

## Total State Revenues

2002-03

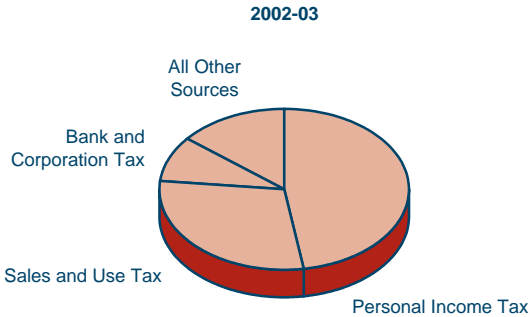
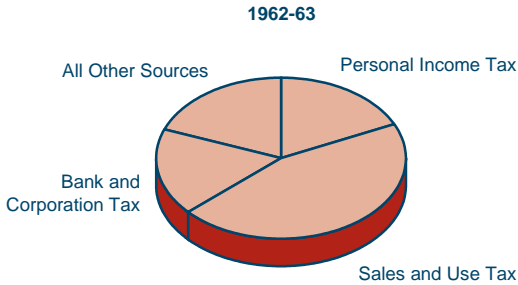
General Fund Revenues		Total State Revenues \$93.9 Billion	Special Funds Revenues	
Personal Income Tax	\$37.6		Motor Vehicle-Related Levies	\$7.2
Sales and Use Tax	23.0		Sales and Use Tax <sup>a</sup>	2.5
Bank and Corporation Tax	7.3		Tobacco-Related Taxes	1.0
All Other <sup>b</sup>	11.3		All Other	4.0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

<sup>a</sup> 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.

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

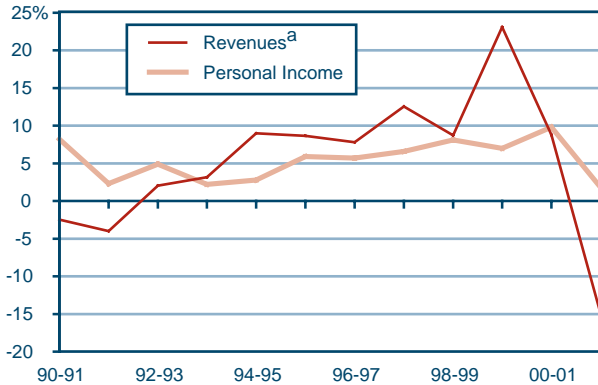
- General Fund revenues account for over 84 percent of total state revenues.
- Personal income taxes are the largest single revenue source, accounting for 48 percent of General Fund revenues and 40 percent of total revenues.
- Sales and use taxes and bank and corporation taxes are the second and third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

## The Composition of Revenues Has Changed Over Time



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

## Revenues Have Been Much More Volatile Than State's Economy

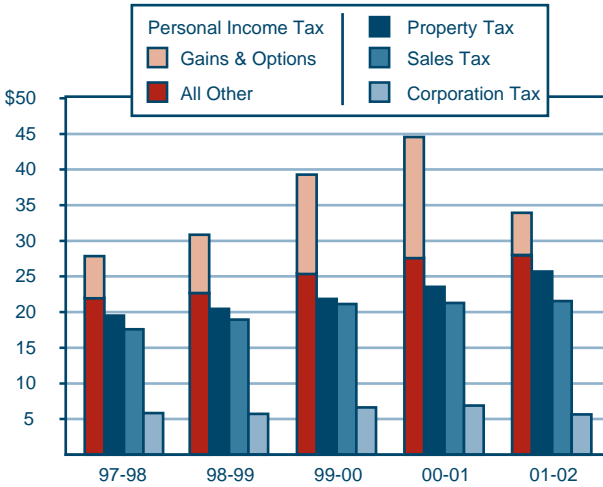


<sup>a</sup> Excluding effects of law changes.

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

## Personal Income Taxes Have Been The Most Volatile Revenue Source

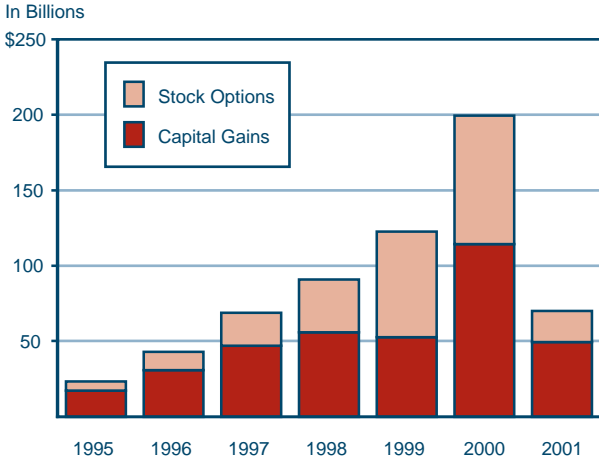
*Major Tax Receipts, Billions of Dollars*



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

## Capital Gains and Stock-Option Income Tumbled in 2001

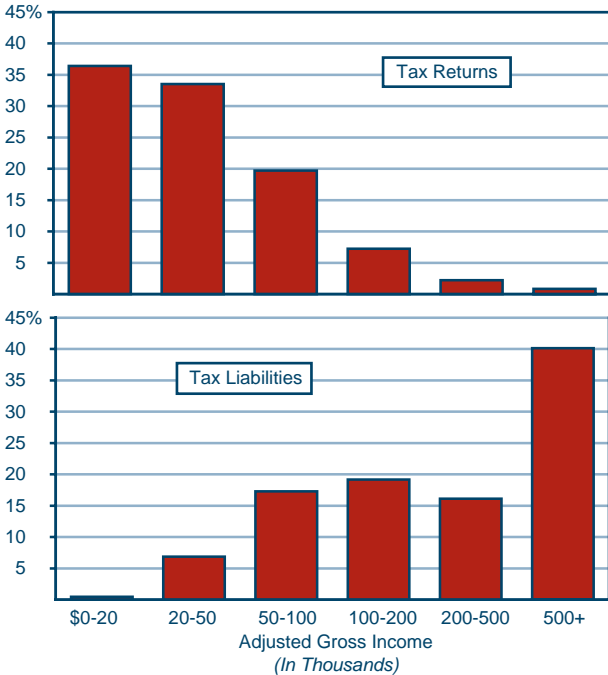
*Income Reported on California Tax Returns*



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

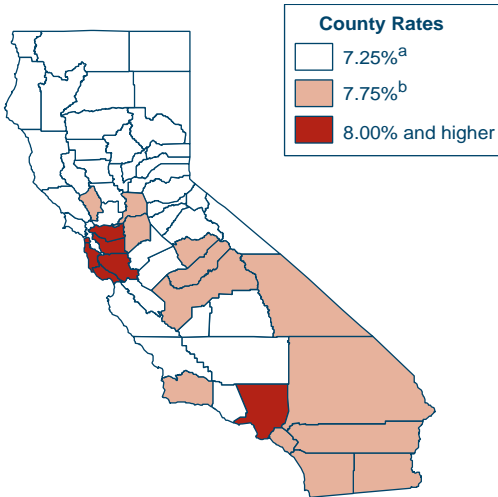
## Distribution of Income Tax Returns And Liabilities by Income

1999



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

## Sales Tax Rates Vary by County

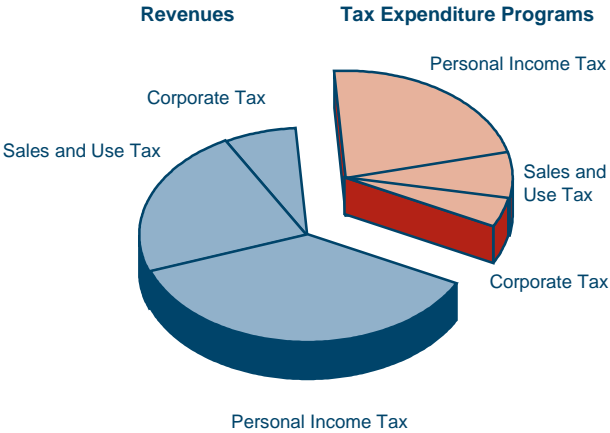


<sup>a</sup>Includes Stanislaus, Nevada, and Solano (7.375%), and Sonoma (7.50%).

<sup>b</sup>Includes Fresno (7.875%).

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

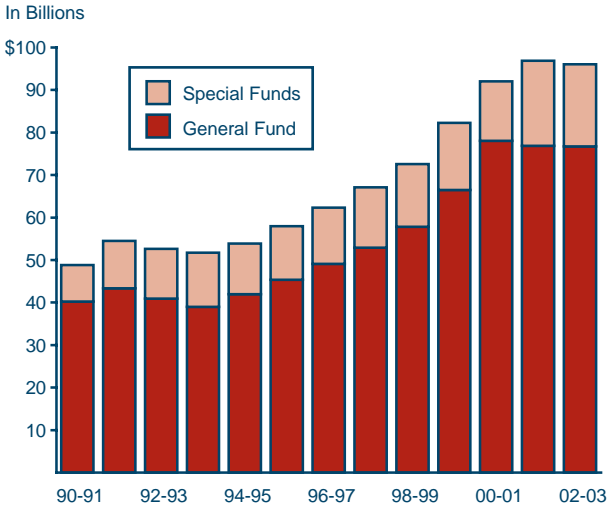
## Tax Expenditures Represent a Significant Portion of the Tax Base



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

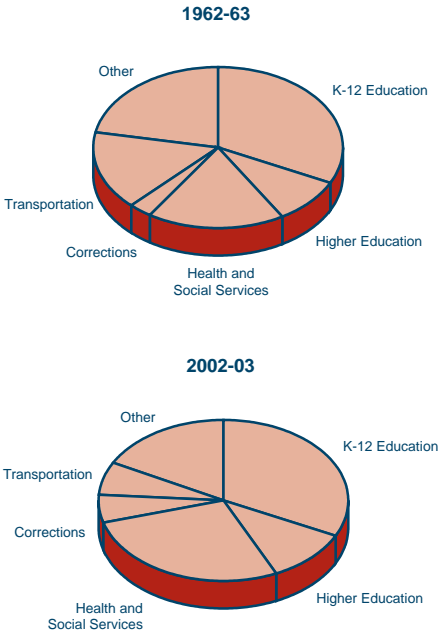


## State Spending Flat After Rapid Growth in Late 1990s



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

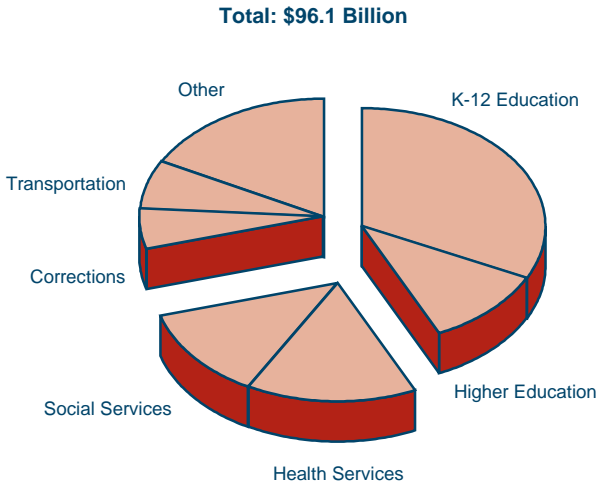
## The Mix of State Expenditures Has Shifted



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

## Education, Health, and Social Services Dominate Spending

2002-03



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

## Annual Cost Per Participant Varies Widely Among Major Programs

2002-03

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

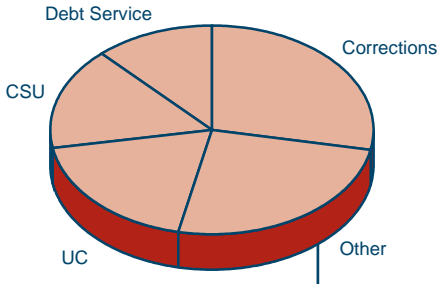
<sup>a</sup> Does not include federal funds or lottery funds. K-12 participants are in average daily attendance and higher education are in full-time equivalents.

<sup>b</sup> Includes tobacco settlement funds.

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

## State Operations Is Concentrated in Four Areas

General Fund—2002-03

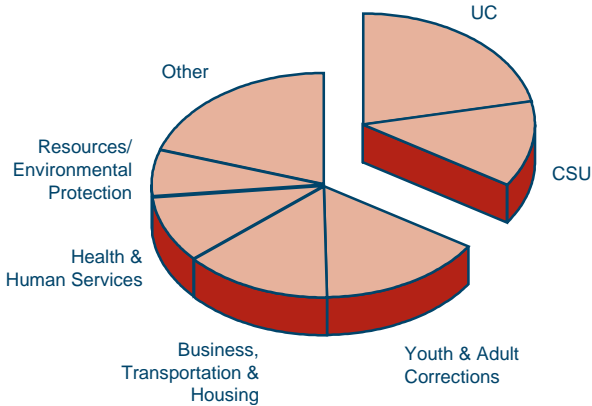


Other State Operations Spending	In Millions
Mental Health	\$500
Department of Forestry	410
Franchise Tax Board	409
Department of Developmental Services	362
Department of Justice	292
Department of Health Services	249
Board of Equalization	193

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

## Higher Education Represents One-Third of State Employment

*2001-02 Estimated State Employment*



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