



LAO 



CALIFORNIA

CAL FACTS

2013

With a state as big, as populous, and as complex as California, it would be impossible to quickly summarize how its economy or state budget works. The purpose of *Cal Facts* is more modest. By providing various "snapshot" pieces of information, we hope to provide the reader with a broad overview of public finance and program trends in the state.

Cal Facts consists of a series of charts and tables which address questions frequently asked of our office. We hope the reader will find it to be a handy and helpful document.

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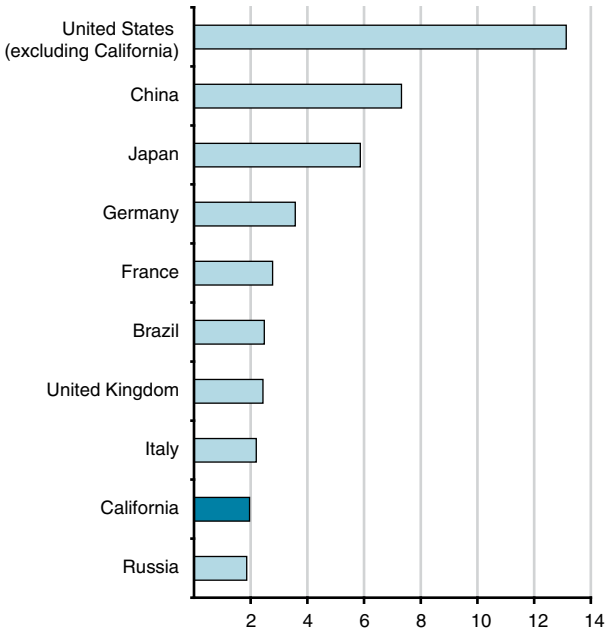
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California's Economy Is Ninth-Largest in the World

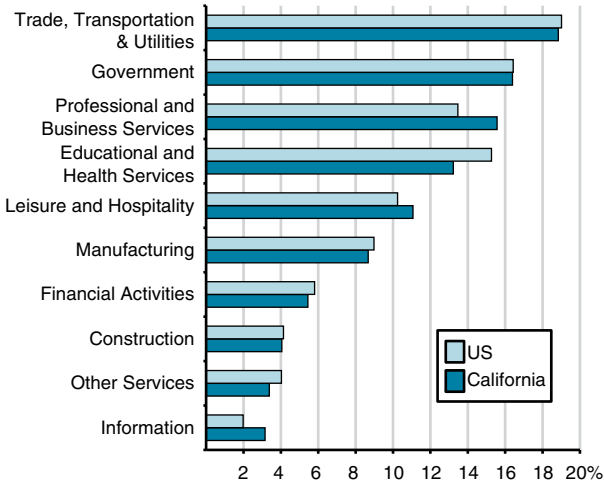
Gross Domestic Product in 2011 (In Trillions)



- California's gross domestic product (GDP), the total value of goods and services produced here, was just under \$2 trillion in 2011. California—with 12 percent of the U.S. population—accounts for 13 percent of the nation's output.
- Over one-third of California's GDP is produced in the Los Angeles-Long Beach-Santa Ana metropolitan area.
- The GDP of Texas—the next largest state economy—was \$1.3 trillion in 2011.

California's Mix of Jobs by Industry Is Similar to the U.S.

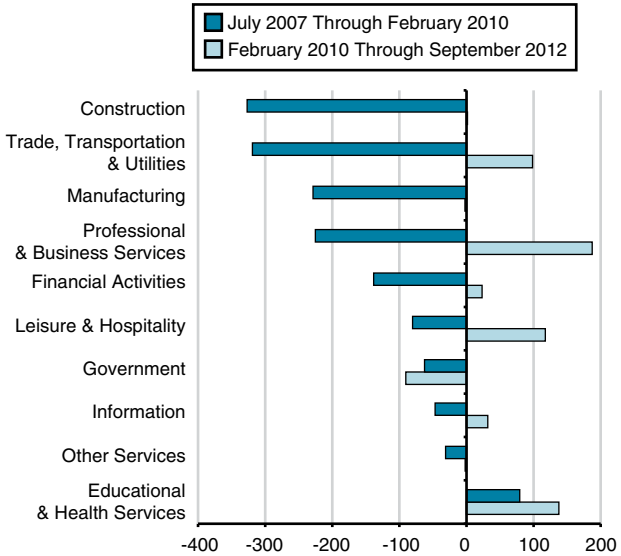
Percentage of Nonfarm Employment, August 2012



- California has an above-average share of jobs in professional/business services and in information due in part to the state's leadership in two sectors: technology and film/television production.
- California's relatively young population helps explain its smaller share of workers in health services.

Jobs Since the Recession: Some Sectors Are Struggling

Change in California Employment (In Thousands)

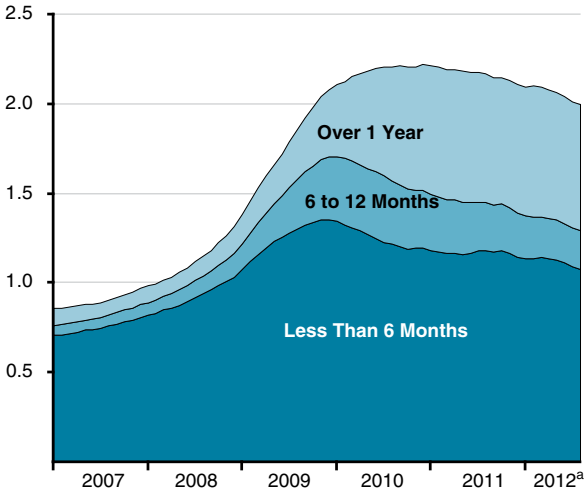


- As of September 2012, the state had recovered about 500,000 of the net 1.4 million jobs it lost between July 2007 and February 2010.
- Construction and manufacturing were two of the hardest-hit sectors during the recession, and they have grown little or none at all since February 2010.
- The recovery in most service sectors has been more substantial. Employment in educational and health services kept growing during the recession.



More California Workers Unemployed for Over Six Months

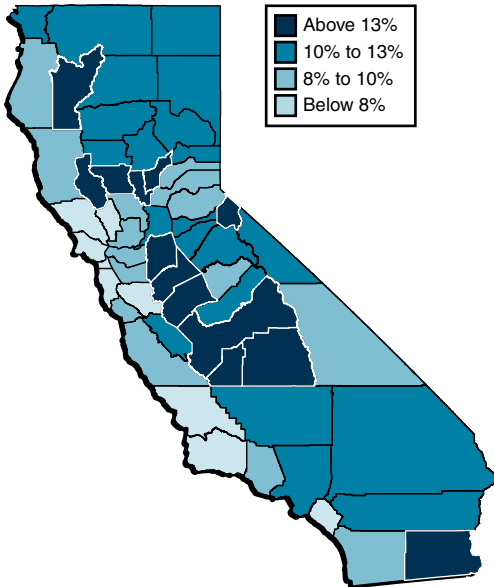
(In Millions)



^a Includes data through August 2012.

- The number of workers seeking jobs who have been unemployed for more than six months has risen steadily over the last five years. These unemployed workers made up about one-half of the unemployed in 2012, compared with only about one-sixth five years ago.
- Workers unemployed for long periods can face economic hardships due to loss of income and eligibility for unemployment insurance. They also may face greater difficulty getting a job due to erosion of job skills and other factors.

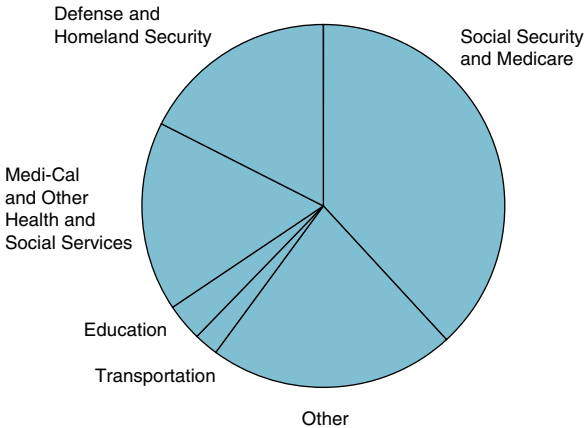
Unemployment Varies Significantly Throughout California



- The unemployment rate in inland counties as of October 2012 was 12.2 percent, whereas unemployment in coastal counties (including the Bay Area counties) was 8.8 percent.
- Since the recession began, California's unemployment rate has been between 2 and 3 percentage points higher than the U.S. unemployment rate.
- Only eight counties had unemployment rates below the national average: Marin, San Mateo, San Francisco, Napa, Orange, Santa Barbara, San Luis Obispo, and Sonoma.

California Receives About \$330 Billion From the Federal Government

Federal Fiscal Year (FFY) 2009-10

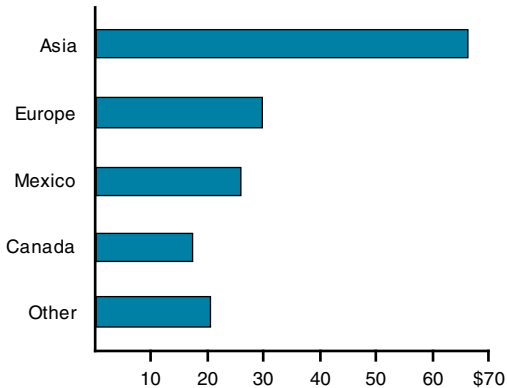


- In FFY 2009-10, federal spending in California was roughly three times the amount of state spending (General Fund and special funds).
- The federal government provides funding to individuals, state and local governments, nonprofits, and businesses in the form of payments (such as Social Security and Medicare), employee and retiree compensation, grants, and procurement (spending on goods and services).
- About one-quarter of these federal funds flowed through California's state budget.

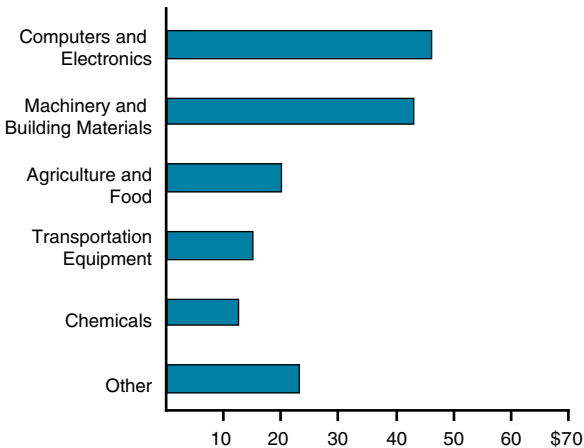
Trade Is an Important Source Of California Economic Activity

2011 International Exports (In Billions)

California Exports by Region

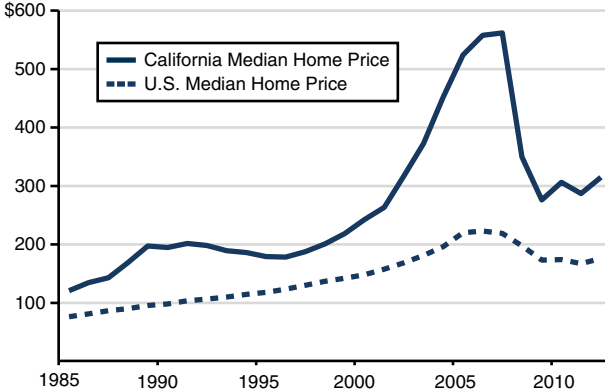


California Exports by Product



California Home Prices Have Begun to Climb

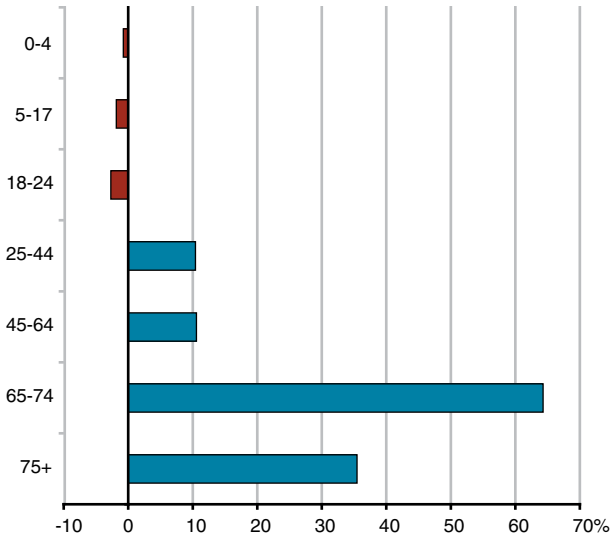
(In Thousands)



- The median single-family home sales price in California declined by \$250,000 when the “housing bubble” burst. Home prices have recently begun to climb again.
- Many homeowners remain underwater on their mortgages (when the mortgage amount outstanding is greater than the market value of the home) and thousands have gone through foreclosure. In 2011, there were 155,000 foreclosures in California—down from 238,000 in 2008. Though foreclosures have declined, more than 250,000 delinquency notices were issued in 2011.

California's Elderly Population Will Grow Rapidly in the Next Decade

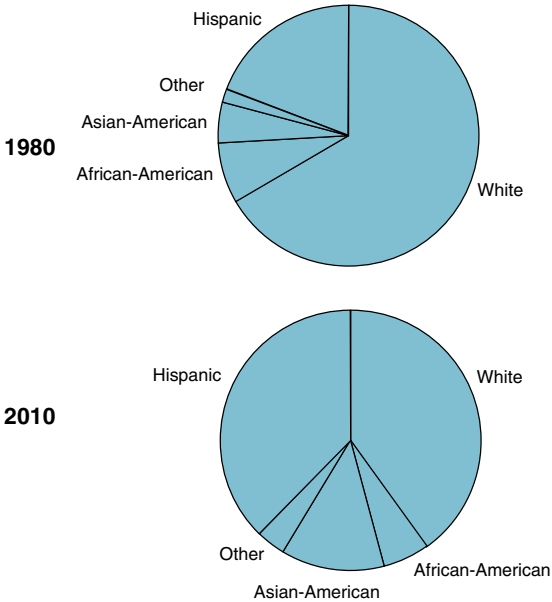
LAO Projected Growth by Age Group, 2010 Through 2020



- The first “baby boomers” turned 65 in 2011. The aging of this generation and continuing drops in death rates are projected to cause the share of California’s population age 65 and over to grow rapidly through 2020.
- As of 2010, the largest groups by age listed above were those ages 25 through 44 (10.5 million Californians) and 45 through 64 (9.3 million).
- The school and college-age groups are projected to be slightly smaller in 2020 due mainly to falling birth rates.

California's Racial and Ethnic Makeup Has Changed Since 1980

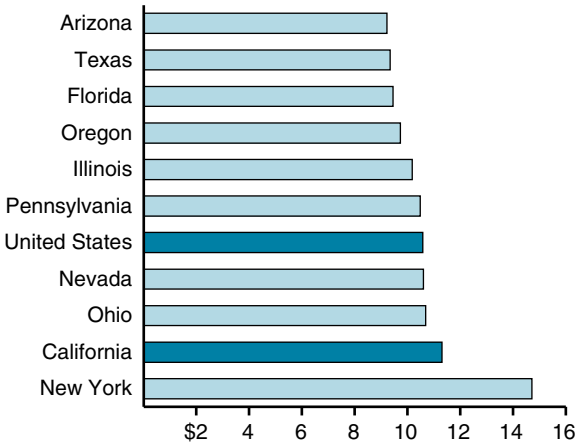
Share of Population in Each Group



- Non-Hispanic whites made up 40 percent of California's population in 2010—down from 67 percent in 1980.
- Between 1980 and 2010, the population of California's Hispanic and Asian-American communities increased substantially. Hispanics, for example, made up 38 percent of the population in 2010—up from 19 percent in 1980.
- African-Americans made up 6 percent of the population in 2010—down from about 8 percent in 1980.

California's Tax Burden Is Somewhat Above Average

State and Local Taxes Per \$100 of Personal Income, 2009-10



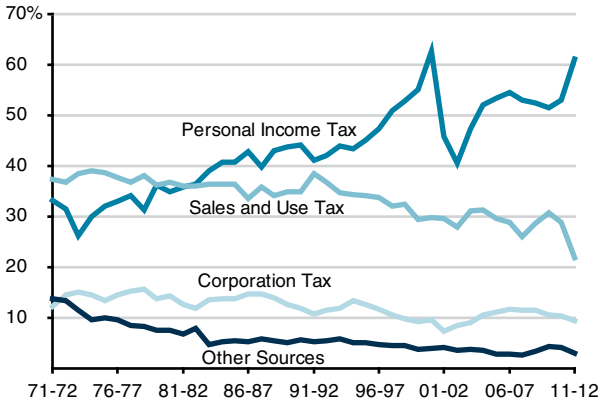
- In 2009-10, California's state and local tax burden—\$11.30 per \$100 of personal income—was somewhat above the \$10.59 average for the U.S. as a whole. (Temporary state tax increases adopted in 2009 were then in effect.)
- California's tax burden was higher than that of all neighboring states. Of the other most populous states, only New York's tax burden was higher.
- California's tax burden was the tenth highest among all 50 states.

State and Local Governments Rely on a Variety of Taxes

Type of Tax	Current Basic Tax Rate
Personal Income	Marginal rates of 1 percent to 12.3 percent. ^a Additional 1 percent surcharge for taxable income over \$1 million.
Sales and Use	Average rate of 8.4 percent. ^a Varies by locality.
Property	1 percent of assessed value, plus rate needed to pay voter-approved debt. (Assessed value typically grows by up to 2 percent per year.)
Corporation Tax	8.84 percent of net income apportioned to California (10.84 percent for certain bank and financial companies).
Insurance	2.35 percent of insurers' gross premiums.
Vehicle License	0.65 percent of depreciated vehicle value.
Cigarette	87¢ per pack.
Alcoholic Beverage	Varies by beverage, from 20¢ per gallon of wine or beer to \$6.60 per gallon of spirits (over 100 proof).
Vehicle Fuel	36¢ per gallon.
Diesel Fuel	10¢ per gallon.

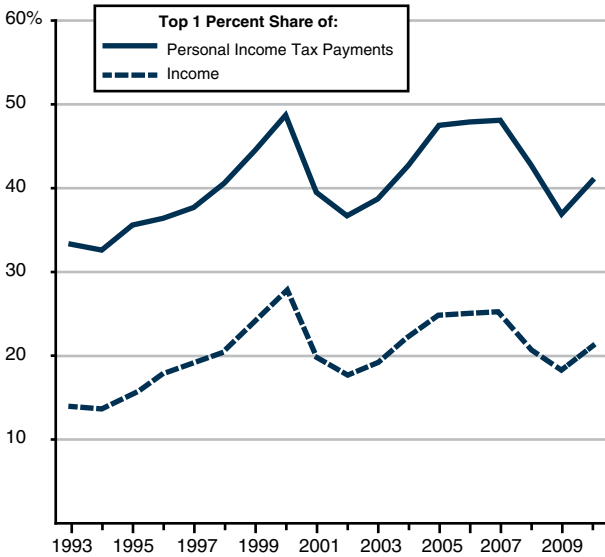
^a Includes temporary tax increases imposed by Proposition 30 (2012).

Composition of Revenues Has Changed Over Time



- Over the past four decades, the share of General Fund revenue raised from the personal income tax has increased dramatically—from 33 percent to 61 percent. The growth in this share is due to growth in real incomes, the state’s progressive income tax structure, and increased capital gains.
- During the same period, sales and use tax revenue declined from 37 percent to 22 percent of General Fund revenues. This reduced share reflects an increase in spending on services (which generally are untaxed) and an increase in the share of total sales tax revenues that go to local governments and not the General Fund.

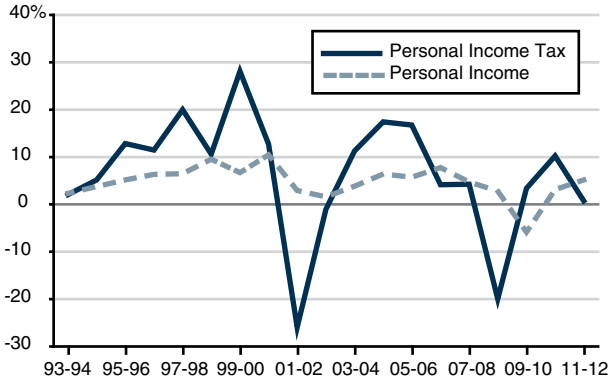
Top 1 Percent of Income Earners Pay Around 40 Percent of Income Taxes



- The fraction of the personal income tax (PIT) paid by the 1 percent of returns with the most income has varied from around 30 percent in the early 1990s to nearly 50 percent in 2000. The volatility of capital gains and business income causes these levels to rise and fall.
- Proposition 30 (2012) raises income tax rates for these high income taxpayers through 2018.

Personal Income Tax Much More Volatile Than Personal Income

Percent Change From Prior Year



- Personal income is a broad measure of economic activity in California. It measures wages and salaries, proprietors' income, and other income, but it excludes capital gains.
- As this graphic shows, personal income taxes paid to California's General Fund are much more volatile than personal income in the state. This is partly because the state taxes capital gains, which are especially volatile and mainly go to high-income taxpayers who pay the highest tax rates. These taxpayers' other income also tends to be volatile.
- Year-to-year changes in stock and other asset prices generate most of the volatility in capital gains.

Sales and Use Taxes Levied For State and Local Purposes

Rate	Purpose
3.94%	State General Fund
0.25	State Education Protection Account—created by Proposition 30 (2012)
0.25	State Fiscal Recovery Fund—to repay deficit-financing bonds
1.06	Local Revenue Fund—for various local agencies (2011 Realignment)
0.50	Local Public Safety Fund—for criminal justice activities (1993 Realignment)
0.50	Local Revenue Fund—for health and social services (1991 Realignment)
1.00	Bradley-Burns local sales and use tax—for city and county operations (.75 percent) and county transportation purposes (.25 percent)
(7.50%)	Subtotal (base state and local rate)
0.86%	Statewide average of optional local add-ons
8.36%	Total, Average State and Local Tax Rate

- The average sales and use tax (SUT) rate paid by California consumers currently is 8.4 percent. This includes the 0.25 percentage rate in effect through 2016 under Proposition 30 (2012).
- In 2011-12, state General Fund SUT collections were \$18.9 billion—down \$8.4 billion from 2010-11—due to the shift of 1.06 percentage point of the state SUT rate to local governments. This shift helps to fund the 2011 transfer of various state responsibilities to local governments.

Votes Required to Increase Taxes, Fees, Assessments, or Debt

Measure	Governing Body		Voters
State			
Tax	2/3	—	—
Fee	Majority	—	—
General obligation bond	2/3	+	Majority
Lease-revenue bond	Majority	—	—
Initiative proposing revenue or debt	—	—	Majority
Constitutional amendment (Legislative)	2/3	+	Majority
Local			
Tax:			
Funds used for general purposes	2/3 ^a	+	Majority
Funds used for specific purposes	Majority ^a	+	2/3
Property assessment	Majority	+	Majority ^b
Fee	Majority ^c	—	—
General obligation bond:			
K-14 districts	2/3	+	55%
Cities, counties, and special districts	2/3	+	2/3
Other debt	Majority	—	—

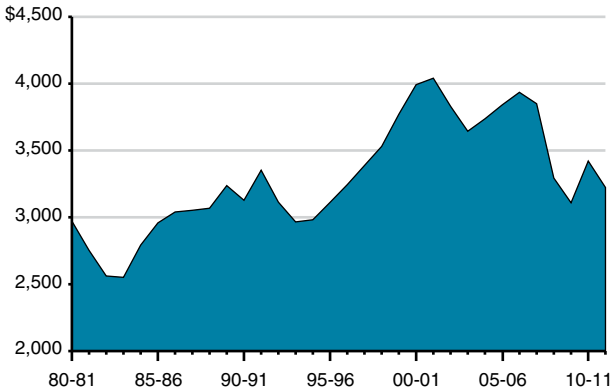
^a For most local agencies.

^b Votes weighted by assessment liability of affected property owners.

^c Fees on property (excluding water, sewer, refuse collection, gas, and electric fees) require voter approval.

Inflation-Adjusted Per Capita State Spending Has Declined Recently

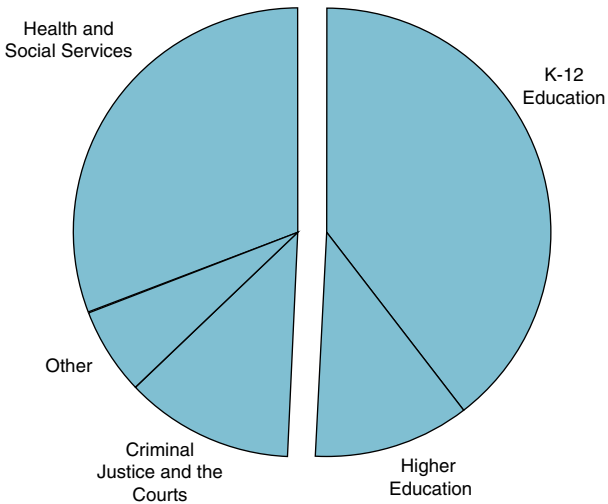
General Fund and Special Funds



- State spending from the General Fund and special funds in 2011-12 was \$122 billion, about the same as in 2006-07 (\$124 billion). Adjusting for inflation and population, however, General Fund and special fund spending declined 18 percent over the same period.
- While inflation-adjusted per capita General Fund spending in 2011-12 was at its lowest point since 1993-94, spending from special funds was higher than it has been in at least 30 years. The state's 2011 realignment of program responsibilities to counties shifted several billion dollars from the General Fund to special funds.

Education Makes Up Half of State Spending

General Fund—2011-12



- About one-half of the \$87 billion General Fund budget in 2011-12 was for payments to school districts, community colleges, and universities (\$44 billion). Health and social services spending accounted for about one-third of the budget (\$27 billion).
- In 2011-12, \$63 billion—73 percent of the total General Fund budget—was paid to local governments (including school districts and counties). State personnel costs, excluding university employees, accounted for about 12 percent of the budget.

Ballot Measures Have Had Major State-Local Fiscal Implications

Measure/Election	Major Provisions
Proposition 13/ June 1978	<ul style="list-style-type: none"> • Limits general property tax rate to 1 percent and 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-third voter approval of new local special taxes.
Proposition 4/ November 1979	<ul style="list-style-type: none"> • Limits state and local entity spending to prior-year amount, adjusted for population growth and per capita personal income growth. • Requires state to reimburse local governments for mandated costs.
Proposition 98/ November 1988	<ul style="list-style-type: none"> • Establishes minimum state funding guarantee for K-12 schools and community colleges.
Proposition 99/ November 1988	<ul style="list-style-type: none"> • Imposes a 25 cent per pack surtax on cigarettes and a comparable surtax on other tobacco products, and limits use of revenues, primarily to augment health-related programs.
Proposition 172/ November 1993	<ul style="list-style-type: none"> • Imposes half-cent sales tax and dedicates the revenue to local public safety programs.
Proposition 218/ November 1996	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Imposes a 50 cent per pack surtax on cigarettes and a comparable surtax on other tobacco products, and limits use of revenues, primarily to augment early childhood development programs.

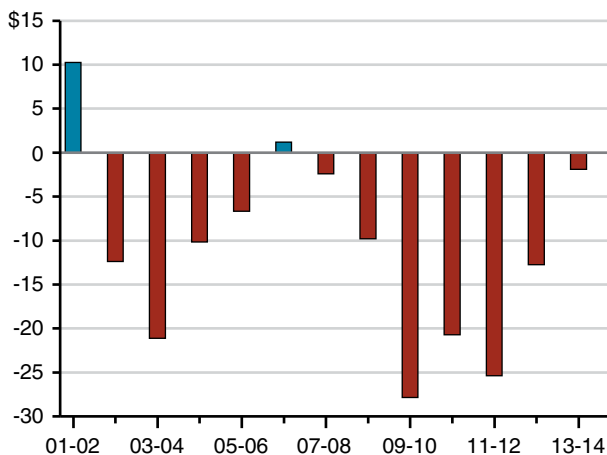
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Ballot Measures Have Had Major State-Local Fiscal Implications

Measure/Election	Major Provisions
Proposition 39/ November 2000	<ul style="list-style-type: none"> • Lowers voter approval from two-thirds to 55 percent for local general obligation bonds for school facilities.
Proposition 42/ March 2002	<ul style="list-style-type: none"> • Permanently directs to transportation purposes sales taxes on gasoline previously deposited in the General Fund.
Proposition 49/ November 2002	<ul style="list-style-type: none"> • Requires that the state fund after-school programs at a specified funding level.
Proposition 58/ March 2004	<ul style="list-style-type: none"> • Requires a balanced state budget, restricts borrowing, and creates a reserve fund.
Proposition 1A/ November 2004	<ul style="list-style-type: none"> • Restricts state's ability to reduce local government revenues from the property tax, sales tax, and vehicle license fee.
Proposition 63/ November 2004	<ul style="list-style-type: none"> • Imposes an additional 1 percent tax on incomes of \$1 million and over to fund mental health services.
Proposition 1A/ November 2006	<ul style="list-style-type: none"> • Limits state's ability to retain gasoline sales taxes in General Fund and constitutionally requires repayment of past-year loans to transportation.
Proposition 22/ November 2010	<ul style="list-style-type: none"> • Reduces the state's authority to use or redirect state fuel tax revenues and local property tax revenues.
Proposition 26/ November 2010	<ul style="list-style-type: none"> • Broadens the definition of "taxes" to include payments previously considered to be state and local fees and charges.
Proposition 30/ November 2012	<ul style="list-style-type: none"> • Temporarily imposes a quarter-cent sales tax and increases the personal income tax rate for upper-income taxpayers. • Guarantees local governments receive tax revenues annually for responsibilities transferred to them in 2011.

Significant Budget Shortfalls Since 2001

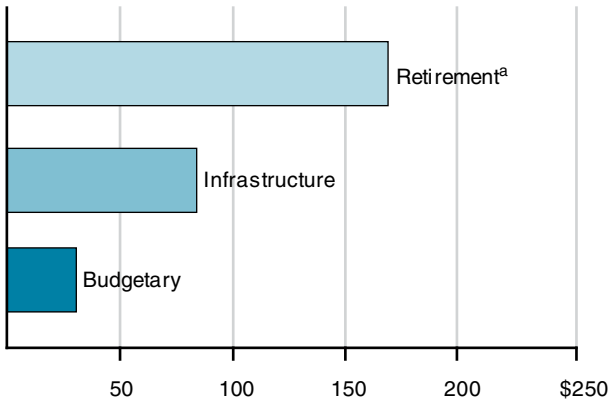
Projected General Fund Condition at Beginning of Each Budget Cycle (In Billions)



- California has dealt with large budget shortfalls since 2001. Recessions, new program and tax cut commitments, reliance on one-time budget actions, and revenue volatility were major causes of the shortfalls.
- The size of the state's projected shortfall can change considerably between November (the date of the estimates above) and June (the state's deadline for passing a budget). The eventual shortfall addressed in the 2009-10 budget, for example, totaled around \$60 billion.
- The state's economic recovery, prior budget cuts, and additional, temporary taxes have contributed to a much smaller budget shortfall in 2013-14.

Retirement Liabilities Are the Bulk of California's Long-Term Obligations

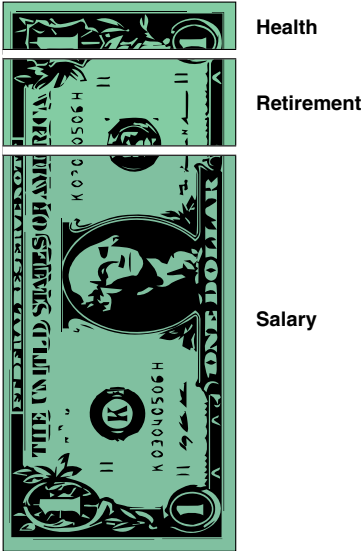
General Fund and Special Funds (In Billions)



^a Based on pension systems' valuations of liabilities

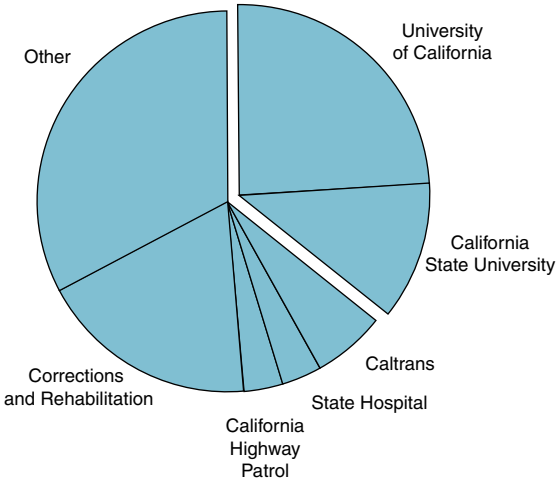
- California is paying for some obligations on an annual basis, including bonds for infrastructure projects and some retirement liabilities. Other obligations, including retiree health benefits for state employees, are paid when they are due. The state has no schedule in place for paying off certain obligations, including pension benefits for teachers.
- Obligations that the state has incurred recently to manage its budget problems are a relatively small part of the state's long-term liabilities. These include amounts owed to state special funds, K-12 schools, and other local governments.

State Costs for Employee Compensation Include Benefits



- Excluding university, legislative, and judicial employees, the state spent about \$21.6 billion (all funds) for employee compensation in 2011-12. About 30 percent of these costs are for health benefits (including vision and dental) and retirement benefits (including pensions, Medicare, and Social Security).
- About two-thirds of the state's General Fund employee compensation costs (excluding universities) are for employees at the California Department of Corrections and Rehabilitation.

Universities Represent One-Third Of State Government Jobs



- In 2011-12, the state employed about 357,000 full-time staff at a salary cost of roughly \$25 billion (all funds).
- The state has many positions that are authorized but not filled. The current vacancy rate across state departments is about 13 percent.
- Since 1980, state employment has averaged 8.9 employees per 1,000 population. In 2011-12, there were about 9.1 employees per 1,000 population. On this basis, California ranked 46th among the states.

Allocation of Property Tax Has Varied Over Time

(Dollars in Billions)

Selected Years	Revenue	Tax Distribution			
		Schools	Counties	Cities	Other
1977-78	\$10.3	53%	30%	10%	6%
1979-80	5.7	39	32	13	16
1993-94	19.1	51	21	11	18
2010-11	48.9	39	25	17	19

Figures include debt levies.

"Other" includes redevelopment agencies and special districts.

- In 1978, Proposition 13 set a maximum tax rate of 1 percent and shifted control of the distribution of property taxes to the state. The state prorated these revenues among local agencies except that it gave a smaller share to schools and backfilled schools' losses with state aid.
- In 1992 and 1993, the state modified the property tax distribution to give a greater share to schools (thereby reducing state school spending).
- In 2004, the state increased the share of property taxes to cities and counties to offset their losses from the (1) reduced vehicle license fee rate and (2) use of local sales taxes to repay the state's deficit financing bonds.
- In 2012, the state dissolved redevelopment agencies. Over time, property taxes that once went to these agencies will be distributed to other local governments in the area.

County, City, and Special District Revenue Sources Vary

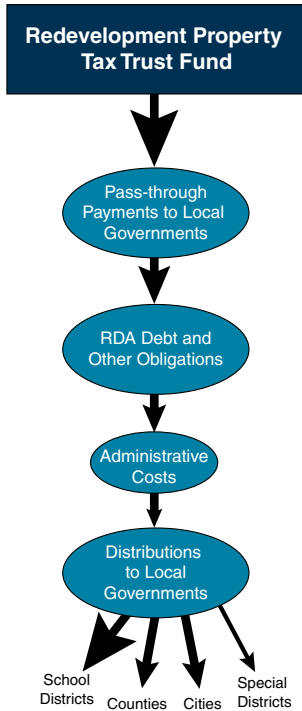
2009-10 (Dollars in Billions)

	Counties	Cities	Special Districts ^a
Total Revenues	\$49.2	\$53.2	\$8.2
Sources of Revenues			
Property taxes	23%	13%	36%
Sales and other taxes	3	18	—
User charges, permits, assessments, fines	15	41	30
Intergovernmental aid	57	9	25
Other revenues	3	17	10

^a Excludes enterprise and self-insurance special districts.

- Counties receive more than half of their revenues from the state and federal governments and must spend these funds for specific purposes, primarily health and social services programs. The 2011 realignment significantly increases the amount of state funding to counties.
- Cities receive over 40 percent of their revenues from various user charges. Cities use these funds to pay for electric, water, and other municipal services. Over one-third of city revenues come from local taxes, the largest of which is the property tax.
- Special district financing varies significantly based on the type of service the district provides.

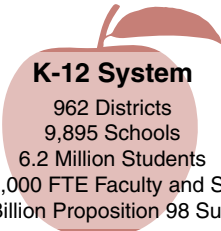
Ending Redevelopment Increases Revenue to Many Local Governments



- Prior to their dissolution, redevelopment agencies (RDAs) received over \$5 billion in property taxes annually. Over time, as former RDA debts and obligations are retired, these funds will be distributed to other local governments.
- In addition to property tax revenues, cash and proceeds from the sale of assets of former RDAs will be distributed to local governments.

California's Public Education System Is Extensive

2011-12^a



K-12 System

962 Districts
9,895 Schools
6.2 Million Students
534,000 FTE Faculty and Staff
\$41 Billion Proposition 98 Support



California Community Colleges

72 Districts
112 Colleges
1.2 Million FTE Students
62,000 FTE Faculty and Staff
\$5.8 Billion Proposition 98 Support



California State University

23 Campuses
340,000 FTE Students
37,000 FTE Faculty and Staff
\$2 Billion State General Fund Support



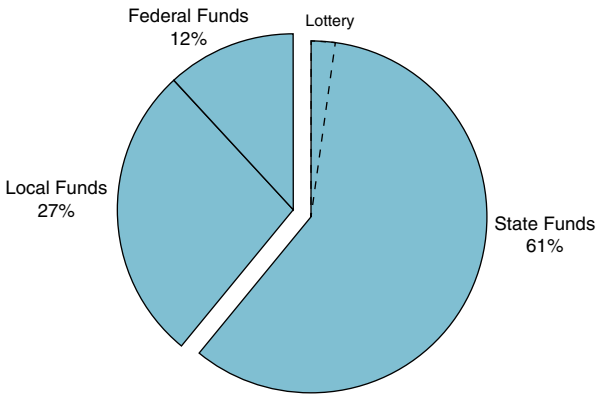
University of California

10 Campuses, 5 Medical Centers, 3 National Labs
214,000 FTE Students
138,000 FTE Faculty and Staff
\$2.3 Billion State General Fund Support

^a Except for K-12 non-funding information (2010-11).
FTE = Full-Time Equivalent

State Is Primary Source of Revenue for Schools

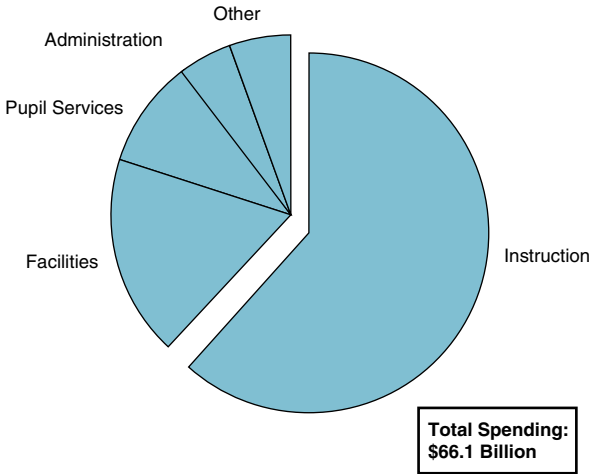
2011-12



- The state contributes the largest share of funding for school operations.
- A very small share of school funding comes from the California Lottery.
- Local funding comes primarily from property taxes. A relatively small amount comes from various other sources, including parcel taxes and fees for certain district services (such as transportation).
- The federal government contributes funding for several specific purposes—such as supporting low-income students and educating students with disabilities.

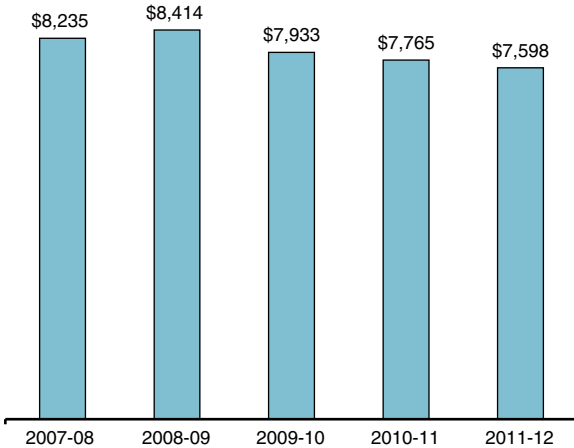
Most School Spending Is for Instruction

2010-11



- More than \$6 of every \$10 is spent on instruction and instructional support—largely paying teacher salaries and benefits.
- Almost \$2 of every \$10 is spent on facilities, including acquisition, construction, maintenance, and operations.
- About \$1 of every \$10 is spent on pupil services, including school meals, pupil transportation, guidance counseling, and health services.





Programmatic Funding Per Pupil Has Declined in Recent Years



- After several consecutive years of increases, programmatic per-pupil funding has declined over the last several years. In 2011-12, schools received 8 percent less than in 2007-08.
- Per-pupil funding over the period shown is higher than it otherwise would have been as a result of significant one-time federal funding, payment deferrals, and fund swaps.

School Staffing Shrank Over Past Four Years

Full-Time Equivalent (FTE) Personnel

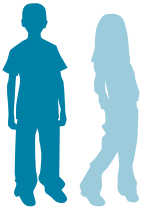
	2007	2010	Percent Change
 <p>Teachers</p>	300,512	268,495	-11%
 <p>Pupil Support</p>	27,629	23,666	-14%
 <p>Administrators</p>	25,687	21,602	-16%
 <p>Operational Support</p>	226,141 ^a	220,096 ^a	-3%

^a Due to data limitations, assumes all part-time staff work half time.

- Over this period, year-to-year changes in the teacher workforce were relatively small whereas shifts in administrators and pupil support personnel were more volatile.

California's Public Schools Serve Diverse Population

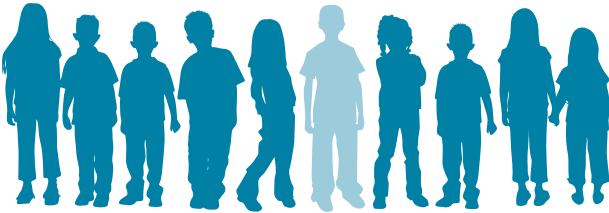
California's Public Schools Enroll More Than
6 Million K-12 Students:



About 1 in 2 is from a
low-income family.



About 1 in 4 is an
English language learner (ELL).

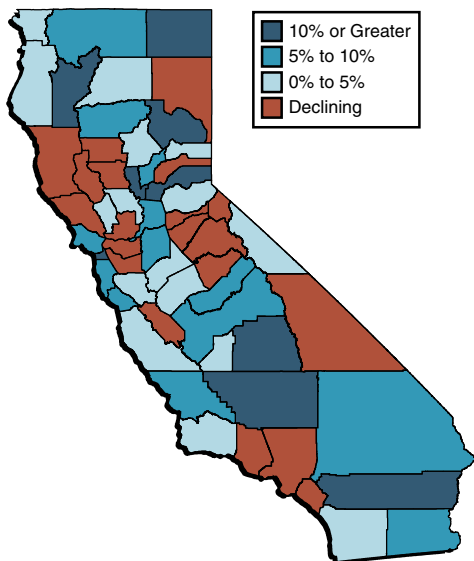


About 1 in 10 receives special education services.

- Students are considered low income if their family's income is at or below 185 percent of the federal poverty level (\$42,643 for a family of four).
- Of the state's ELL students, almost 85 percent are native Spanish speakers.
- The most common special education services are for learning disabilities, such as dyslexia.

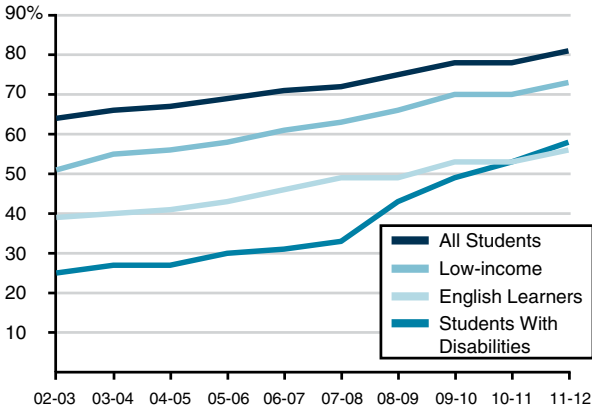
K-12 Enrollment Trends Vary Greatly By County

Enrollment Growth, 2011-12 Through 2020-21



- Statewide K-12 enrollment is projected to grow by 1.1 percent from 2011-12 through 2020-21. Changes in enrollment over this decade will vary significantly by county, with increases expected in 38 counties and decreases expected in 20 counties.
- The greatest increase is projected to occur in Riverside County, which is expected to gain 73,500 students over the decade.
- The greatest decrease is projected to occur in Los Angeles County, which is expected to lose 140,000 students over the decade.

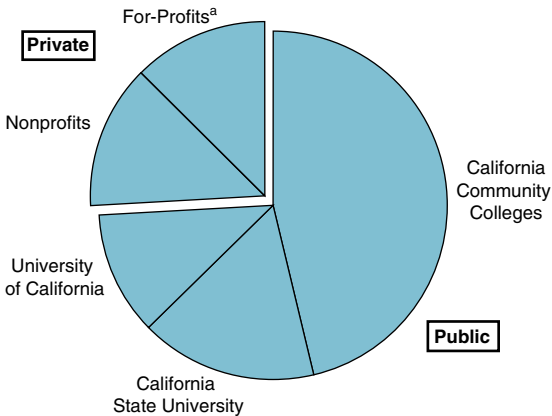
Student Achievement Rising Over Time



- The percent of sixth-grade students scoring at or above basic on the California Standards Test (CST) in math has been rising over time.
- Trends in English Language Arts scores closely mirror trends in math scores.
- Recent CST gains for students with disabilities (SWDs) are attributable in part to a greater proportion of SWDs taking an alternative test and being excluded from the CST data.

Most College Students in California Attend Public Institutions

Full-Time Equivalent (FTE) Students, 2010-11

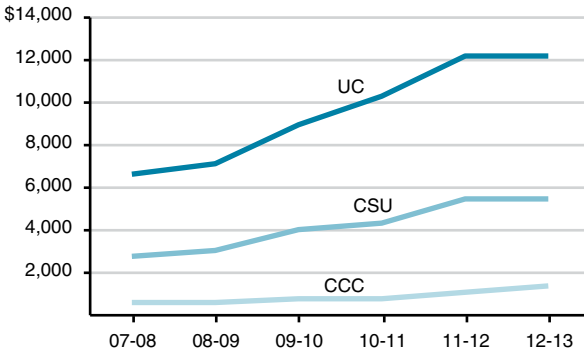


^a Figure likely underestimates California students enrolled in for-profits due to inconsistencies among institutions in reporting the location of students in online programs and branch campuses.

- The share of FTE students enrolled in public colleges and universities is higher in California than in the nation (74 percent and 68 percent, respectively).
- Though a large majority of California students attend public institutions, the proportion of students in private, for-profit institutions has grown in recent years while the share in each of the other segments has declined.
- Budget-related enrollment constraints at the public institutions have contributed to this trend, as have the more flexible program options offered by many for-profit colleges.

Tuition Has Nearly Doubled in Recent Years

Systemwide Tuition and Fees for Undergraduate California Residents^a

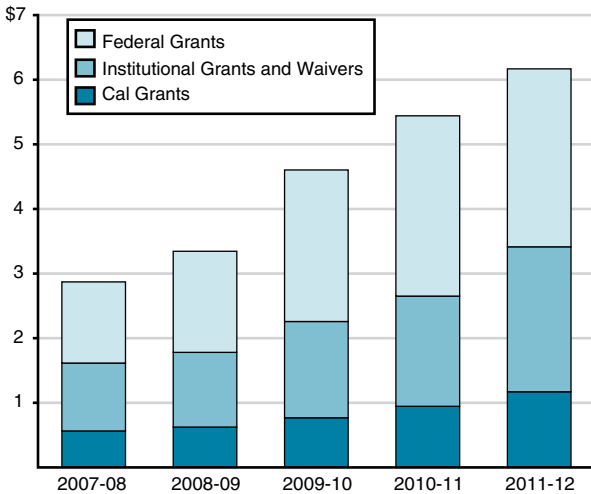


^a Excludes campus-based fees.

- Since 2007-08, California Community College (CCC) fees have more than doubled, while tuition at the University of California (UC) and California State University (CSU) has nearly doubled.
- Currently, the CCC per-unit fee (\$46) is lowest among the 50 states. Undergraduate tuition at CSU (\$5,472) is lower than 14 of its 15 public university peers, undergraduate tuition at UC (\$12,192) is slightly above the average of its four comparison public research universities.
- About half of the students currently enrolled in public colleges and universities receive grants or waivers that fully cover systemwide tuition and fees, compared with about one-third of students in 2007-08.

Financial Aid More Than Doubled Since 2007-08

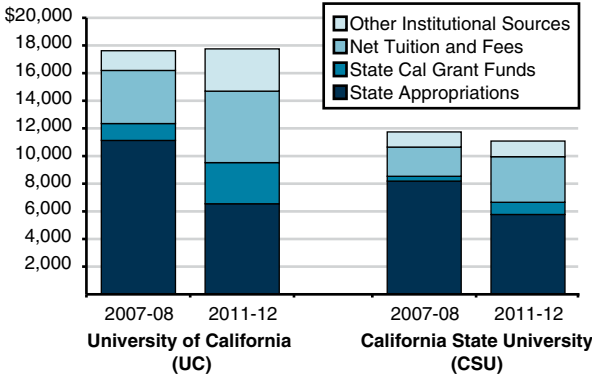
(Dollars Awarded in Billions)



- Each major source of aid shown above has more than doubled since 2007-08.
- Most growth in financial aid costs has been related to covering fee and tuition increases. Some of the growth also is due to an increasing number of community college students qualifying for fee waivers.
- Many middle-income students who do not receive grants or waivers claim federal education tax credits averaging about \$1,800 per year. We estimate these benefits also have more than doubled over this period—growing from roughly \$750 million to more than \$1.5 billion.

State Share of Higher Education Spending Has Declined

Per-Student Education and Student Services Spending by Source of Funds^a

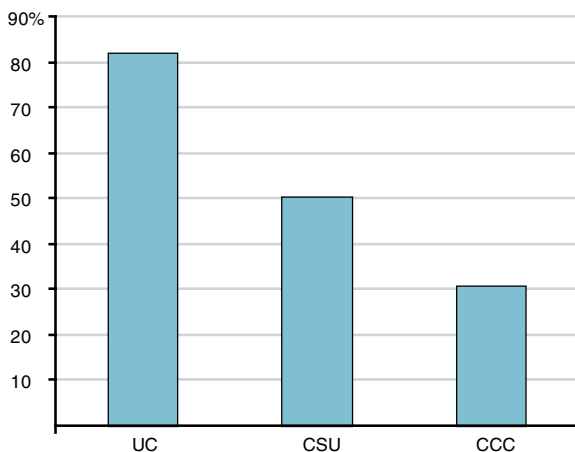


^a Excludes health science instruction, research centers, and public service programs not directly related to instruction. Includes general campus instruction, students services, and a corresponding portion of academic support, institutional support, and operation/maintenance of plant.

- While core educational spending per student at UC and CSU was relatively flat from 2007-08 to 2011-12, the share covered by the state declined. This decline was mitigated by increases in tuition and other support, including federal and private funds and nonresident surcharges.
- Year-to-year comparisons are complicated by several factors. For example, the figure does not adjust for inflation. In addition, UC restarted contributions for its pension program in 2010, adding more than \$200 million in costs by 2011-12. To cover these cost increases, the universities have reduced spending in other areas, for example, by increasing student-to-faculty ratios.

Graduation Rates Vary Significantly by Segment

Six-Year Undergraduate Graduation Rates^a

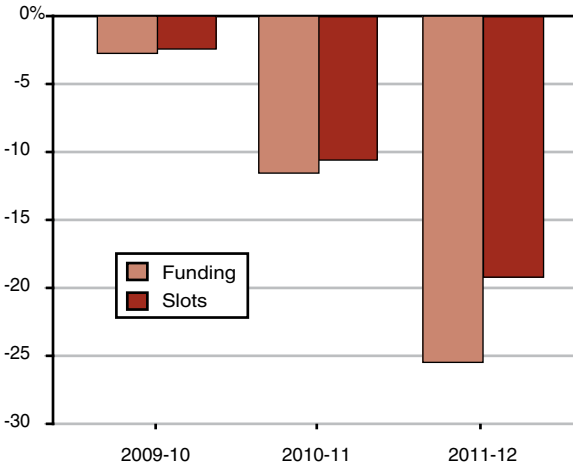


^a Percentage of students enrolled as freshmen in 2003-04 who graduated or transferred to a baccalaureate program within six years (2008-09).

- The systemwide graduation rate for the University of California (UC) and California State University (CSU) is about 80 percent and 50 percent, respectively.
- Only about 30 percent of California Community College (CCC) students who seek to transfer or graduate with an associate degree or certificate actually do so.
- Variations in graduation rates are due in part to the level of academic preparation among incoming students at each segment. For example, while freshmen at UC generally arrive ready for college-level math and writing, about 50 percent of CSU freshmen and 90 percent of CCC freshmen require remediation.

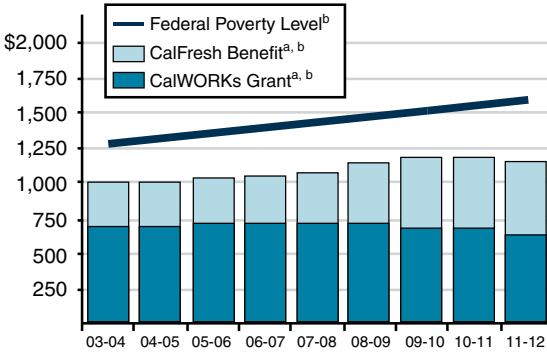
Subsidized Child Care Notably Reduced in Recent Years

Percent Change Since 2008-09



- California offers subsidized child care and preschool services to families receiving welfare benefits and other low-income families.
- From 2008-09 through 2011-12, combined state and federal funding for these programs was reduced from \$3.2 billion to \$2.4 billion, a decrease of 25 percent.
- Less funding has resulted in fewer children served, with an estimated loss of 82,000 slots (19 percent).
- Some recent policy changes have achieved savings without affecting the number of children served. For example, the state has reduced the maximum reimbursement rate for some providers and cut funding for certain support activities.

CalWORKs Grant Levels Have Declined, While CalFresh Benefits Have Risen



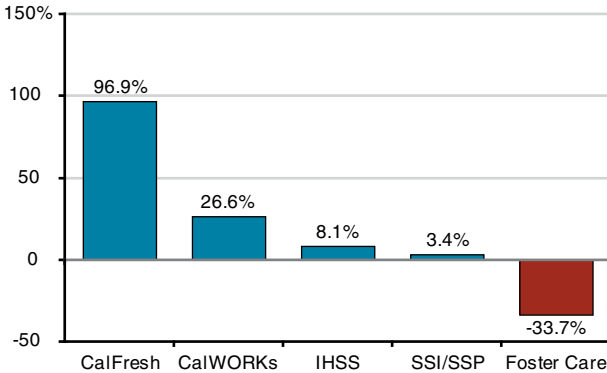
^a Maximum monthly amount.

^b For a family of three.

- CalWORKs is California's cash assistance and welfare-to-work program for low-income families. CalWORKs recipients also qualify for cash food assistance through the CalFresh program.
- While federally funded CalFresh benefit levels are tied to the price of food and have risen somewhat, the size of the state-determined CalWORKs grant has decreased in recent years.
- In 2011-12, combined CalFresh and CalWORKs benefits brought a family of three with no income to approximately 73 percent of the federal poverty level. This is higher than the national average of approximately 61 percent.

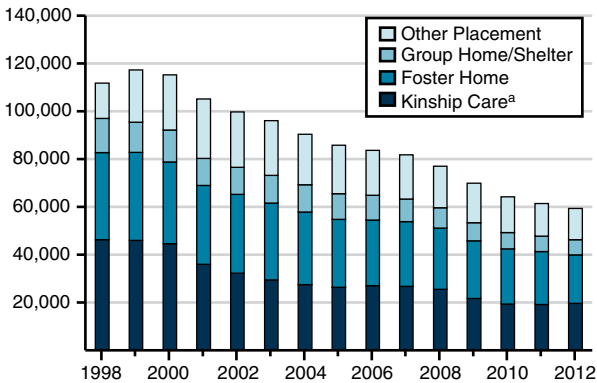
Social Services Programs Had Varied Growth Through Recession

Percent Change in Caseload From 2007-08 to 2011-12



- The CalFresh caseload nearly doubled from 2007-08 levels and continues to rise. The CalWORKs caseload increased to a lesser extent and peaked in 2010-11.
- The In-Home Supportive Services (IHSS) caseload—less sensitive to economic fluctuations—has increased by 8 percent over the last five years. Several policy changes have also had the effect of slowing growth in caseload.
- The SSI/SSP caseload has increased only slightly in the last five years. This is due in part to recent grant reductions that in effect reduce the eligible population.
- The foster care caseload has declined since 2001 and through the recession, in part reflecting the creation of the Kinship Guardianship Assistance Payment program.

The State's Foster Care System: Smaller Caseloads and Shorter Lengths of Stay

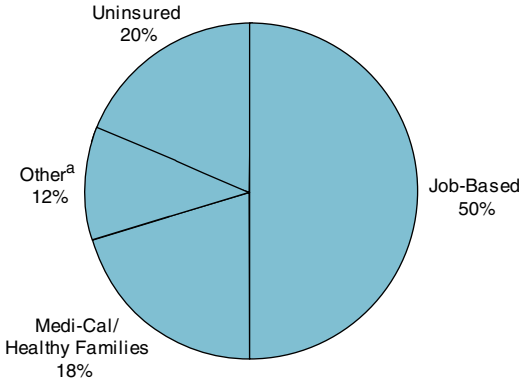


^a Kinship care is where foster children are placed with relative caregivers. Kinship care is the most frequently used placement option, which is consistent with state policy requiring foster children to be placed in the most family-like setting possible.

- Foster care caseloads have been declining since 2000 as more children exit the system than enter it.
- Part of the caseload decline can be attributed to the creation of a new program in 2000 that provides financial assistance to relative caregivers to become legal guardians for their relative foster children—a permanent placement option outside the foster care system.
- Caseload declines also reflect the shorter lengths of stay for children in the foster care system in recent years. The median length of stay for children in foster care on their first removal from their parent's home has declined from 17 months in 2000 to 13 months in 2009.

Health Insurance Coverage, 2011

Nonelderly, Birth to Age 64

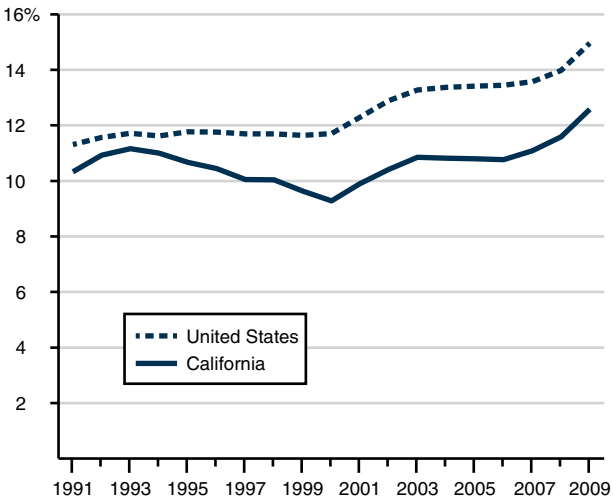


^a Includes, for example, self-purchased private health insurance and federal veterans' benefits.

- In 2011, 50 percent of nonelderly Californians, or 16.5 million persons, had job-based health insurance coverage. Another 18 percent, or nearly 6 million persons, had coverage through the Medi-Cal or Healthy Families Programs.
- Twenty percent of nonelderly Californians, or about 6.7 million persons, lacked any form of health insurance coverage at a given point in 2011.
- The federal Patient Protection and Affordable Care Act, also known as federal health care reform, is projected to reduce the number of uninsured Californians by roughly 2 to 3 million by 2019.

Health Spending Is a Growing Part Of the California and U.S. Economy

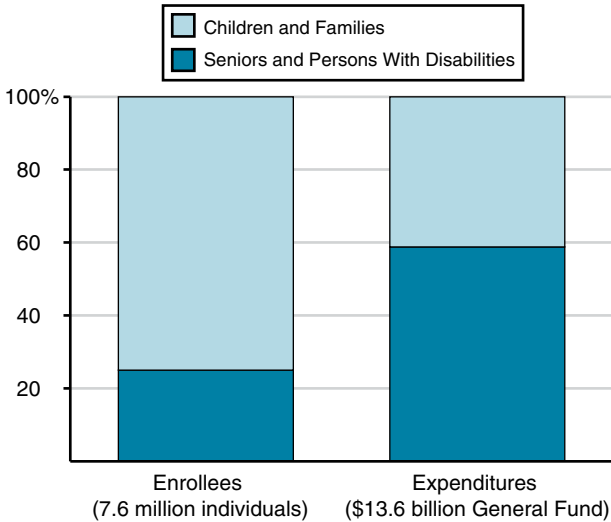
Public and Private Health Spending as a Percent of Gross Domestic Product or Gross State Product



- Public and private spending on health care services in California was \$230 billion in 2009—which was about 12 percent of Gross State Product.
- Health care spending as a percent of the state economy and per capita is below the national average. This could be due to factors such as a relatively high rate of uninsured, a younger population, low Medi-Cal reimbursement rates, and a high prevalence of managed care in California.
- California per capita health care spending grew by an average of 6.3 percent per year from 2000 to 2009.

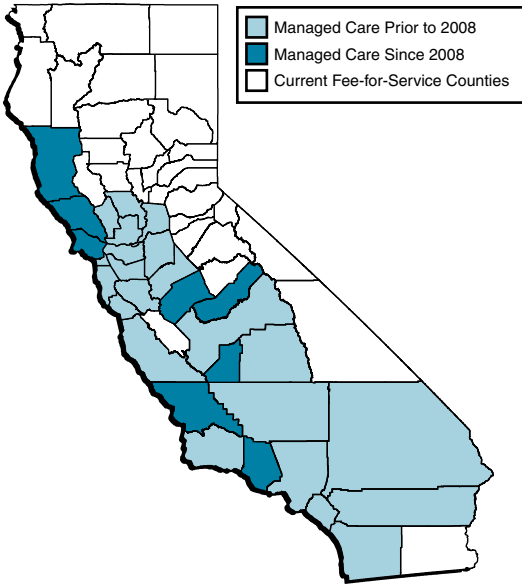
Disproportionate Share of Medi-Cal Spending for Seniors and Disabled

2011-12 Estimates



- While the largest group of beneficiaries (75 percent) is families and children, a disproportionate share of Medi-Cal spending from the General Fund (59 percent) is for seniors and persons with disabilities (SPDs).
- The SPDs typically are more intensive users of expensive health care services. Under fee-for-service arrangements, Medi-Cal spends \$5.5 billion General Fund on prescription drugs, hospital inpatient care, and long-term care. The SPDs represent 75 percent of these expenditures.

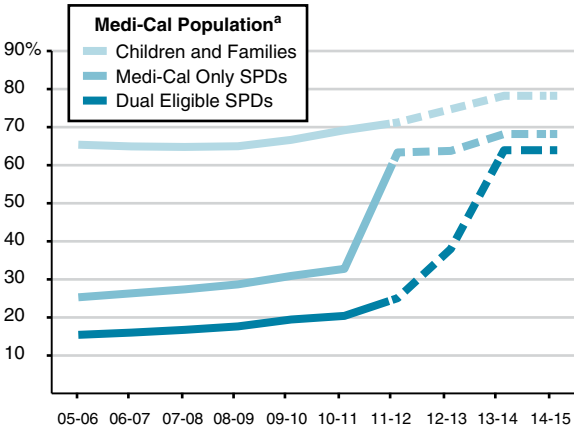
Medi-Cal Managed Care Continues To Expand



- Medi-Cal provides health care services under two arrangements: (1) fee-for-service (providers are paid for each medical service delivered) and (2) managed care (health plans are paid a "capitated" rate per plan beneficiary regardless of the number of services delivered).
- Managed care availability increased from 22 counties in 2008 to 30 counties in 2012. Currently, managed care is not available in 28 mostly rural counties, where beneficiaries receive fee-for-service medical care.
- The state plans to expand managed care into all counties over the next several years.

Seniors and Persons With Disabilities (SPDs) Are Shifting Into Medi-Cal Managed Care

Percent Enrolled in Medi-Cal Managed Care

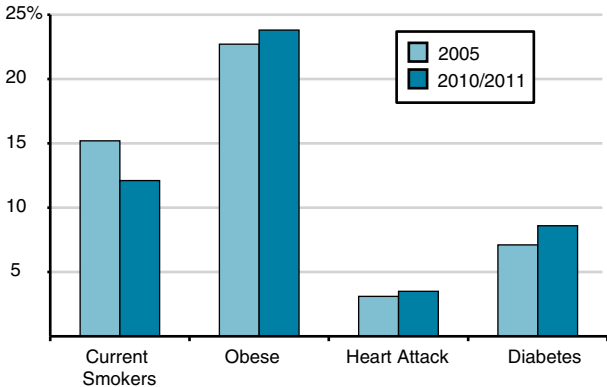


^a Projections (shown by dotted lines) do not account for expansion of Medi-Cal enrollment beginning in January 2014 as a result of the Affordable Care Act.

- The Medi-Cal population can be grouped into two broad categories: (1) children and families, and (2) SPDs. There are two types of SPDs: (1) Medi-Cal only SPDs and (2) dual eligible SPDs who are covered by both Medi-Cal and Medicare.
- Beginning June 2011, the Medi-Cal only SPD population in 16 counties shifted into managed care from fee-for-service (FFS) arrangements.
- Dual eligible SPDs are primarily in FFS Medi-Cal. In 2013 (pending federal approval), the state begins a demonstration project to enroll dual eligibles in managed care.

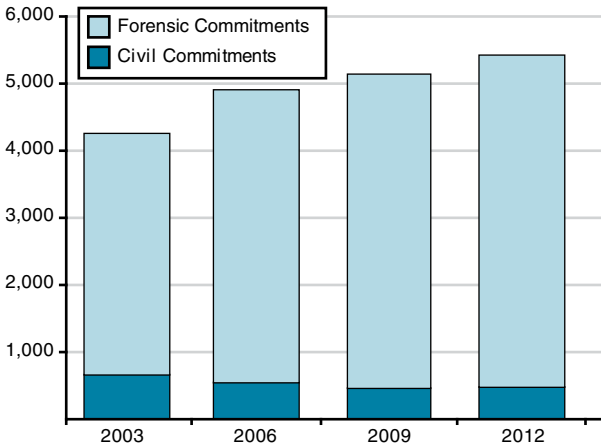
While Smoking Has Decreased, Obesity, Heart Attacks and Diabetes Have Increased

Percent of California Adults Aged 18 and Over



- The percentage of adults in California who smoke has declined in recent years, while the percentage who are obese, have been determined to have had a heart attack, or have been diagnosed with diabetes has increased. The decline in smoking rate and increase in obesity rate reflects an ongoing trend that has occurred over the last several decades.
- Smoking or being obese can increase the risk of having a heart attack, becoming diabetic, or getting cancer.
- Smoking, obesity, heart disease, and diabetes are major contributors to health care costs. For example, in 2006, California public agencies spent about \$13 billion on direct health care costs resulting from obesity.

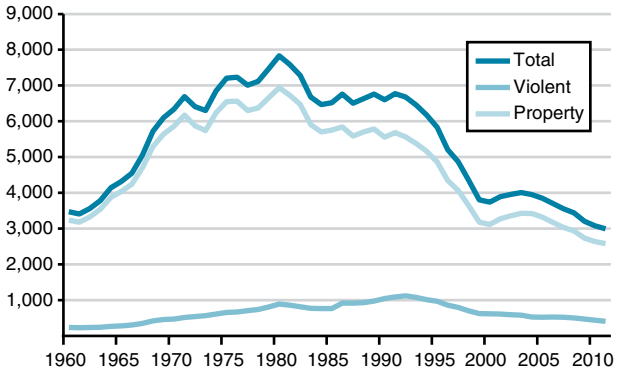
State Hospital Forensic Population Increases, Civil Commitment Population Decreases



- In 2012, the five state hospitals averaged a caseload of about 5,500 patients who fall into two broad categories: (1) **forensic commitments**, who have been committed by the courts as inmate transfers, mentally disordered offenders, not guilty by reason of insanity, incompetent to stand trial, or sexually violent predators; and (2) **civil commitments**, who are generally referred to the state hospitals for treatment by the counties.
- Over the last nine years, the forensic population in state hospitals has increased from 3,591 to 4,944, while the county-referred population has decreased from 717 to 489. The change in population mix reflects better county resources for non-violent individuals and better diagnoses of mental illness for those who are ill.

Crime Rate at Historic Low

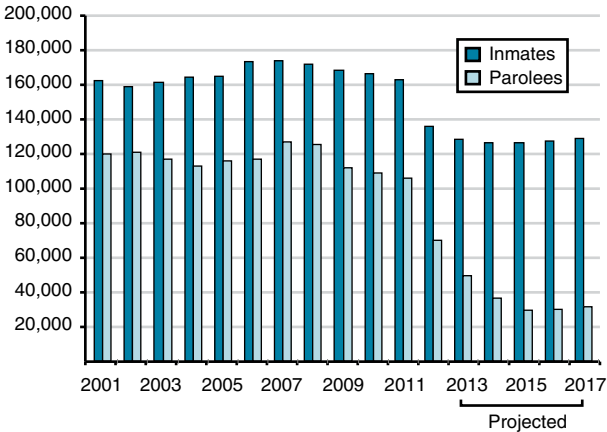
Rate Per 100,000 Population



- California experienced a decline in both property and violent crime rates since the early 1990s. Between 1991 and 2011, the state's overall crime rate declined by 56 percent. This trend is similar to declines in crime patterns in the rest of the United States.
- In 2011, about 3,000 crimes were committed in California per 100,000 residents—a total of about 1.1 million incidents. This is down from a high of over 2 million crimes reported annually in the early 1990s.
- The state's property crime rate is lower than the nationwide rate. However, the rate of violent crime (such as murder, rape, and assault) in California remains somewhat higher than the United States as a whole.

Prison and Parole Population Expected to Continue to Decline

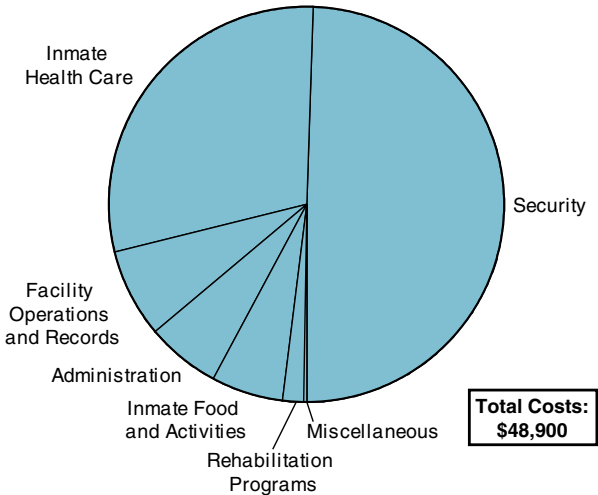
As of June 30



- California's prison population peaked at around 173,000 inmates in 2007. The state's parole population also peaked in the same year at around 126,000 parolees. Since then, these populations have declined largely due to various policy changes that reduced the number of admissions to the state's prisons.
- The significant decrease in these populations between 2011 and 2012—as well as the continued decline that is projected over the next several years—is largely attributable to the 2011 realignment legislation. This legislation limited prison commitments to felons who have a current or prior conviction for a serious, violent, or sex offense and generally limited state parole to felons whose current offense is serious or violent.

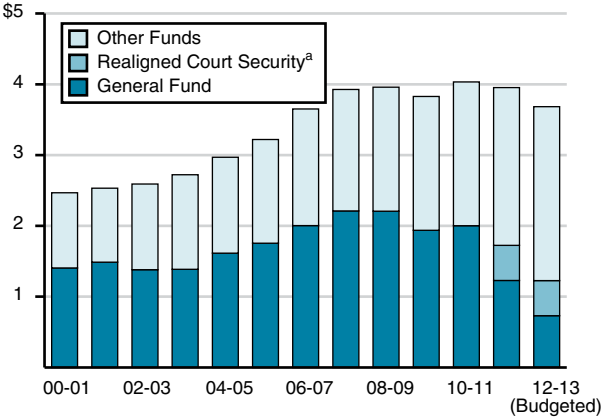
Most Inmate Costs Related to Security and Health Care

2010-11



- In 2010-11, the average cost to incarcerate an inmate in state prison was about \$48,900. The primary cost drivers for the state's prison system are security (such as pay for correctional officers)—which accounts for about half of the total cost—and health care—which accounts for about 30 percent.
- Other states typically spend around \$30,000 per year per inmate. The difference is primarily due to the relatively high salaries received by California's correctional officers as well as California's high cost for inmate health care.

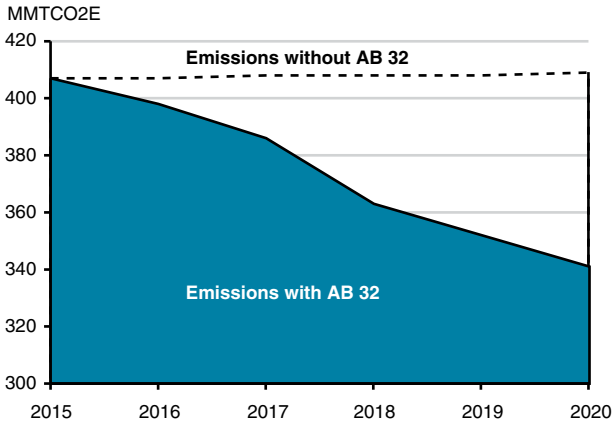
Recent Declines in Judicial Branch General Fund Support (In Billions)



^a 2011 realignment shifted funding for most court security from the state General Fund to counties. Displayed for comparison purposes.

- Total funding for the judicial branch increased steadily throughout most of the past decade—reaching a peak in 2010-11 of roughly \$4 billion.
- General Fund support of the judicial branch has been significantly reduced since 2008-09. The General Fund share of the entire judicial branch budget declined from 56 percent in 2008-09 to 20 percent in 2012-13.
- In addition to the state General Fund, other funding sources for the judicial branch include civil filing fees, criminal penalties and fines, county maintenance of effort payments, and federal grants.

Capping Greenhouse Gas Emissions

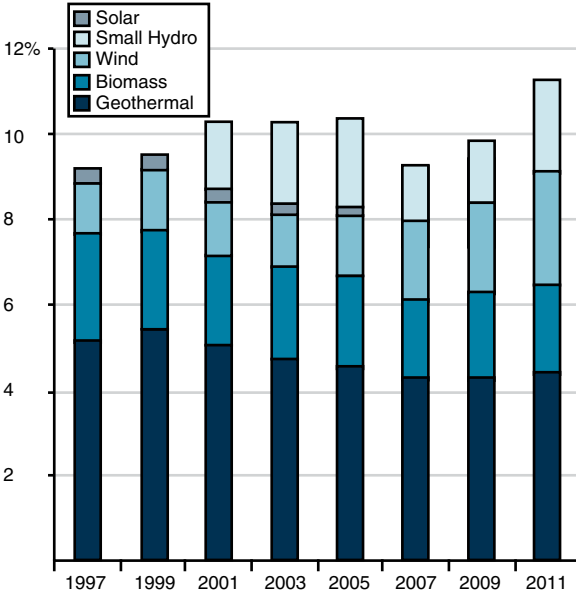


MMTCO2E = Million Metric Tons of Carbon Dioxide Equivalent

- Assembly Bill 32 (2006) established the goal of reducing greenhouse gas (GHG) emissions statewide to 1990 levels by 2020. In order to meet this goal, the state adopted a cap-and-trade program that places a “cap” on aggregate GHG emissions from the state’s largest emitters.
- The ARB will issue carbon allowances equivalent to the cap. Large emitters will, in turn, be able to “trade” (buy and sell) these allowances on the open market in order to comply with the regulation.
- Over time, the cap on emissions will gradually decline from roughly 400 MMTCO2E in 2015 to 340 MMTCO2E in 2020.

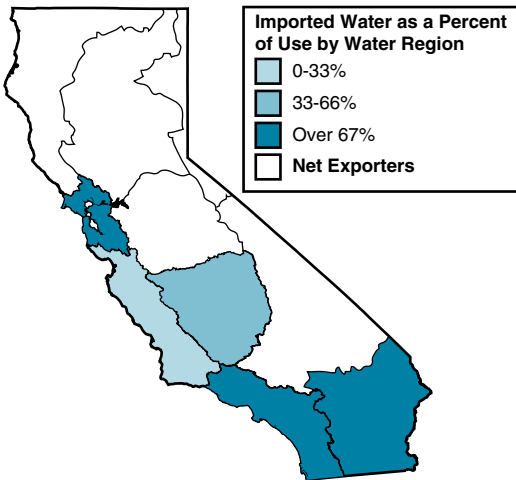
Renewable Energy Development Up, But Still Small Share of Supply

Percentage of Total Electricity Supply



- Although total electricity demand in California increased between 1997 and 2008, electricity demand has since declined—primarily due to the recession and slow economic recovery.
- Renewable energy development in the state, while modestly growing since 2008, still remains a small percentage of total electricity supplied.

Population Centers Rely Heavily on Imported Water



- Water supply in California does not occur where demand is greatest—75 percent of the state’s precipitation falls in the north, while 75 percent of the state’s population lives in the south.
- The State Water Project and the federal Central Valley project include dams, reservoirs, and aqueducts that store and move water through the Sacramento-San Joaquin River Delta. These supply drinking water to most Californians and water for about one-third of the state’s cropland. Urban Southern California users and agricultural users in Imperial and Riverside counties also rely on water imported from the Colorado River.

Average California Driver in 2011...



... drove nearly 40 miles each day

... spent roughly \$4,650 on vehicle expenses and fuel

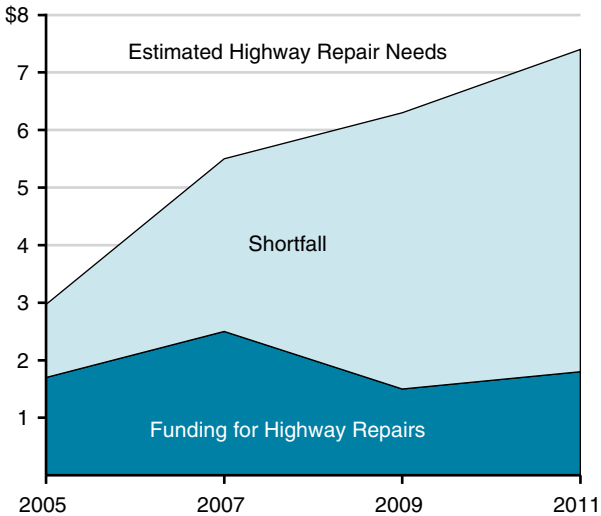
... paid about \$220 in state fuel tax and \$115 in federal fuel tax

... registered 1.2 vehicles

- There are 24 million licensed drivers in California, which is about 80 percent of Californians over the age of 16.
- Highway congestion resulted in about 86 million hours of delays in 2011 statewide.
- Traffic crashes remain a leading cause of preventable death in California. In 2010, 2,715 people were killed in crashes. California had the seventh lowest fatality rate in the nation—0.84 fatal injuries for every 100 million miles driven.
- While roughly 85 percent of all Californians drive to work alone or in a carpool, about 5 percent of Californians use transit to reach their jobs.

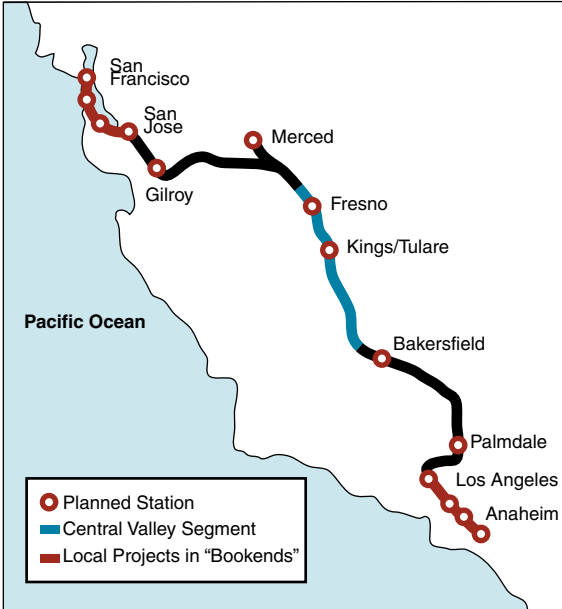
Annual Spending on Highway Repairs Falls Short of Needs

(In Billions)



- Many of California's over 50,000 lane miles of state highways are reaching the end of their useful life.
- In 2011, Caltrans estimated it needed \$7.4 billion each year to repair the state's aging highway system. However, the state currently only provides about \$1.8 billion each year for repairs.
- One way the state can slow the growth of highway repair costs is to adequately fund and perform maintenance to extend the useful life of roads.

High-Speed Rail (HSR) Construction May Begin in 2013



- The planned HSR system from San Francisco to Anaheim is estimated to cost \$68.4 billion. To date, only \$12.3 billion in federal funds and state bond funds have been identified.
- The 2012-13 budget includes \$6 billion—\$2.7 billion in bond funds and \$3.3 billion in federal funds—for construction in the Central Valley and \$1.1 billion for local projects around San Francisco and Los Angeles intended to support the development of HSR.

Major State Information Technology (IT) Projects

Project Name	Project Sponsor(s)	Estimated Completion Year	Total Cost to Date ^a /Total Estimated Cost (In Millions)
Fi\$Cal	DOF, SCO, STO, DGS	2017	\$77.6 / \$616.8
EDR	FTB	2016	74.7 / 522.2
LRS	HHSA	2014	6.5 / 475.6
CA-MMIS	DHCS	2017	43.8 / 458.6
CMIPS II	DSS	2013	175.5 / 423.7
SOMS	CDCR	2014	205.0 / 416.3
MyCalPAYS (21 st Century) Project	SCO	2013	252.0 / 370.6
CROS	BOE	2017	3.2 / 269.4
Totals			\$838.3 / \$3,553.2

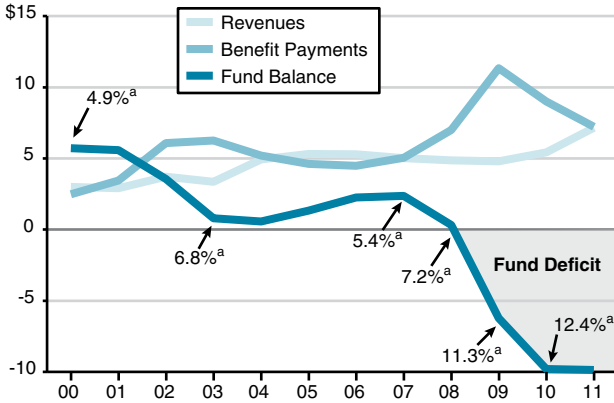
^a Total cost as of fiscal year 2011-12.

Fi\$Cal = Financial Information System for California; DOF = Department of Finance; SCO = State Controller's Office; STO = State Treasurer's Office; DGS = Department of General Services; EDR = Enterprise Data to Revenue; FTB = Franchise Tax Board; LRS = LEADER Replacement System; HHSA = Health and Human Services Agency; CA-MMIS = Medicaid Management Information System; DHCS = Department of Health Care Services; CMIPS II = Case Management, Information and Payrolling System; DSS = Department of Social Services; SOMS = Strategic Offender Management System; CDCR = California Department of Corrections and Rehabilitation; CROS = Centralized Revenue Opportunity System; BOE = Board of Equalization.

- Currently, there are 51 approved reportable state agency IT projects in various phases of development. The total cost of all of these IT projects is estimated to be about \$4.7 billion.

The Unemployment Insurance Trust Fund Insolvency Continues

(Dollars in Billions)

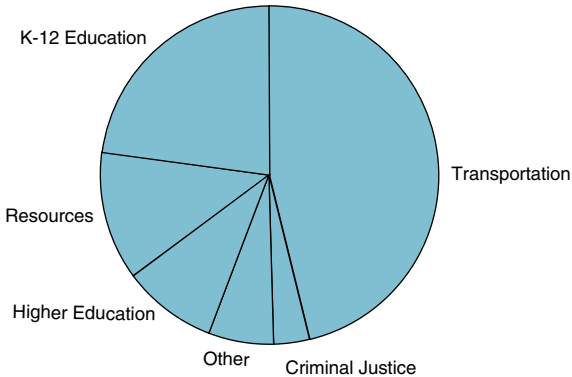


^a Unemployment rate for year in question.

- The Unemployment Insurance Trust Fund has been insolvent since 2009, when high unemployment resulted in the state paying \$11.3 billion in unemployment benefits while collecting only \$4.8 billion in state unemployment insurance revenues.
- Unemployment benefits have continued to outpace revenues since 2009, and the fund deficit grew to \$9.9 billion in 2011.
- Without an increase in revenues, or a combination of revenue increases and benefit cuts, the Unemployment Insurance Trust Fund is likely to remain insolvent for the foreseeable future. Such insolvency triggers federal loans to the fund on which the state pays interest (the interest payment exceeds \$300 million for 2012).

Most State Infrastructure Spending Is for Transportation and Education

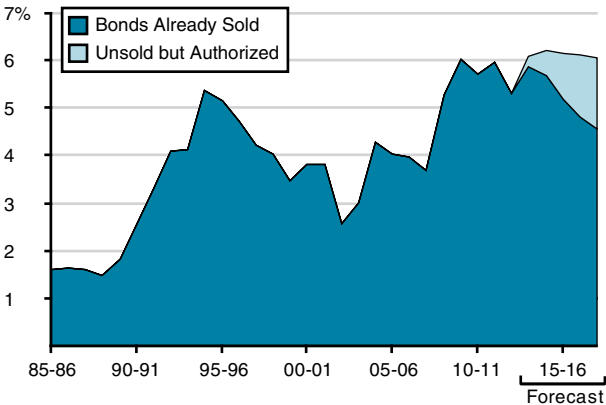
Infrastructure Spending, 2006-07 to 2010-11



- Over the past five years, the state spent \$52 billion on infrastructure. State and local transportation projects and education facilities (K-12 and higher education) accounted for over 75 percent of this spending.
- More than half of state infrastructure spending was financed through state general obligation bonds. Special fund revenue paid for about one-third of state infrastructure spending.

Debt-Service Ratio Expected to Remain Level

*Infrastructure Bond Payments as
Percentage of General Fund*



- The state pays debt-service costs on two types of bonds used primarily to fund infrastructure—general obligation bonds approved by voters and lease-revenue bonds approved by the Legislature. In 2011-12, the debt-service cost for these infrastructure bonds was \$5.2 billion, or 6 percent, of General Fund revenues.
- The state's debt-service ratio grew in the 1990s when its use of infrastructure bonds increased. The ratio increased in 2007-08 due to approval of large bond measures in 2006 and declines in revenues due to the recession.
- Although debt-service costs likely will increase as authorized bonds are sold, the debt-service ratio is expected to remain near 6 percent over the next few years. This is because General Fund debt service and revenues are expected to grow at similar rates.