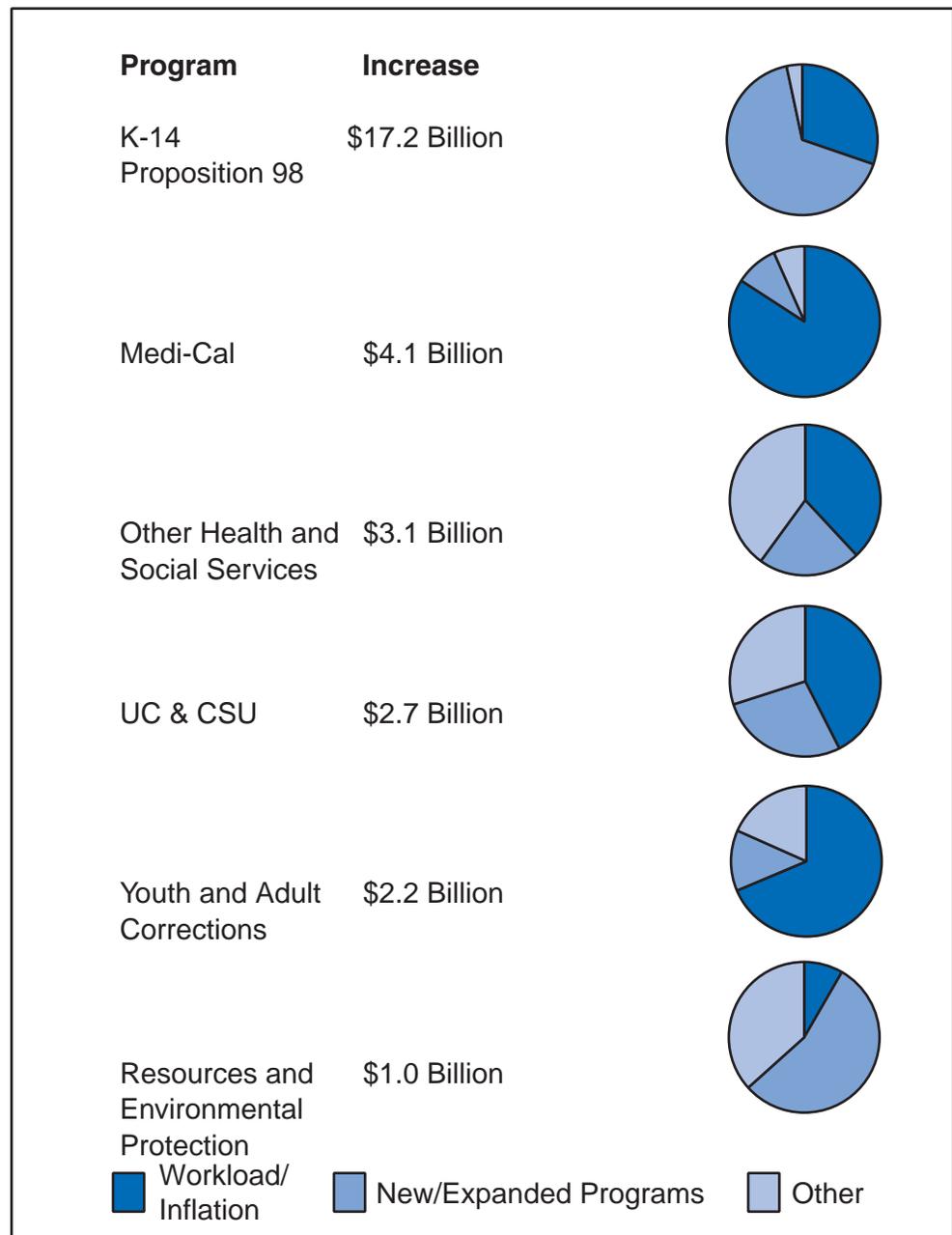


Addressing the State's Fiscal Problem, December 2001



General Fund Spending Increases By Selected Program

1993-94 Through 2001-02

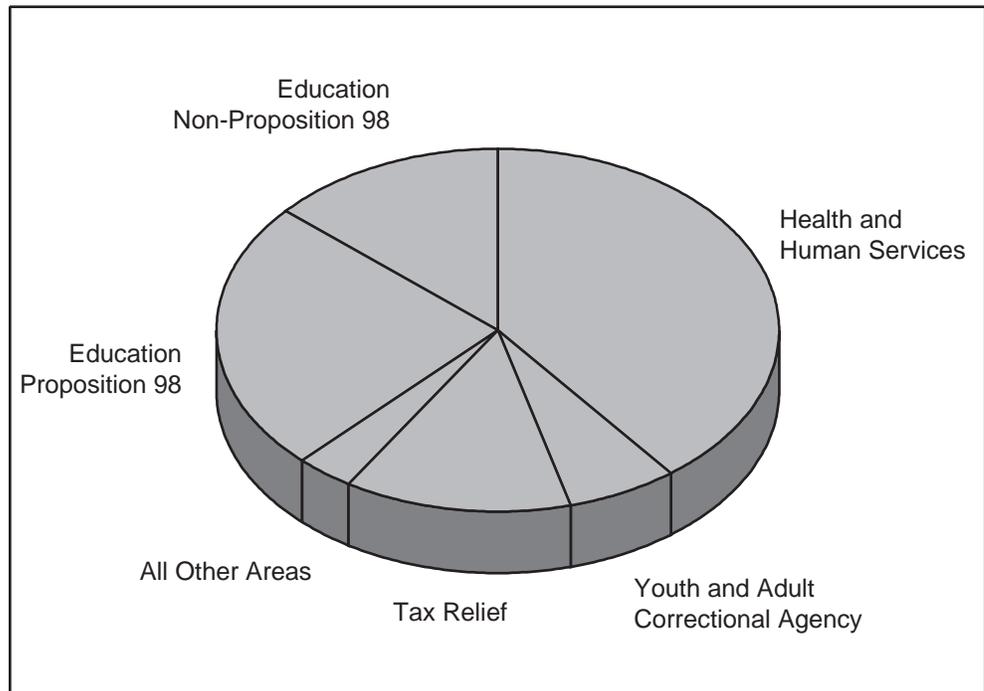


Addressing the State's Fiscal Problem, December 2001



Allocation of Growth in General Fund Spending—By Program Area

1998-99 Through 2002-03





Revenue Effects of Major Tax Legislation

1998-99 Through 2002-03^a
In Millions

	Tax ^b	1998-99	1999-00	2000-01	2001-02	2002-03
1998-99 Legislation						
Dependent credit increase	PIT	\$612	\$22	\$23	\$24	\$25
Renters' credit reestablishment	PIT	68	83	87	90	95
Targeted tax reductions	PIT	46	45	51	60	65
Targeted tax reductions	PIT/CT	26	46	55	110	116
Estate tax accrual	—	3	3	3	3	3
Horse racing fees	—	20	40	40	40	40
Miscellaneous sales tax changes	SUT	11	23	23	23	25
Subtotals		(\$786)	(\$262)	(\$282)	(\$350)	(\$369)
1999-00 Legislation						
Low income housing credit	PIT/CT	—	—	—	\$1	\$8
Disaster loss protection deduction	PIT/CT	—	\$7	\$2	—	—
Information reporting	PIT	—	—	3	14	19
Health insurance deduction	PIT	—	21	19	25	49
Special credit and exemption	PIT	—	2	2	2	2
Taxpayers' bill of rights	PIT	—	1	1	2	2
Capital gains on small business stock	PIT	—	—	—	—	—
Minimum tax (new corporations)	CT	—	28	58	60	62
Research and development expansion	PIT/CT	—	6	10	10	10
Exempt corporations exclusion	CT	—	2	2	2	2
Subtotals		—	(\$67)	(\$97)	(\$116)	(\$154)
2000-01 Legislation						
Teacher credit	PIT	—	—	\$200	\$165	\$175
Child and dependent care	PIT	—	—	195	189	193
Graduate student expenses exclusion	PIT	—	—	9	10	10
Long term care credit	PIT	—	—	43	38	41
Research and development credit	PIT/CT	—	—	23	33	40
Net operating loss deduction	CT	—	—	1	5	17
Land conservation credit	PIT/CT	—	—	—	7	11
Rural investment exemption	PIT/CT	—	—	5	5	5
Subtotals		—	—	(\$476)	(\$452)	(\$492)

Continued



Revenue Effects of Major Tax Legislation

(Continued)

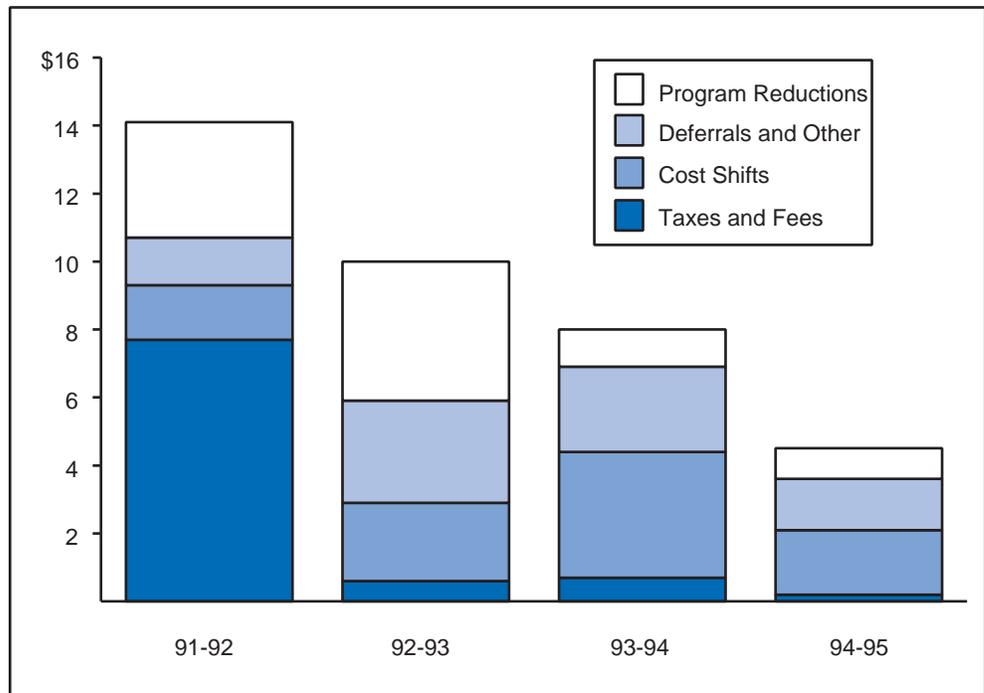
1998-99 Through 2002-03^a
In Millions

	Tax ^b	1998-99	1999-00	2000-01	2001-02	2002-03
2001-02 Legislation						
Liquified petroleum gas exemption	SUT	—	—	—	\$7	\$8
Farm and forestry equipment exemption	SUT	—	—	—	33	42
Diesel fuel exemption	SUT	—	—	—	14	17
Thoroughbred racing stock exemption	SUT	—	—	—	1	1
Solar equipment credit	PIT/CT	—	—	—	20	33
Subtotals		—	—	—	(\$75)	(\$101)
2002-2003 Legislation						
Federal conformity	PIT/CT	—	—	—	—	-\$189
NOL suspension	CT	—	—	—	—	-1,200
Bank bad debts	CT	—	—	—	—	-285
Teacher credit suspension	PIT	—	—	—	—	-175
Subtotals		—	—	—	—	(\$-1,849)
Budgeted Provisions^c						
Vehicle license fee rate	—	—	\$1,324	\$2,684	\$3,625	\$3,789
Seniors property tax assistance	—	—	58	302	202	220
Williamson Act	—	—	—	—	2	3
Subtotals	—	—	(\$1,382)	(\$2,986)	(\$3,829)	(\$4,012)
General Fund Totals	—	\$786	\$1,711	\$3,841	\$4,822	\$3,279
<p>^a Positive numbers indicate revenue reductions and negative numbers represent revenue increases.</p> <p>^b Personal Income tax (PIT), Corporation Tax (CT), Sales and Use Tax (SUT), and Tobacco Tax (TT).</p> <p>^c Provide tax relief through direct expenditure programs.</p>						



1990s' Budget Solutions Varied

Budget Problems and Solutions In Billions



Addressing the State's Fiscal Problem, December 2001



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.

Cal Facts, December 2002



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

Cal Facts, December 2002



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.