



The California Budget Outlook

Presented To
The California Agricultural
Leadership Program

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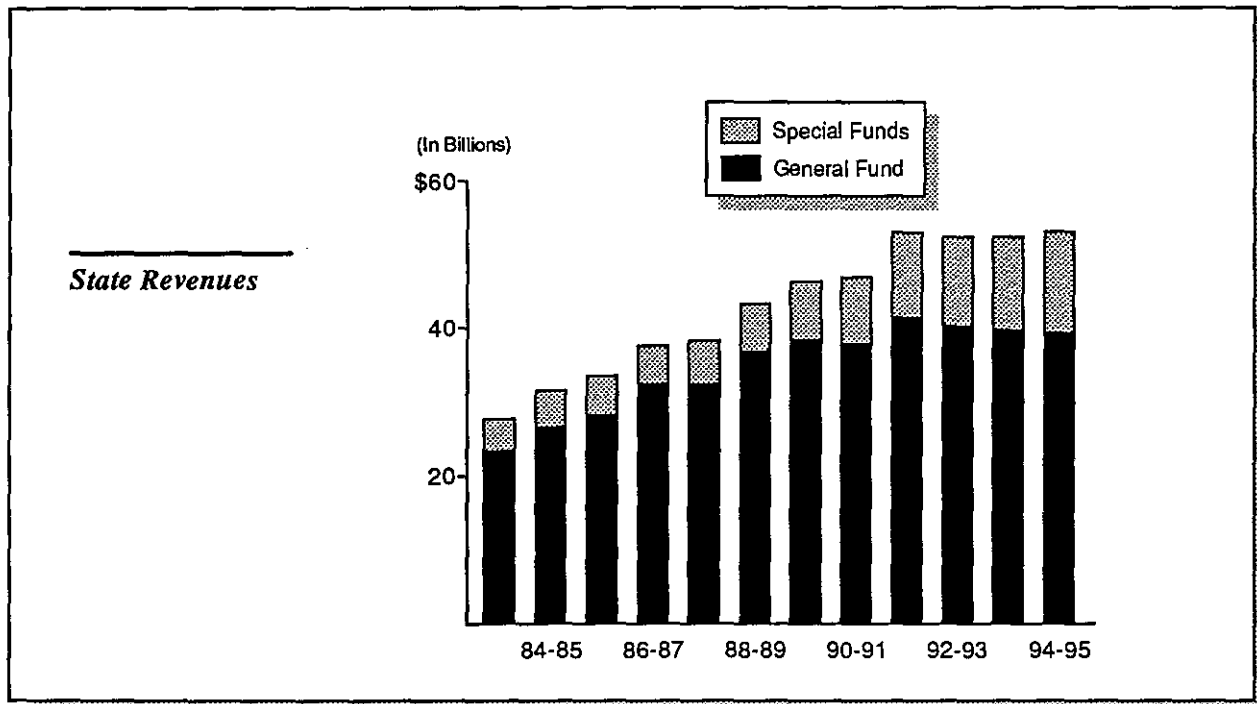
I. California's Revenues

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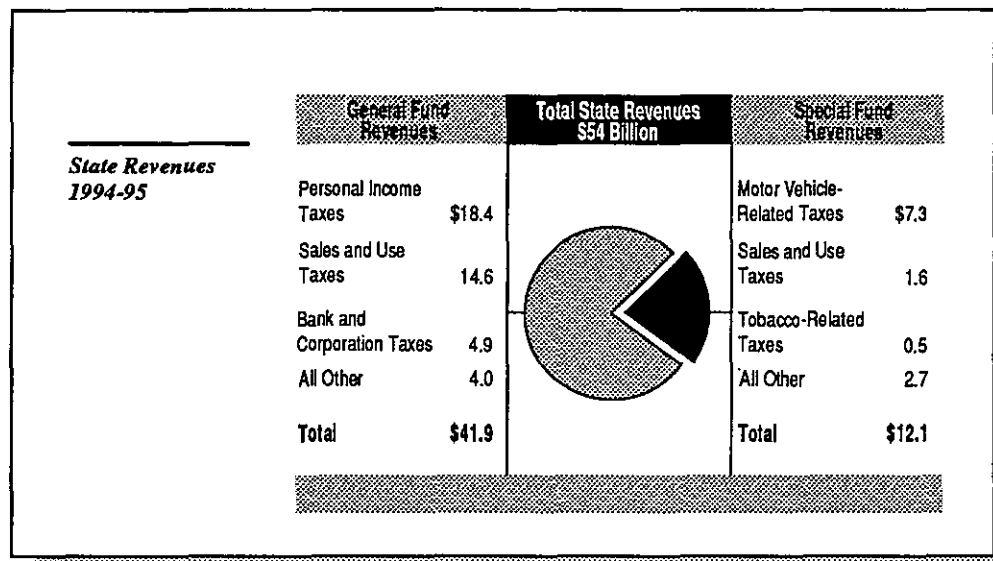


State Revenues Have Been Flat in Recent Years



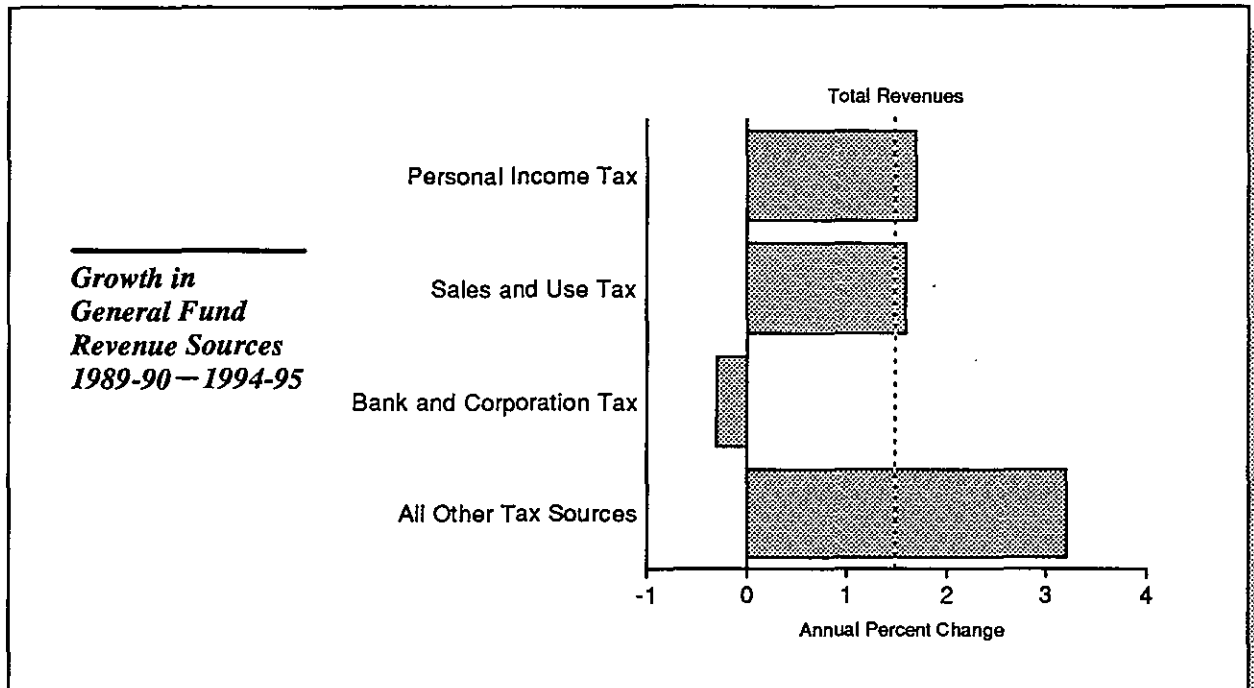


Almost Two-Thirds of All State Revenues Come From Income and Sales Taxes



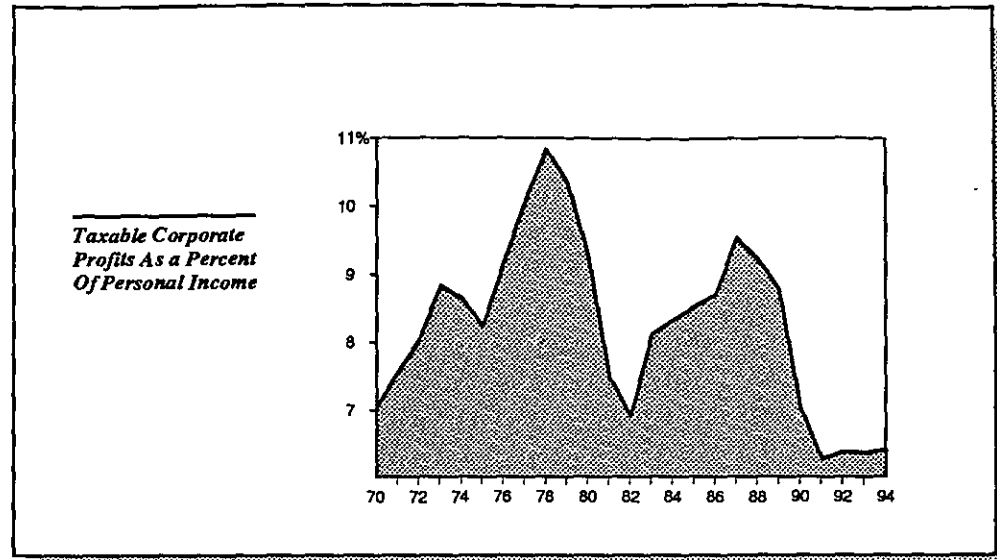


Corporation Taxes Have Been Especially Sluggish



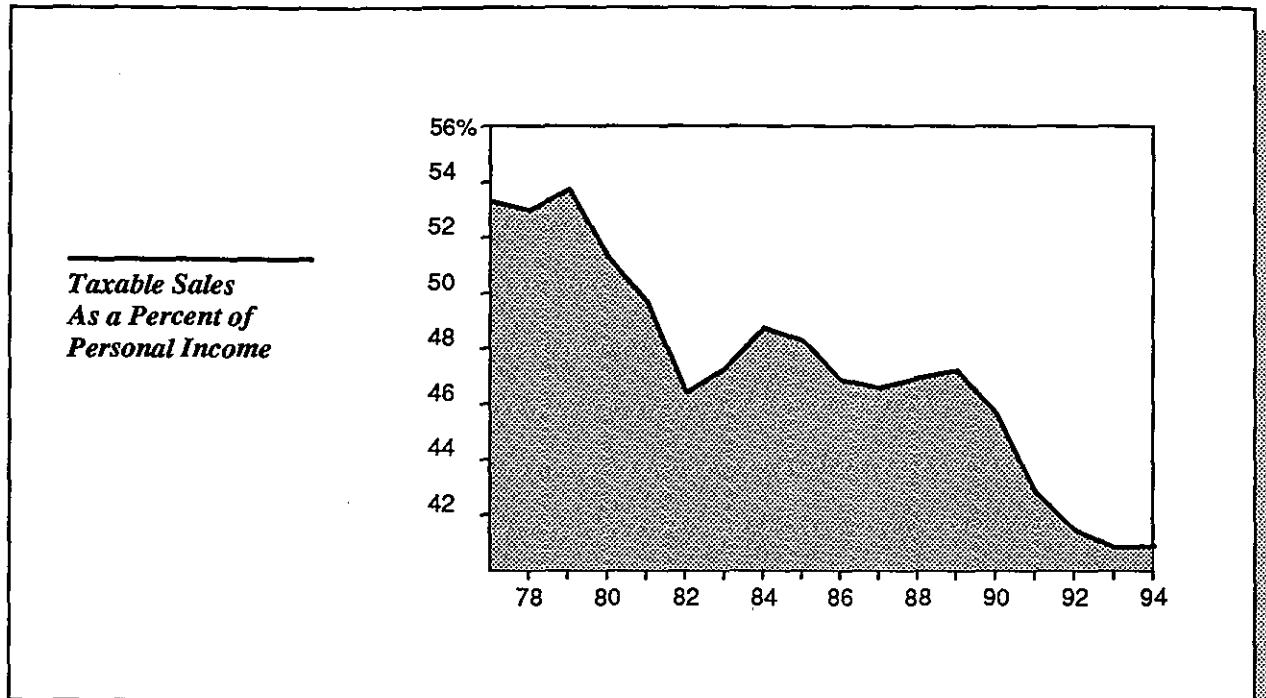


Taxable Corporate Profits Have Been at Historic Lows





Taxable Sales Have Generally Been Declining as a Share of the Economy





Outlook for California's Revenues

▲ Moderate Growth

- Revenues will reflect continued economic recovery
- Rapid increases are unlikely, but so is a sharp slowing

▲ Key Factors Affecting Growth

- Continued growth in nontaxable services
 - Phase-out of temporary high-income tax brackets
 - Corporate use of net operating loss carry-forward deductions
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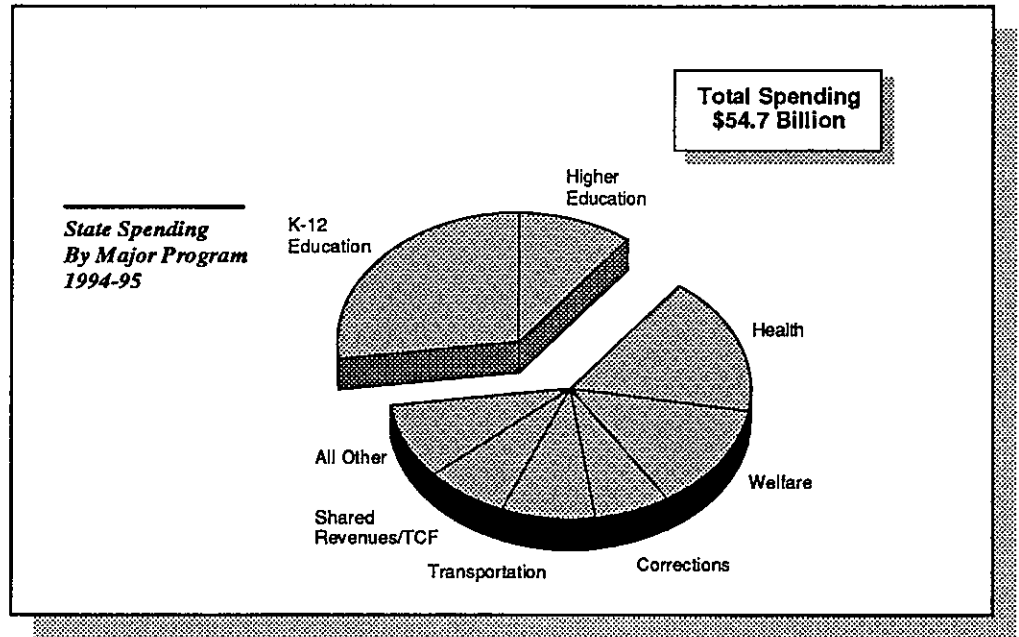
II. California's Expenditures and Budget Condition

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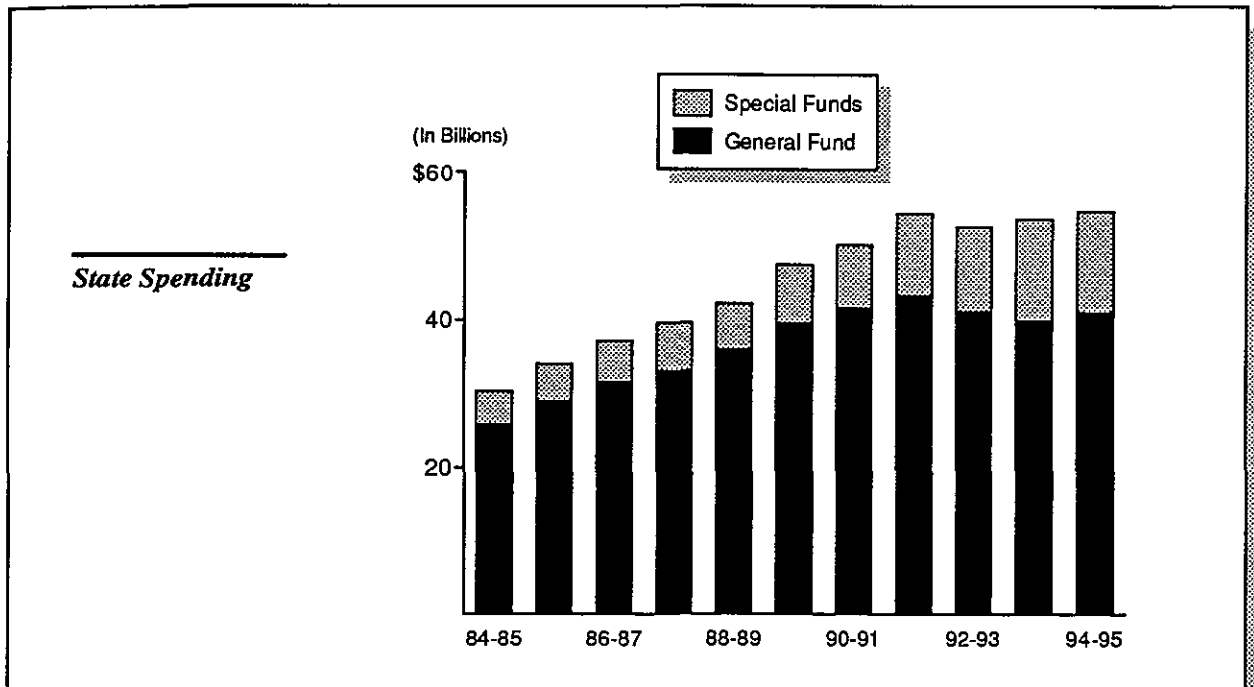


Education Receives the Largest Share of State Spending



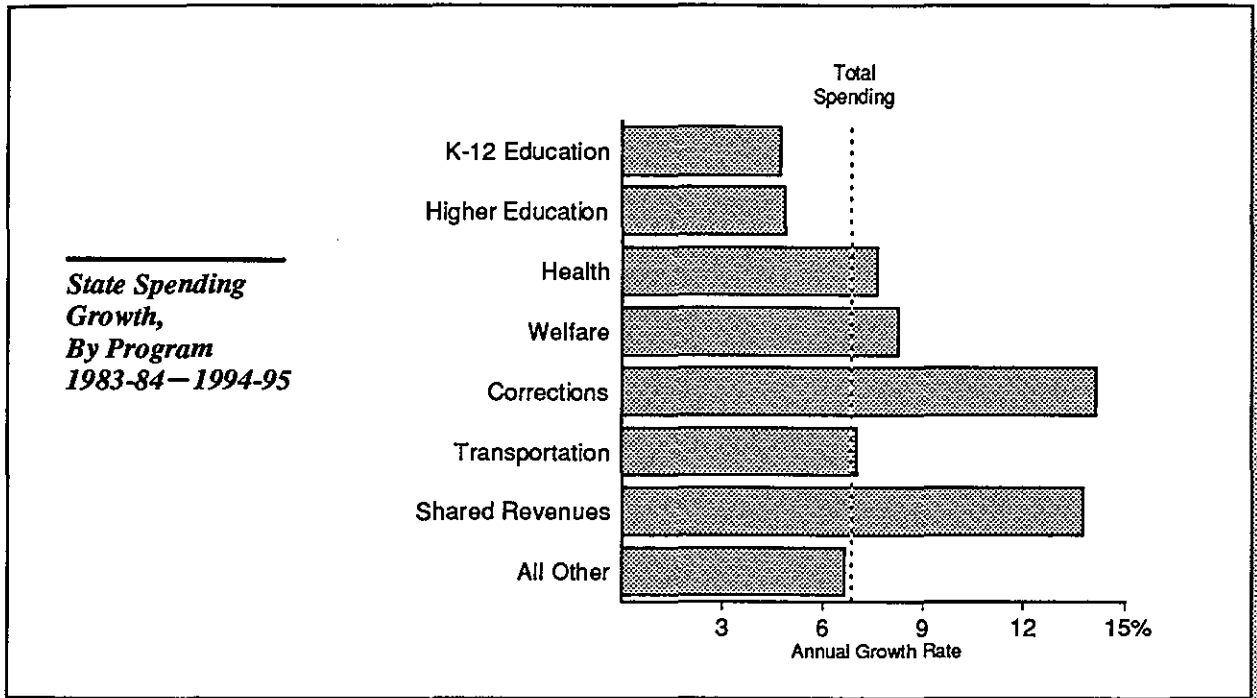


Total State Spending Flat Since 1991-92





Spending Growth Varies Considerably by Program Area





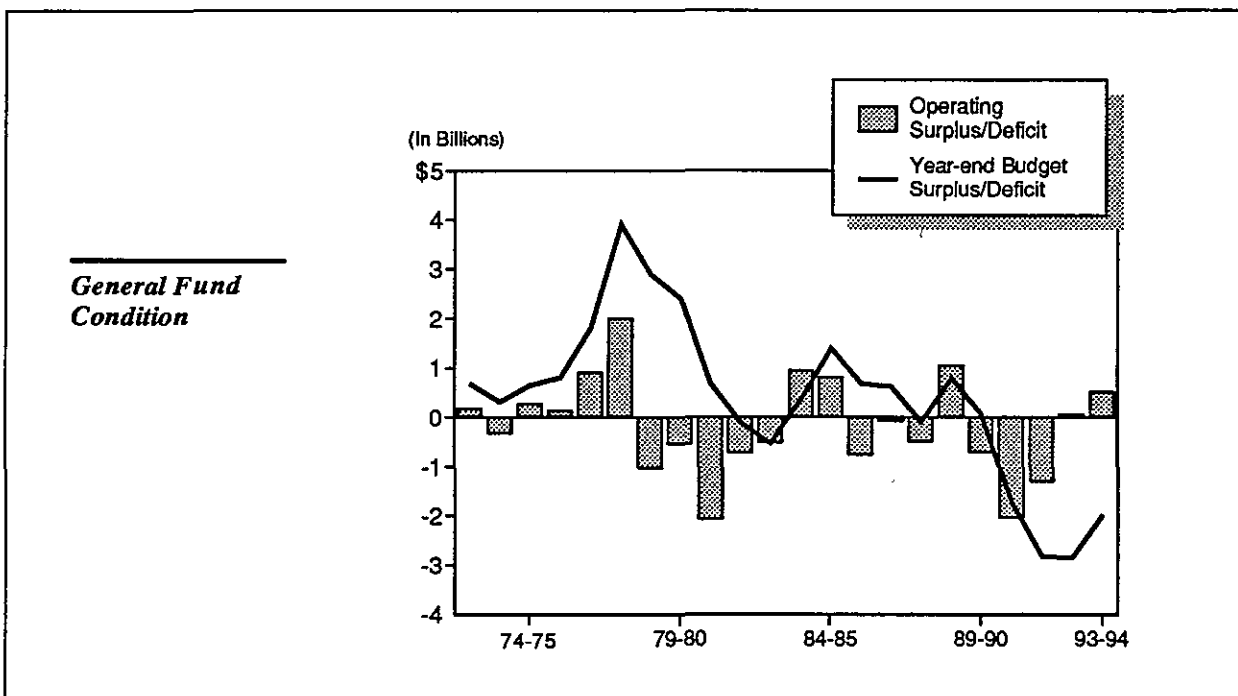
Annual Cost Per Participant Varies Widely Among Major Programs—1993-94

	Number of Participants (In Millions)	Average Cost per Participant	
		General Fund	Total Government
Corrections—Inmates and wards			
Prison	0.1	\$20,900	\$20,900
Youth Authority	0.01	32,000	32,000
Education—students^a			
K-12	5.2	\$2,534	\$4,217
UC	0.2	11,816	11,816
CSU	0.2	6,014	6,014
Community Colleges	0.9	1,054	2,811
Health and Welfare—beneficiaries			
Medi-Cal	5.4	\$1,500	\$2,300
AFDC	2.6	1,100	2,200
SSI/SSP	1.0	2,100	5,300

^a Does not include federal funds or lottery funds.

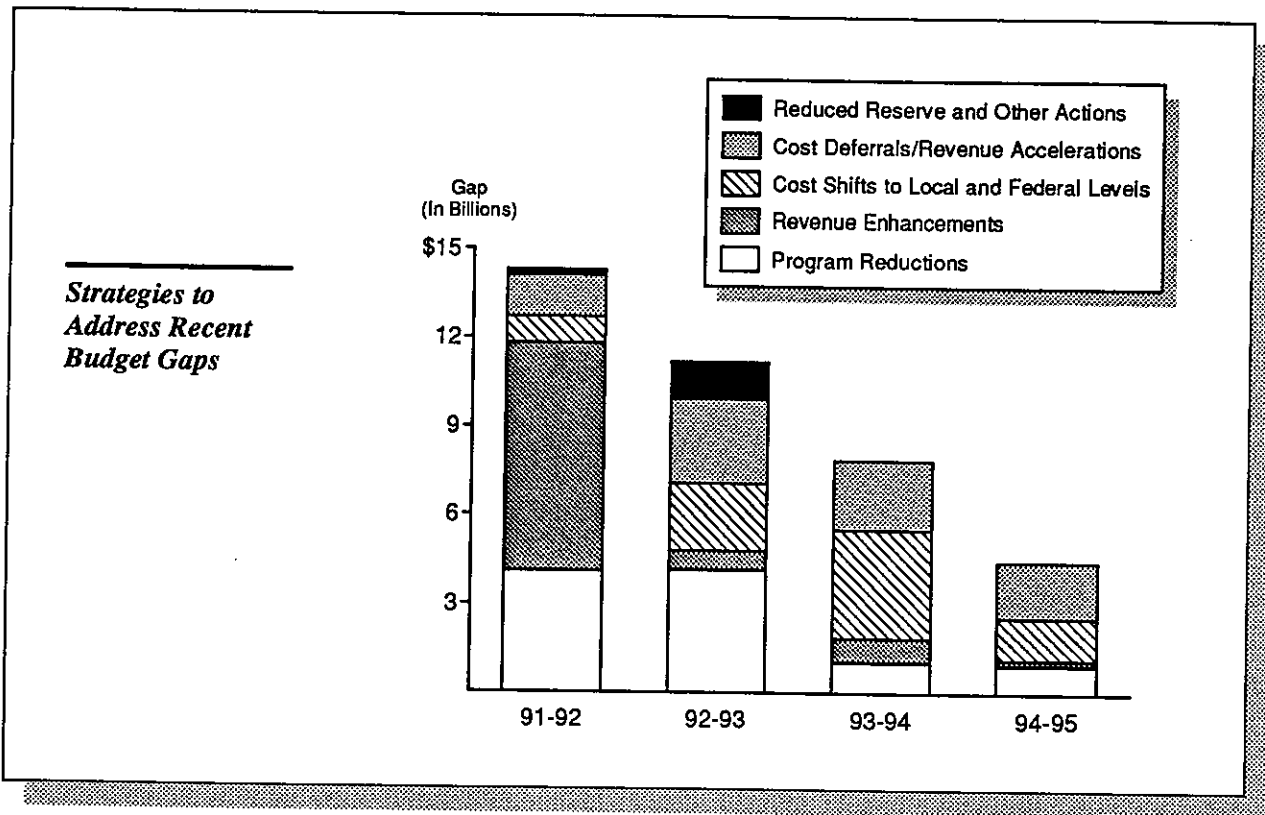


Past Operating Shortfalls Have Resulted in Budget Deficits





Strategies to Address Budget Gaps Have Varied





State Plans Balanced Budget In 1995-96

		1994-95	1995-96
		(Dollars in Millions)	
<u>Two-Year General Fund Budget Plan</u>	Carryover deficit from prior year	-\$1,971	-\$1,019
	Revenues and transfers	41,892	45,442
	Expenditures	40,940	44,394
	Operating surplus	\$952	\$1,048
	Year-end deficit or reserve	-\$1,019	\$29
	Federal immigrant funding assumed	(\$763)	(\$2,824)



Near-Term Outlook for California's Budget

▲ Some Positive News

- Recent favorable economic trends
- Recent improvement in revenues
- Slower growth in some caseloads
- 1993-94 carryover deficit revised downward

▲ Budget Risks and Pressures

- Ongoing economic uncertainties
 - Federal funds for immigration costs
 - Court cases
 - Continued service demands
 - Continued population growth, despite weak economy
 - Corrections' budgets to double in next four years
 - Health and welfare caseloads growing faster than ten years ago
 - K-14 education enrollments growing faster than revenues
-



III. Long-Term Challenges



California Has Nearly 7,000 Local Entities—1991-92

Entity Type	Number of Entities
Counties	58
Cities	466
Special districts	4,857
Redevelopment agencies	381
K-12 school districts	1,067
Community college districts	71
Total	6,900

- Special districts account for the overwhelming number of local entities.
- The number of cities, special districts, and redevelopment agencies is growing over time.



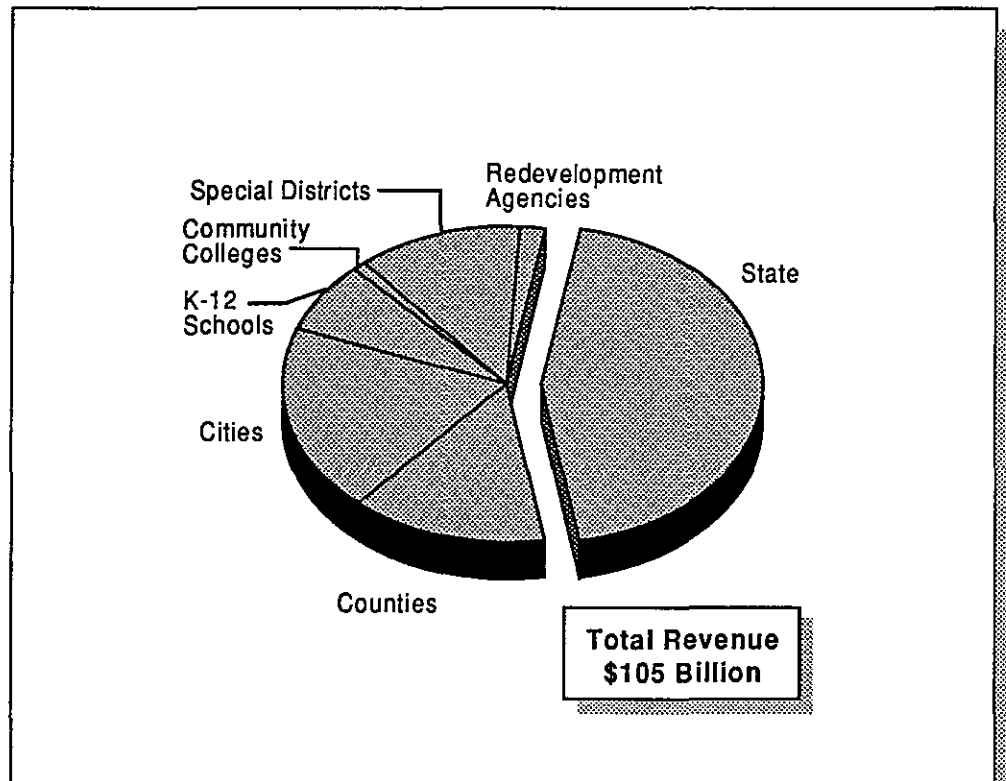
State's Involvement in Most Program Areas is Extensive—1993-94

Program	Policy Control	Operation	Funding
AFDC	Federal/State	Counties	
SSI/SSP	Federal/State	Federal	
General Assistance	State	Counties	
Mental Health	Counties	Counties	
Medi-Cal	Federal/State	State/Counties	
Indigent Health Care	State/Counties	Counties	
Public Health	State	Counties	
Courts	State	Counties	
Custody/Supervision	State/Counties	Counties/State	
Prosecution/Defense	State	Counties	
Public Safety	State	Counties/Cities	
Transportation	State/Local	State/Local	

Federal
 State
 Local



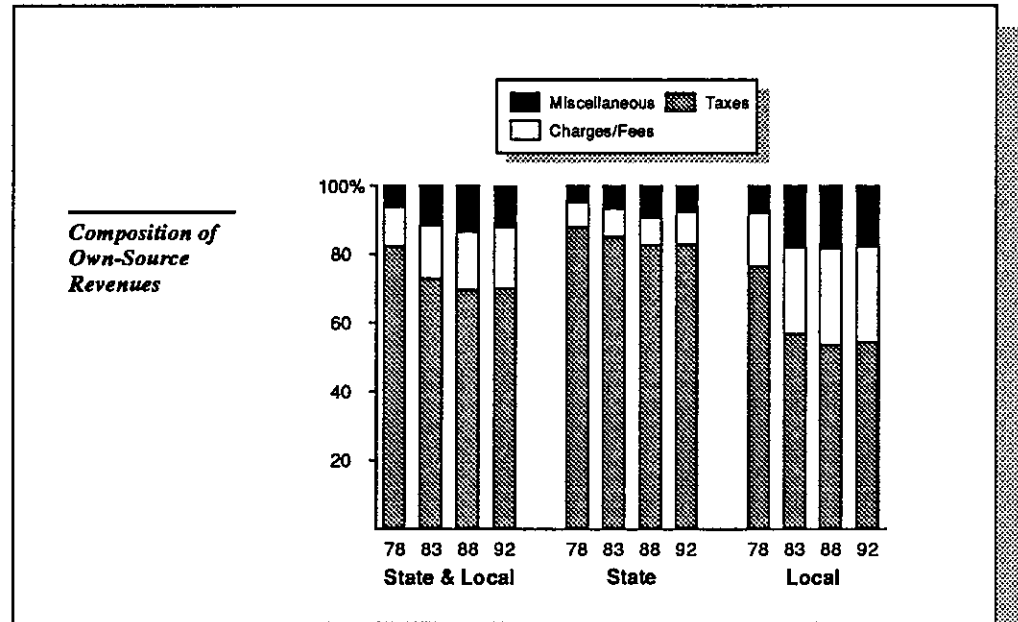
Local Governments Raise More Revenue Than the State—1990-91



- ✓ The figure shows state and local own-source revenue, which includes tax and fee revenues but excludes funds received from another government entity. Local revenues include income of publicly owned utilities and other local government enterprises.
- ✓ More than half of the state's revenues were allocated to local schools and other local agencies.



Taxes Remain Below Pre-Proposition 13 Levels As a Share of Revenues





The Problems in California's State-Local Relationship

- Jumbled assignment of responsibilities.
- Counterproductive fiscal incentives.
- Lack of accountability for program outcomes.
- Unproductive competition for resources.
- Erosion of local control.



Reform Principles

- Maximize separation of state and local government duties.
- Match redistributive programs with redistributive revenue sources.
- Recognize program linkages to promote coordination of service delivery.
- Rely on financial incentives to promote prevention and coordination.