CALFACTS 2018

Legislative Analyst's Office

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CALFACTS 2018

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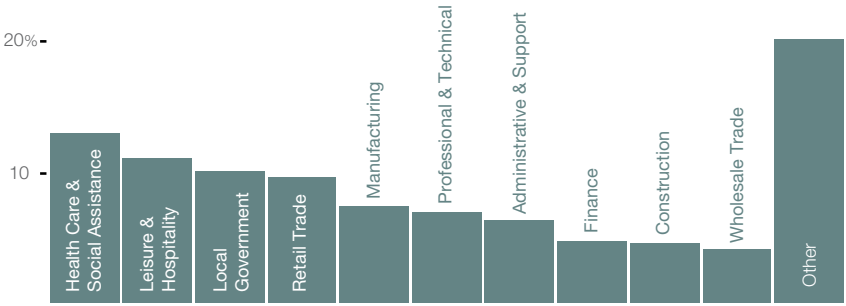
STATE AND LOCAL FINANCE

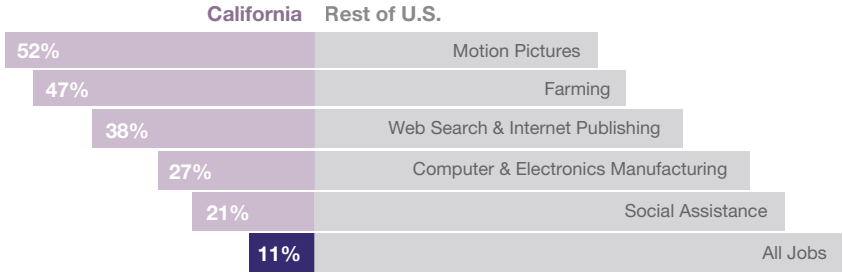
California's 17 Million Jobs Spread Across Many Sectors

2018



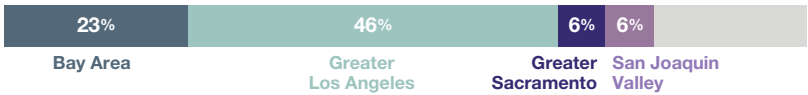
High Concentration of Motion Picture, Farm, and Web Search Jobs

Share of All U.S. Jobs by Sector

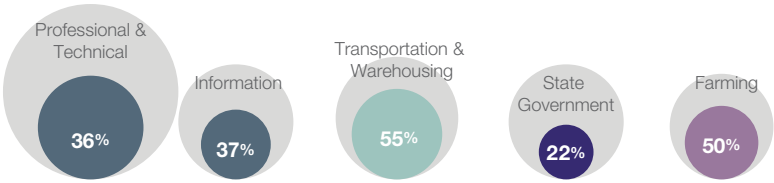


Key Sectors Vary Across Regions of California

Regional Share of Statewide Jobs in **All Sectors**



Regional Share of Statewide Jobs in **Key Sectors**



California Incomes Higher Than U.S.

Household Income, 2016

Median

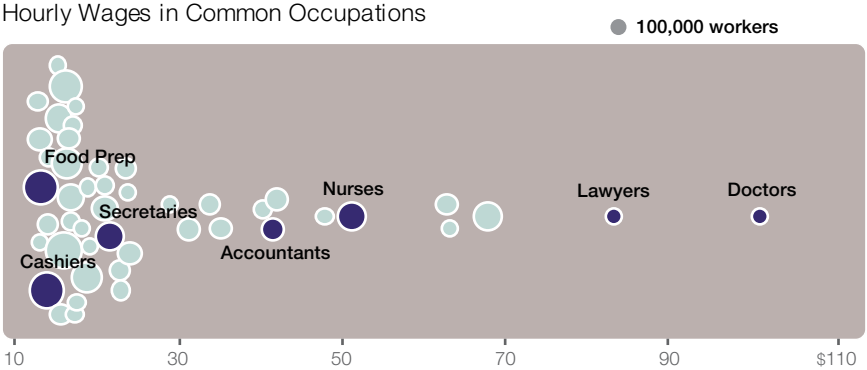
Top 10 Percent

Incomes Vary Across Regions of the State

Bottom 10%, Median, and Top 10% Household Incomes

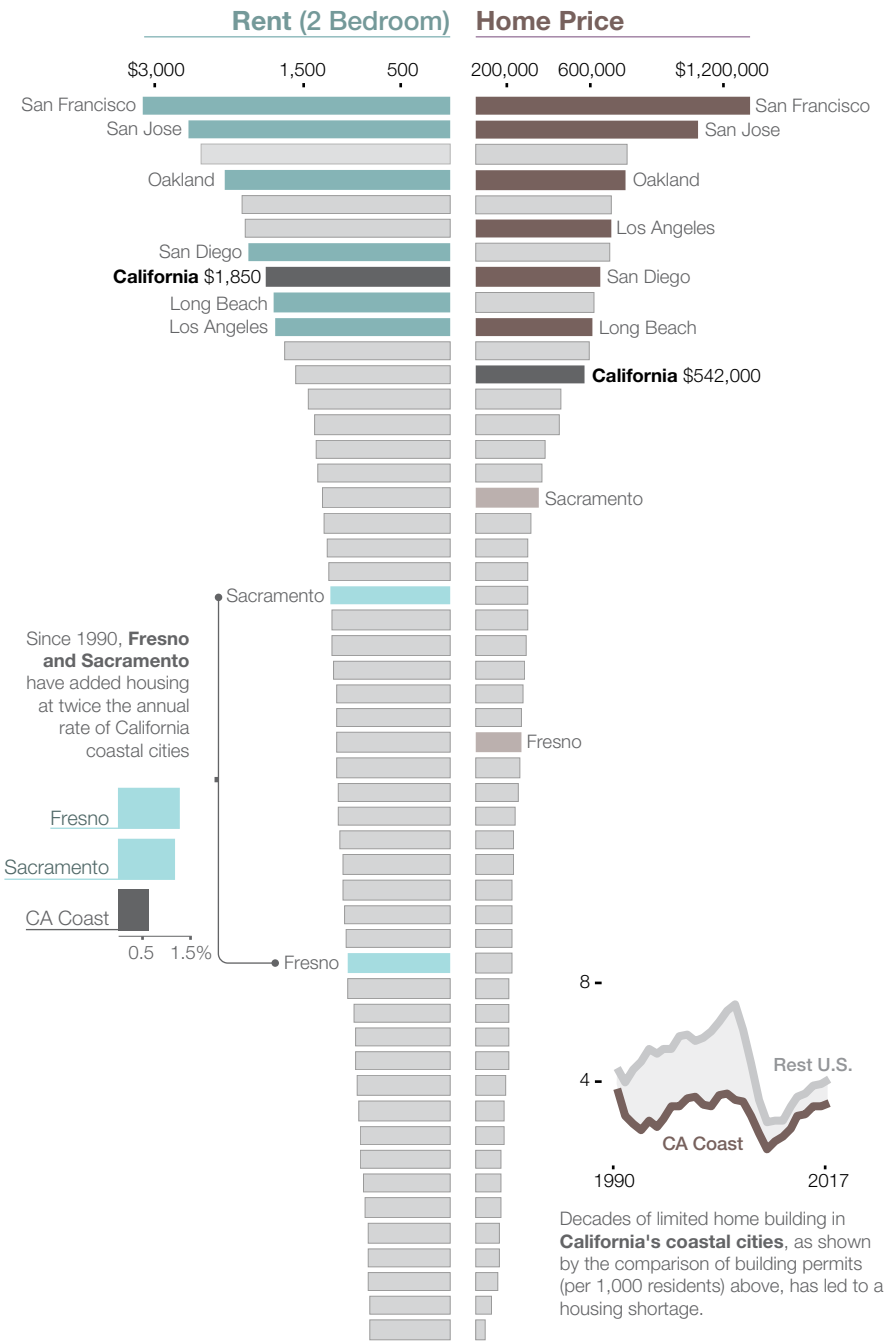
Incomes Also Vary Across Occupations

Hourly Wages in Common Occupations



Housing Is Very Expensive in California

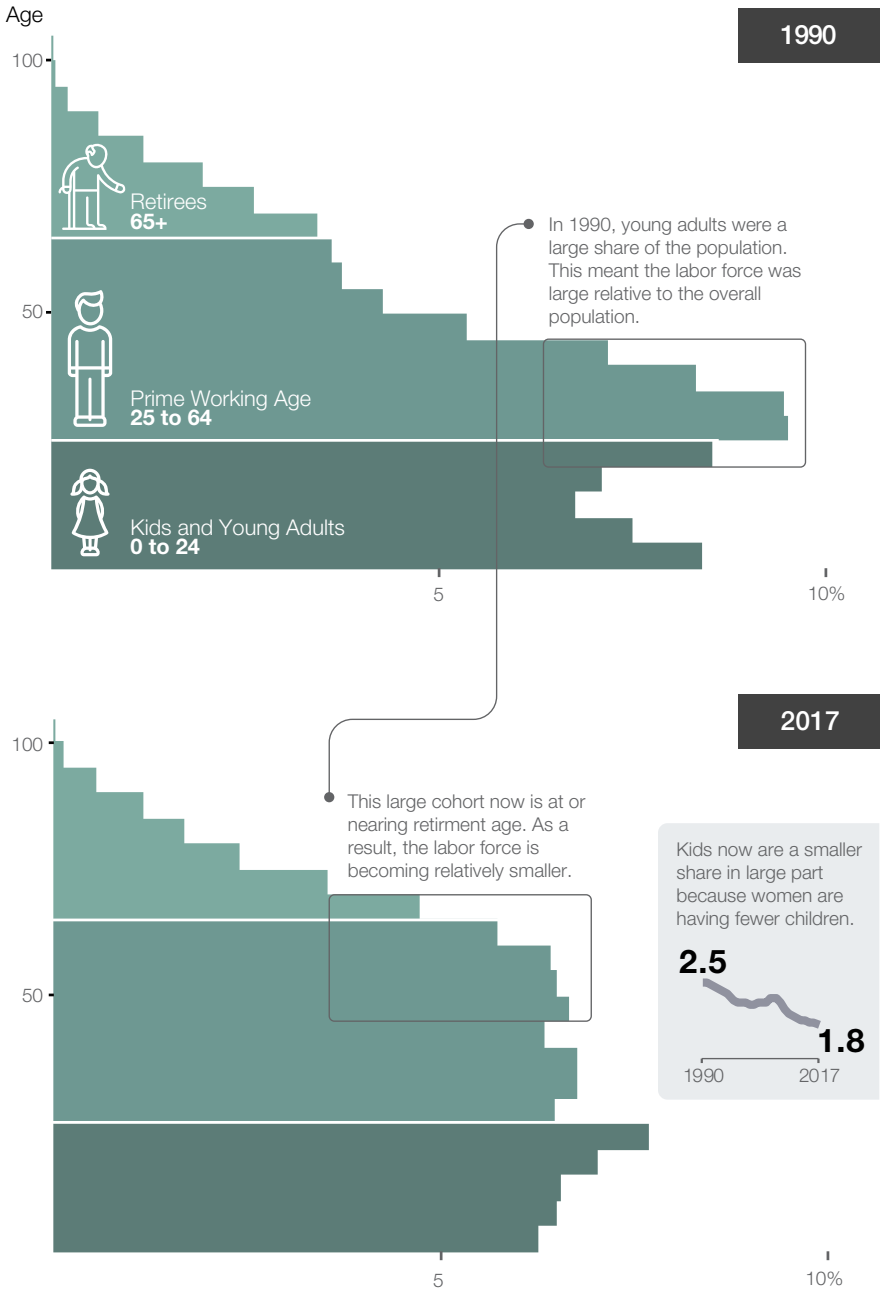
Median Housing Costs in 50 Largest U.S. Cities, 2018



Decades of limited home building in **California's coastal cities**, as shown by the comparison of building permits (per 1,000 residents) above, has led to a housing shortage.

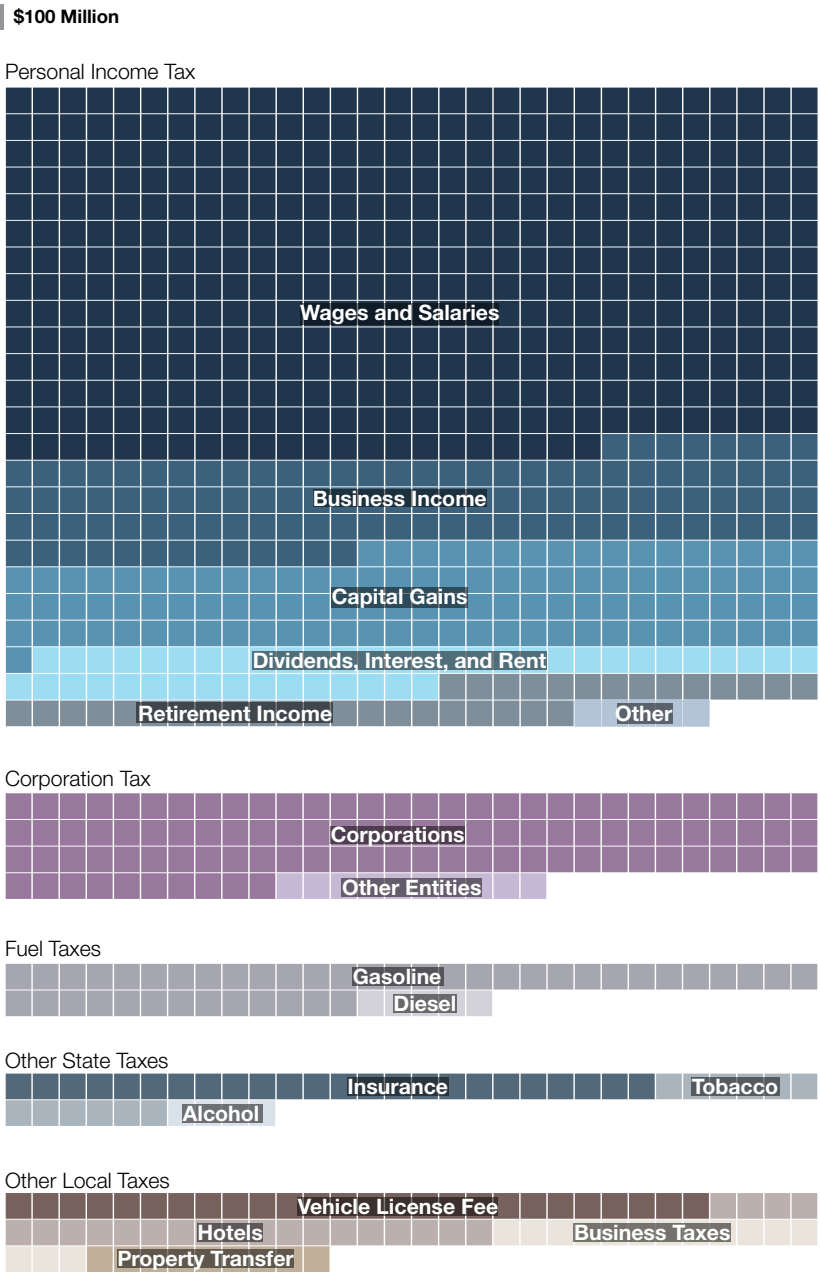
California's Population Has Gotten Older Since 1990

Share of Population in Each Age Range

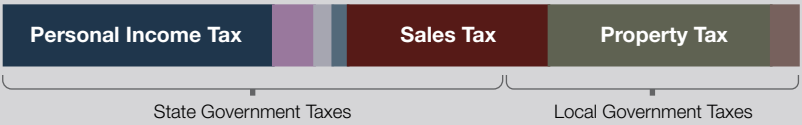


Overview of California's Tax System

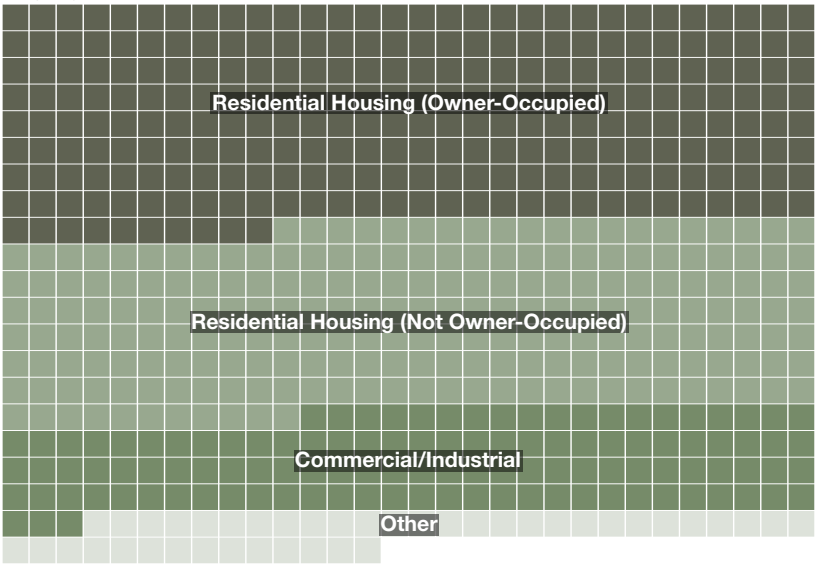
In 2016-17, taxes in California raised a total of about $210 billion—equal to nearly 10% of the economy. State government collected almost two-thirds of these taxes. The chart breaks out each tax by source. For example, the biggest source of personal income tax revenue is wage and salary income.



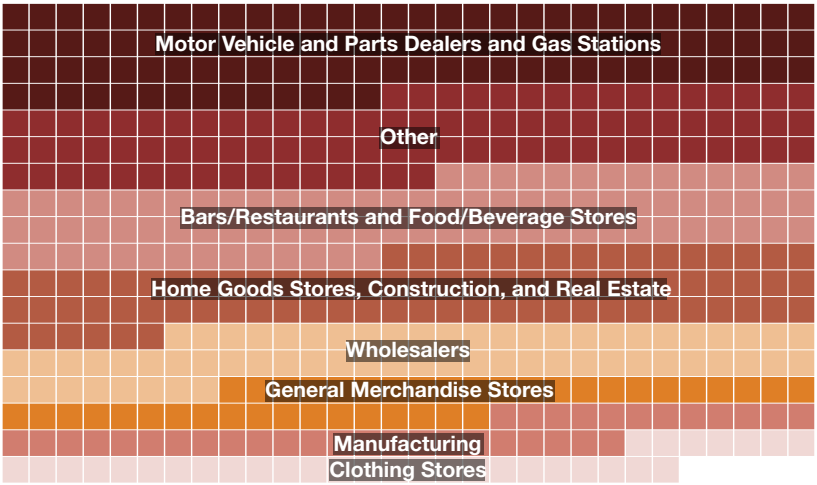
The state government raises about two-thirds of tax revenue in California.



Property Tax



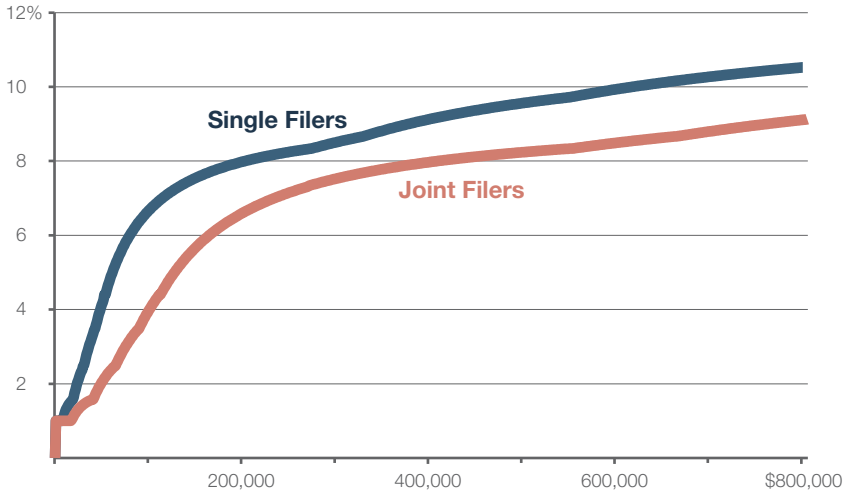
Sales and Use Tax



Overview of California's Major Tax Rates

Personal Income Tax

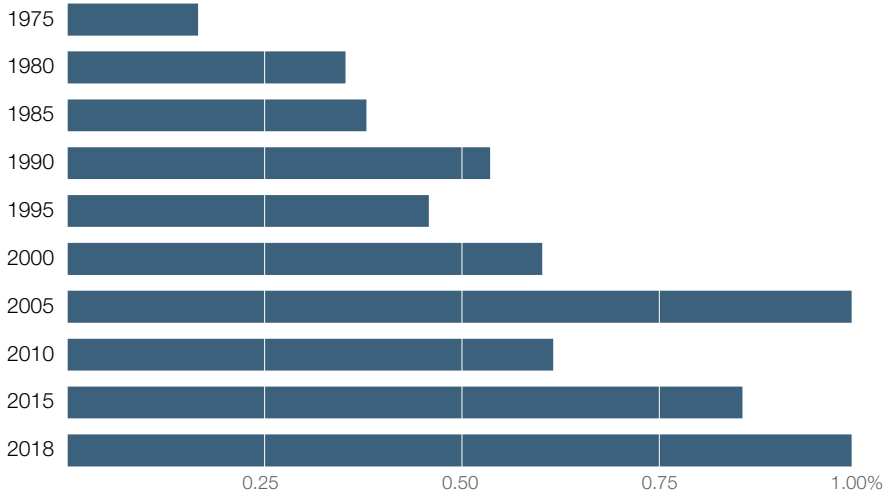
Effective Rates for 2017



Property Tax

Average Effective Tax Rate by Purchase Year

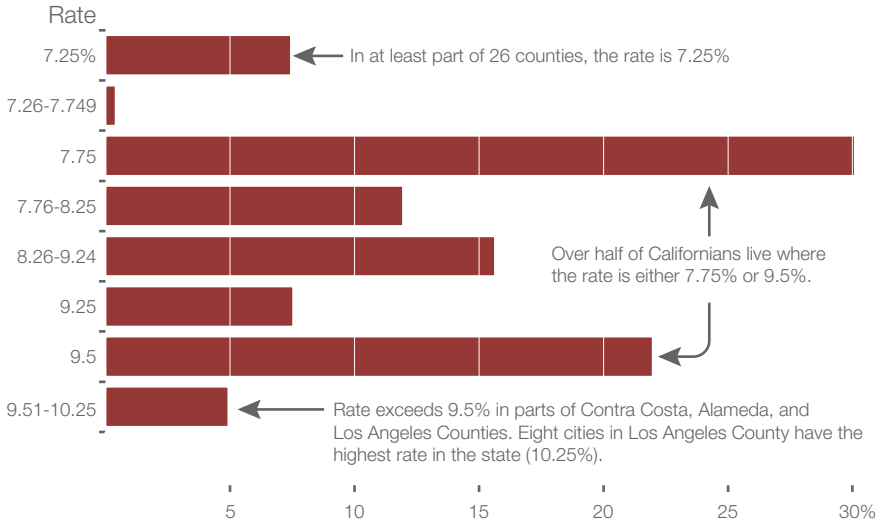
The State Constitution sets the tax rate on real property at 1%. That rate, however, is applied to the *assessed value* of the house, which equals the initial purchase price grown by a maximum of 2% per year. Because housing prices have historically grown faster than 2%, homeowners who have been in their homes longer tend to pay lower *effective* tax rates (tax rate as a share of the home's market value).



Sales Tax

The sales tax rate varies significantly throughout the state because California local governments can levy additional sales tax rates.

Percent of Population as of January 1, 2018



Other Tax Rates

Corporations
8.84% of corporate income

Insurance
2.35% on insurance premiums

Gasoline
$0.46/gallon
Diesel
$0.36/gallon plus
5.75% sales tax

Distilled Spirits
$0.039 per 1.5 oz drink

Cigarettes
$2.87/pack

Beer
$0.019 per 12 oz drink

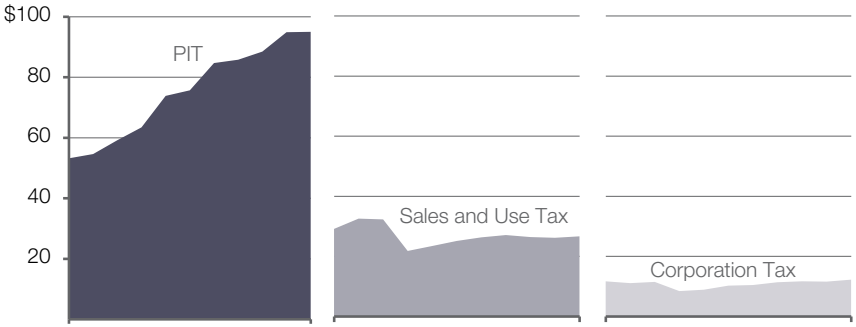
Other Tobacco Products
$3.37/pack equivalent

Wine
$0.008 per 5 oz drink
($0.012 for sparkling)

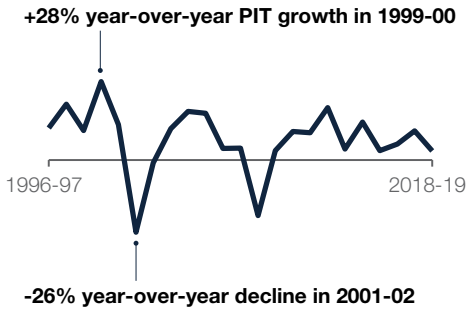
Revenue Volatility

The personal income tax (PIT) is the state's largest single revenue source, supporting over two-thirds of the General Fund (the state's main operating account). As shown below, the PIT has grown substantially since the most recent recession.

Billions of 2018-19 Dollars

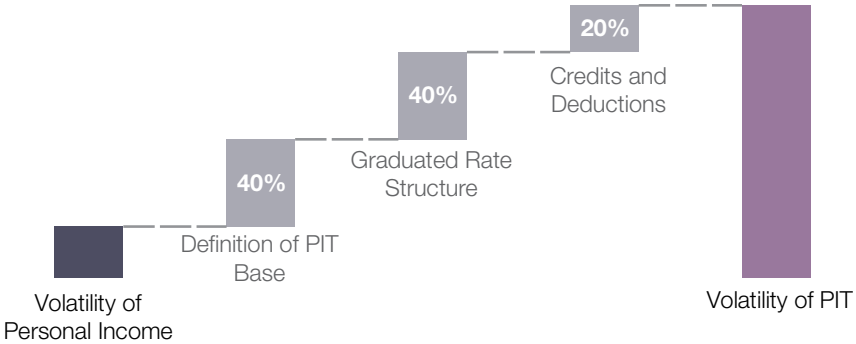


Revenue raised from 2008-09 through 2018-19 (estimated).



The PIT is highly volatile, which has in the past led to large increases in spending in good economic times and the need to make large cuts in bad economic times.

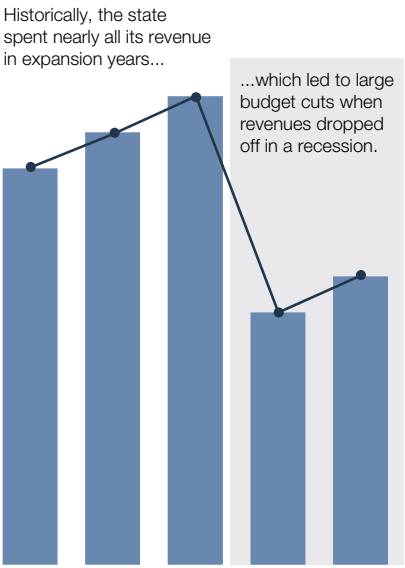
The PIT is about five times more volatile than personal income. About 40% of the volatility comes from choices about which types of income to include in the tax base. Another 40% comes from the state's progressive rate structure. And the remaining volatility comes from tax credits and deductions.



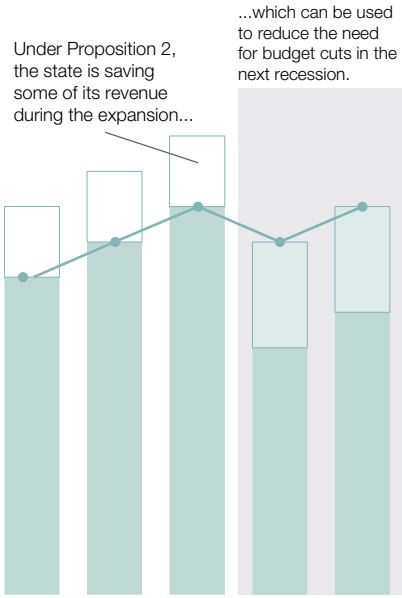
Budget Reserves

In order to address revenue volatility, the voters passed Proposition 2 in 2014. Proposition 2 takes volatile revenues off the table in good economic years so that they can be used to reduce the need for cuts in bad economic years.

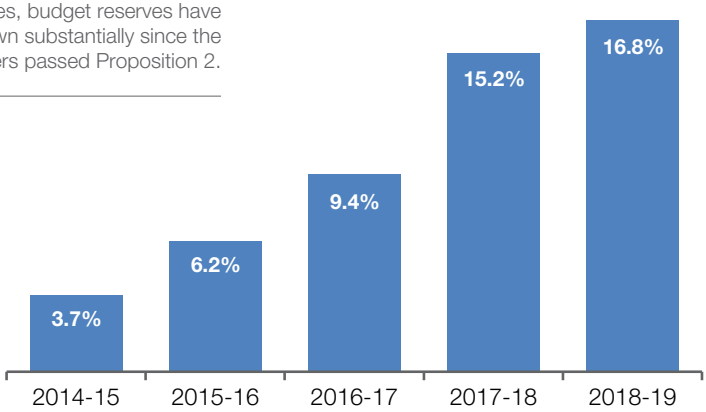
Hypothetical Spending *Without* Budget Reserves



Hypothetical Spending *With* Budget Reserves

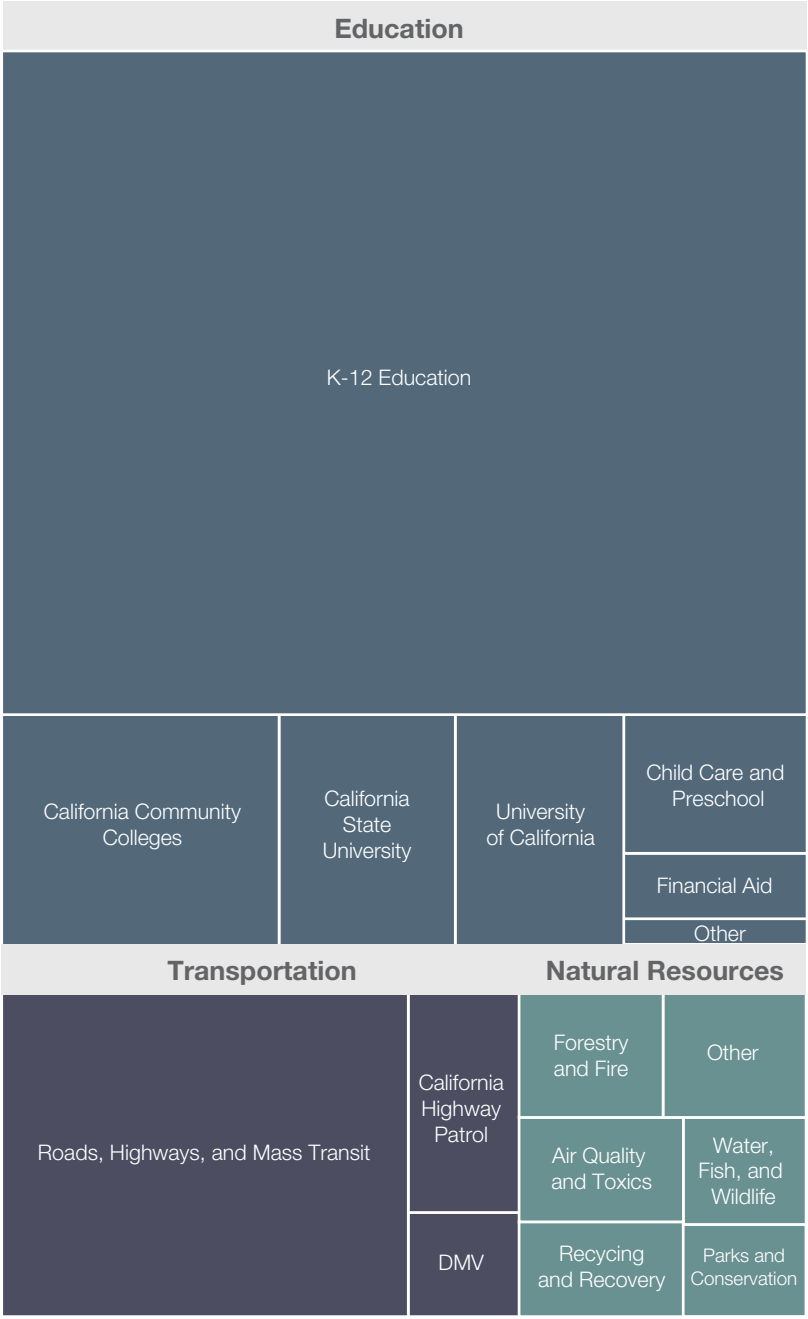


As a percent of General Fund revenues, budget reserves have grown substantially since the voters passed Proposition 2.

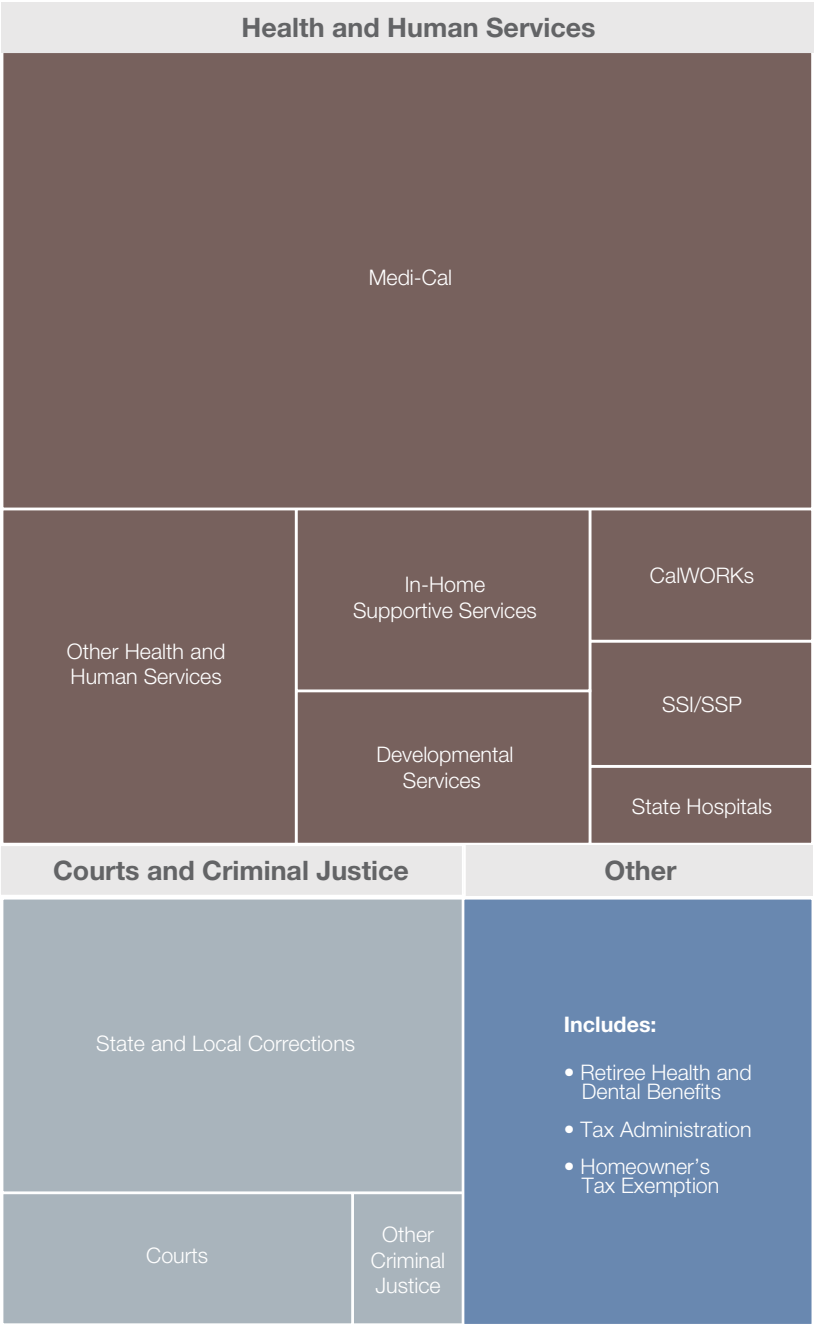


State Budget Is Focused on Education...

Total General Fund and Special Fund Spending in 2018-19—**$197 Billion**



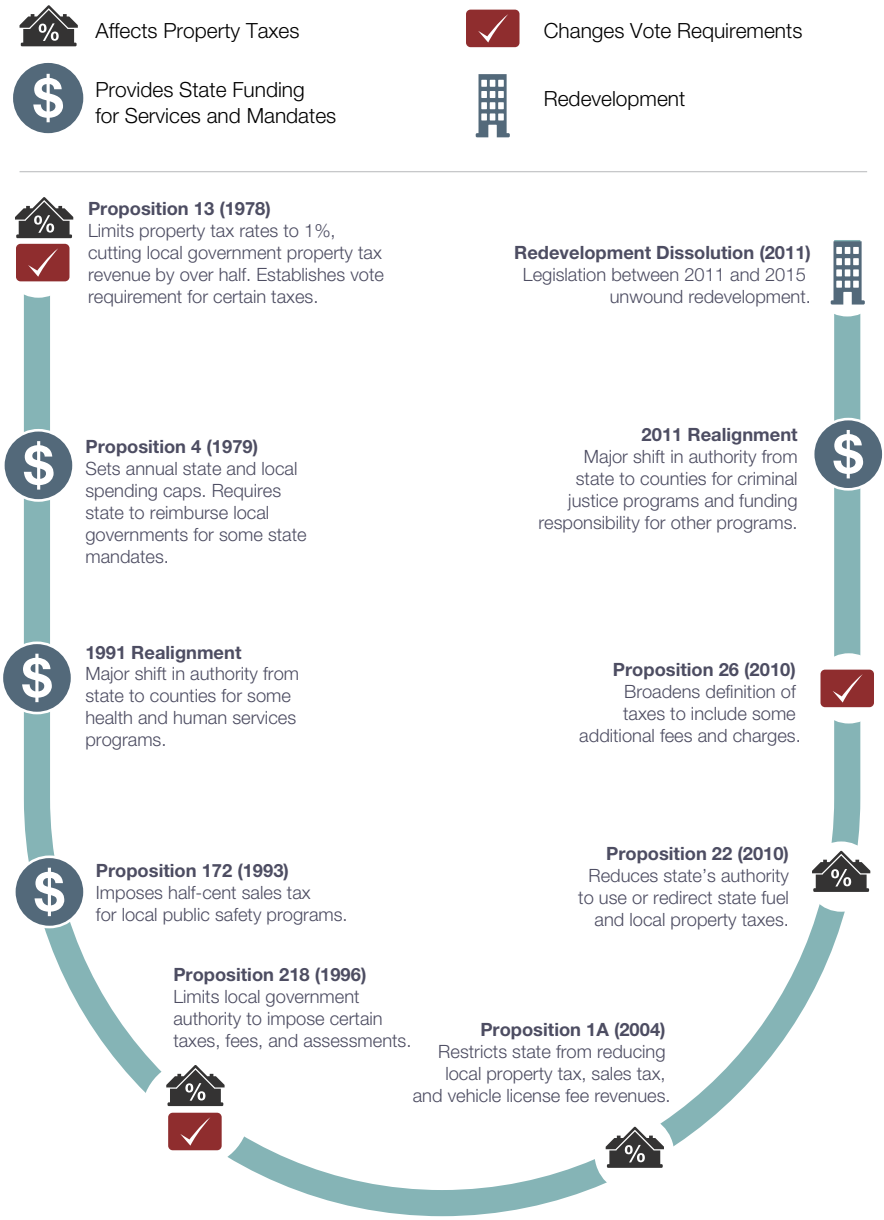
...and Health and Human Services Programs



Highlights of the State-Local Fiscal Relationship

The past 40 years in California have seen significant changes in the fiscal relationship between the state and local government. Below we highlight the major events that have altered the state-local fiscal relationship since 1978. We organize the major events around key themes that have emerged over the past four decades.

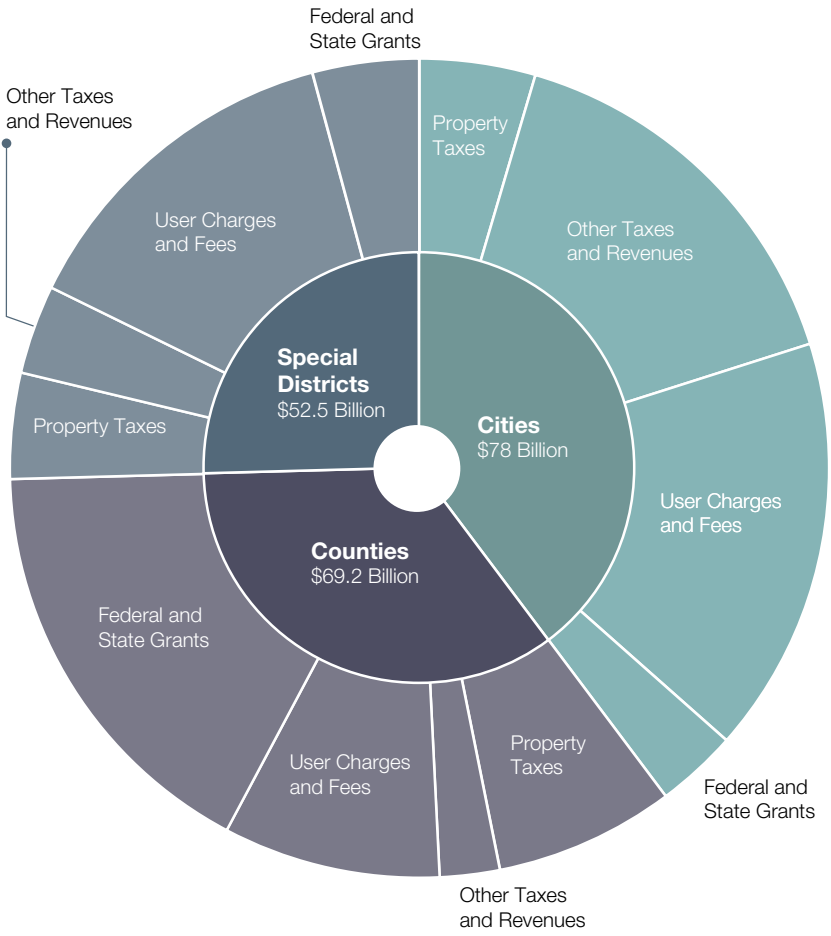
Major Milestones in the State-Local Fiscal Relationship



Revenue Sources for Local Government

Counties, cities, and special districts rely on four main revenue sources: federal and state grants, property taxes, user charges and fees, and other taxes and revenues.

2016-17



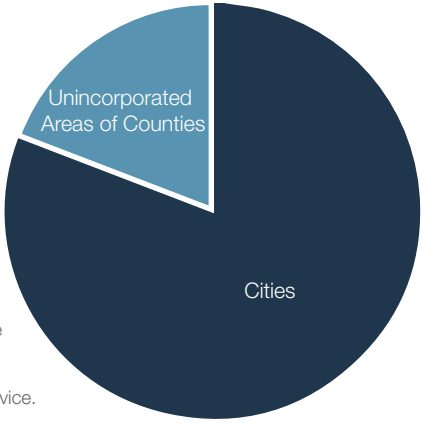
- Cities and special districts receive a significant share of their funding from various user charges and fees. They use these funds to pay for electricity, water, and other municipal services.
- Counties receive nearly half of their revenue from the state and federal government and must spend these funds for specific purposes, primarily health and human services.

Services Delivered by Local Government

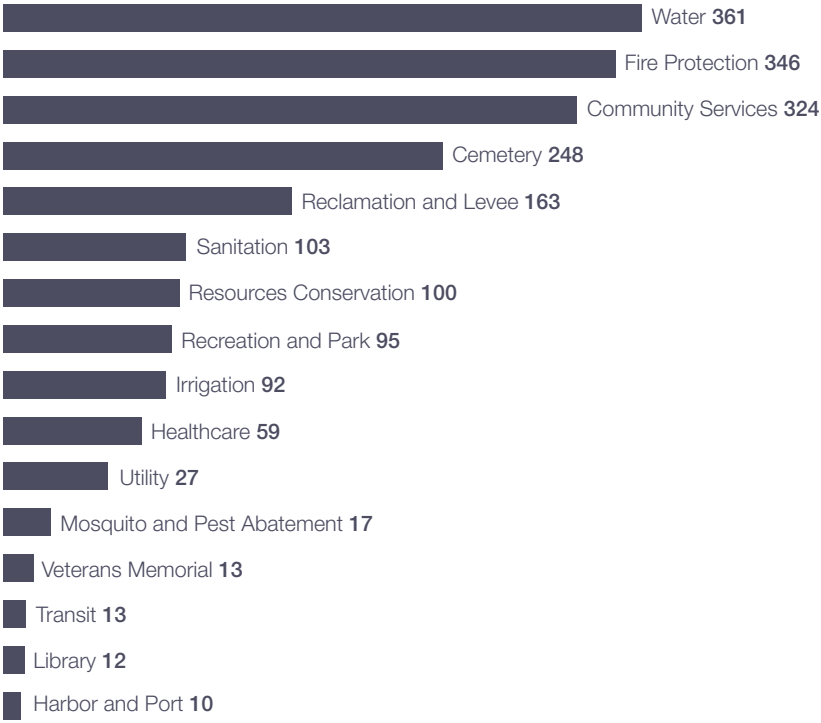
Counties, cities, and special districts use their revenues to deliver services to the residents living in their jurisdiction.

- **Countywide Services.** California's 58 counties provide state-specified health and human services programs for all individuals in a county. They also provide countywide services, such as jail, district attorney, assessor, and elections.
- **Municipal Services.** Local governments provide a variety of municipal services—primarily police and fire, but also public works, parks, and others. Cities, counties, and special districts can provide these services depending on where someone lives. Most people live in cities and receive most services from their city.
- **Special District Services.** Residents typically receive services from a combination of their city and special districts or their county and special districts. Typically, special districts provide a certain type of municipal service.

State Population Living in Cities and Unincorporated Areas of State



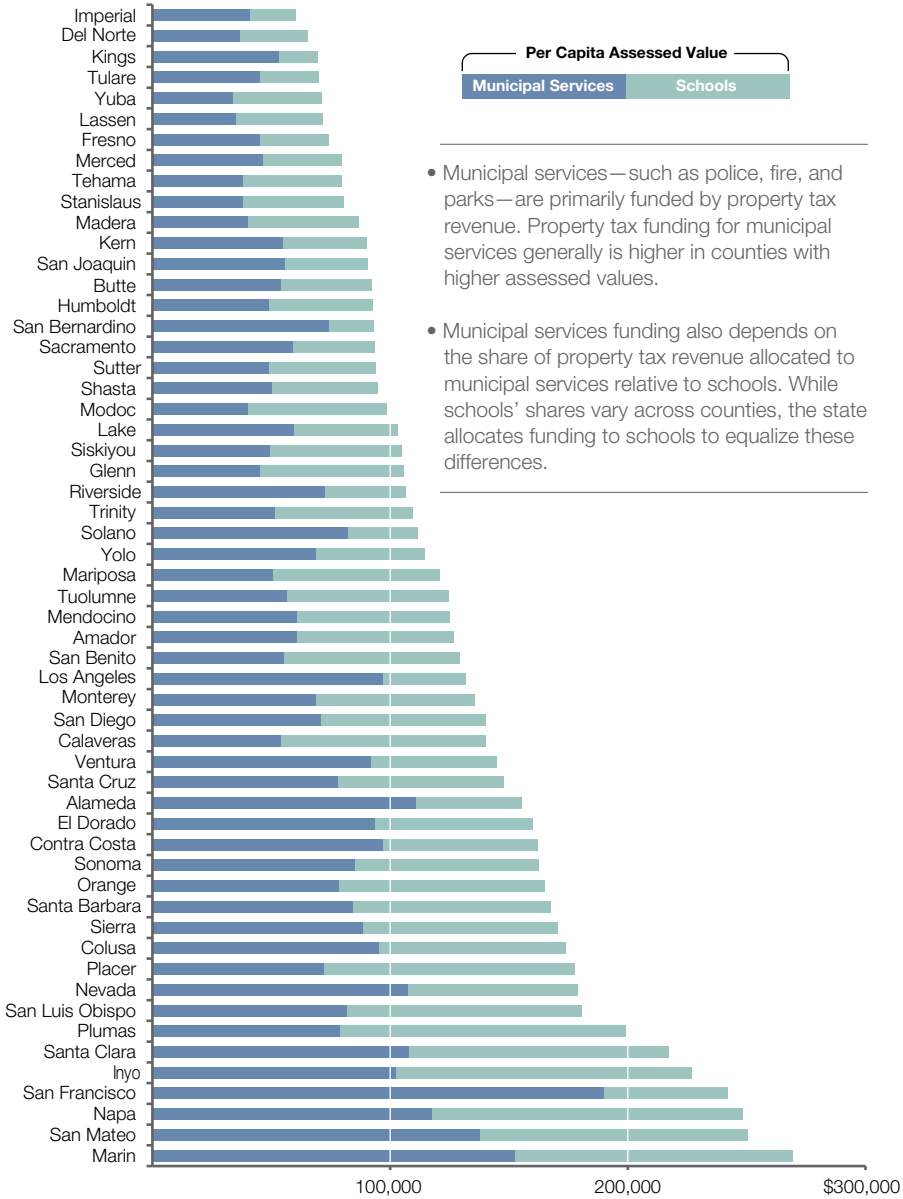
Number of Special Districts by Type



Services Delivered by Local Government

Two Factors Drive Funding for Municipal Services

Per Capita Assessed Value, 2016-17[a]



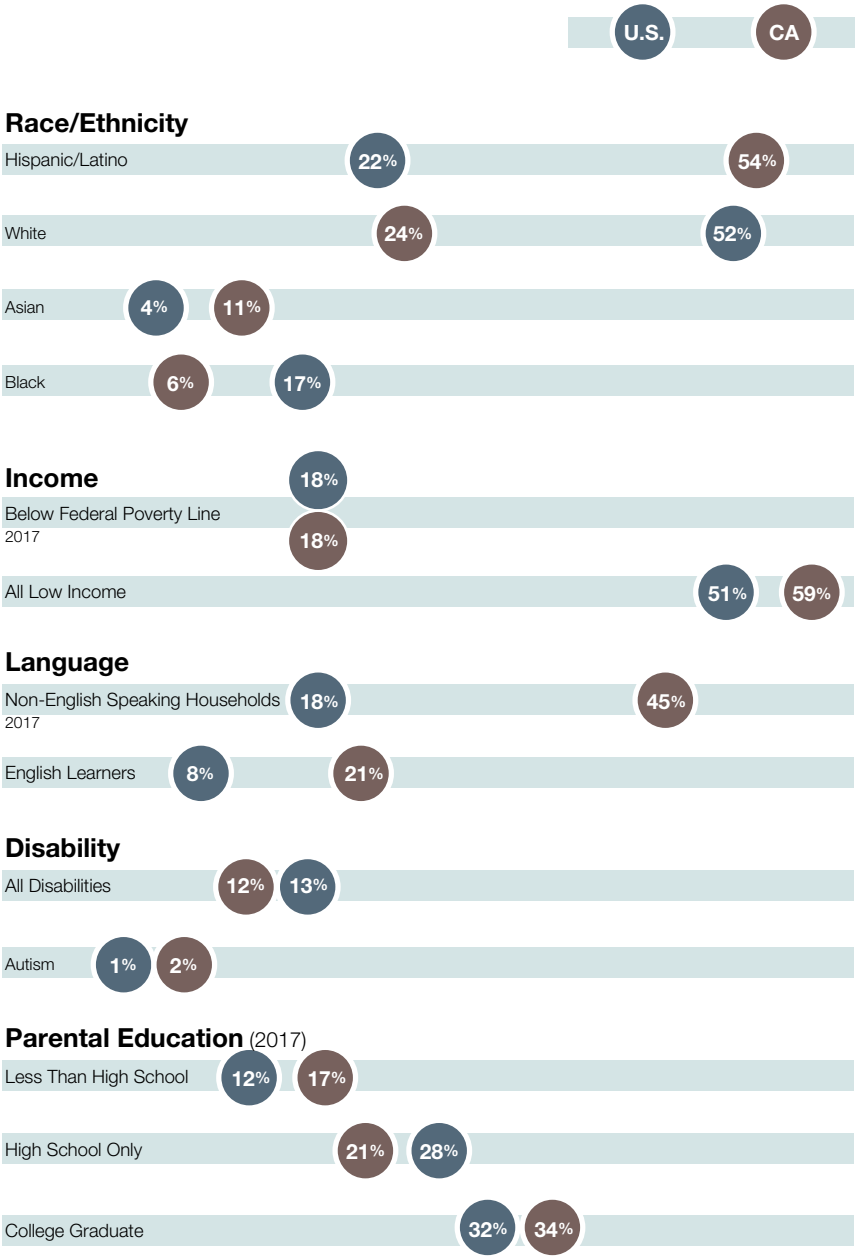
- Municipal services—such as police, fire, and parks—are primarily funded by property tax revenue. Property tax funding for municipal services generally is higher in counties with higher assessed values.
- Municipal services funding also depends on the share of property tax revenue allocated to municipal services relative to schools. While schools' shares vary across counties, the state allocates funding to schools to equalize these differences.

[a] Mono and Alpine Counties are excluded from this list because large per capita assessed values skew scale.

EDUCATION

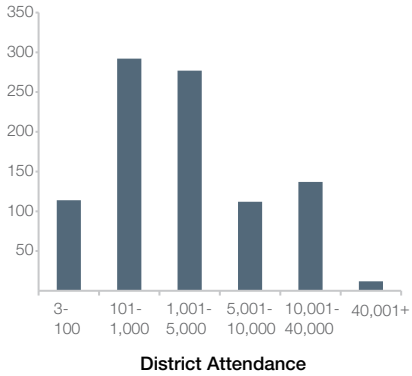
California's K-12 Student Population Differs From Nation

Fall 2015 Data, Unless Otherwise Noted

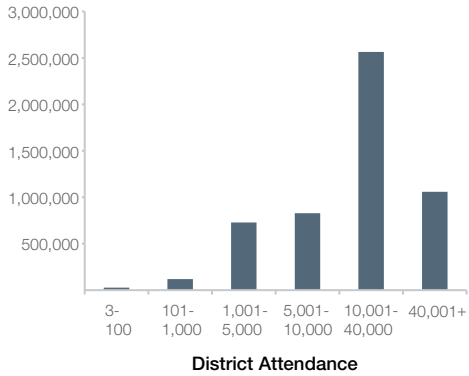


Although Many Districts Are Small, Most K-12 Students Attend Large Districts

Number of Districts by Size
2017-18



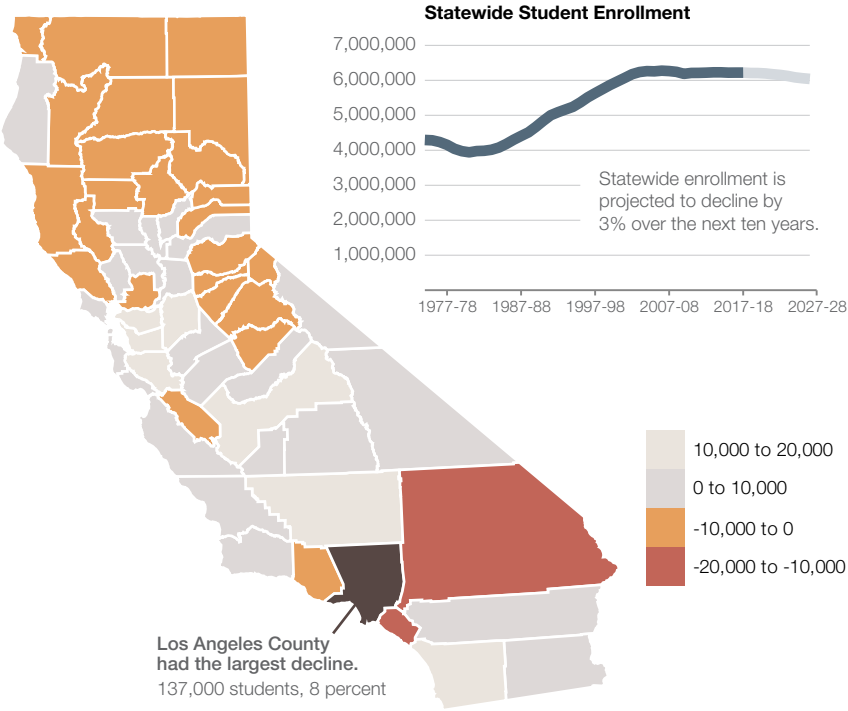
Student Attendance by District Size
2017-18



California has 944 school districts, averaging 5,600 students each.
The largest district is Los Angeles Unified with more than 400,000 students.

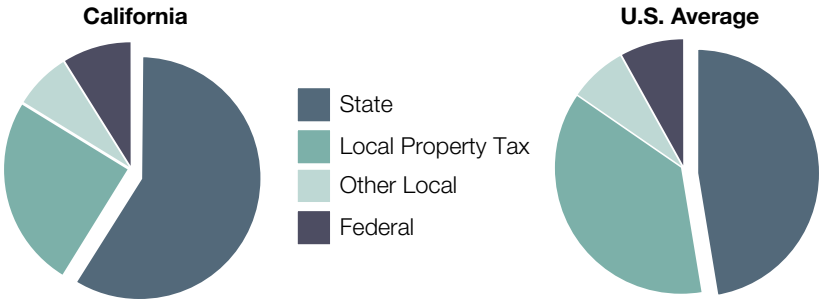
K-12 Enrollment Trends Vary Greatly Across State

Enrollment Change, 2008-09 to 2017-18



California K-12 Schools Rely Heavily on State Funding

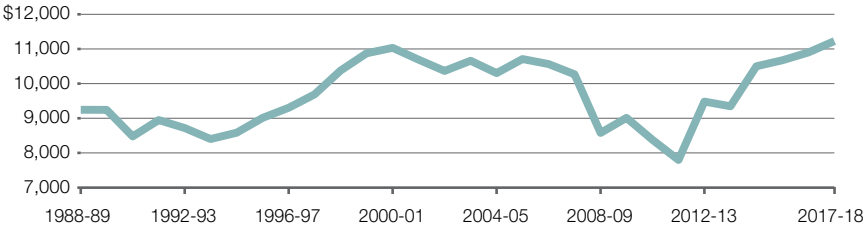
Total Operational and Capital Funding by Source, 2015-16



Unlike most other states, the California Constitution limits local property tax rates.

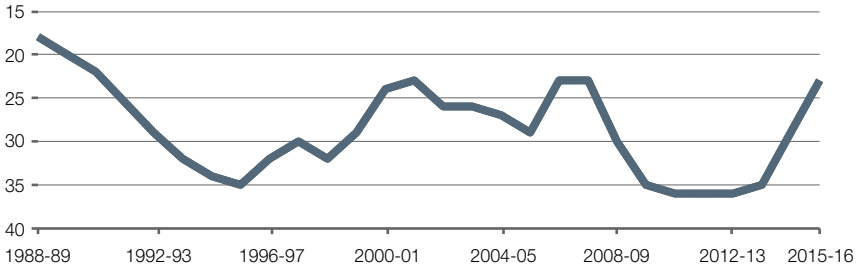
School Funding Is at an All-Time High

State and Local Operational Funding Per K-12 Student, 2017-18 Dollars



California School Spending Ranks in the Middle of States

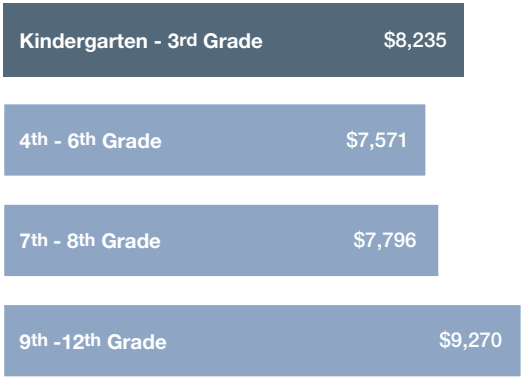
Rank Among the 50 States and Washington D.C.



School spending in California is more sensitive to recessions and recoveries than other states.

State Provides Schools Equal Base Funding Per Student

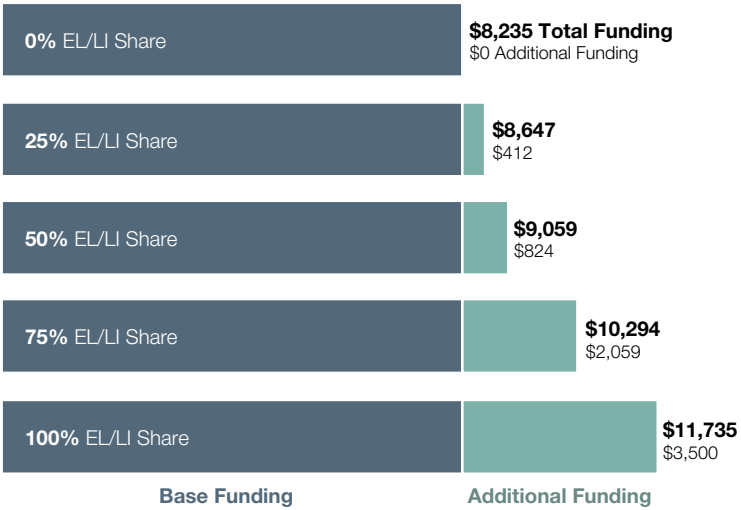
Base Funding Rates by Grade Span, 2018-19



Some school districts with especially high property tax revenue have more funding per student than the rates shown.

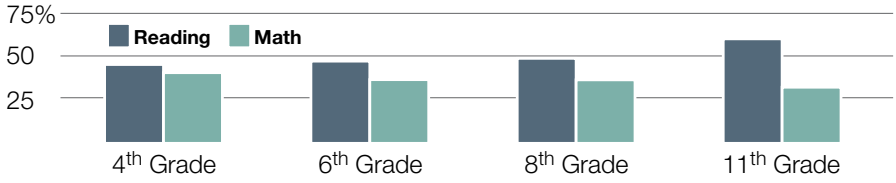
State Provides Additional Funding for English Learners and Low-Income (EL/LI) Students

Funding Rates Per Student for Grades K-3 Based on District EL/LI Share, 2018-19



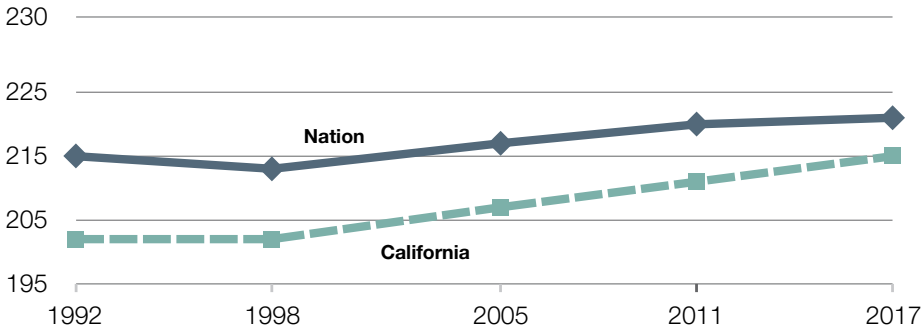
Fewer Than Half of K-12 Students Meet State Standards

Percentage Meeting Standards, Spring 2018



California Students Score Below National Average

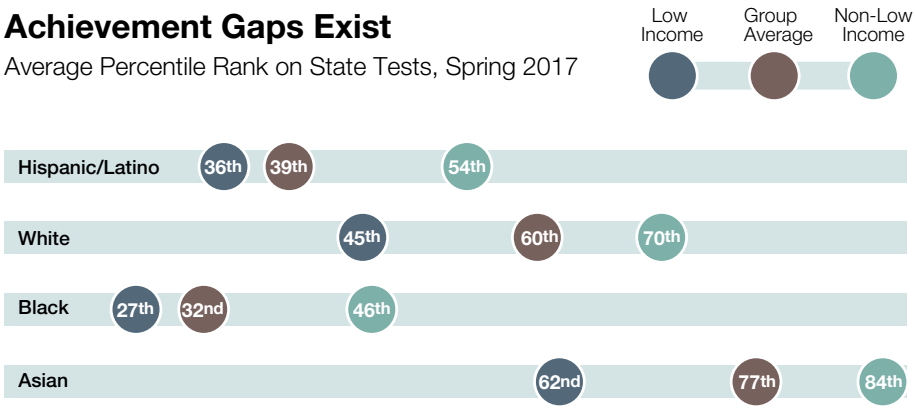
Average Score on National Assessment of 4th Grade Reading



In 2017, states' average 4th grade reading score ranged from a high of **236** to a low of **207**. Scores follow a similar pattern for other grade levels and subjects.

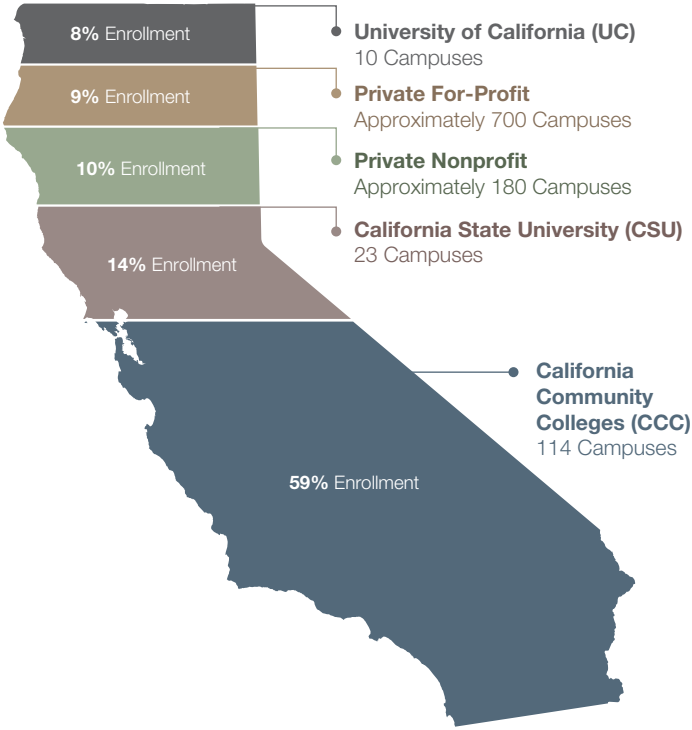
Achievement Gaps Exist

Average Percentile Rank on State Tests, Spring 2017



California Has an Extensive Higher Education System

3.7 Million Students, 2016-17



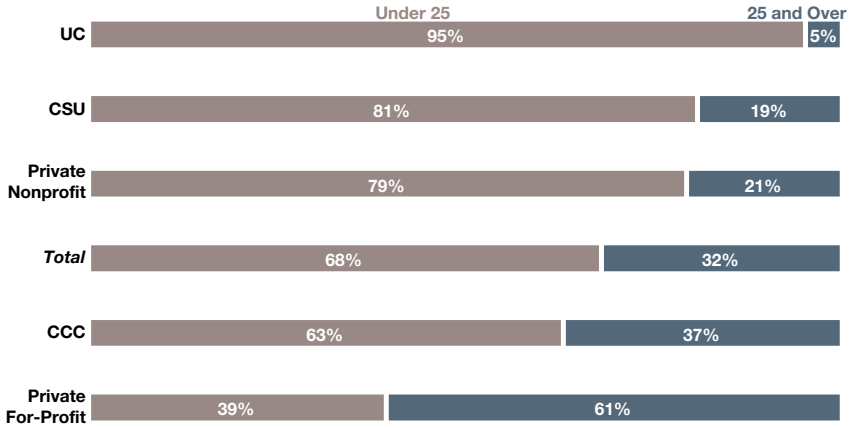
Segments Vary in Degree Production

Degrees by Segment, 2016-17

	Doctoral Degrees	Master's Degrees	Bachelor's Degrees	Associate's Degrees	Certificate
UC	6,257	12,003	53,717	0	345
Private For-Profit	2,459	9,594	18,849	10,850	47,495
Private Nonprofit	9,911	38,000	40,621	2,079	5,913
CSU	540	20,201	98,771	0	359
CCC	0	0	0	138,904	84,619
Totals	**19,167**	**79,798**	**211,958**	**151,833**	**139,181**

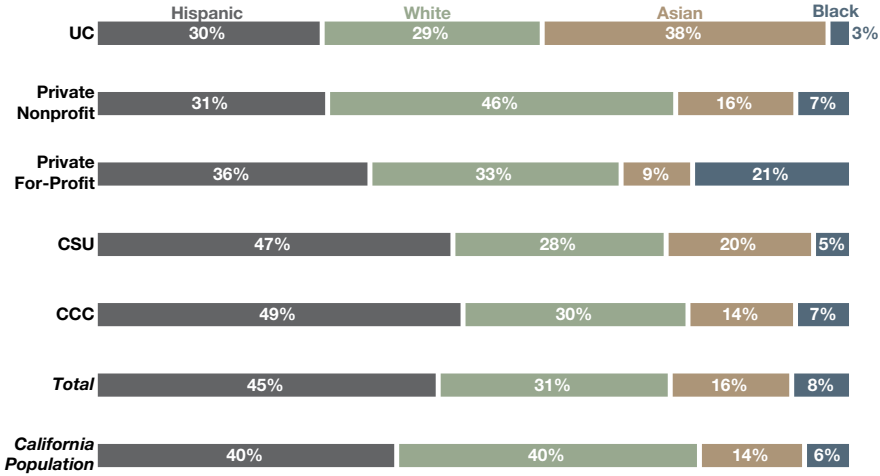
Almost One-Third of Undergraduates Are Age 25 and Older

Headcount, Fall 2015



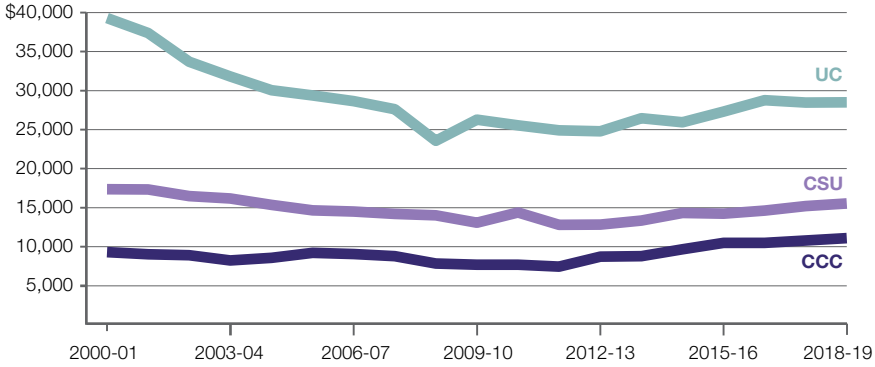
The Racial/Ethnic Composition of the Undergraduate Student Body Varies by Segment

Headcount, Four Largest Groups, 2016-17



Amount of Core Funding Varies Notably by Segment

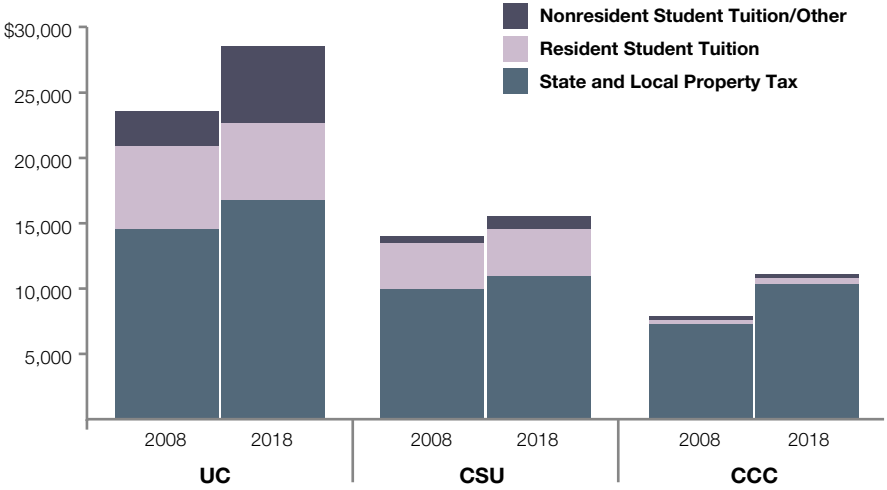
Per Full-Time Equivalent (FTE) Student, 2018-19 Dollars



At UC and CSU, core funds consist primarily of state General Fund and student tuition and fees. At CCC, core funds also include local property tax revenue.

State Is Largest Source of Higher Education Funding

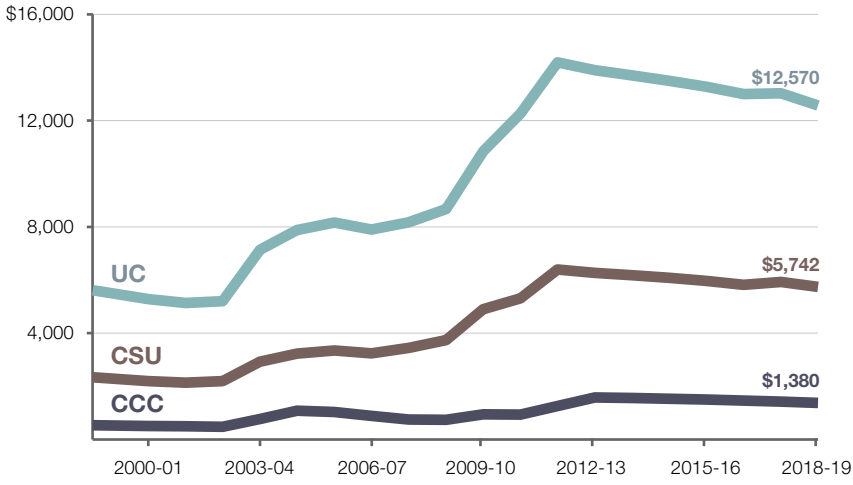
Breakdown of Core Funding Per FTE Student, 2018-19 Dollars



At UC, "other" includes a portion of overhead on federal research grants and patent royalty income.

Tuition Is Notably Higher Today Than 20 Years Ago

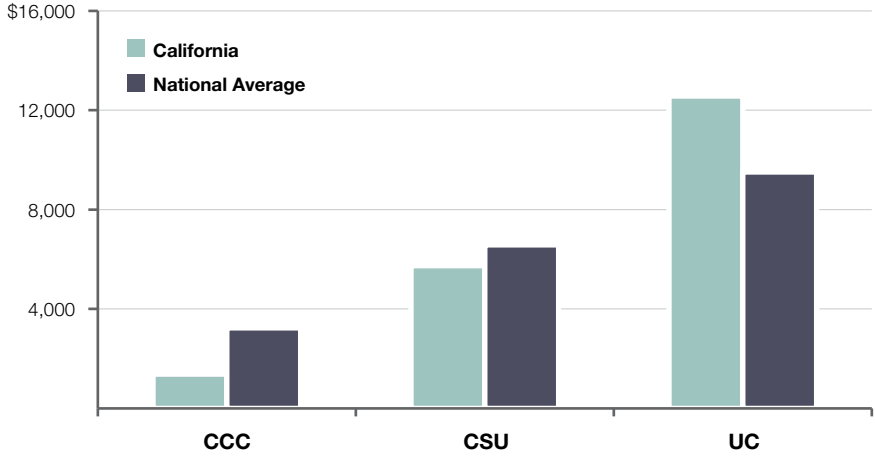
Tuition and Systemwide Fees, 2018-19 Dollars



Students without financial need pay the rates shown. At the three segments, more than half of undergraduates receive gift aid that covers the full tuition charge.

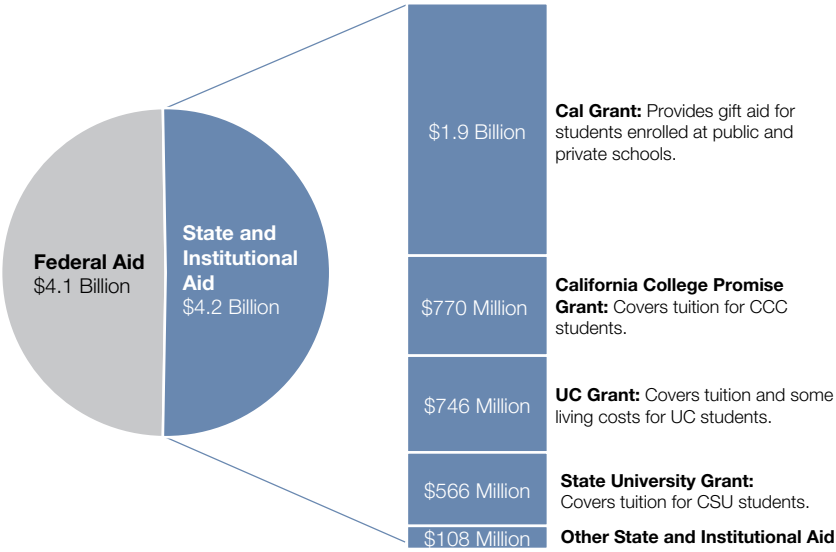
Tuition Still Is Relatively Low at CCC and CSU, Higher at UC

2017-18



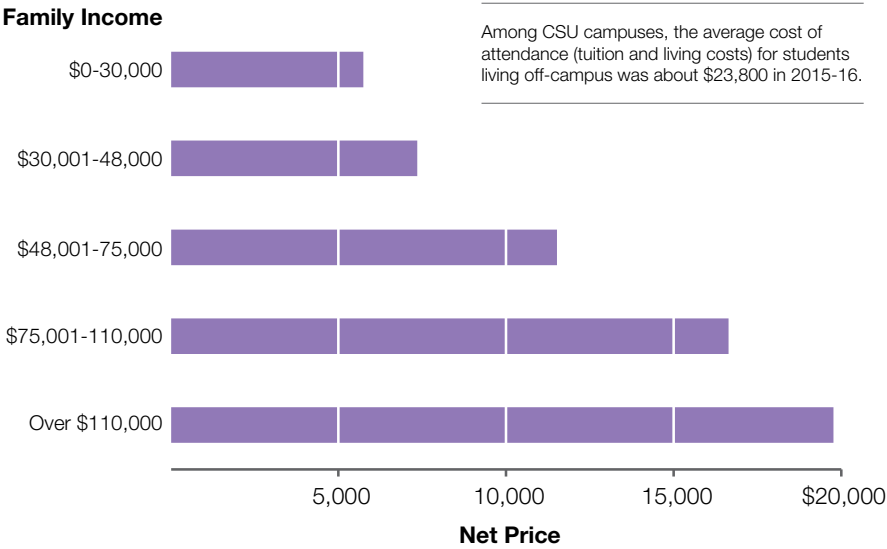
California Students Receive Over $8 Billion in Aid Annually

Need-Based Gift Aid For Undergraduates, 2016-17



Net College Costs Are Lowest for Lowest-Income Students

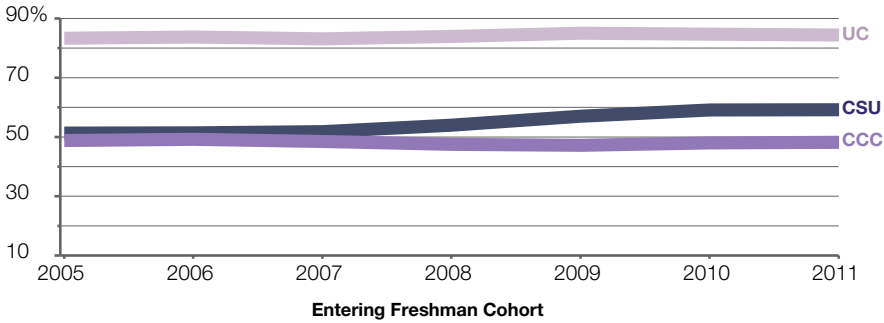
Cost of Attendance Less Gift Aid, Average Across CSU Campuses, 2015-16



Among CSU campuses, the average cost of attendance (tuition and living costs) for students living off-campus was about $23,800 in 2015-16.

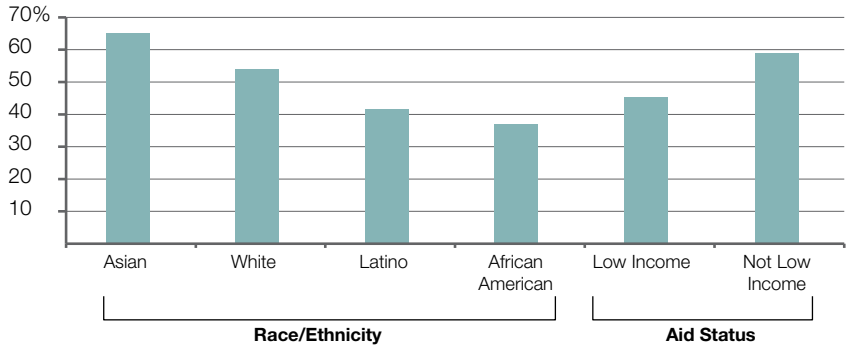
CSU Has Seen Greater Improvement in Graduation Rates Than UC and CCC

Six-Year Rates



Achievement Gaps Exist

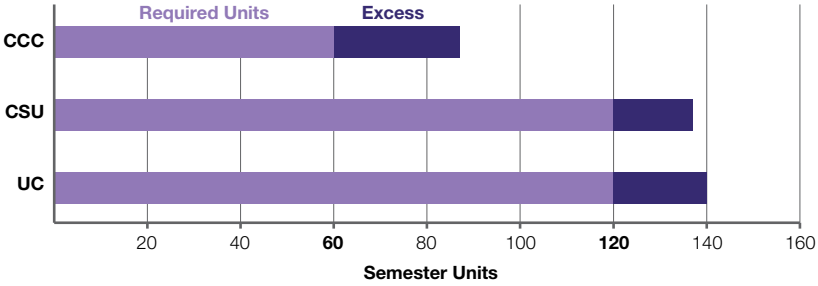
CCC Six-Year Graduation Rates, 2011 Freshman Cohort



Though UC and CSU graduation rates are higher than CCC, achievement gaps generally follow a similar pattern at all three segments.

Graduates Accrue More Units Than Degrees Typically Require

Freshman Entrants, 2016-17 Graduating Class



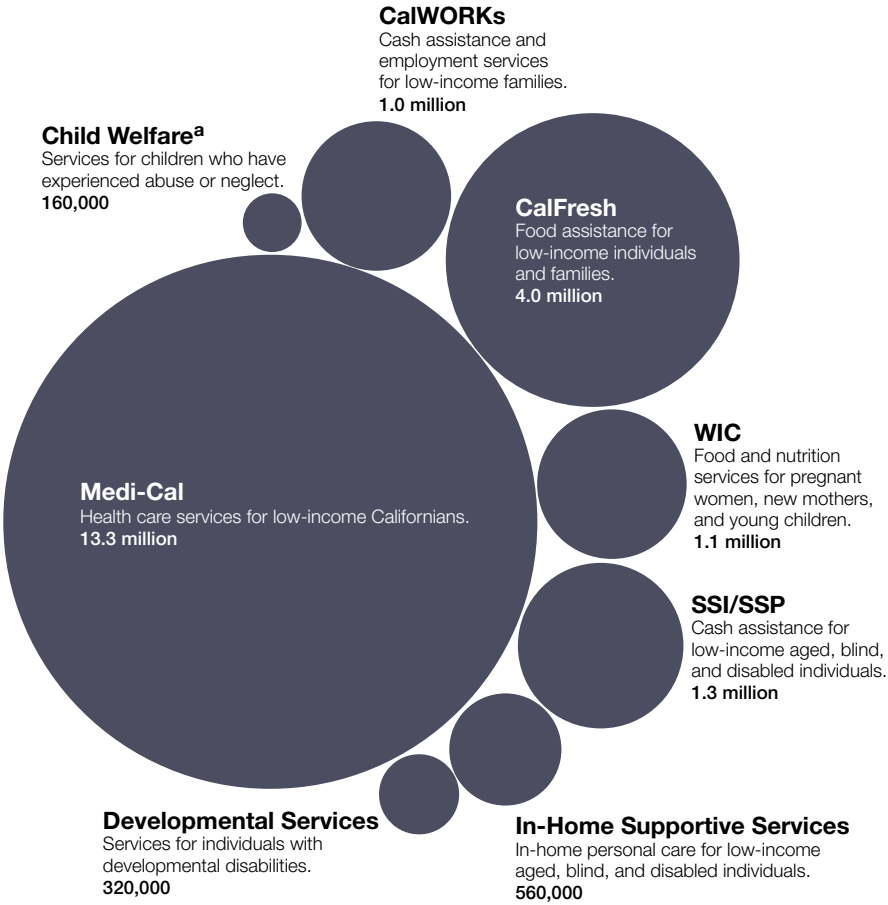
HEALTH AND HUMAN SERVICES

State Administers Array of Health and Human Services (HHS) Programs

HHS programs provide a variety of services to millions of California residents. These services include health insurance coverage, nutrition assistance, cash assistance, in-home care, and other services. Many individuals are enrolled in more than one program at a time.

HHS Programs Serve Millions of Californians

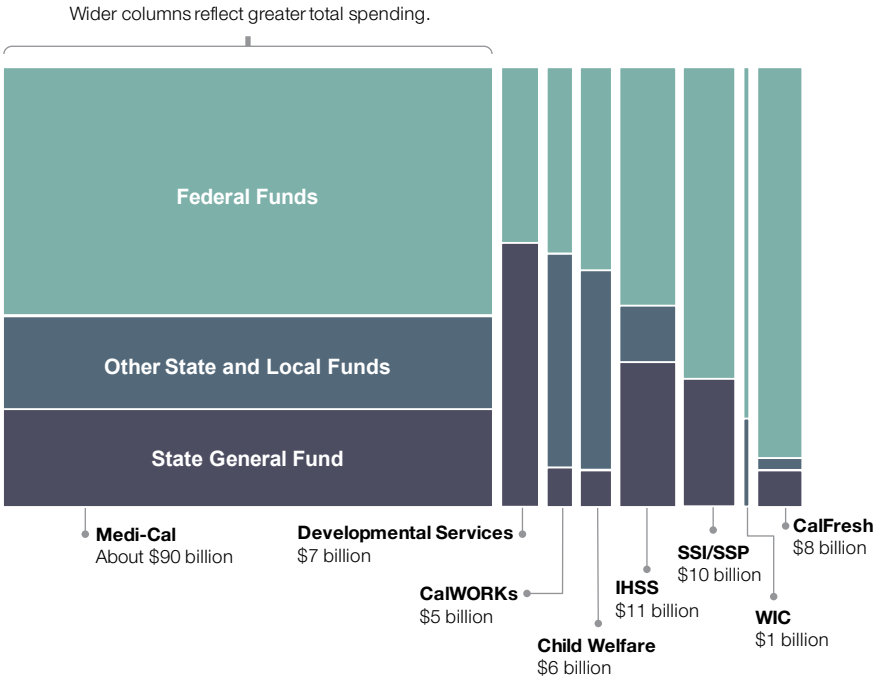
Caseloads, 2017-18 Estimated



[a] This includes children in foster care, guardianship and adoption programs, and family maintenance.

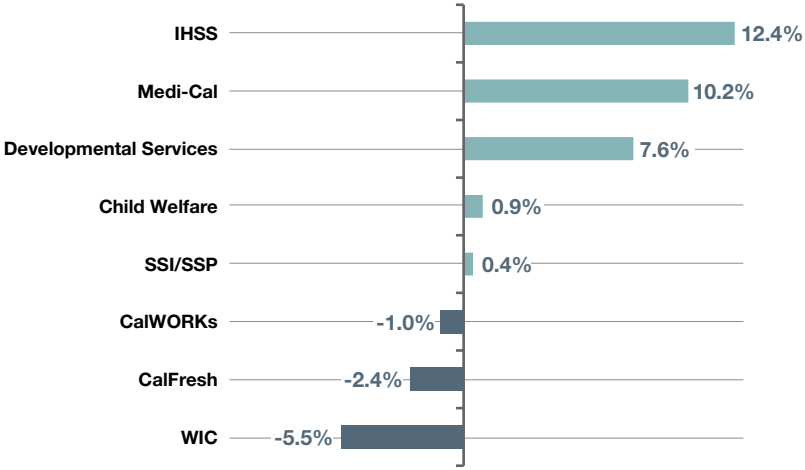
HHS Programs Funded by Multiple Sources

Total Spending by Funding Source, 2017-18 Estimated



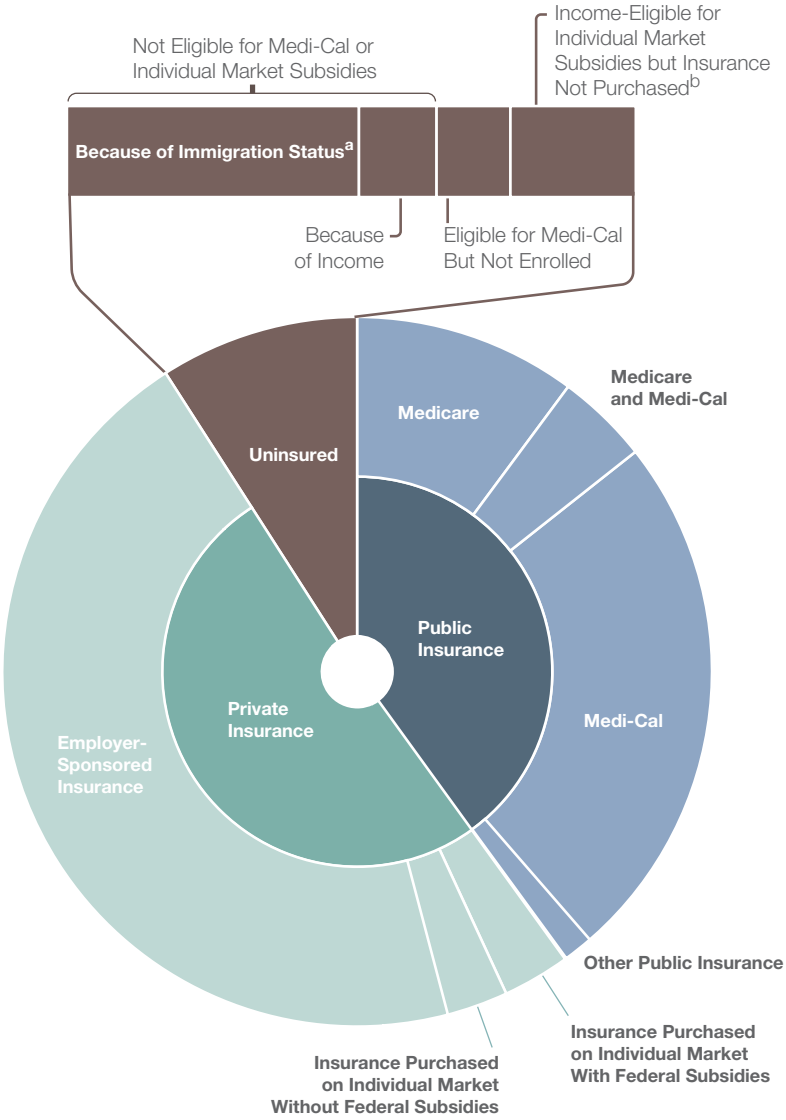
Spending Growth Varies Among HHS Programs

Average Annual Change in Total Spending From 2012-13 to 2017-18



Most Californians Have Health Insurance, Obtained From a Variety of Sources

2017, LAO Estimates

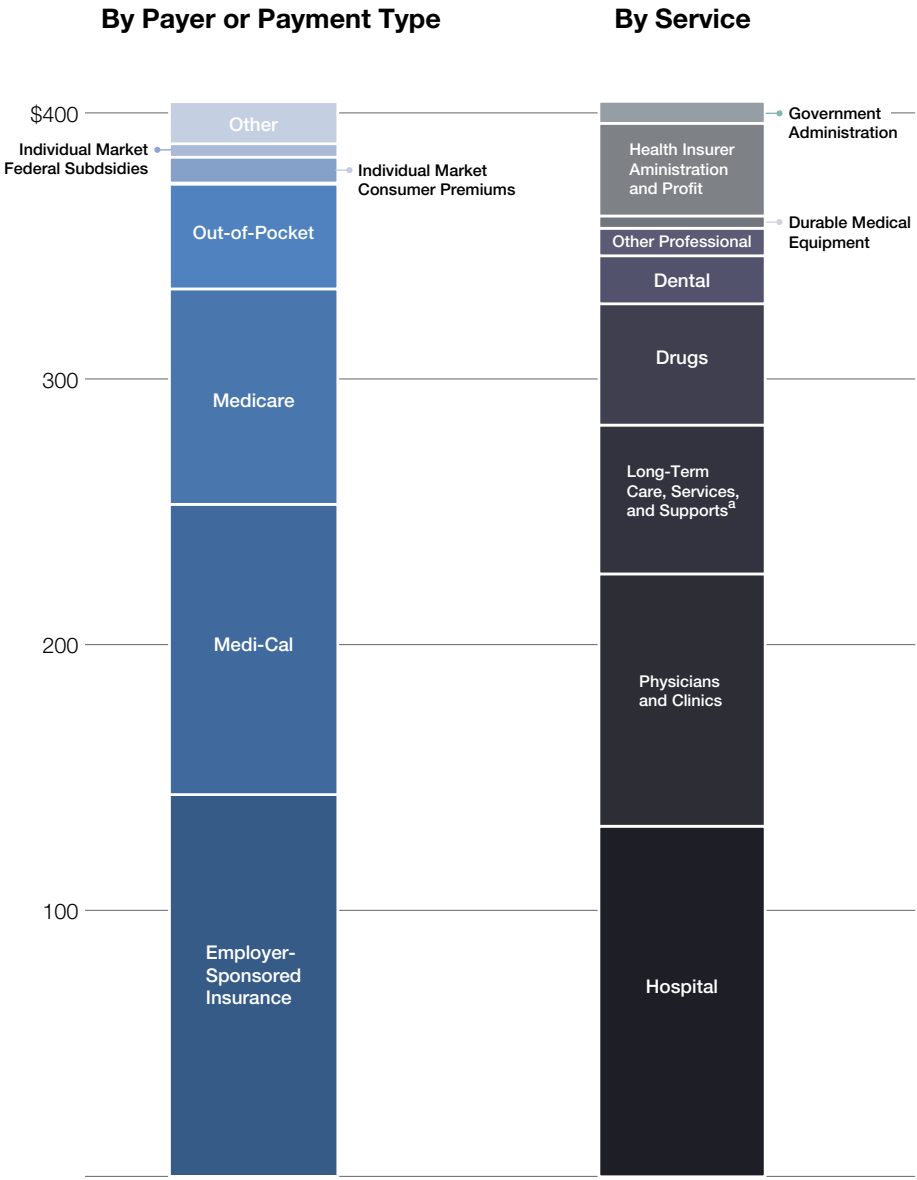


Note: Unless otherwise noted, estimates reflect LAO adjustments to California Health Interview Survey 2017 data.

[a] From Preliminary CalSIM v 2.0 Regional Remaining Uninsured Projections, August 2016.
[b] Individuals in this category could be ineligible for subsidies for reasons other than income.

California Health Care Spending

2017-18, Estimates (In Billions)

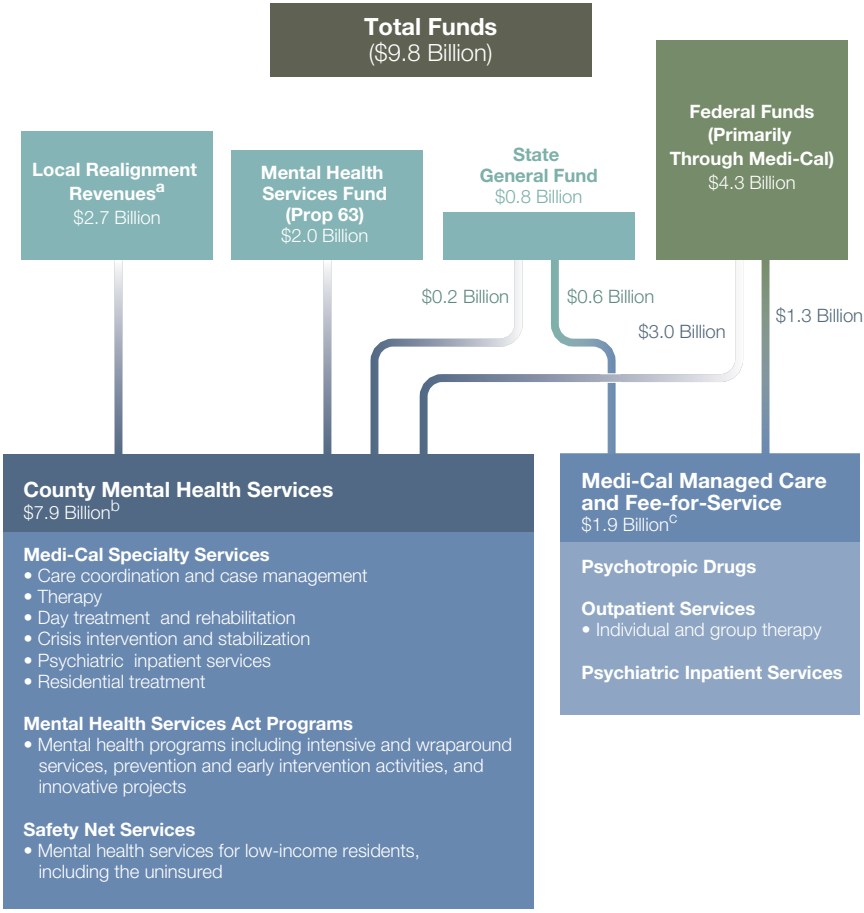


[a] Includes care in skilled nursing facilities as well as personal care and home health services.

Most Funds for Public Community Mental Health Go to Counties

2017-18, LAO Estimates

Public community mental health includes publicly funded outpatient and inpatient mental health services and psychotropic medications provided primarily in community settings. It does not include services provided by state hospitals, prisons, Medicare, private insurance, or the K-12 educational system.



[a] Includes funding that counties may use on substance use disorder services (not considered mental health services).

[b] Some counties provide further funding for mental health using county General Funds. County General Funds are not included in listed funding amount.

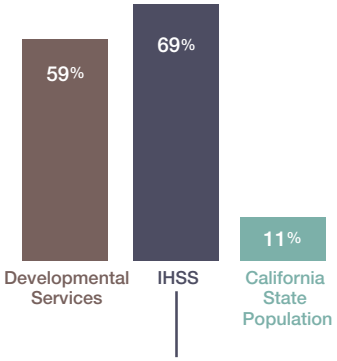
[c] Does not include funding for outpatient services that are provided through the fee-for-service system or in community clinics, due to data limitations.

Demand for Long-Term Home- and Community-Based Services and Supports Is Growing Rapidly

The state now prioritizes home- and community-based alternatives to institutional long-term care facilities for seniors and persons with disabilities. The two largest programs are In-Home Supportive Services (IHSS) and Developmental Services. The number of individuals eligible for these services has been increasing significantly.

Caseload Growth Outpaces Population Growth

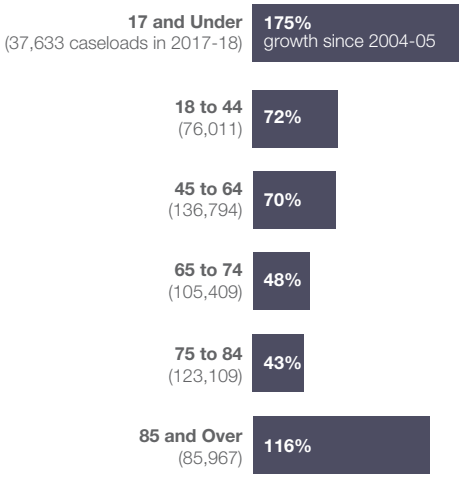
2004-05 to 2017-18



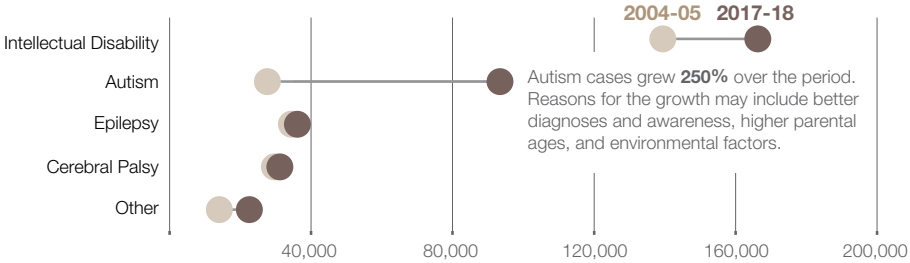
One potential reason for the growth in IHSS is the increasing preference to age at home rather than in an institution, like a skilled nursing facility (SNF). From 2004 to 2017, SNF utilization slightly decreased by 4%.

Growth in IHSS Caseload Is Highest in the Youngest and Oldest Age Groups

2004-05 to 2017-18

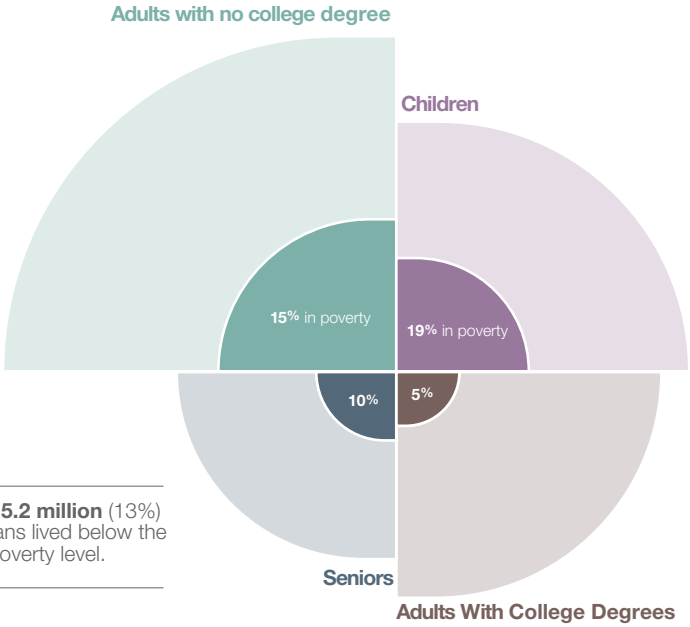


Autism Cases Driving Caseload Growth in Developmental Services



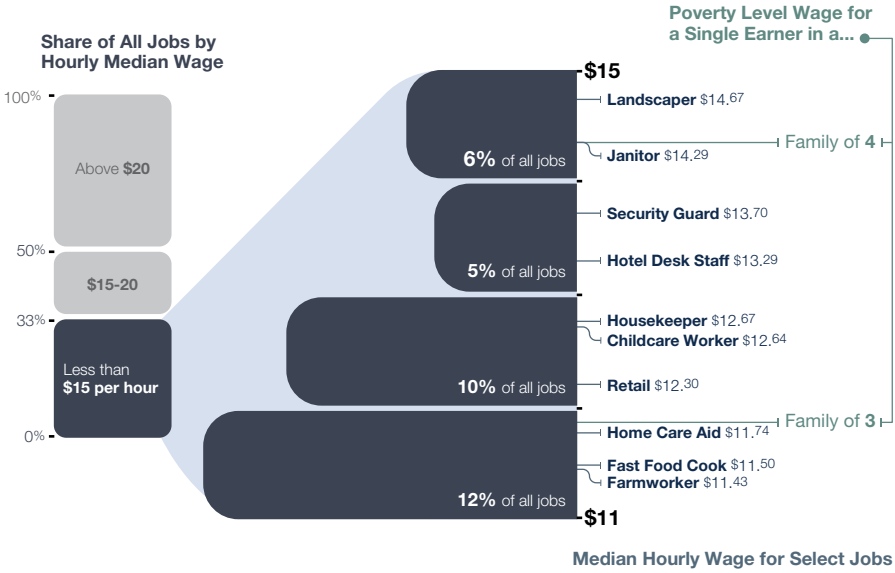
Individuals may have more than one diagnosis.

Poverty Concentrated Among Children and Adults With No College Degree



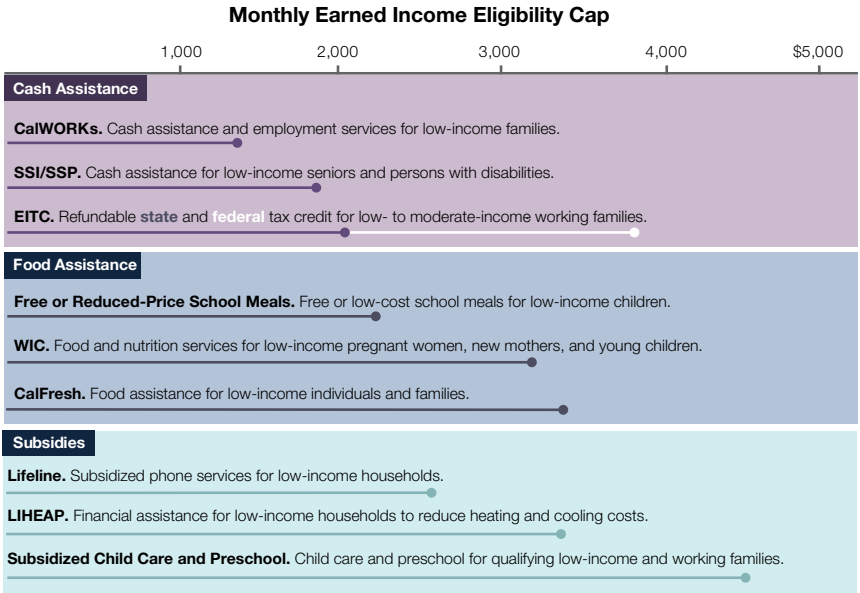
In 2017, **5.2 million** (13%) Californians lived below the federal poverty level.

One-Third of All Workers Make Less Than $15 per Hour



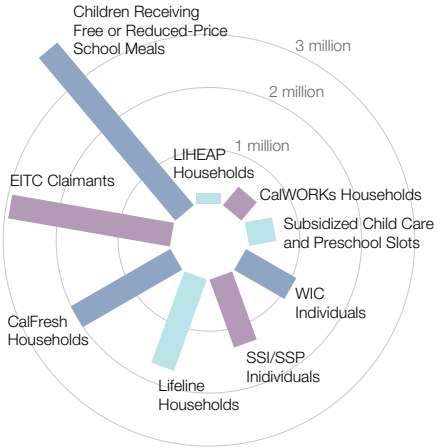
Key Cash and Cash-Like Assistance Programs for Low-Income Californians

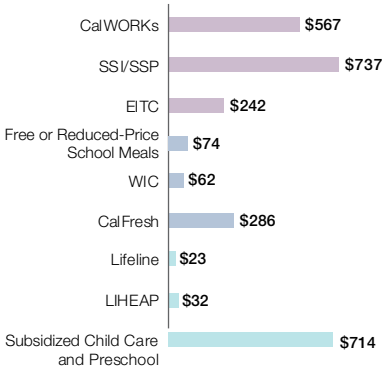
The state provides low-income families and individuals with cash grants and cash-like assistance for necessities, such as food and utilities. Individuals may be eligible for multiple programs. Below, we lay out the income eligibility rules for a family of three (single parent and two children). In addition to income, some programs rely on other factors to determine eligibility, such as age, disability status, and citizenship.



Number of Californians Served and Average Monthly Benefit Amounts Vary by Program

2017-18, LAO Estimates

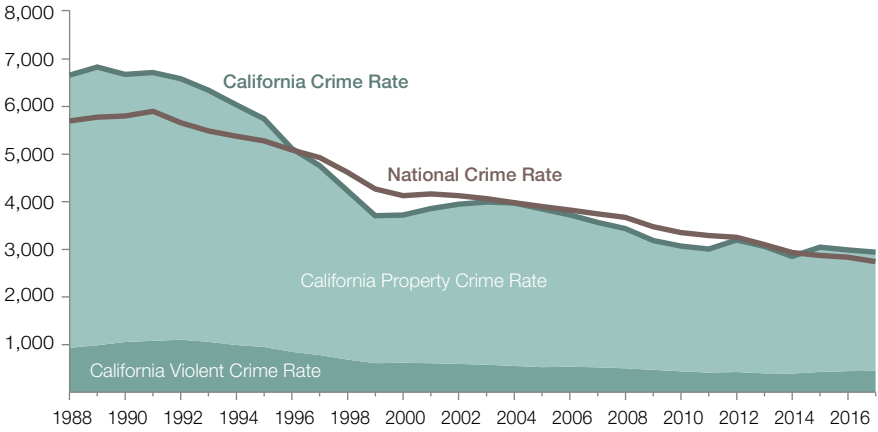




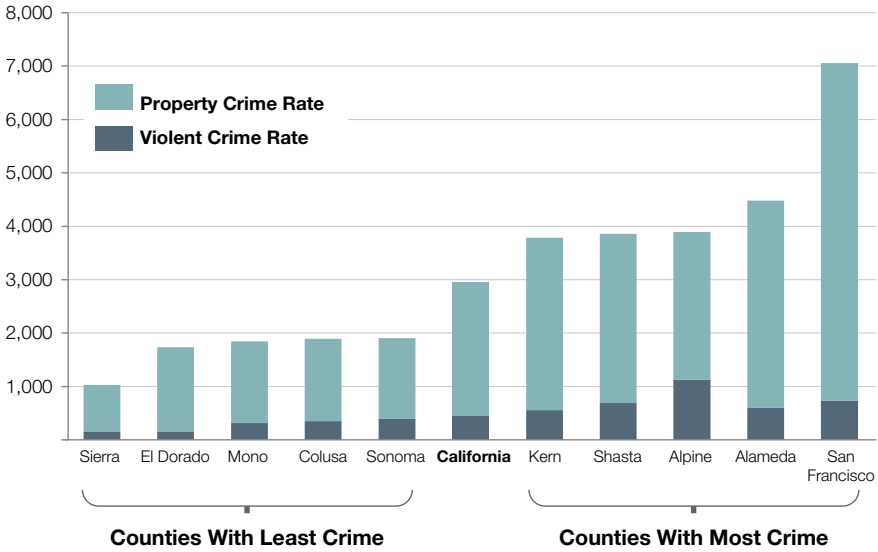
OTHER

California Crime Rates Have Dropped Significantly, but Vary Widely Across Counties

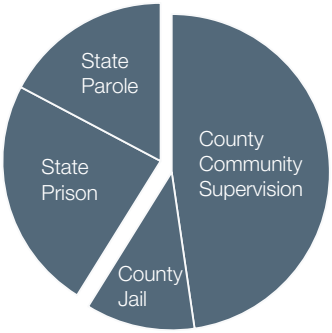
California and National Crime Rates Per 100,000 Residents

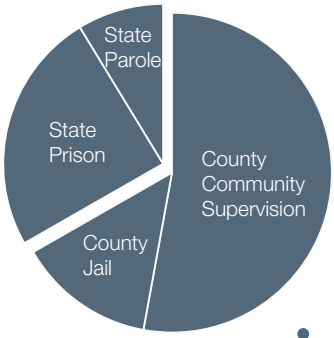


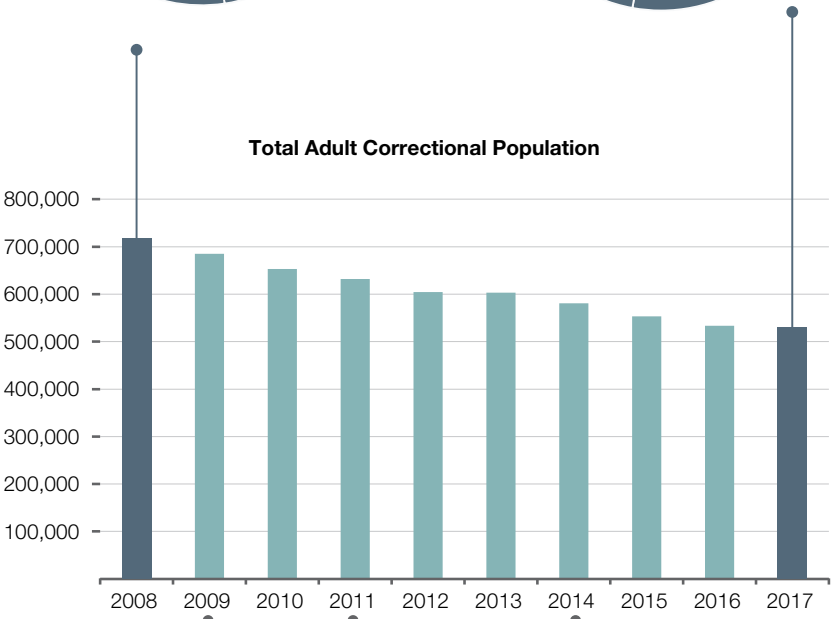
2017 Crime Rates Per 100,000 Residents



Total Adult Correctional Population Declined and Shifted to Counties Due to Policy Changes Over Last Decade







Some felonies converted to misdemeanors, reducing the time some offenders serve while generally shifting them from state to county responsibility.

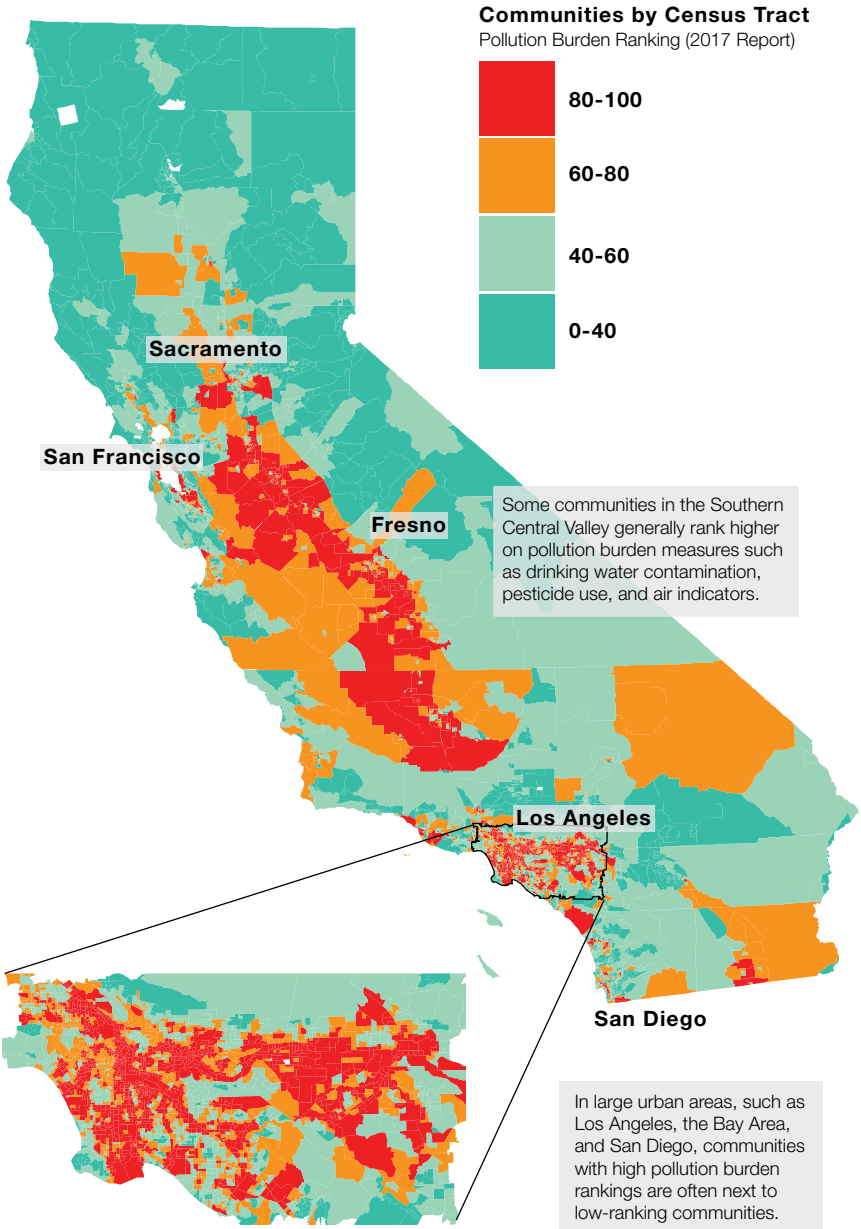
Counties incentivized to keep felons under county jurisdiction rather than sending them to state prison.

Responsibiliy for certain felony populations "realigned" from the state to the counties.

Additional felonies converted to misdemeanors with passage of Proposition 47.

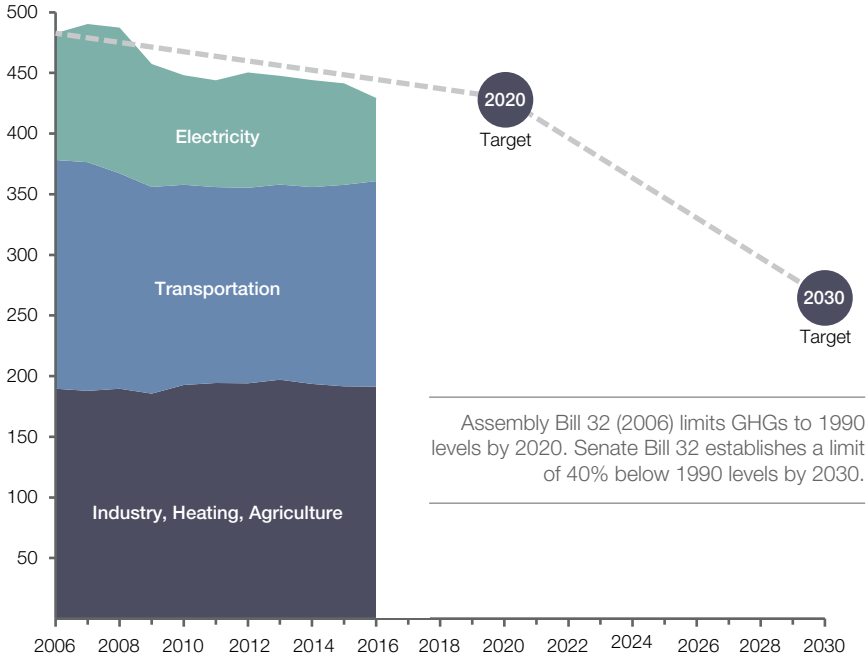
Pollution Burden Varies Across California Communities

CalEPA uses measures of air pollution, water pollution, and other key indicators to rank communities by their pollution burden. Rankings are used to help policy makers prioritize spending.



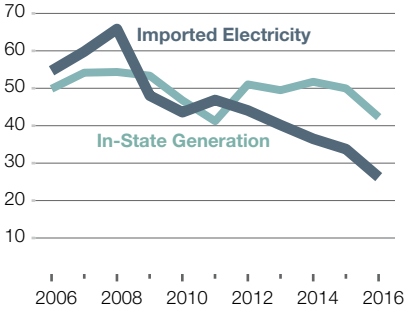
State Met 2020 GHG Target Early, but 2030 Target More Ambitous

Million Metric Tons of GHGs



Reductions Driven by Electricity Imports

Million Metric Tons of GHGs



Major Policies to Meet 2030 Target

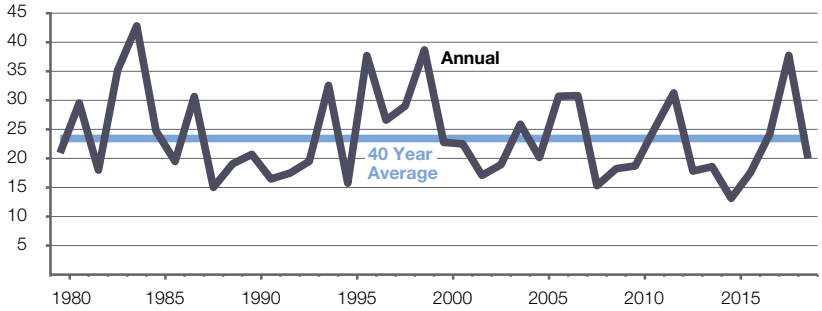
- Cap-and-trade
- Reduce methane from dairies and landfills
- Reduce emissions from cars and trucks
- 60% renewable electricity
- Reduce carbon intensity of transportation fuels
- Energy efficiency

GHG = Greenhouse Gases as measured in carbon dioxide equivalent.

Water Management in California Is Complex

California's Precipitation Is Highly Variable

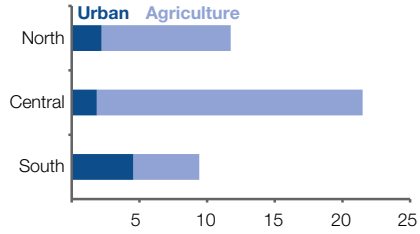
Statewide Precipitation in Inches



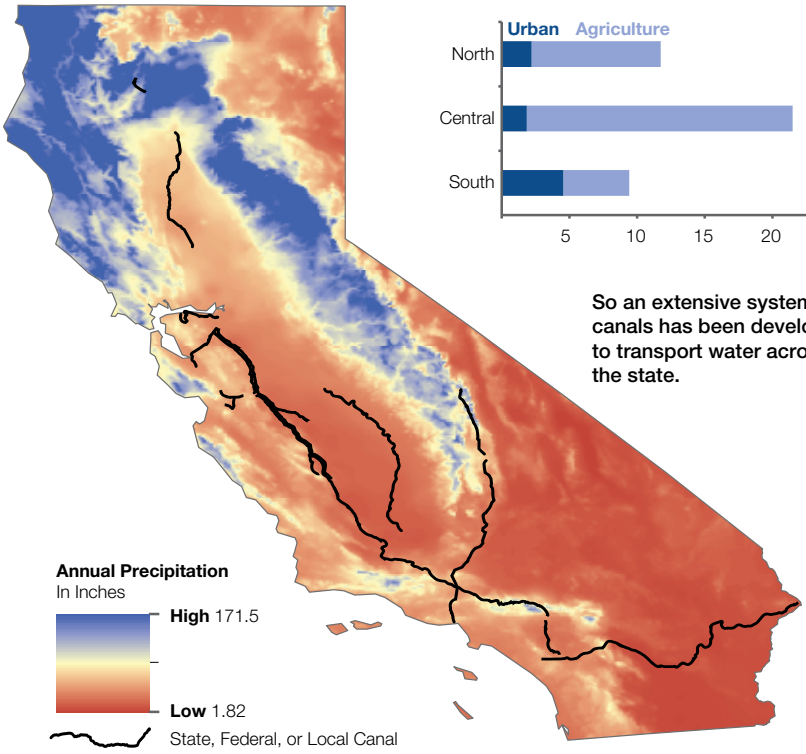
Most Precipitation Falls in Northern California

But Much of People's Water Use Occurs in Southern and Central California

Water Use in Millions of Acre Feet



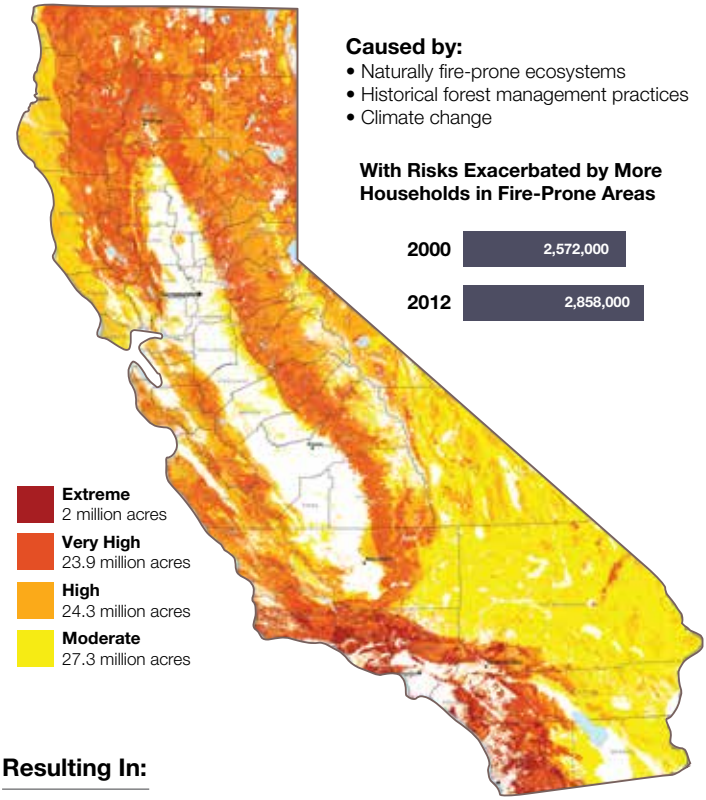
So an extensive system of canals has been developed to transport water across the state.



Map created by California Department of Water Resources using PRISM (prism.oregonstate.edu).

Wildfires in California

State Has Many Areas of High Fire Risk



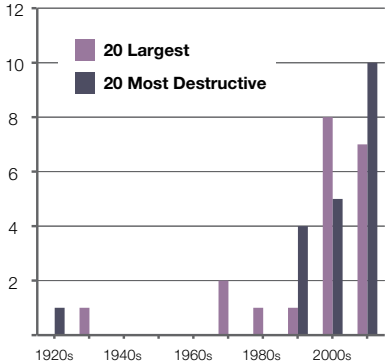
Caused by:

- Naturally fire-prone ecosystems
- Historical forest management practices
- Climate change

With Risks Exacerbated by More Households in Fire-Prone Areas

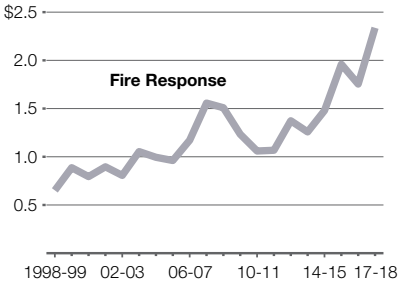
Resulting In:

Most of Largest and Most Destructive Wildfires Occurred in Recent Years



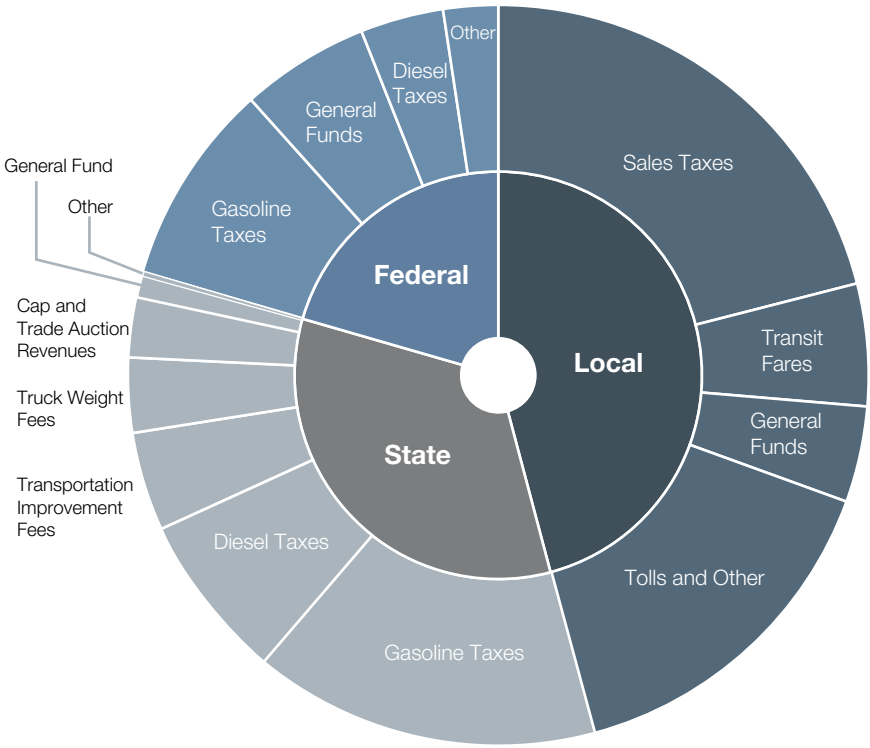
Increased State Spending on Wildfire Response

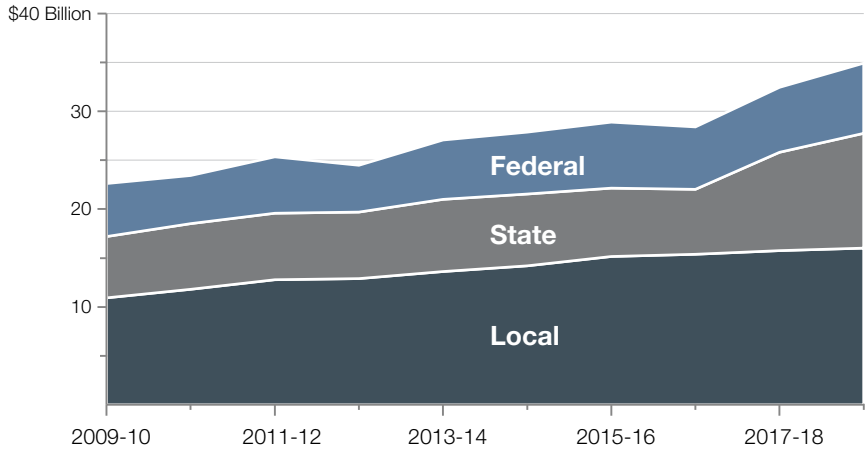
In 2017-18 Dollars, In Billions



Funding for Highways, Roads, and Mass Transportation Comes From Many Sources

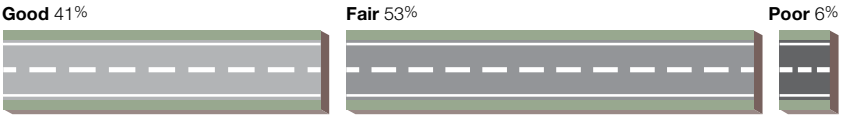
2018-19



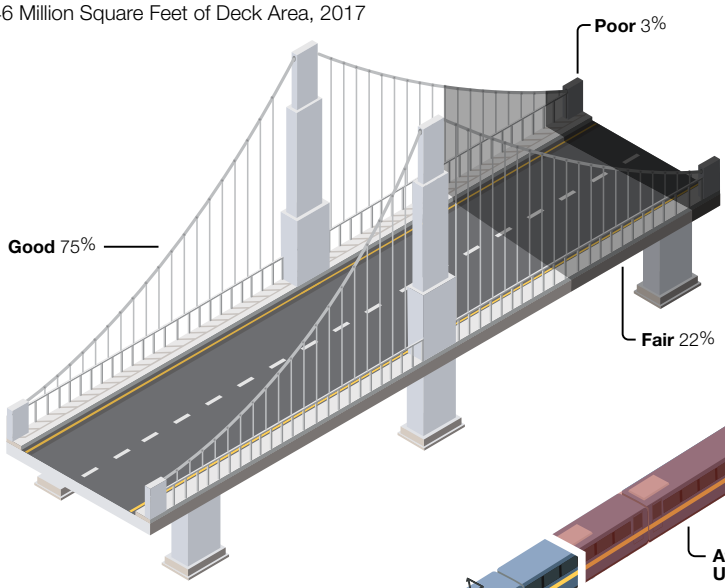


Much Transportation Infrastructure Needs Repairs or Replacement

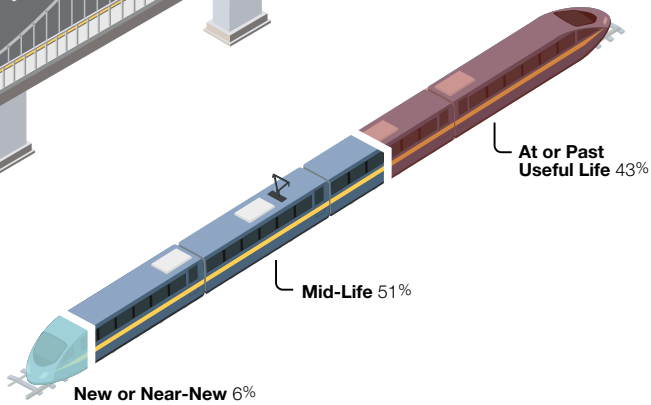
State Highways
51,000 Lanes Miles, 2017



State Bridges
246 Million Square Feet of Deck Area, 2017

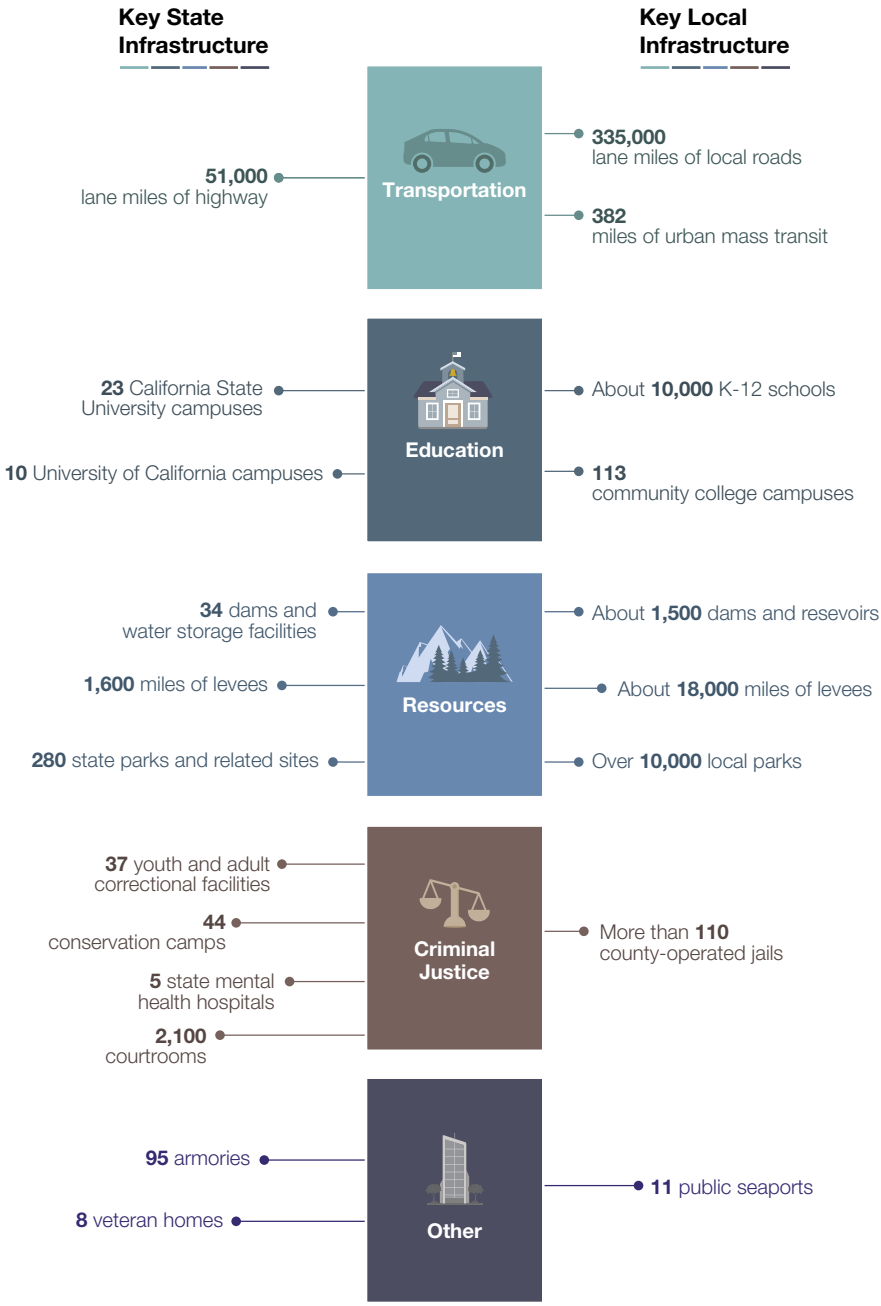


Transit Infrstructure
$91 Billion Assets, 2015



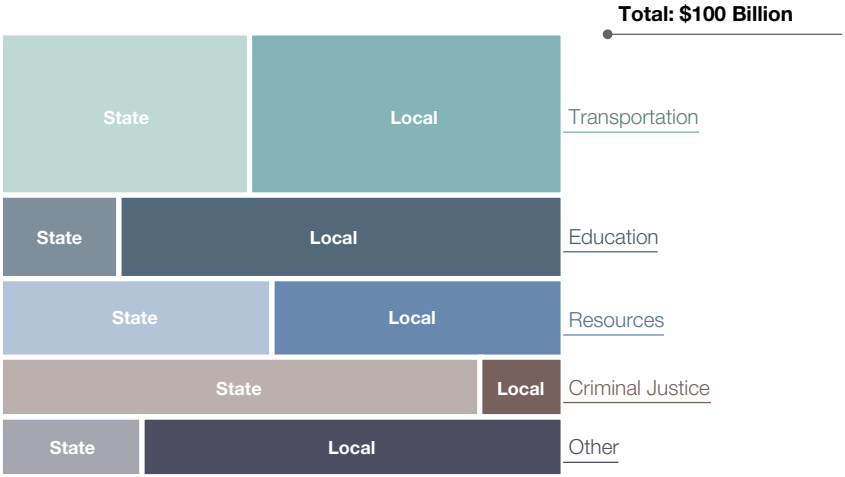
Drainage Under State Highways
10,647,900 Linear Feet, 2017

California Supports a Wide Range of State and Local Infrastructure



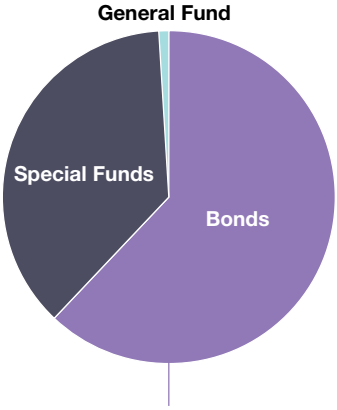
Most State Funding for Infrastructure Pays for Local Infrastructure

Infrastructure Spending, 2007-08 to 2016-17



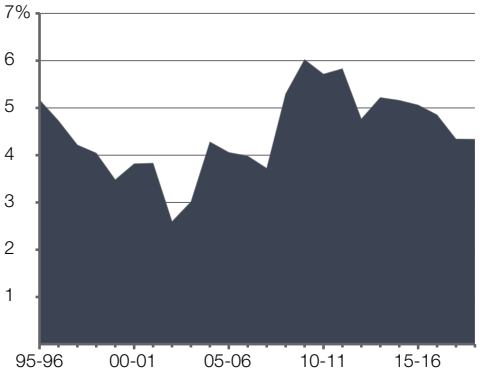
Most State Funding for Infrastructure Is Supported From Bonds

Infrastructure Spending, 2007-08 to 2016-17



Most bonds are repaid using the General Fund

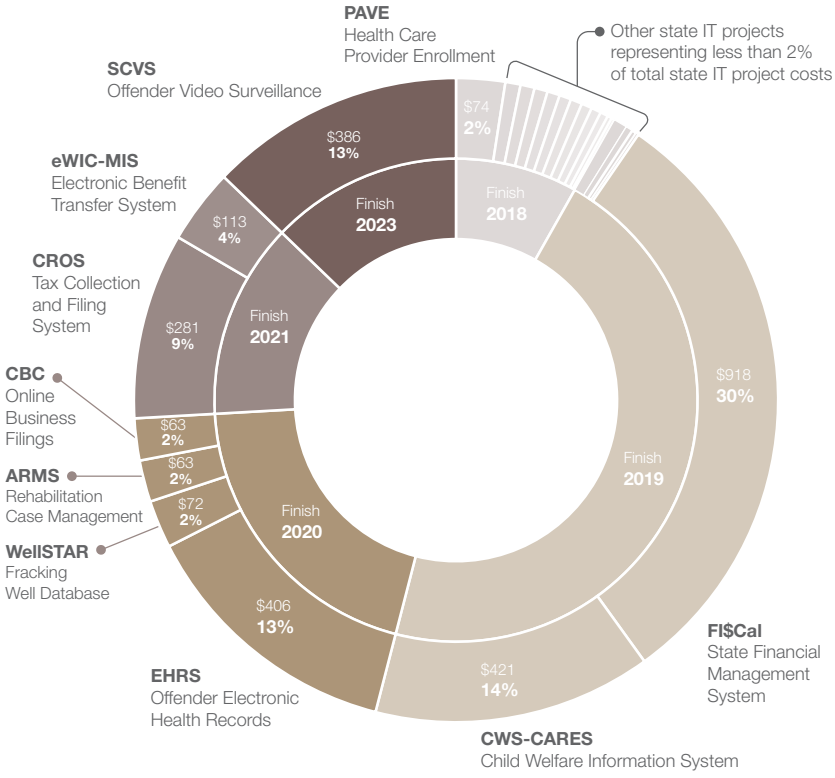
Percent of General Fund Revenues Used to Pay Off Bonds Has Fallen in Recent Years



Estimated $3 Billion in State IT Projects Scheduled to Finish in Next Five Years[a]

In Millions (All Funds)

As of September 2018, there were 28 state IT projects approved by, and under the oversight of, the California Department of Technology (CDT). The total cost of the projects, should the state complete them as currently envisioned, is an estimated $3 billion in total funds. State entities have proposed an additional 47 new IT projects pending approval by CDT, some of which have an estimated total cost of several hundreds of millions of dollars.



[a] Total estimated IT project cost and scheduled finish date reflect the last approved project document(s) as of September 2018. Some projects' cost and finish date, such as CWS-CARES, are likely to change with the submission of new project documents.

LAO Publications

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