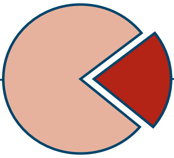
Total State Revenues

2004-05

General Fund Revenues		Total State Revenues $98.7 Billion	Special Funds Revenues	
Personal Income Tax	$39.0		Motor Vehicle-Related Levies	$6.9
Sales and Use Tax	25.1		Sales and Use Tax[a]	4.0
Corporation Tax	7.6		Tobacco-Related Taxes	0.9
All Other	5.6		All Other[b]	9.6
Total	**$77.3**		**Total**	**$21.4**



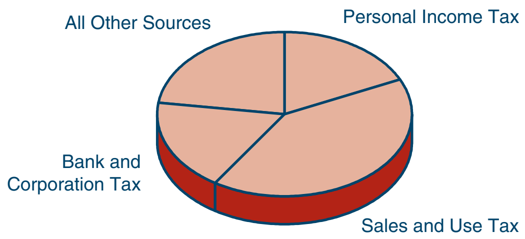
[a] Consists of amounts for Local Revenue Fund, transportation-related purposes, and allocation of local sales taxes for repayment of deficit bond. Excludes $2.4 billion allocated to Local Public Safety Fund, which is not shown in the budget totals.

[b] Includes a wide variety of sources, including regulatory taxes and licenses ($4.3 billion), certain bond proceeds ($1.2 billion), California State University fees ($1.2 billion), and other sources ($2.9 billion).

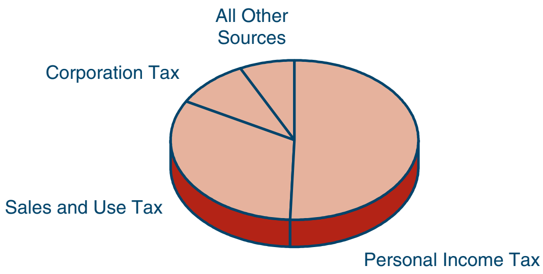
- General Fund revenues account for nearly 80 percent of total state revenues.
- Personal income taxes are the largest single revenue source, accounting for 50 percent of General Fund revenues and 40 percent of total revenues.
- Sales and use taxes and corporation taxes are the second and third largest General Fund sources, accounting for 32 percent and 10 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

1964-65



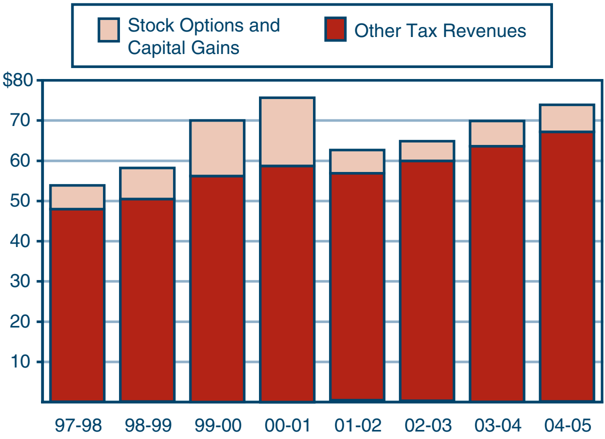
2004-05



- Over the past four decades, personal income tax revenues have increased dramatically—rising from 18 percent to over 50 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.

Revenue Plunge Contributed to Major Budget Shortfalls

General Fund Tax Revenues (In Billions)



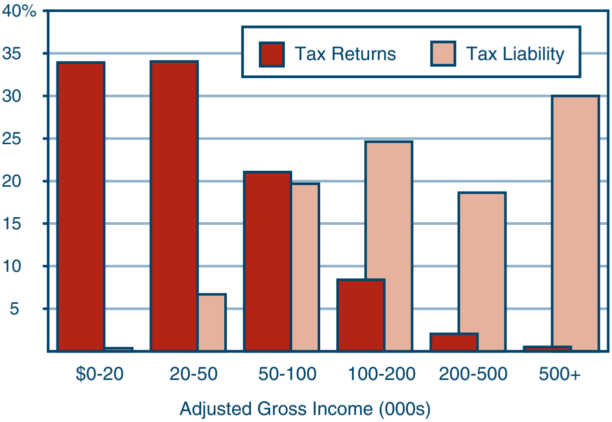
- Following several years of major increases, General Fund revenues plunged following the stock market crash and recession in 2001.

- Total tax revenues fell from $76 billion in 2000-01 to $63 billion in 2001-02, largely because personal income tax revenues from stock options and capital gains fell by nearly two-thirds.

- Although revenues are once again expanding, as of 2004-05 they remained roughly $2 billion below their previous peak.

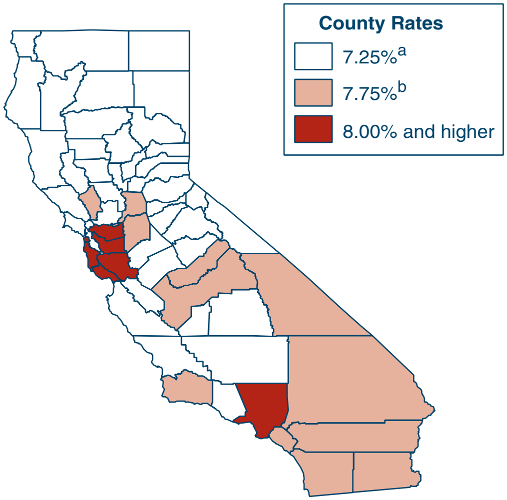
Distribution of Income Tax Returns And Liabilities by Income Level

2002



- 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 of $500,000 and over account for about 0.5 percent of returns, but 30 percent of tax liabilities.
- The recent passage of Proposition 63 imposing an additional tax of 1 percent on incomes of $1 million and above beginning in 2005 will increase the tax share of high-income taxpayers.

Sales Tax Rates Vary by County



[a]Includes Stanislaus, Nevada, and Solano (7.375%), and Sonoma (7.50%).
[b]Includes Fresno (7.875%).

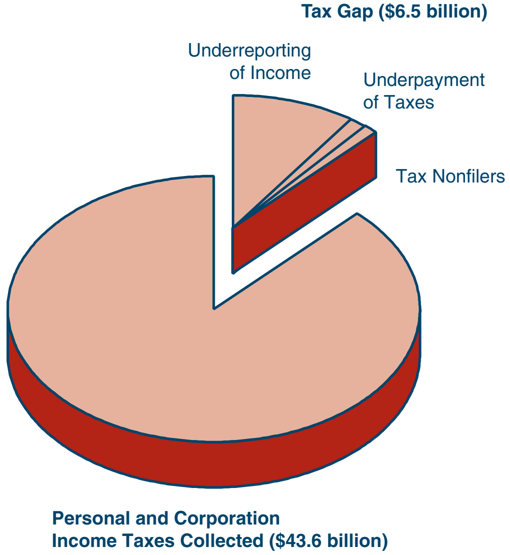
- Sales taxes vary from county to county because of the optional sales taxes that counties can choose to levy.

- 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.

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

2004-05

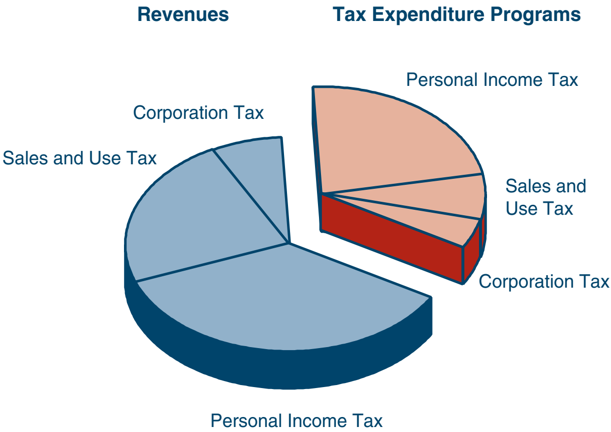


- The tax gap is defined as the difference between what taxpayers owe and what is actually collected by the tax agencies.

- Individuals represent about 75 percent of the income tax gap and businesses the remaining 25 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

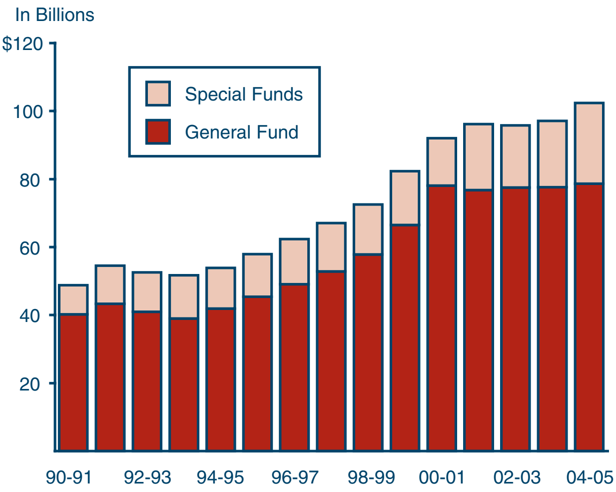


- Tax expenditure programs (TEPs) are special tax provisions that result in lower tax liabilities and are used to encourage particular activities, reward certain actions, or provide tax relief.

- Some disagreement exists regarding what is and what is not a TEP. Broadly defined, they represent foregone revenues of over $37 billion annually.

- Currently, the largest income 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 Relatively Flat After Rapid Growth in Late 1990s

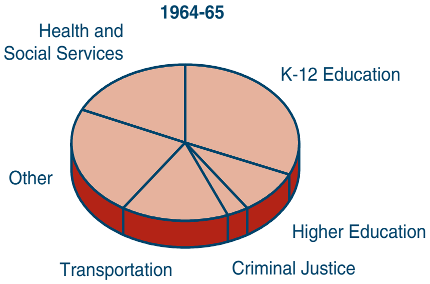


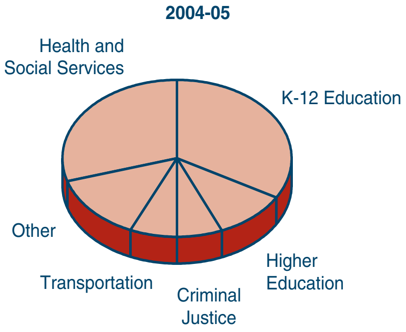
- State spending declined in the early 1990s due to the recession. During the rest of the decade, however, spending grew relatively rapidly—averaging 8.1 percent per year for all spending and 9.3 percent for General Fund spending.

- Real per capita total spending, which controls for both population growth and inflation, has averaged 1.4 percent annually since 1990-91.

- The spending totals for recent years are distorted by a variety of actions taken to balance the budget, including borrowing and other one-time factors. This makes year-to-year comparisons difficult.

The Mix of Total State Expenditures Has Shifted





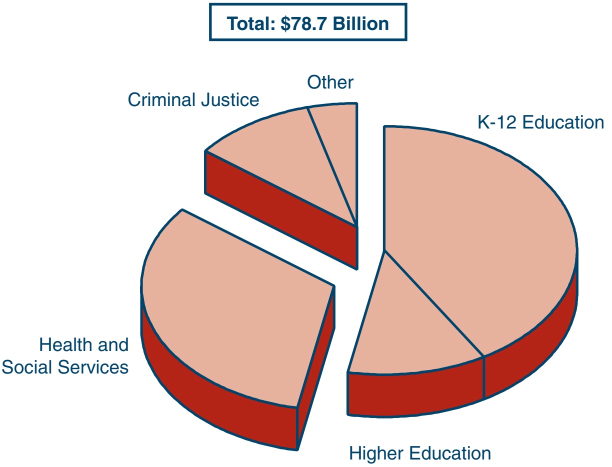
- The composition of total state spending (General Fund plus special funds) has evolved over time, with the most striking change being the growth in health and social services programs and the decline in transportation.

- K-12 education remains the single largest program area, accounting for almost a third of total spending.

- While a relatively small portion of the total, criminal justice's share of the budget has nearly doubled.

Education, Health, and Social Services Dominate Spending

General Fund—2004-05



- Together, education, health, and social services account for over 85 percent of total General Fund spending in 2004-05.
- Education's share of General Fund spending is nearly $42 billion—around 53 percent.
- Health and social services represent the next largest share of total General Fund spending at 32 percent ($25.5 billion).

Annual Cost Per Participant Varies Widely Among Major Programs

2004-05

	Number of Participants (In Thousands)	Average Cost Per Participant	
		General Fund	Total Government
Corrections			
Prison	163	$33,200	$33,200
Youth Authority	4	57,000	72,000
Education—Students[a]			
K-12	6,007	$5,139	$8,398
UC	203	13,429	26,564
CSU	324	7,553	13,290
Community Colleges	1,137	2,682	4,638
Health and Social Services—Beneficiaries			
Medi-Cal	6,695	$1,610	$3,220
Healthy Families	723	441	1,198
CalWORKs	1,157	1,876	4,679
SSI/SSP	1,186	2,940	7,112
Foster Care	76	6,400	23,227
In-Home Supportive Services	358	3,230	9,924
Developmental centers	3	114,494	213,239
Regional centers[b]	199	9,182	13,831

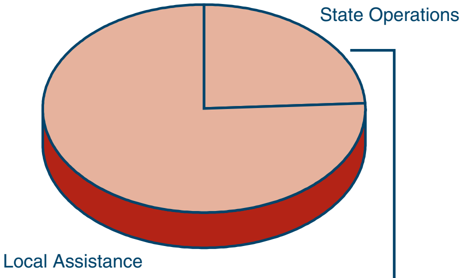
a Does not include federal funds or lottery funds. K-12 participants are in average daily attendance and higher education are in full-time equivalents.

b Includes funds for the Habilitation Services Program.

- 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 $1,000 a year, while disabled nursing home patients cost about $60,000 annually.

Most State Spending Is for Local Assistance

General Fund—2004-05



State Operations Spending	*In Billions*
Department of Corrections	$5.6
Debt Service	3.1
University of California	2.7
California State University	2.4
All Other	5.1

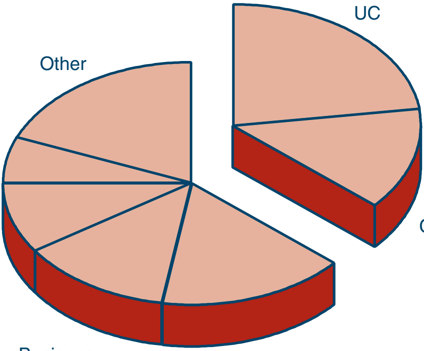
- Of the total $78.7 billion 2004-05 General Fund budget, state operations comprise only about one quarter ($18.9 billion). The remainder primarily involves local assistance—including funds for education, health, and social services.

- About three-fourths of General Fund state operations is in just four areas: the Department of Corrections, debt service, the University of California, and the California State University system.

- The remaining roughly one-quarter ($5.1 billion) of state operations supports a wide range of programs, including various health-related departments and programs and the tax-related agencies.

Higher Education Represents More Than One-Third of State Employment

2003-04 Estimated State Employment

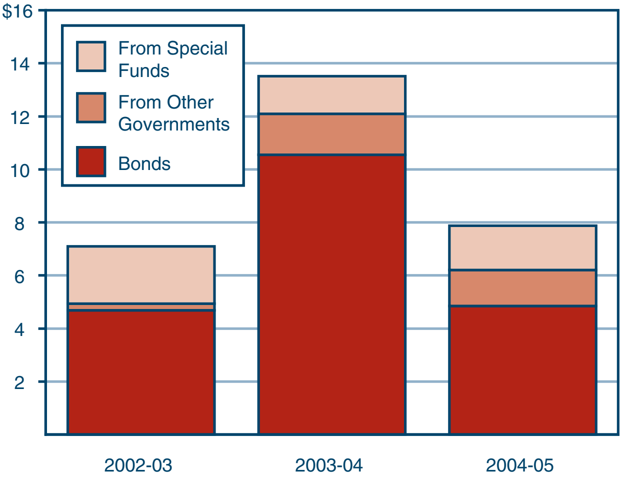


- In 2003-04, the state employed the equivalent of 318,250 full-time staff at a salary cost of roughly $17.4 billion (all funds). Employees in higher education represent more than one-third of the total.

- 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 2003-04, there were an estimated 8.9 employees per 1,000 population.

Borrowing Used Extensively to Help Balance Recent Budgets

In Billions



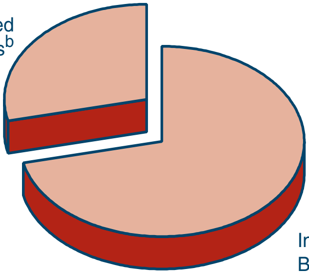
- From 2002-03 through 2004-05, the state authorized budget-related borrowing totaling $28 billion. Borrowing represented nearly 40 percent of the total solutions to California's budget shortfalls during those years.

- The borrowing took the form of bonds (including deficit-reduction bonds, pension bonds, tobacco securitization bonds, and tribal gaming bonds), loans from local governments and school districts, and loans from state special funds (including transportation, beverage recycling, and resources funds).

- Repayment of these borrowings will significantly add to budgetary pressures in future years.

Majority of Long-Term State Bond Debt Is for Infrastructure[a]

Total: $61 Billion



[a] Projected outstanding bonds as of June 30, 2005.
[b] Includes deficit-financing, tobacco secruitization, tribal gaming, and pension obligation bonds.

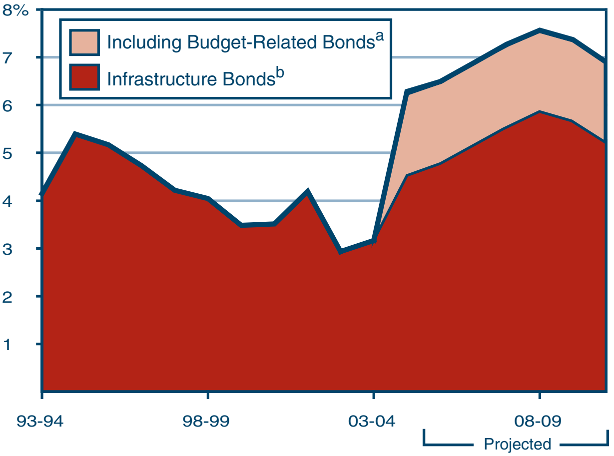
- The majority of California state government bond debt is related to infrastructure and is expected to total about $44 billion as of June 30, 2005. These bonds support projects are in areas such as education, transportation, water, and prisons.

- Budget-related debt totals $17 billion and now accounts for nearly one-third of long-term debt outstanding.

- About $37 billion of the $44 billion in infrastructure debt is related to general obligation bonds, which are voter-approved and whose repayment is guaranteed by the state.

- The remaining $7 billion is related to lease-revenue bonds, which are nonvoter-approved and are repaid from lease payments on the facilities financed by the bond proceeds.

Debt-Service Ratio Rising



[a]Includes deficit-financing and pension obligation bonds.
[b]Includes general obligation and lease-revenue bonds.

- 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 by policymakers and the investment community as one indicator of the state's debt burden.

- The DSR for infrastructure bonds increased in the early 1990s and peaked at slightly over 5 percent in the middle of the decade. It currently stands at about 4.6 percent, but is expected to increase to a peak of 5.9 percent in 2008-09 as currently authorized infrastructure-related bonds are sold in the future.

- When budget-related bonds are included, the DSR currently stands at about 6.3 percent, and will increase to a peak of 7.6 percent in 2008-09 before declining in