
CAL FACTS

California's Economy and
Budget in Perspective



December 2004

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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.

Elizabeth G. Hill
■ *Legislative Analyst*

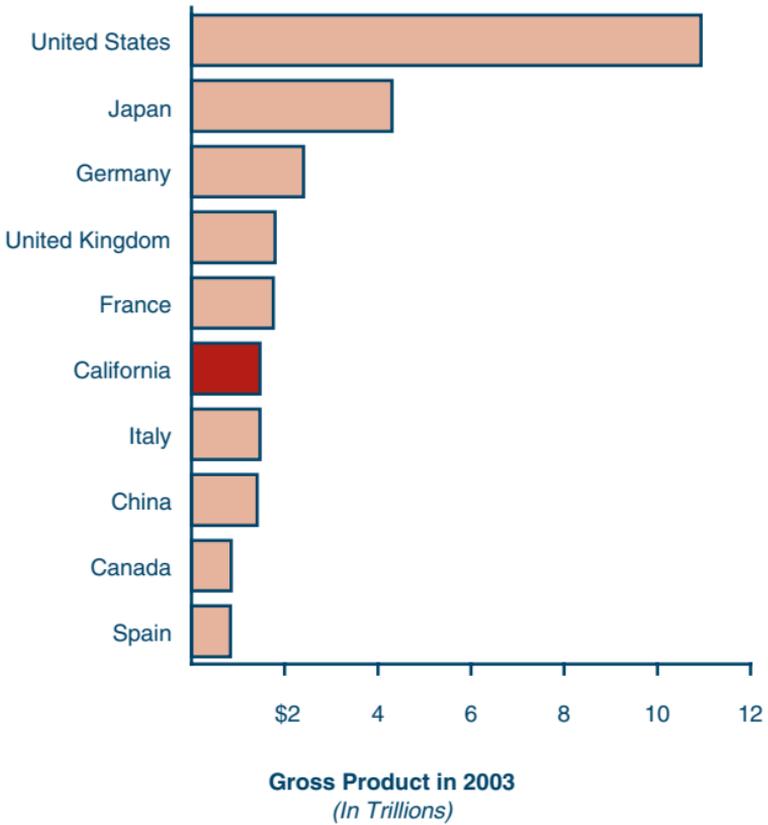
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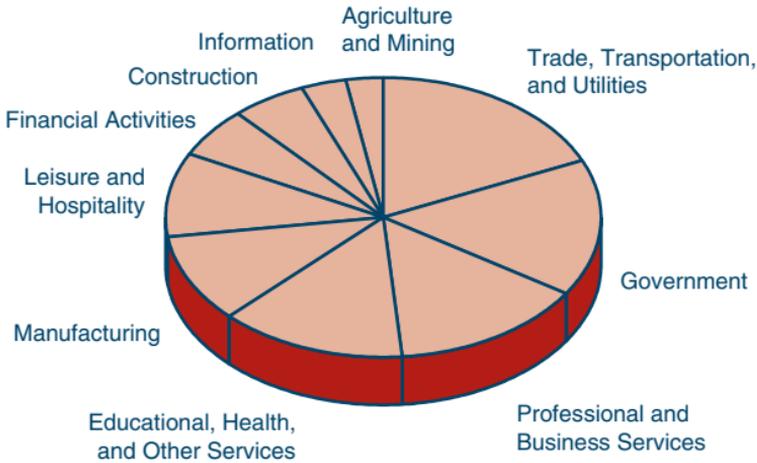
California Is the World's Sixth Largest Economy



- California's gross state product is nearly \$1.5 trillion, making it one of the world's largest economies.
- California accounts for over 13 percent of the nation's output, and trails only Japan, Germany, the United Kingdom, and France.
- Our nation's next largest state economy—New York—is about 60 percent the size of California's.

California's Economy Is Highly Diversified

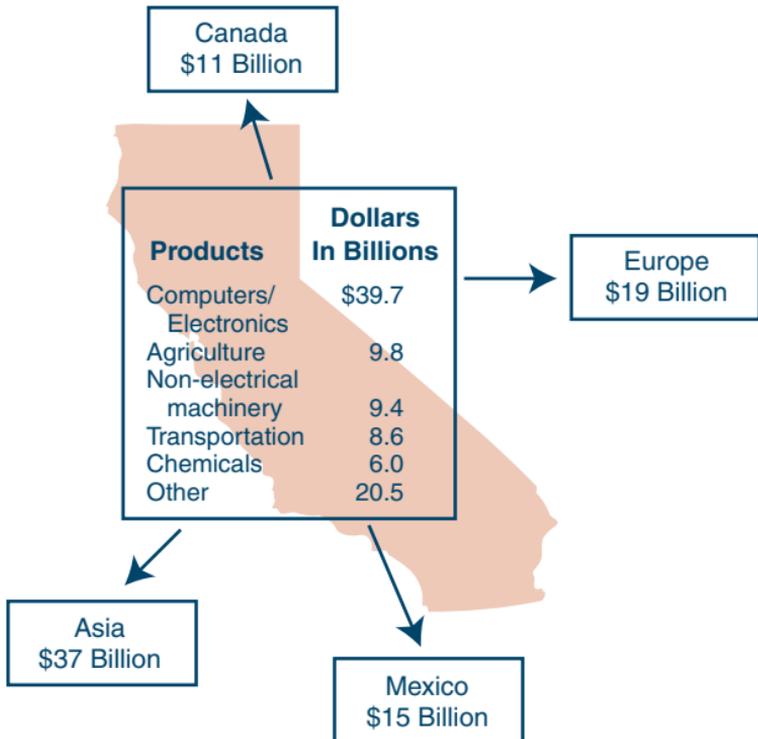
Share of State Employment in 2004



- The state's economy is highly diversified, with workers and businesses in virtually every industry sector.
- In 2002, the U.S. government adopted an updated system of classifying economic activities (called the North American Industry Classification System, or NAICS), to better reflect today's economy.
- Under NAICS, the state's largest sector is trade, transportation, and utilities, which encompasses everything from major retail outlets, to import-export businesses, to transportation and warehousing.
- Other major nongovernmental industries include professional and business services, educational and health services, and manufacturing. A new industry classification is information, which includes motion picture production, broadcasting, and Internet businesses.

Foreign Trade—An Important Source Of California Economic Activity

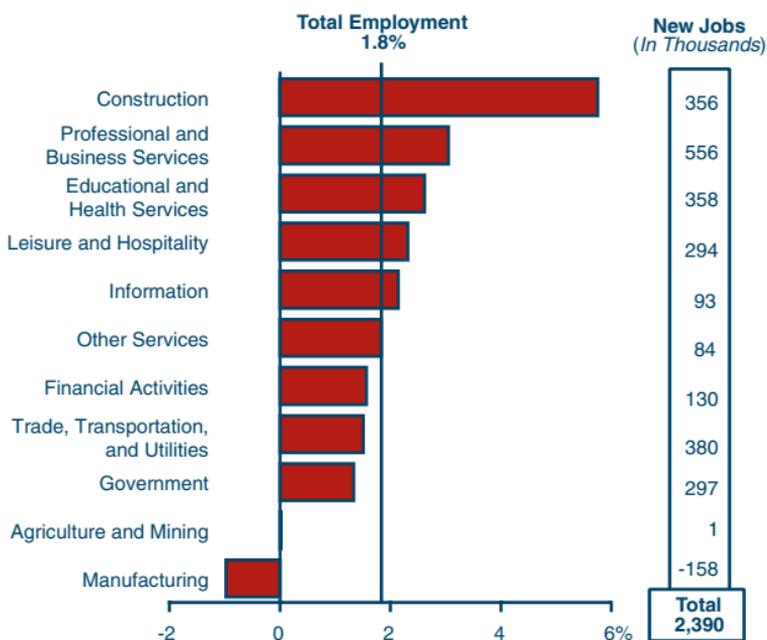
California Exports, 2003



- Exports of goods made in California totaled \$94 billion in 2003. Based on partial-year data, it appears that exports will increase by over 20 percent in 2004.
- California-made exports directly account for about 8 percent of gross state product. In addition to creating major markets for products of California companies, foreign trade results in numerous jobs related to port-related activity, wholesale trade, warehousing, and transportation.

Construction and Services Have Led Job Growth Over the Past Decade

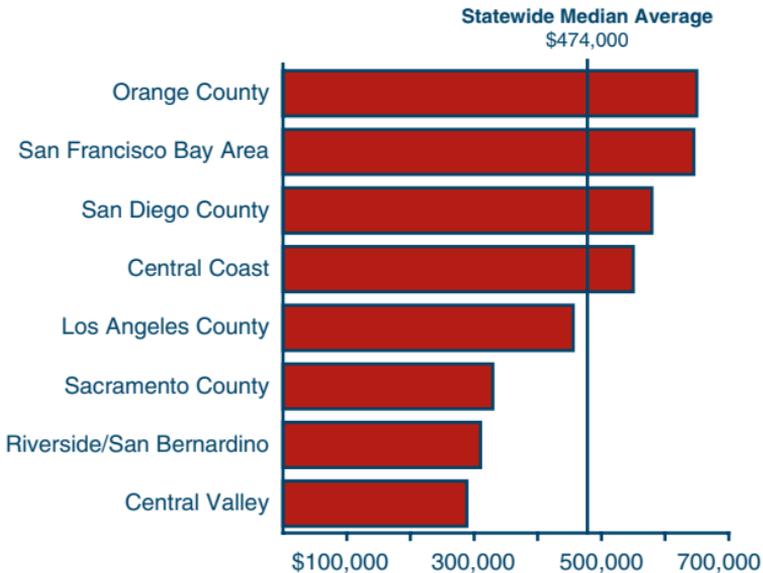
Annual Average Percent Change in California Jobs, 1994 Through 2004



- California has added about 2.4 million jobs over the past decade, an annual growth rate of 1.8 percent.
- The fastest growing sector has been construction, which has grown at an average rate of 6 percent per year.
- The bulk of new jobs, however, have been in the state's large and diverse services sectors.
- Manufacturing declined by almost 160,000 jobs, reflecting major reductions in high-tech jobs in 2001 and 2002.

California Home Prices Have Soared

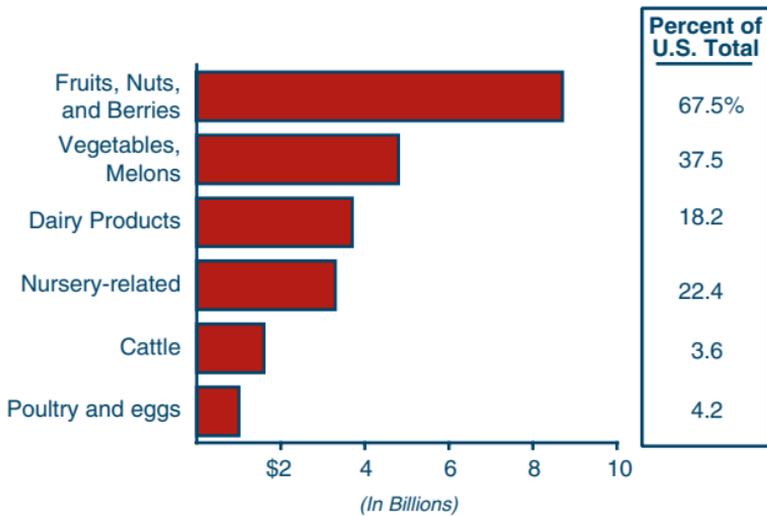
Median Home Prices by Region, August 2004



- Home prices have soared in recent years, and now stand at all-time highs.
- The statewide median home price rose from \$250,000 in mid-2000 to \$474,000 in mid-2004.
- Orange County and the San Francisco Bay Area have the highest median prices, each approaching \$650,000. The least expensive region is the Central Valley, with a median price of \$290,000.

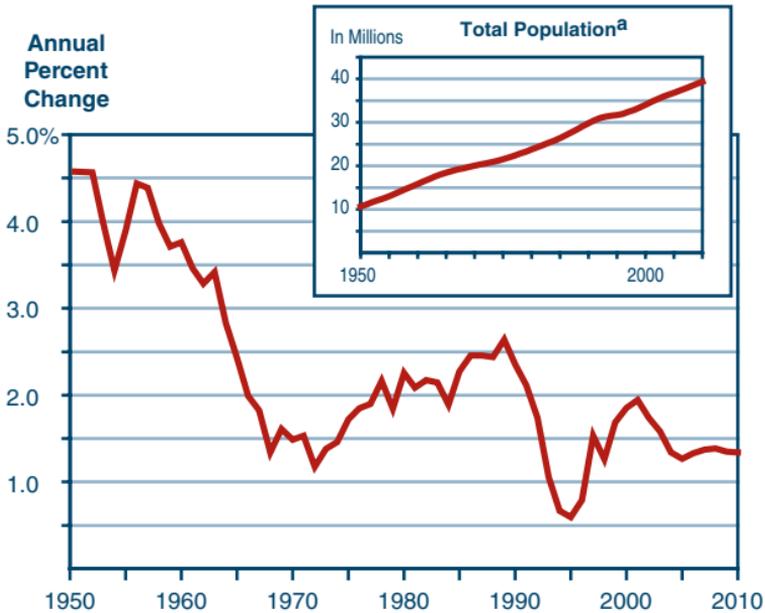
California Is the Nation's Leading Agricultural Producer

*Top California Agricultural Products by Sales
2002*



- Total farming-related sales in California were \$26 billion in 2002. This amount represented about one-eighth of the national total, and equalled the total of the second and third largest farm states—Texas (\$14 billion) and Iowa (\$12 billion).
- California is a major producer of fruits, nuts, and berries (accounting for two-thirds of the national total), as well as vegetables and melons (accounting for over one-third of the national total).
- The state is a dominant producer of many specialty crops, such as strawberries, kiwis, and artichokes.

California Population Growth To Slow

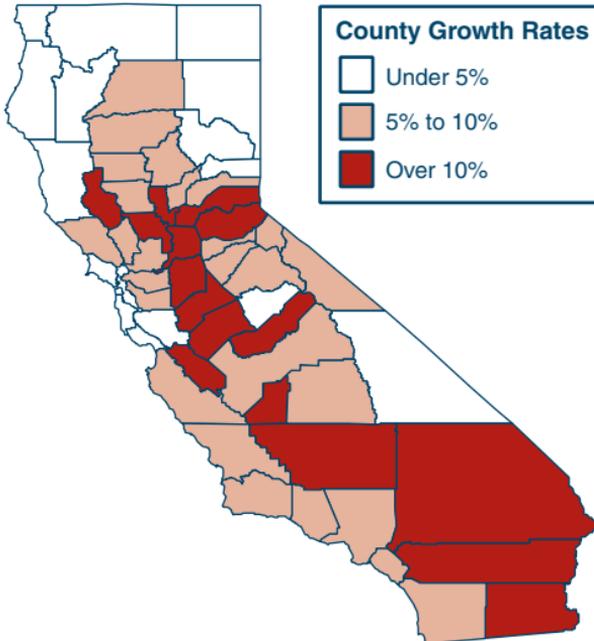


^aLAO projections for 2004 and beyond.

- California's population grew very rapidly in the post World War II era, averaging well over 3.5 percent annually through the mid-1960s.
- Average growth since then, while still about twice that of the nation, has slowed to somewhat under 2 percent annually.
- Despite this slower growth, California now has roughly 36 million people, and has been adding more than half-a-million people yearly (adding a city the size of Long Beach each year).
- Growth should taper in the future, reflecting stable immigration and the on-going general trend of reduced fertility.

The Inland Counties Have Been Growing the Fastest

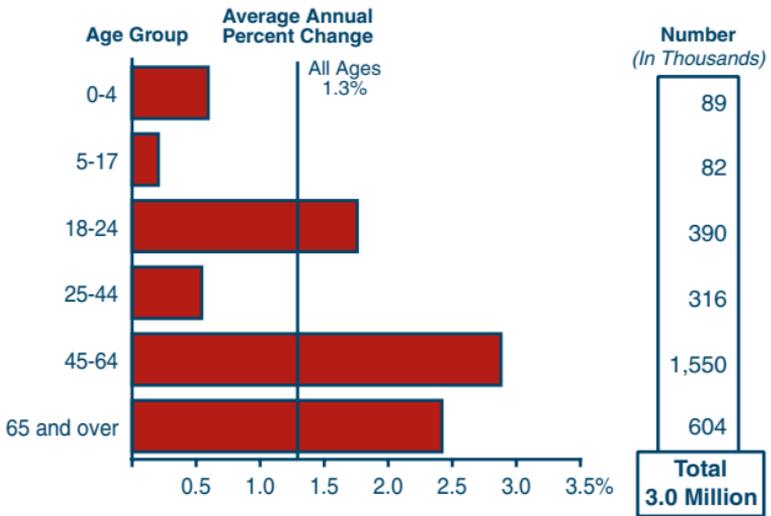
Total Population Growth, 1999-2004



- The highest population growth rates have occurred mainly in the Central Valley and foothill counties, and in Riverside and San Bernardino Counties in Southern California.
- The five Southern California counties of Los Angeles, Orange, Riverside, San Bernardino, and San Diego account for 55 percent of California's total population in 2004, and 59 percent of the total increase in population since 1999.
- Los Angeles County experienced the largest absolute increase since 1999—more than three-quarters of a million new people, or a quarter of statewide growth.

California's Age Mix Changing As Baby Boomers Grow Older

Population Change—2004 Through 2010

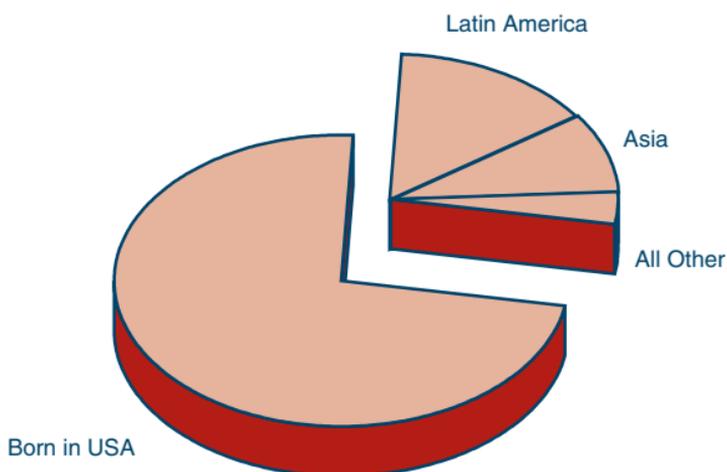


- Californians' average age is increasing, as baby boomers enter their 50s and continue to cause rapid growth of the 45-64 age group.
- The K-12 school-age population will grow the slowest of all groups, reflecting declines in birth rates over the past decade and somewhat lower in-migration in recent years.



Over a Quarter of Californians Are Foreign Born

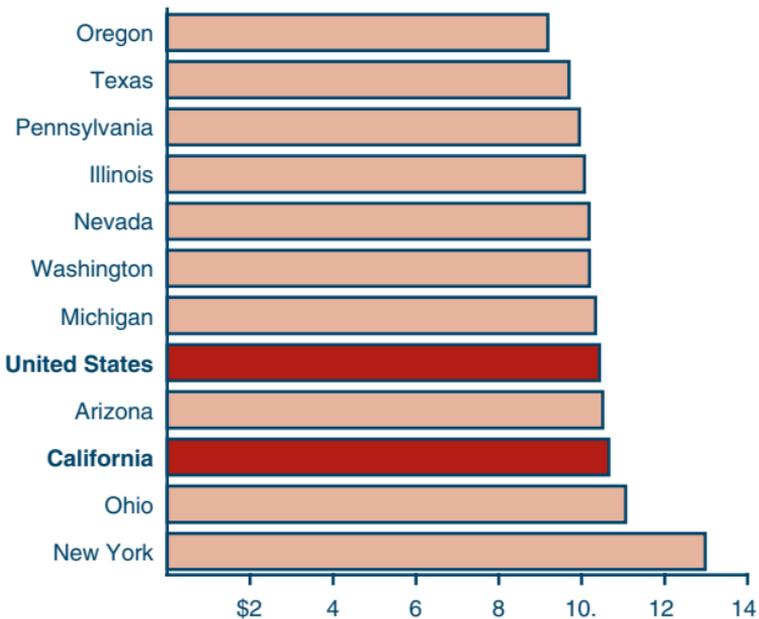
2004



- Due to strong past in-migration from other nations, more than one-in-four of California's current residents—9.5 million people—were born outside of the United States. This compares to one-in-eight nationally.
- About half of foreign-born Californians are from Latin America, while another third are from Asia.
- Net foreign in-migration currently totals around 200,000 persons annually. This represents roughly 40 percent of California's annual population growth.

California's Tax Burden Is Somewhat Above Average

Combined State-Local Taxes Per \$100 of Personal Income



Source: 2001-02 Census of Government, U.S. Census Bureau.

- California's overall tax burden—\$10.66 per \$100 of personal income—is slightly above the \$10.43 average for the United States as a whole.
- Compared to other western states, California's overall tax burden is somewhat higher—although it is in the same general range as that of many large industrial states.

California's Governments Rely On a Variety of Taxes

State Taxes	Current Rate	Comments/Description
Personal Income	Marginal rates of 1% to 9.3% Additional 1% surcharge on high incomes (7% AMT ^a)	Married couples with gross incomes of \$24,160 or less need not file. The top rate applies to married couples' taxable income in excess of \$76,582. The surcharge is placed on taxable incomes of \$1 million or more.
Sales and Use	6% ^b	Applies to final purchase price of tangible items, except for food and certain other items.
Corporation		
<i>General Corporations</i>	8.84% ^c (6.65% AMT)	Applies to net income earned by corporations doing business in California.
<i>Financial Corporations</i>	10.84% (6.65% AMT plus adjustment)	For financial corporations, a portion of the tax is in lieu of certain local taxes.
Vehicle Fuel	18¢/gallon of gasoline or diesel fuel	Tax is collected from fuel distributors or wholesalers with equivalent taxes levied on other types of vehicle fuels.
Alcohol and Cigarette		
<i>Wine and beer</i>	20¢/gallon	Tax is collected from manufacturers or distributors.
<i>Sparkling wine</i>	30¢/gallon	Equivalent taxes are collected on sale of other tobacco products.
<i>Spirits</i>	\$3.30/gallon	
<i>Cigarettes</i>	87¢/pack	
Estate^d	0.8% to 16%	The estate tax is a "pick-up" tax to take advantage of the maximum state credit allowed against the federal estate tax, at no net cost to taxpayers.
Horse Racing License Fees	0.4% to 2%	Fees/taxes are levied on amounts wagered. Rate is dependent on type of racing and bet, and where the wager is placed.

Continued

California's Governments Rely On a Variety of Taxes *(Continued)*

State Taxes	Current Rate	Comments/Description
Insurance	2.35%	Insurers are subject to the gross premiums tax in lieu of all other taxes except property taxes and vehicle license fees.
Local Taxes	Current Rate	Comments/Description
Property	1% (plus any rate necessary to cover voter-approved debt)	Tax is levied on assessed value (usually based on purchase price plus the value of improvements and a maximum annual inflation factor of 2%) of most real estate and various personal and business property.
Local Sales and Use	1% to 2.25% ^e	Collected with state sales and use tax. Revenues go to cities, counties and special districts.
Vehicle License Fee	0.65% ^f	Tax is applied to depreciated purchase price. It is collected by the state and distributed to cities and counties.
Other Local	Varies by jurisdiction	Types of taxes and rates vary by jurisdiction. Includes utility users tax, business license tax, and transient occupancy taxes.

^a Alternative minimum tax.

^b Includes rates levied for state-local program realignment and local public safety.

^c A 1.5 percent rate is levied on net income of Subchapter S corporations.

^d Inheritance and gift taxes have been repealed, but still apply to gifts and deaths prior to 1982. The state credit is being phased-out, pursuant to 2001 federal law changes.

^e 0.25 percent of SUT revenues formerly received by local governments is used for debt service on the state's deficit-reduction bonds. Local governments are compensated through additional property taxes.

^f The state shifted additional property tax revenues to cities and counties beginning in 2004-05 to compensate for the VLF rate reduction from 2 percent.

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 rates to 1 percent. • Limits 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-thirds voter approval of new local special taxes.
Proposition 4/ November 1979	<ul style="list-style-type: none"> • Generally limits spending by the state and local entities to prior-year amount, adjusted for population growth and inflation (now per capita personal income growth). • Requires state to reimburse local entities for mandated costs.
Proposition 6/ June 1982	<ul style="list-style-type: none"> • Prohibits state gift and inheritance taxes except for "pickup" tax qualifying for federal tax credit.
Proposition 7/ June 1982	<ul style="list-style-type: none"> • Requires indexing of state personal income tax brackets for inflation.
Proposition 37/ November 1984	<ul style="list-style-type: none"> • Establishes state lottery and dedicates revenue to education. • Places prohibition of casino gambling in State Constitution.
Proposition 62/ November 1986	<ul style="list-style-type: none"> • Requires approval of new local general taxes by two-thirds of the governing body and a majority of local voters (excludes charter cities).
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. • Limits use of surtax revenue, primarily to augment health-related programs.
Proposition 162/ November 1992	<ul style="list-style-type: none"> • Limits the Legislature's authority over PERS and other public retirement systems, including their administrative costs and actuarial assumptions.

Continued

Ballot Measures Have Had Major State/Local Fiscal Implications (Continued)

Measure/ Election	Major Provisions
Proposition 163/ November 1992	<ul style="list-style-type: none"> Repealed "snack tax" and prohibits any future sales tax on food items, including candy, snacks, and bottled water.
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 higher surtax on other tobacco products. Limits use of revenues, primarily to augment early childhood development programs.
Proposition 39/ November 2000	<ul style="list-style-type: none"> Allows 55 percent of voters to approve 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 provide funds for after-school programs.
Proposition 57/ March 2004	<ul style="list-style-type: none"> Approved \$15 billion in bonds to fund budgetary obligations and retire the state's 2002-03 deficit.
Proposition 58/ March 2004	<ul style="list-style-type: none"> Requires the enactment of a balanced budget, restricts borrowing, and mandates the establishment of a reserve fund.
Proposition 1A November 2004	<ul style="list-style-type: none"> Restricts the ability of the state 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 a 1 percent surcharge on incomes of \$1 million and over to fund mental health services.

Approval Requirements for State and Local Revenues

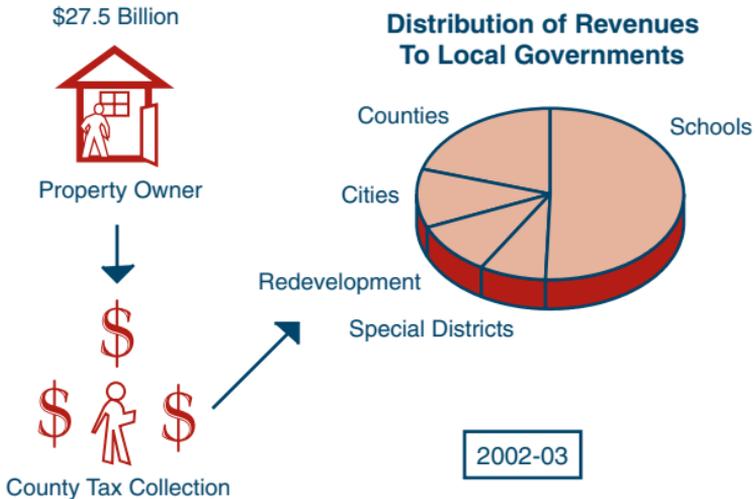
State Level	Legislative Approval	Voter Approval
Taxes	2/3	None
General obligation bonds	2/3	Majority
Other debt ^a	Majority	None
Fees	Majority	None
Local Level	Governing Body Approval	Voter Approval
City or county “general” taxes (revenues used for unrestricted purposes)	2/3 (Majority for charter cities)	Majority
City or county “special” taxes (revenues used for specific purposes)	Majority	2/3
All school or special district taxes	Majority	2/3
City, county, and special district general obligation bonds	Majority	2/3
K-14 district general obligation bonds	2/3	55 percent ^b
Other debt ^a	Majority	None
Property assessments	Majority	Majority of property owners. Votes weighted by assessment liability
Property—related fees	Majority	2/3 of voters or majority of property owners ^c
Fees—all other	Majority	None

^a Includes revenue and lease-revenue bonds and certificates of participation.

^b Exceptions: The State Constitution (1) requires approval by two-thirds of voters if the district does not meet certain requirements, and (2) specifies that a majority of voters can approve bonds used for repairing or replacing unsafe public school buildings.

^c No vote required for gas, electric, water, sewer, refuse, or developer fees.

Property Taxes Are Distributed to Many Entities Within a County

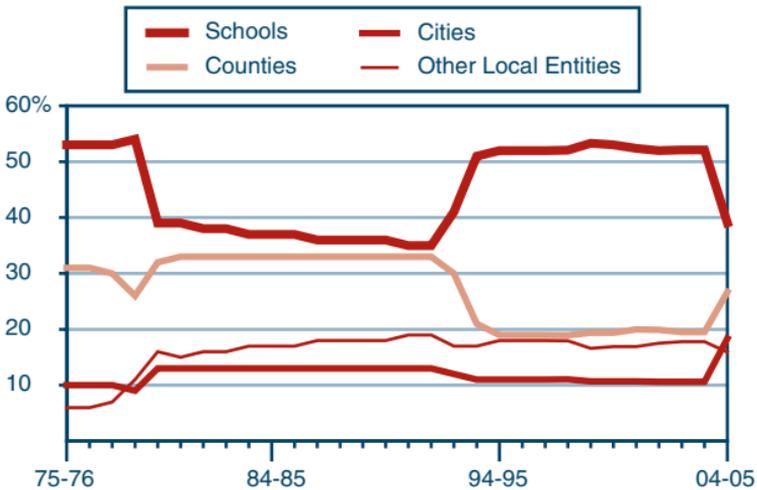


- Property taxes are collected by each county government. The revenues are then distributed to a variety of governments, including the county, cities, school districts, redevelopment agencies, and special districts.
- The property tax rate is limited to 1 percent by the Constitution, plus any additional rate necessary to pay for voter-approved debt. The average tax rate across the state in 2002-03 was 1.08 percent.
- Property tax revenues collected in a county can be distributed only to a governmental entity within that county.
- Three recent changes, described on the next page, change how property tax revenues are allocated in 2004-05 and the future.

Recent Changes in Property Tax Allocation Laws

- **Proposition 57 or “Triple Flip.”** In 2004, state voters approved a deficit-financing bond, pledging as repayment for the bond one quarter of a cent of the local Bradley-Burns sales tax. During the time this bond is outstanding (up to 14 years), city and county revenue losses are replaced on a dollar-for-dollar basis with property taxes shifted from K-14 districts. K-14 tax losses, in turn, are offset by increased state aid. These revenue transfers commonly are referred to as the “triple flip.”
- **VLF-Property Tax Swap.** In 1999, the state began reducing the vehicle license fee (VLF) rate charged to vehicle owners—and backfilling city and county revenue losses from this tax reduction with state subventions. The 2004-05 budget package permanently replaced the VLF backfill by shifting an equal amount of K-14 property taxes to cities and counties. Increased state aid offsets K-14 district revenue losses.
- **2004-05 Property Tax Shift.** The 2004-05 budget package included a \$1.3 billion shift of property taxes from noneducation local agencies (cities, counties, special districts, and redevelopment agencies) to K-14 districts. Unlike the two permanent property tax shifts enacted the 1990s, this tax shift sunsets in 2006-07.
- **Proposition 1A.** In 2004, state voters amended the State Constitution to prohibit the state from permanently reallocating the property tax in any county from noneducation local agencies to K-14 districts. Also, this measure generally requires a two-thirds vote of the Legislature to change the distribution of property taxes among noneducation local agencies.

Property Tax Shares Have Changed Markedly Over the Years



- After passage of Proposition 13 in 1978, the state shifted property taxes from schools to other local governments—and backfilled schools’ losses with increased state aid. This property tax shift reduced local governments’ revenue losses resulting from Proposition 13’s limit on the property tax rate.
- In 1992 and 1993, the state permanently modified the property tax allocation formulas again. Specifically, the state shifted property taxes from cities, counties, and special districts to schools. This shift is commonly called “ERAF,” after the name of the fund into which the taxes are deposited.
- In 2004, the state made additional changes to property tax allocation laws. The net effect of these changes is that schools’ share of property taxes in 2005 will be decreased to levels similar to the early 1980s and city and county shares will be increased accordingly.

Major Local Programs—2004-05

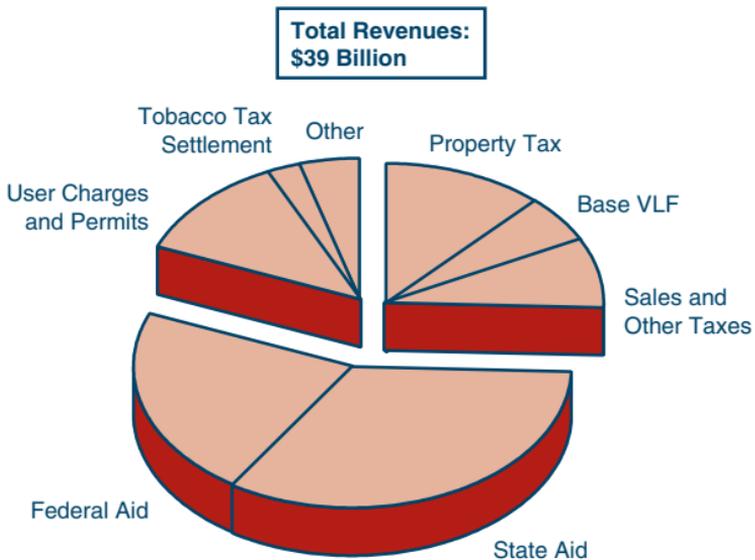
Program	Policy Control	Funding ^a
CalWORKs	State/Federal	
Child Welfare Services	State/Federal	
General Assistance	Counties/State	
Mental Health	Counties/State/Federal	
Substance Abuse Treatment	Counties/State/Federal	
Jails	Counties/State	
Probation	Counties/State	
Sheriff	Counties/State	
Trial Courts	State	
Libraries	Counties	
Parks and Recreation	Counties	
Roads	Counties	



^aAll funding distributions are LAO estimates.

An Overview of County Finance

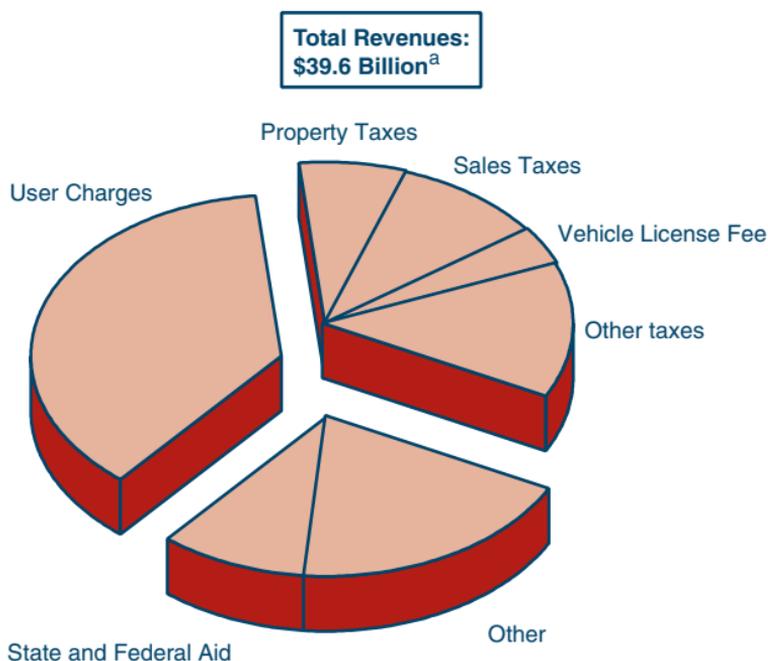
2001-02



- About one quarter of counties' spending comes from tax revenues. These are the counties' discretionary general purpose revenue sources. State and federal aid represent the largest sources of county revenues.
- About half of county spending is on various health and social services programs. An additional 30 percent of county spending is for public protection, including police and fire services.

An Overview of City Finance

2001-02



^aExcludes San Francisco

- About one-third of city spending comes from discretionary general purpose revenues. The largest general purpose revenue for cities is the sales tax.
- About 40 percent of city revenues are from user charges (for electric, water, and other services) which offset the cost of providing these services.
- Cities spend about one-fourth of their revenues on public safety expenditures, such as police and fire services.

Total State Revenues

2004-05

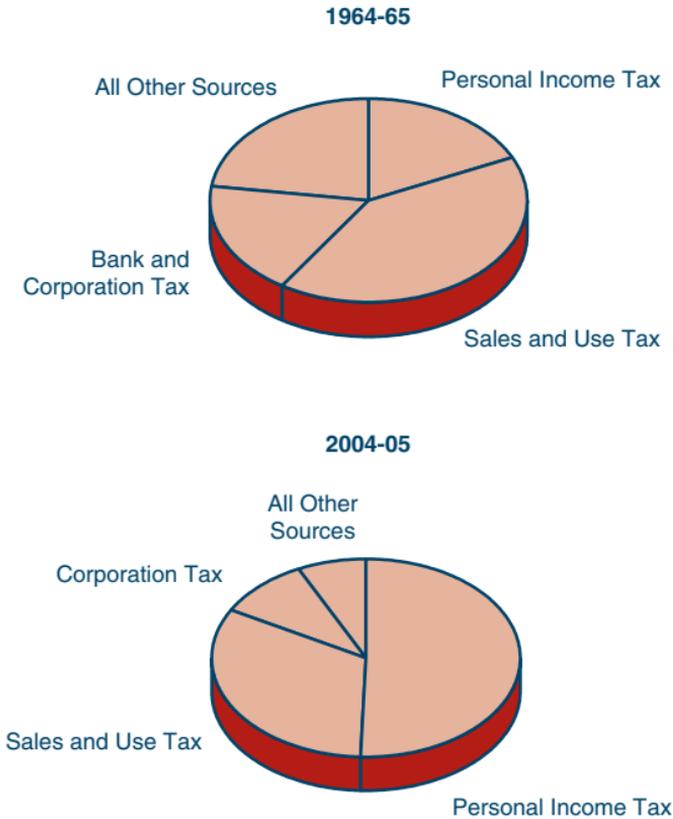
General Fund Revenues		Total State Revenues \$98.7 Billion	Special Funds Revenues	
Personal Income Tax	\$39.0		Motor Vehicle-Related Levies	\$6.9
Sales and Use Tax	25.1		Sales and Use Tax ^a	4.0
Corporation Tax	7.6		Tobacco-Related Taxes	0.9
All Other	5.6		All Other ^b	9.6
Total	\$77.3		Total	\$21.4

^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.

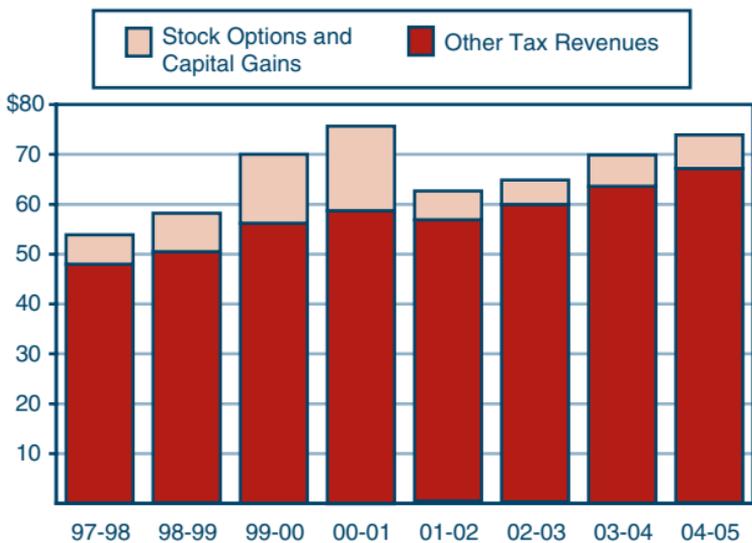
The Composition of Revenues Has Changed Over Time



- 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

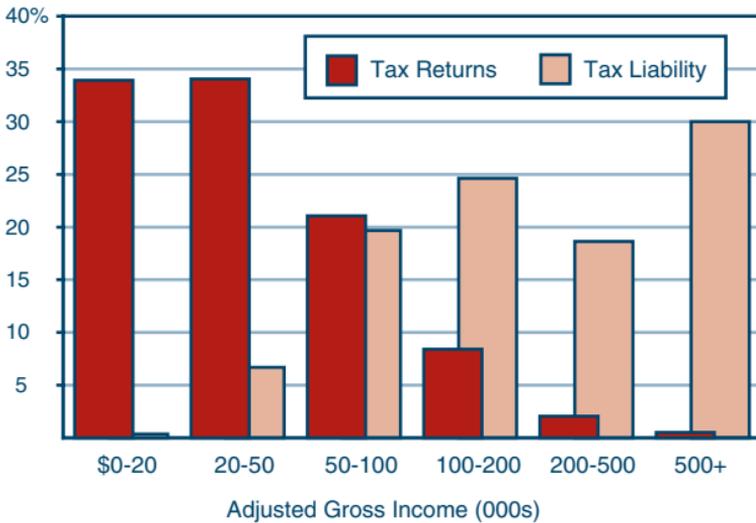
General Fund Tax Revenues (In Billions)



- 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.

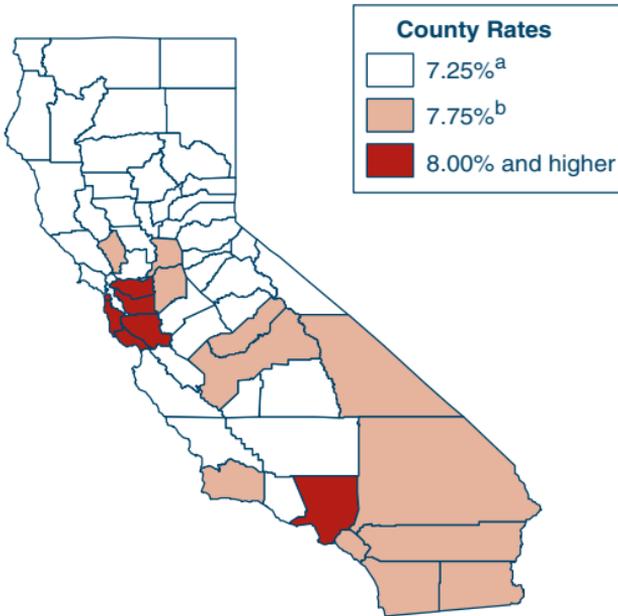
Distribution of Income Tax Returns And Liabilities by Income Level

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



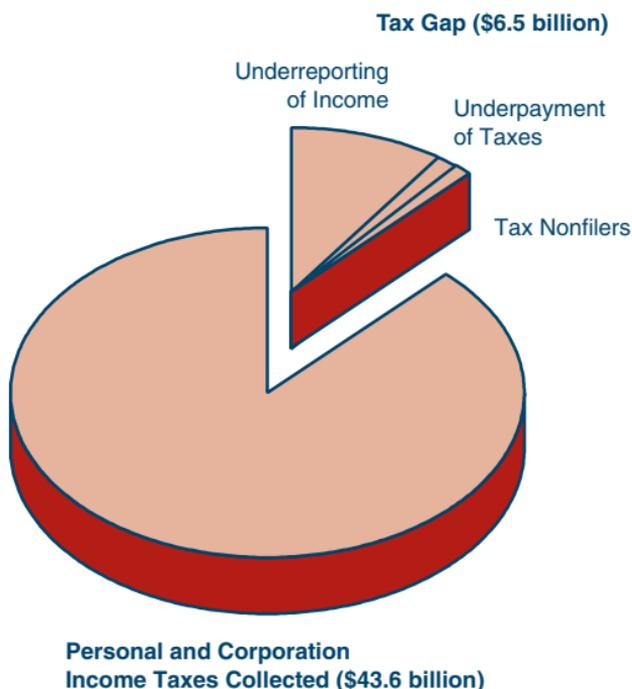
^aIncludes Stanislaus, Nevada, and Solano (7.375%), and Sonoma (7.50%).

^bIncludes 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.

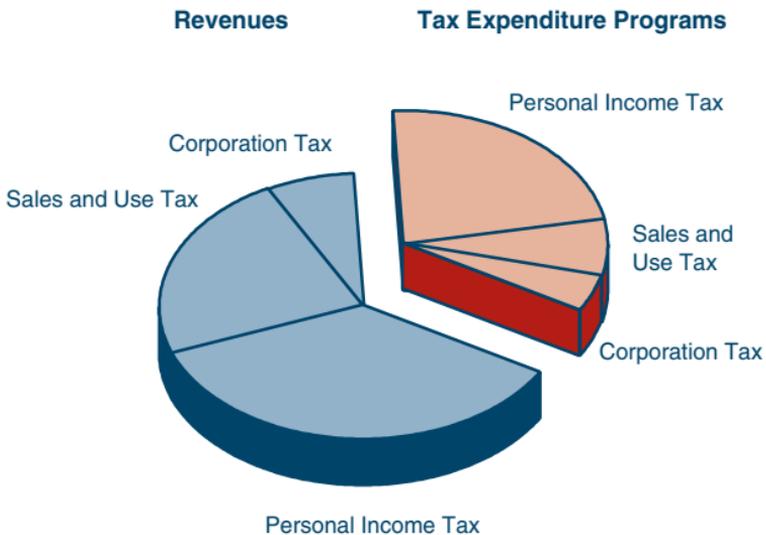
California's Income Tax Gap Is in the Billions of Dollars Annually

2004-05



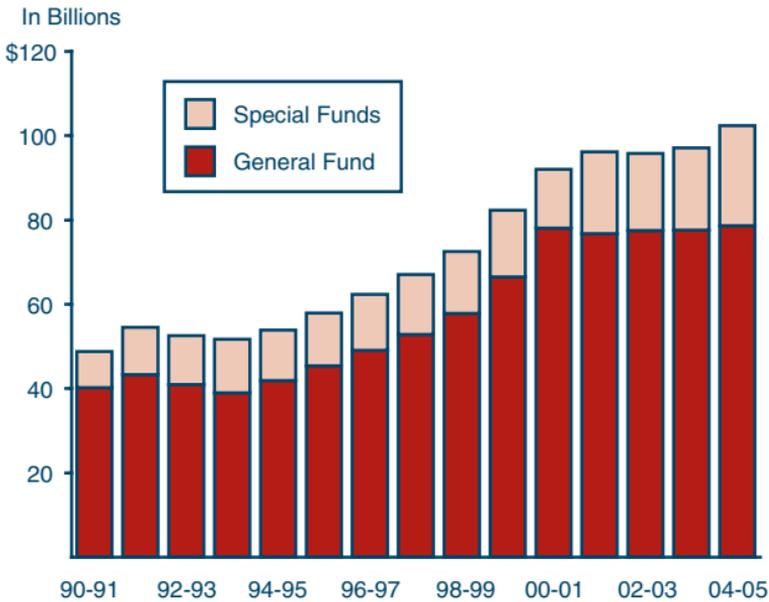
- The tax gap is defined as the difference between what taxpayers owe and what is actually collected by the tax agencies.
- Individuals represent about 75 percent of the income tax gap and businesses the remaining 25 percent.
- In addition to income taxes, there are also significant tax gaps associated with sales and use taxes and certain state excise taxes.

State Tax Expenditures Are Significant



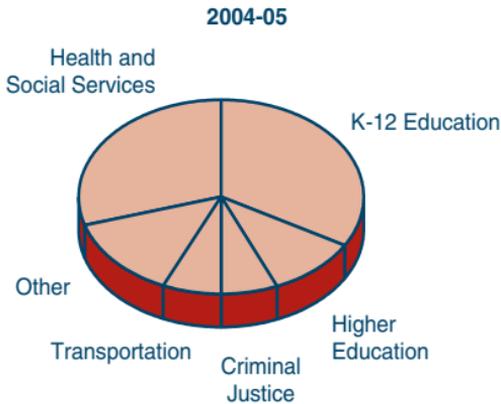
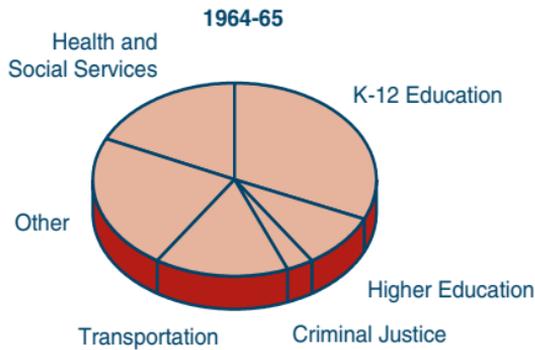
- Tax expenditure programs (TEPs) are special tax provisions that result in lower tax liabilities and are used to encourage particular activities, reward certain actions, or provide tax relief.
- Some disagreement exists regarding what is and what is not a TEP. Broadly defined, they represent foregone 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.

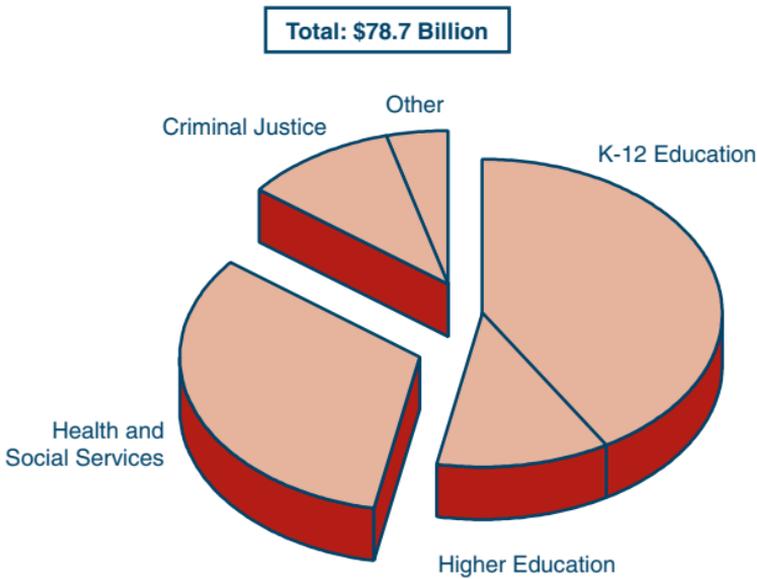
The Mix of Total State Expenditures Has Shifted



- 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

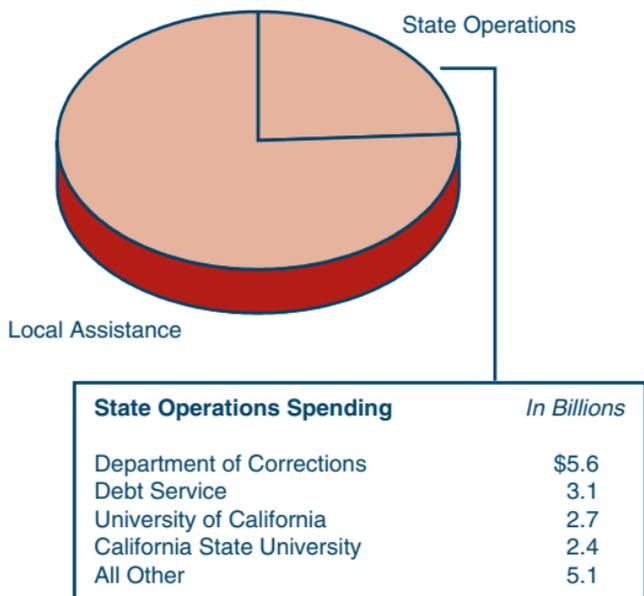
^a Does not include federal funds or lottery funds. K-12 participants are in average daily attendance and higher education are in full-time equivalents.

^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

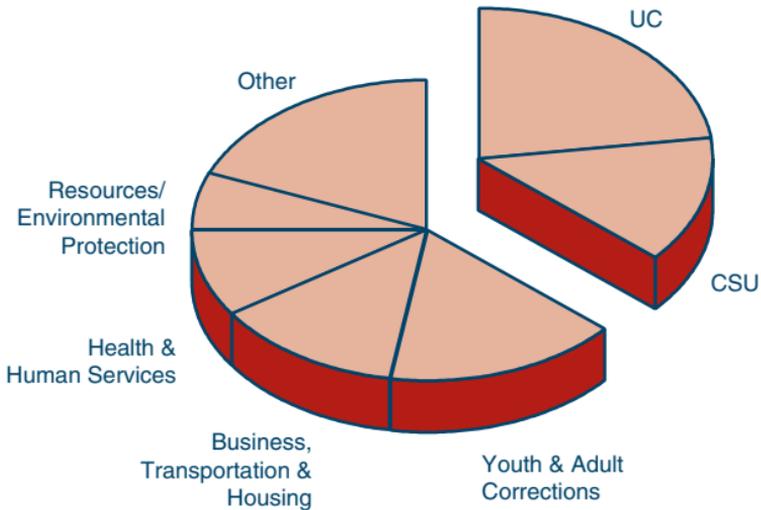
General Fund—2004-05



- 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

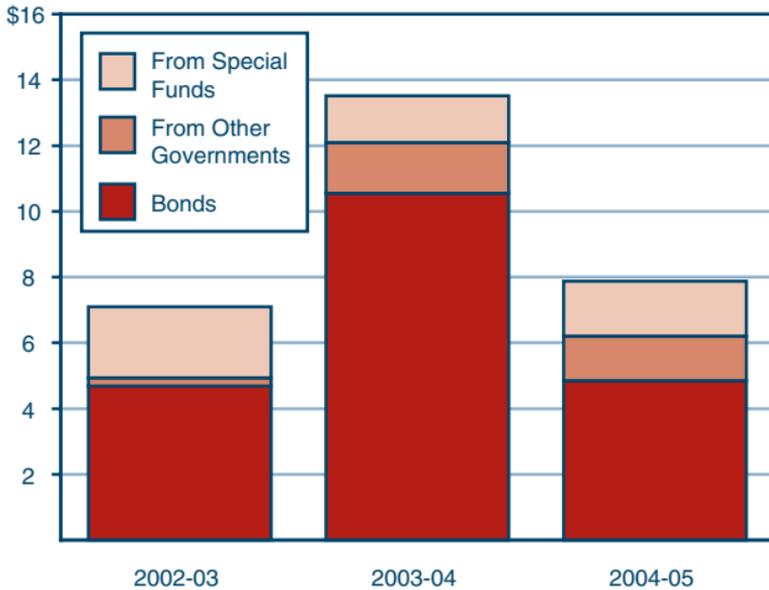
2003-04 Estimated State Employment



- 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.

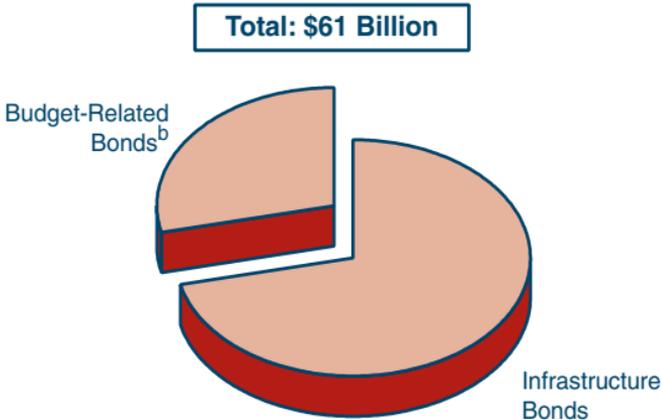
Borrowing Used Extensively to Help Balance Recent Budgets

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

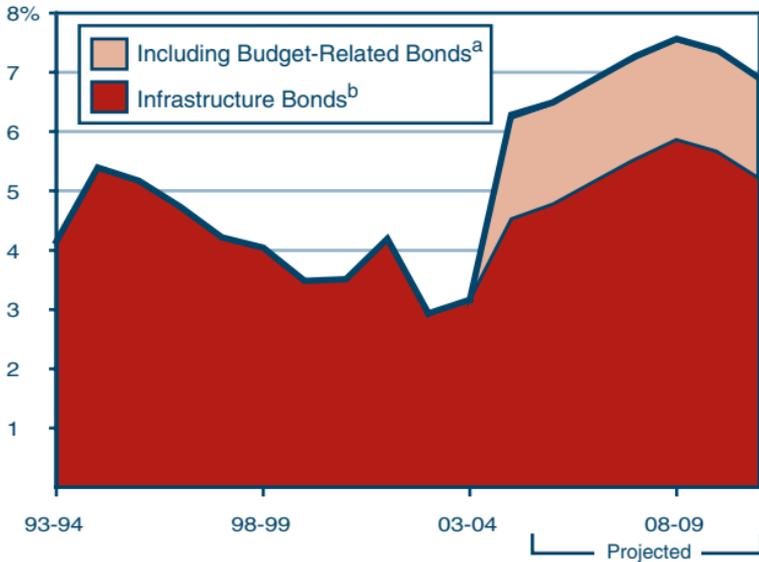


^a Projected outstanding bonds as of June 30, 2005.

^b Includes deficit-financing, tobacco securitization, 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 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



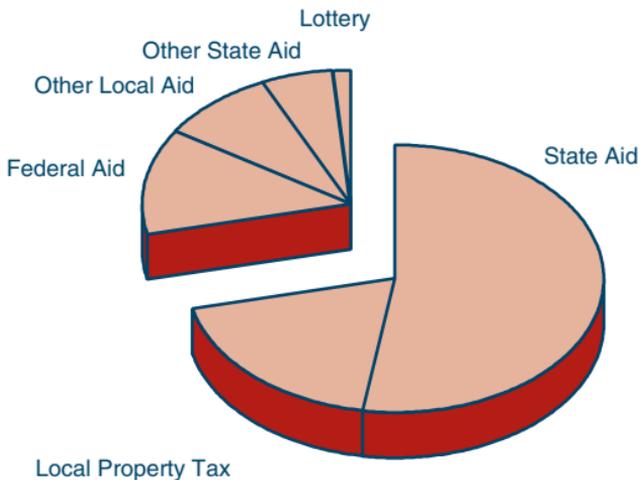
^aIncludes deficit-financing and pension obligation bonds.

^bIncludes 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

K-12 School Revenues

2004-05

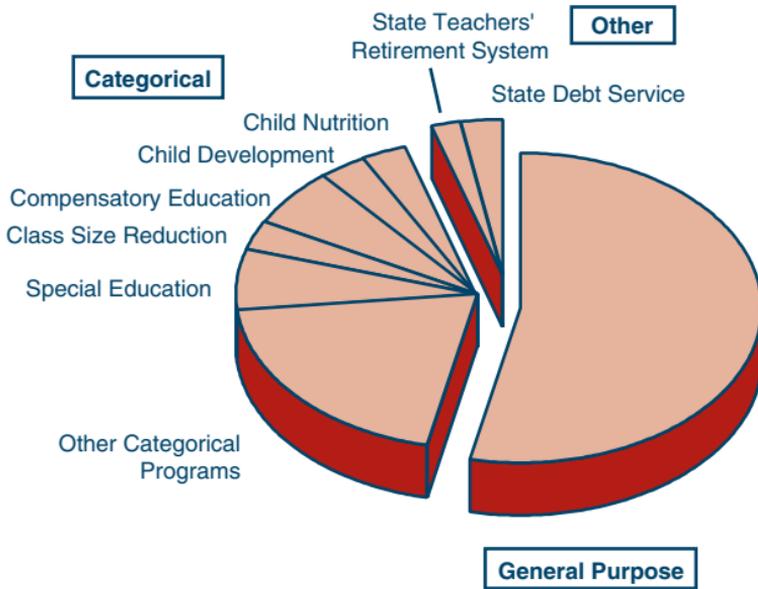


Proposition 98

- Proposition 98 is the shorthand term for the state's constitutional minimum funding requirement for K-14 education. This annual spending guarantee is met from two revenue sources: state aid and local property taxes.
- The state will provide 57 percent of all K-12 school revenue in 2004-05, while other local government sources (property taxes and other local income) will contribute 28 percent. The federal government will provide 13 percent.
- The state lottery provides less than 2 percent of total school revenues, around \$133 per pupil.

K-12 School Spending by Program

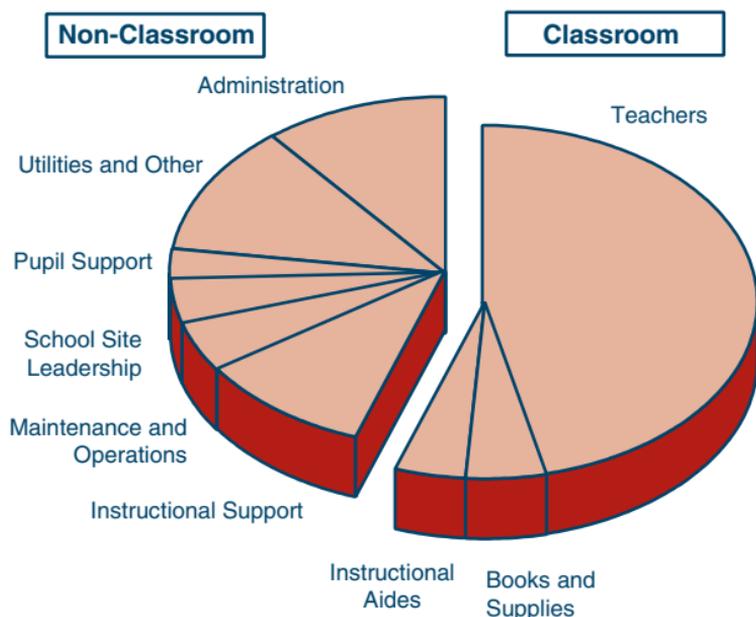
State Budgeted Funds—2004-05



- School “revenue limits”—consisting of state funds and local property taxes—are general purpose funds that support basic school operations. School districts also receive lottery revenues that they can use for general purposes. General purpose funds account for 53 percent of all school expenditures.
- Most of the remaining school expenditures are for so-called “categorical” programs—such as special education, compensatory education, and class-size reduction. These funds constitute 42 percent of school spending.
- Over the past decade, general purpose funds have declined as a percentage of overall school funding.

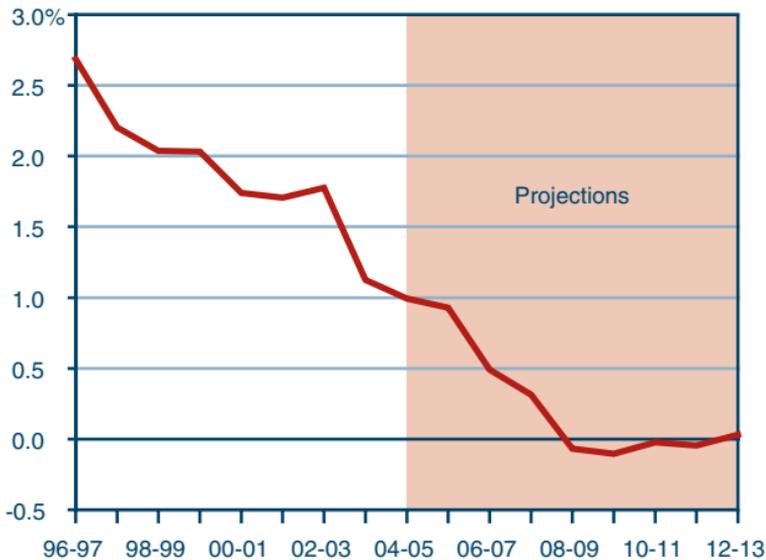
The Typical Cost of a California School

2002-03



- In a typical K-12 school, classroom services account for 55 percent of all costs. Teacher salaries and benefits are 46 percent of all K-12 costs, while instructional aides, books, and supplies are an additional 9 percent.
- Other K-12 school site activities account for 34 percent of all K-12 costs. These costs consist of maintenance and operations, school site leadership, instructional support (such as librarians), pupil support (such as nurses), and utilities.
- Administration, which consists of district administration, county oversight, and state services, accounts for 11 percent of all K-12 costs.

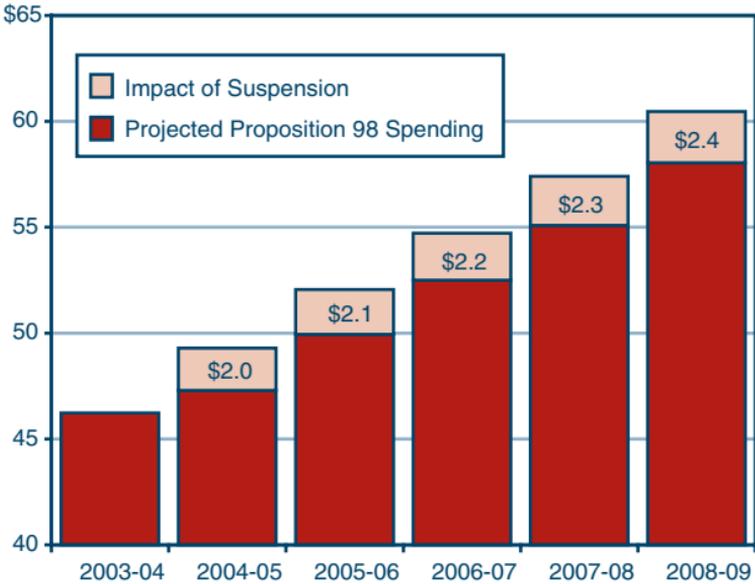
Growth in K-12 Enrollment Will Continue to Slow



- Total public K-12 enrollment is projected to increase by 1 percent in 2004-05, bringing enrollment to over 6 million students. Over the next ten years, K-12 enrollment growth will continue to slow and actually decline beginning in 2008-09.
- Each 1 percent increase in K-12 enrollment requires an increase of approximately \$430 million (General Fund) to maintain annual K-12 expenditures per pupil.
- Elementary enrollment is already declining, while high school enrollment will experience over 3 percent growth in 2004-05 and 2005-06 before slowing.
- Significant variation is expected to occur across counties. Between 2003-04 and 2012-13, Los Angeles' enrollment is expected to fall by 6 percent compared to a 22 percent increase in Riverside.

Impact of 2004-05 Suspension on Future Proposition 98 Spending^a

In Billions



^aBased on LAO revenues and assuming the state appropriates funds at the minimum guarantee in out years.

- The state suspended the Proposition 98 minimum funding guarantee for K-14 education in 2004-05, allowing the state to save \$2 billion in 2004-05 to help close the budget shortfall. Based on our fiscal forecast, the suspension will lower the amount required to meet the guarantee for the foreseeable future, resulting in annual savings growing to \$2.4 billion by 2008-09.
- Eventually, the state will have to increase K-14 funding faster than the growth in K-12 enrollment and the economy. This accelerated growth is provided in years when General Fund revenues grow faster than the economy or the Legislature chooses to spend above the minimum guarantee.

K-14 Education Credit Card Balance Remains High

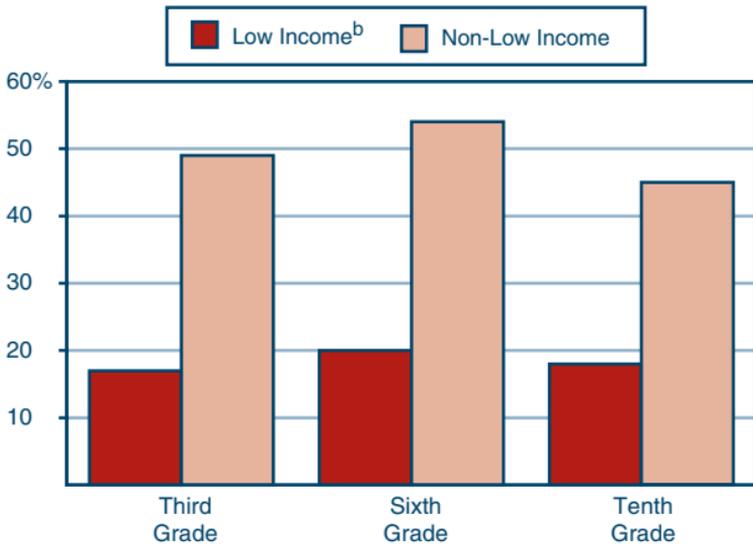
In Millions

	2001-02	2002-03	2003-04	2004-05
One-time Costs				
Revenue limit and categorical deferrals	\$931	\$2,158	\$1,097	\$1,083
Community college deferral	116	—	200	200
Cumulative mandate deferrals	656	958	1,266	1,524
Ongoing Costs				
Revenue limit deficit factor	—	—	\$883	\$643
Totals	\$1,703	\$3,116	\$3,446	\$3,450

- The state owes almost \$3.5 billion in future Proposition 98 funds to restore prior reductions or fund costs already incurred by school districts or community colleges, as detailed below.
- The state owes schools \$1.5 billion in one-time reimbursements for state-mandated activities performed in the last several years.
- In addition, the state has been delaying most of its K-14 June payments to July (the next fiscal year). It would cost \$1.3 billion (one-time) to make the payments in June again.
- State law requires revenue limits (general purpose funding) to be increased by \$643 million by 2006-07 to restore base program reductions and a foregone cost-of-living adjustment.

Achievement Gap Exists Across Grades

Percent Scoring at Proficient or Advanced^a

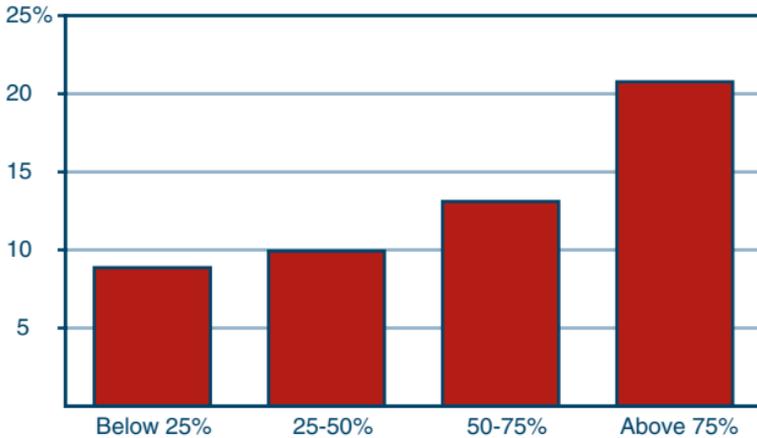


^a2004 results of the STAR English language arts tests.

^bLow income is based on eligibility for federally subsidized meals programs

- With regard to the state's proficiency standards for English language arts, large and persistent achievement gaps exist between students from low income families and other students.
- The STAR results also suggest that few students who do not meet these standards improve their performance significantly over time. Following the statewide test scores of a class of students over four years shows little change in the proportion of students meeting state standards.

Percent of Underprepared Teachers Varies by School

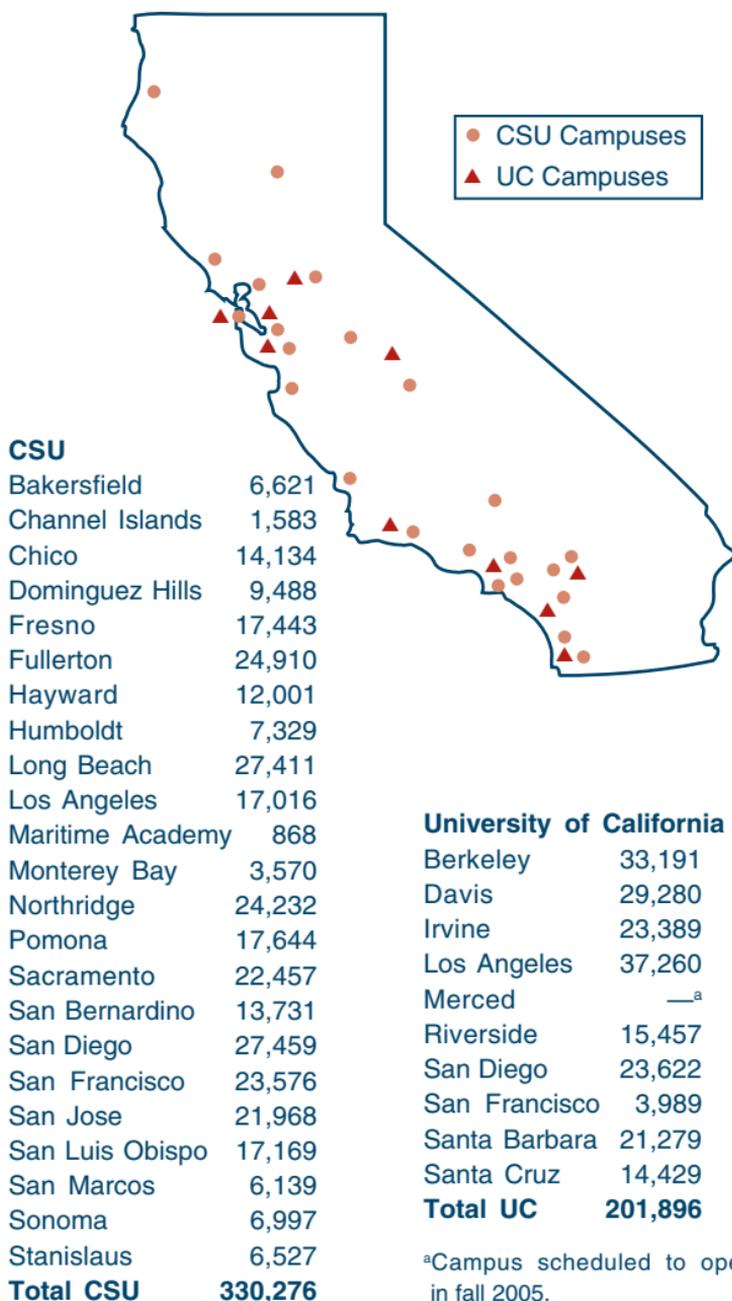


A School's Percentage of Poor Students
(Measured by Percent Eligible for Subsidized Lunch Program)

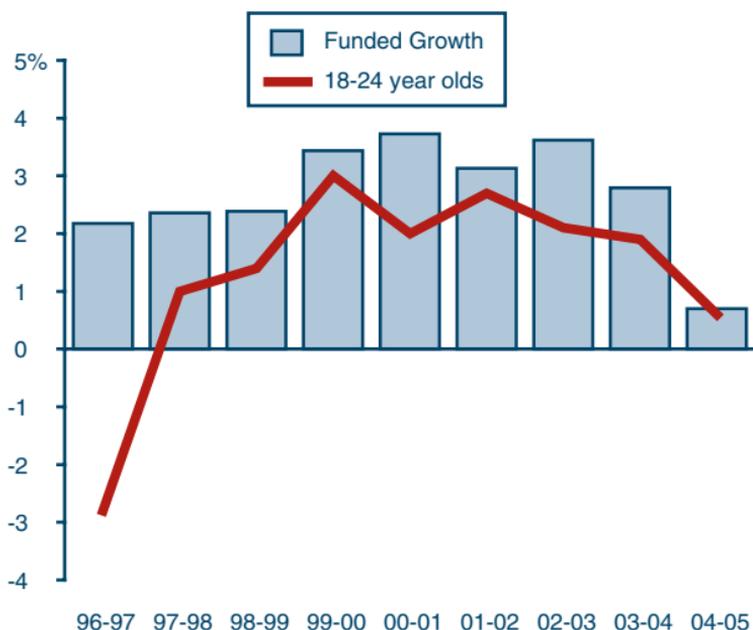
- In 2002-03, the state had around 37,300 underprepared teachers—12 percent of the teaching workforce. ("Underprepared" refers to teachers who are either not fully credentialed or who are teaching outside their area of expertise.)
- The distribution of underprepared teachers, however, varies across schools. As the chart shows, schools serving a higher percentage of poor students are more likely to have underprepared teachers. Similarly, underprepared teachers are more likely to teach in low-performing schools and in schools serving a high percentage of English learners.
- The percentage of teachers that is underprepared varies by subject area. Special education, mathematics, and science have a higher percentage of teachers that are underprepared, and the problem has gotten worse in recent years.

California Public Universities

2003-04 Full-Time Equivalent Students



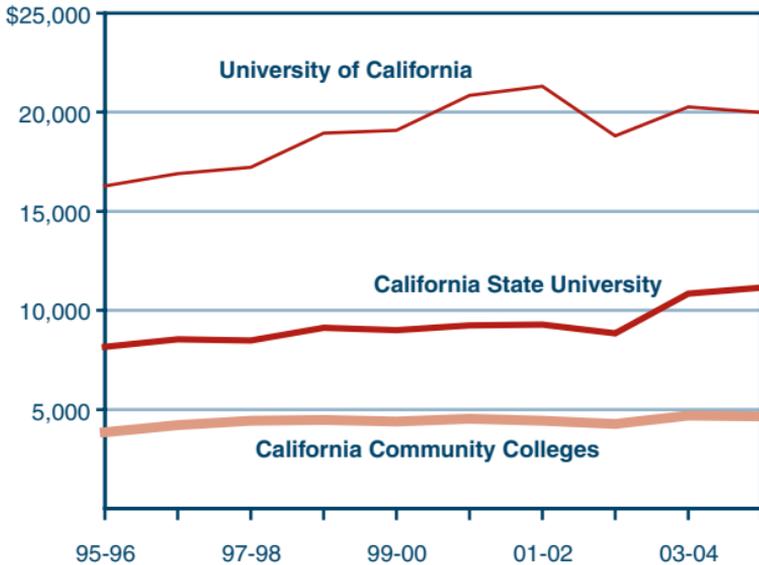
Funding for Enrollment Exceeds College-Age Population Growth



- Demand for higher education is based in large part on the size of the young adult population (18-to-24 year olds).
- Over the past decade, the state has funded enrollment growth in excess of the growth in 18-to-24 year olds.
- A greater portion of the population is attending college for a variety of reasons, including the growth in financial aid opportunities, student outreach efforts, and other state policies.

Higher Education Funding Per Student Has Risen Over Last Decade

Constant 2004 Dollars Per FTE Student^a

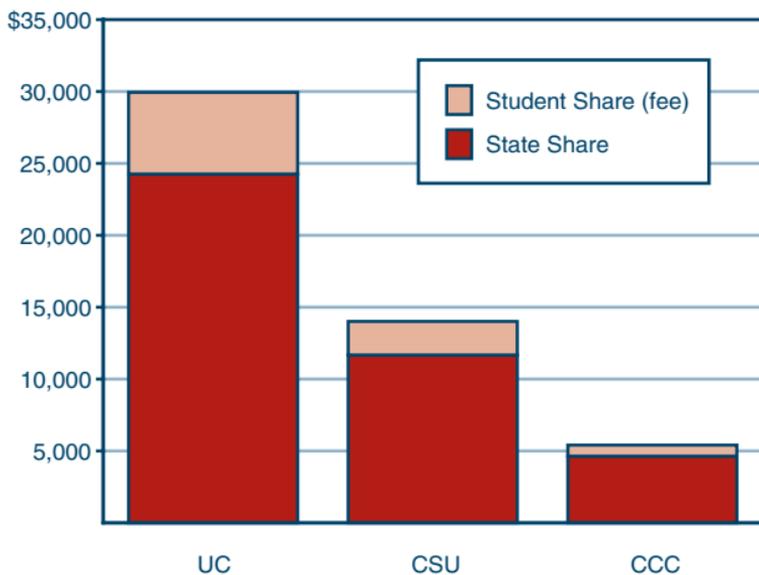


^aIncludes state and local funds and student fee revenues.

- Real spending (that is, adjusted for inflation) per California public college student has increased over the past ten years.
- For instance, the University of California (UC) will spend about \$20,000 per full-time equivalent (FTE) student in 2004-05, which represents a 23 percent increase since 1994-95.
- Similarly, the California State University (CSU) will spend about \$11,500 per student in 2004-05 (a 36 percent increase) and the California Community Colleges (CCC) will spend \$4,650 (a 21 percent increase).

Student Fees Cover Small Share of Higher Education Costs

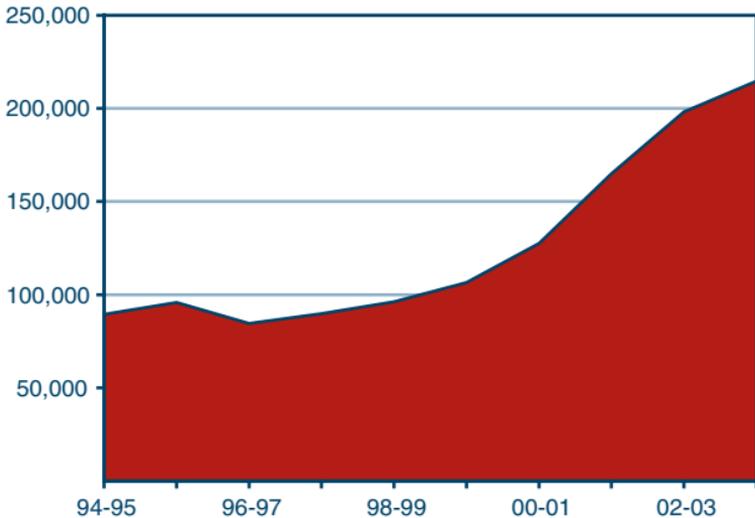
Operating Costs Per FTE Student, 2004-05



- After remaining fairly steady for most of the 1990s, student fees at all three segments have increased significantly since 2002-03. However, students continue to pay a small share of their total education costs.
- The resident undergraduate fee at UC, CSU, and the CCC represents about one-fourth, one-fifth, and one-sixth, respectively, of each system's average operating costs per full-time equivalent (FTE) undergraduate student. Resident graduate fees at UC and CSU represent about one-sixth of each system's average operating cost per FTE graduate student.
- The UC and CSU resident undergraduate fee remains the lowest of all their public comparison institutions, and the CCC per-unit fee remains the lowest of all community college systems in the nation.

Cal Grant Participation Expanding Significantly

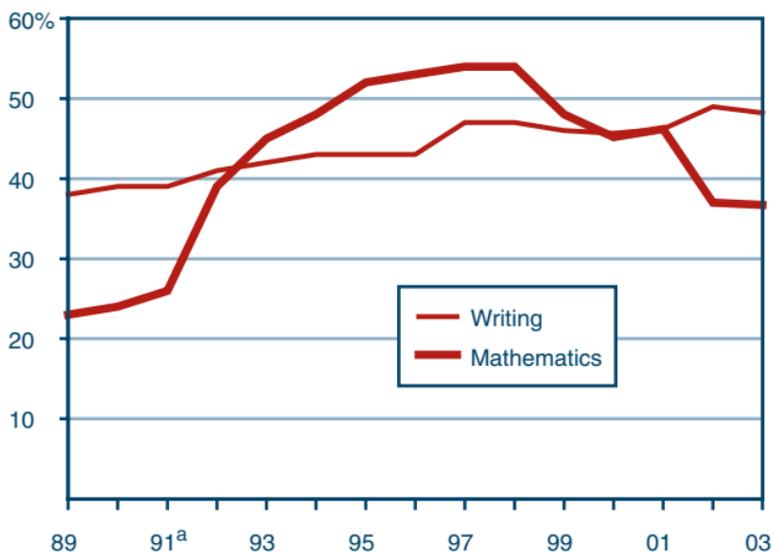
Cal Grant Recipients



- Since 2000, the state has guaranteed that all recent high school graduates meeting financial and academic requirements may receive Cal Grant awards. These awards cover the cost of educational fees at public universities and, in some cases, a portion of living expenses.
- In 2003-04, approximately 214,700 students received Cal Grant awards. This represents an increase of 140 percent (or 125,200 students) over the past decade.

Many CSU Students Arrive Unprepared for College-Level Work

Regularly Admitted Freshmen Needing Remediation

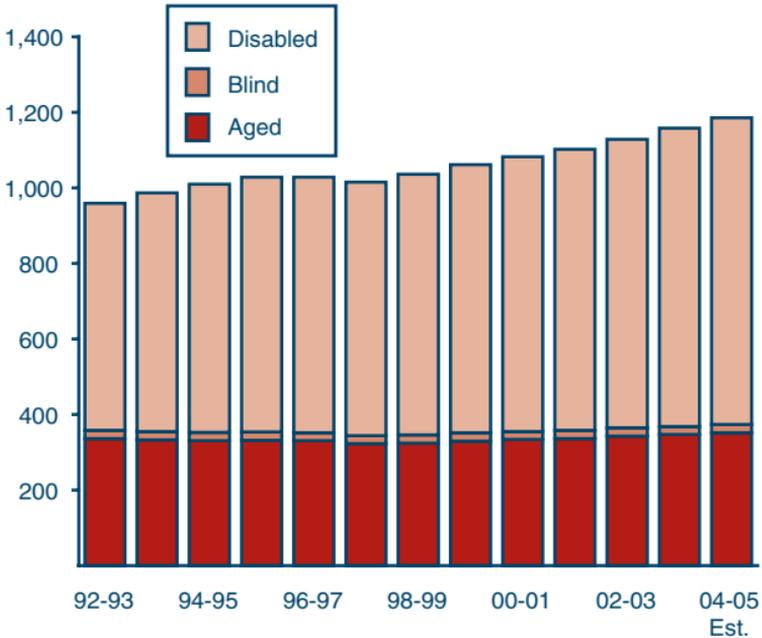


^aThe CSU made the math exam *more* difficult in 1992, and *less* difficult in 2001.

- Of regularly admitted California State University (CSU) freshmen, almost half are unprepared for college-level writing and over one-third are unprepared for college-level math.
- At nine CSU campuses, at least two-thirds of regularly admitted freshmen arrived unprepared for college-level work. At CSU Dominguez Hills and CSU Los Angeles, over 80 percent of regularly admitted freshmen are unprepared for college-level work.
- At the University of California (UC), about 30 percent of regularly admitted freshmen arrived unprepared for college-level writing.

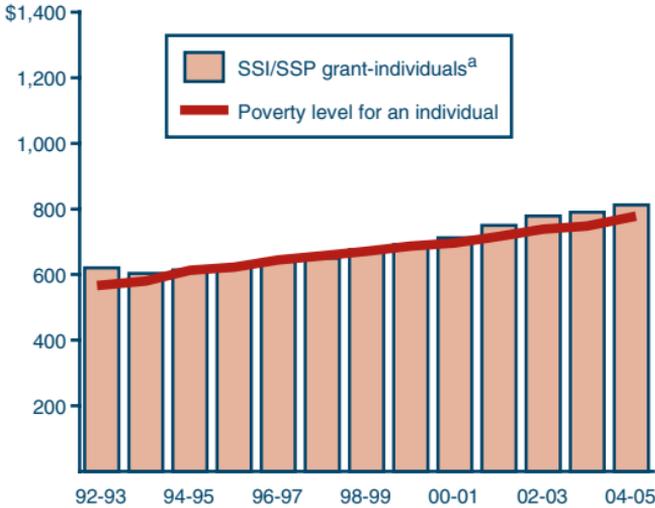
SSI/SSP Caseload Continues to Grow

Cases in Thousands

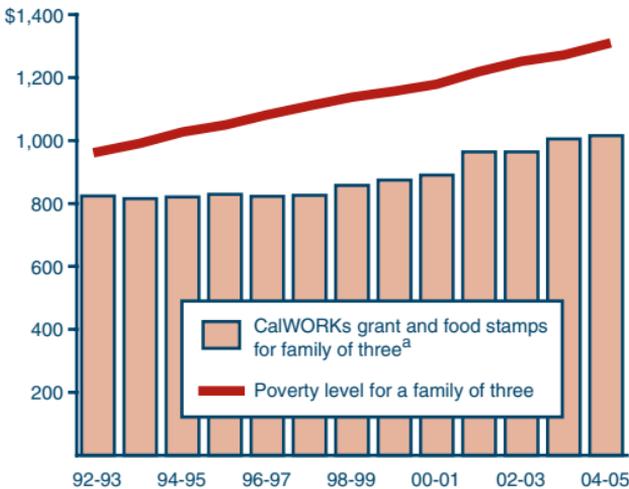


- The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to low-income persons who are elderly, disabled, or blind.
- The caseload leveled off in the mid-1990s, in part because of federal law changes that restricted eligibility for disabled children and certain noncitizens. Subsequent to these changes, caseload growth has remained steady at a little over 2 percent per year.
- In addition, about 8,600 recipients are expected to participate in the state-only program for legal noncitizens during 2004-05.

SSI/SSP Grant Is Just Above Poverty Level ...



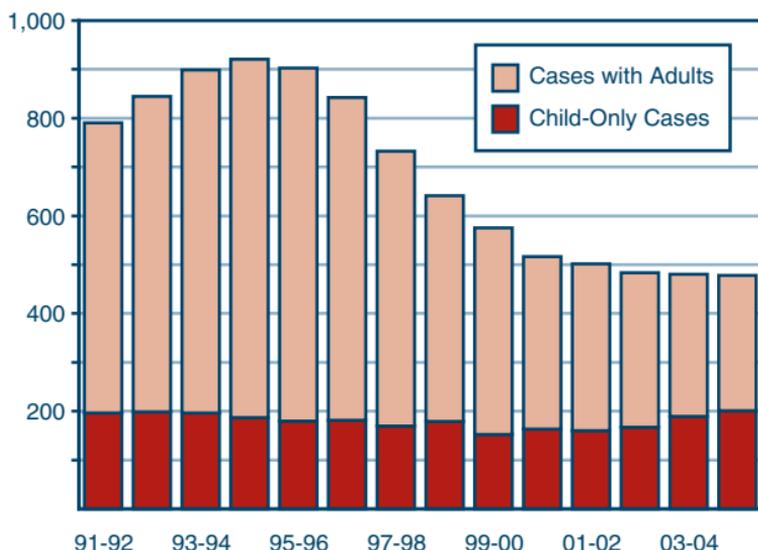
... While CalWORKs Grant Is Significantly Below Poverty Level



^aMaximum monthly grant.

Total CalWORKs Caseload Flattens; Share of Child-Only Cases Increases

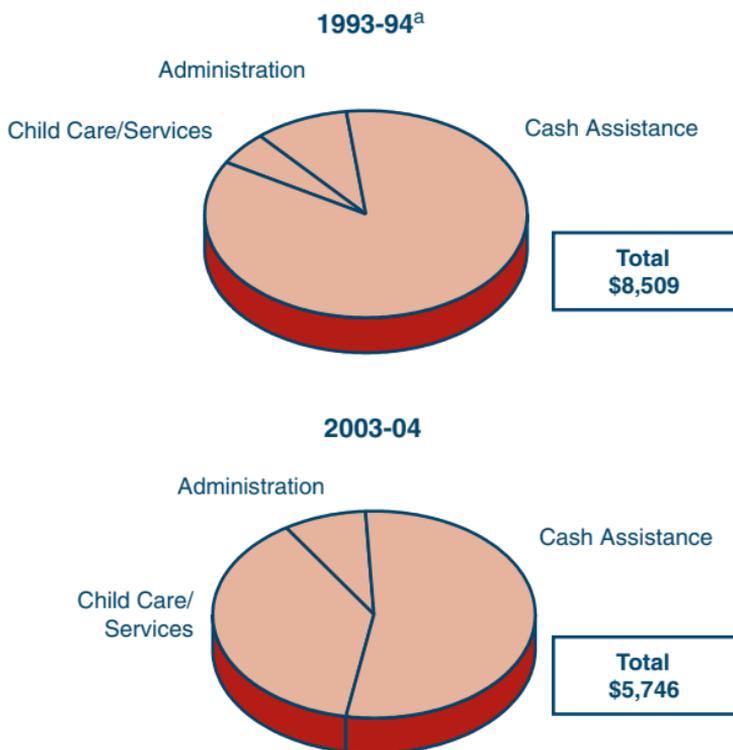
Cases in Thousands



- After declining about 48 percent from its peak in 1994-95, the CalWORKs caseload began to level out in 2002-03.
- The percent of cases that do not include an adult (child-only) doubled from 20 percent in 1995-96 to about 40 percent in 2003-04.
- Recent increases in child-only cases are largely the result of parents exhausting their five-year CalWORKs time limit therefore leaving aid while their children continue to receive assistance.

Welfare Spending Shifts From Cash Assistance to Services

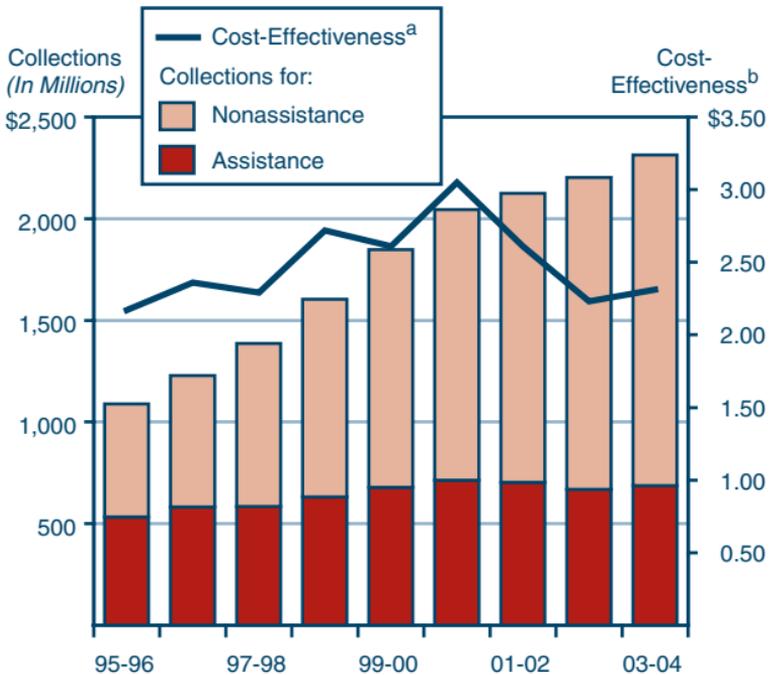
Expenditures in Millions



^aAdjusted for inflation.

- In response to federal welfare reform, CalWORKs shifted the focus of welfare assistance from providing cash aid to furnishing child care and other services to help parents find work.
- While the caseload declined by 47 percent from 1993-94 to 2003-04, total program spending dropped somewhat less (33 percent). As a result, average spending per person actually increased from about \$9,600 in 1993-94 (adjusted for inflation) to about \$11,700 in 2003-04.

Child Support Collections Rising but Cost-Effectiveness Lags Nation

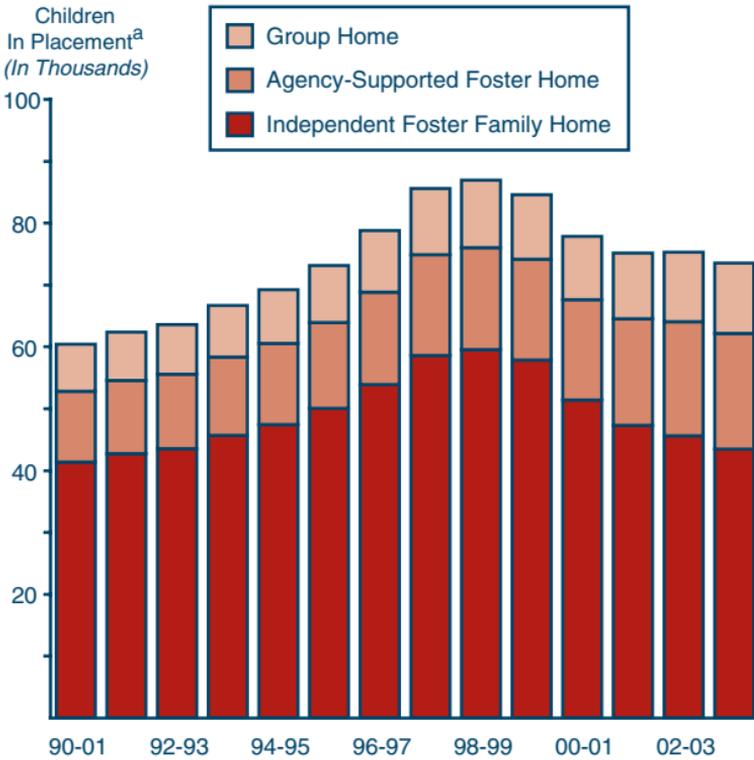


^aCost-effectiveness data are from federal fiscal years 1995 through 2003.

^bThe federal government defines cost-effectiveness as collections per administrative dollar spent.

- California's child support collections have increased steadily each year, from \$1.1 billion in 1995-96 to \$2.3 billion in 2003-04. However, assistance (CalWORKs) collections have declined from a peak in 2000-01 primarily due to CalWORKs caseload reductions.
- In terms of cost-effectiveness, defined as collections per dollar spent on program administration, California ranked 49th among the 50 states in 2003. Specifically, California collected \$2.31 for every dollar spent, while the national average (excluding California) was \$4.49.

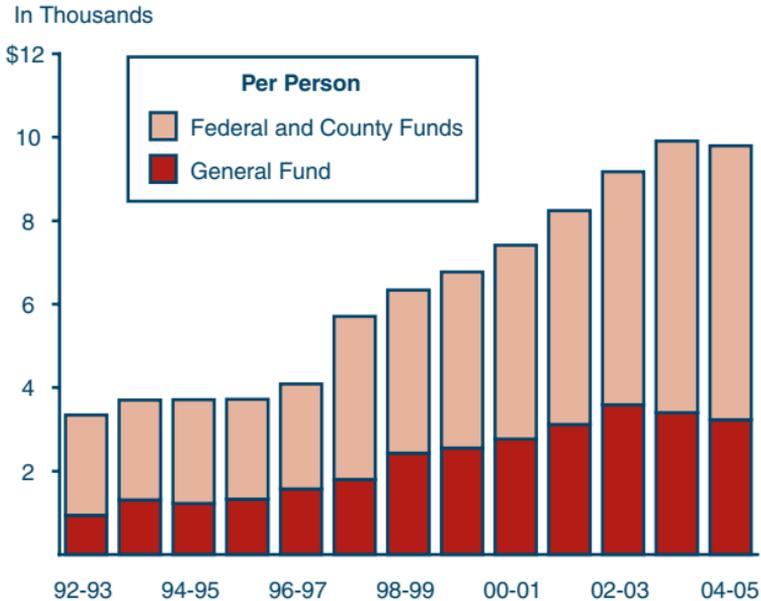
Foster Care Caseload Declines In Recent Years



^aExcludes foster youth supervised by county probation departments and children in shelters, adoptive placements, and guardianships.

- The total foster care population grew steadily throughout the 1990s, from about 61,000 in 1990-91 to about 88,000 in 1998-99. Since then, the caseload has declined approximately 15 percent, to 75,000.
- The decline in the foster care caseload is primarily due to two factors: (1) the advent of the Kinship Guardianship Assistance Payment (Kin-GAP) Program which allows children to exit the foster care system to relative caregivers and (2) an increase in the number of adoptions of foster children.

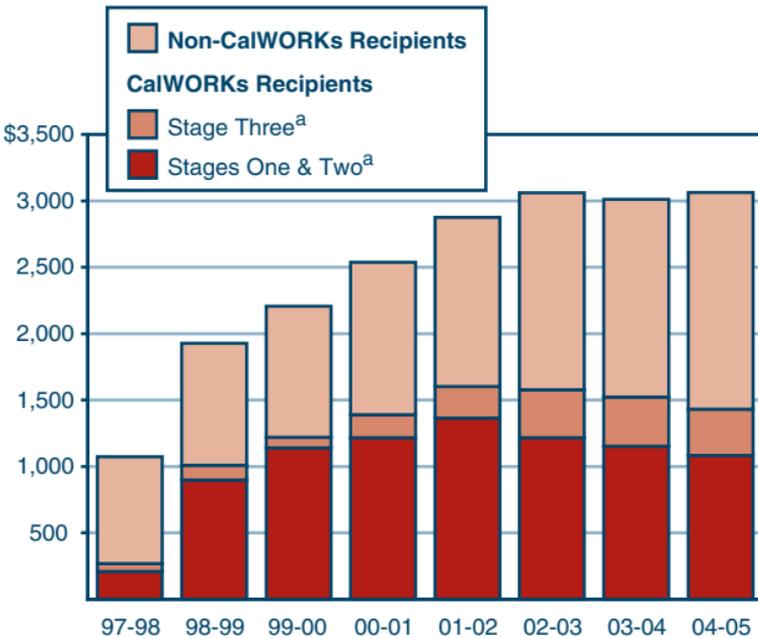
IHSS Cost Per Person Leveling Off



- From 1995-96 through 2003-04, IHSS costs increased very rapidly from less than \$4,000 per person to nearly \$10,000 per person. Most of this increase is attributable to higher wages paid to providers.
- In 2004-05, IHSS costs per person leveled off mostly because counties did not increase provider wages. Until counties increase wages, caseload growth (averaging about 9.6 percent over the past four years) will be the primary driver of IHSS costs.
- For the past two years, General Fund spending per person has decreased because of increased federal funding. This increased federal support came from (1) one-time federal fiscal relief funds in 2003-04 and (2) approval of a waiver authorizing federal financial participation in the formerly state-only “residual” IHSS program beginning in 2004-05.

Spending on Child Care Has Levelled Off

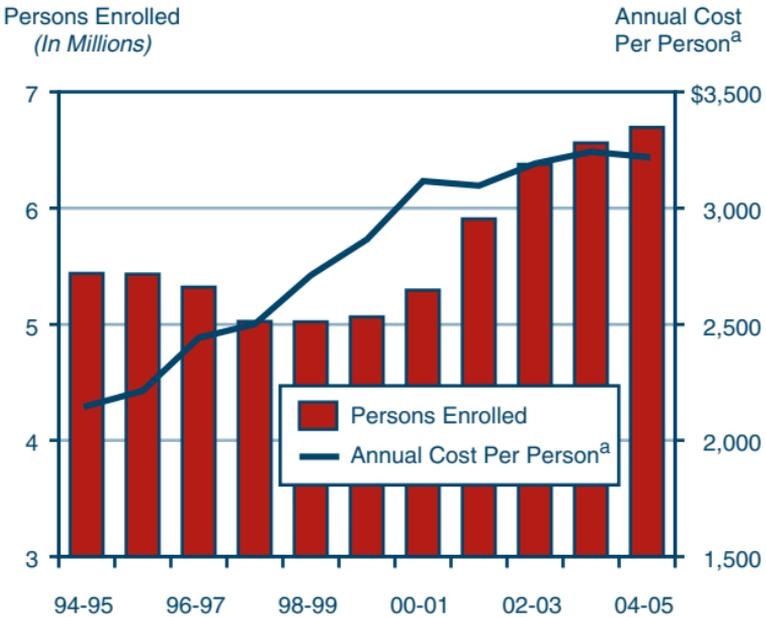
*General Fund and Federal Funds
(In Millions)*



^aStages 1, 2, and 3 provide child care for CalWORKS and former CalWORKs recipients.

- Spending on state subsidized child care has increased from about \$1.1 billion in 1997-98 to about \$3 billion in 2003-04. This increase is primarily due to legislative actions expanding (1) preschool and after school programs, and (2) child care for current and former CalWORKs families.
- The percentage of total child care spending for current and former CalWORKs families grew from about a quarter of all spending in 1997-98, and peaked at about 56 percent of child care spending in 2001-02. Since then, funding for CalWORKs child care has decreased as overall CalWORKs child care caseload has declined.

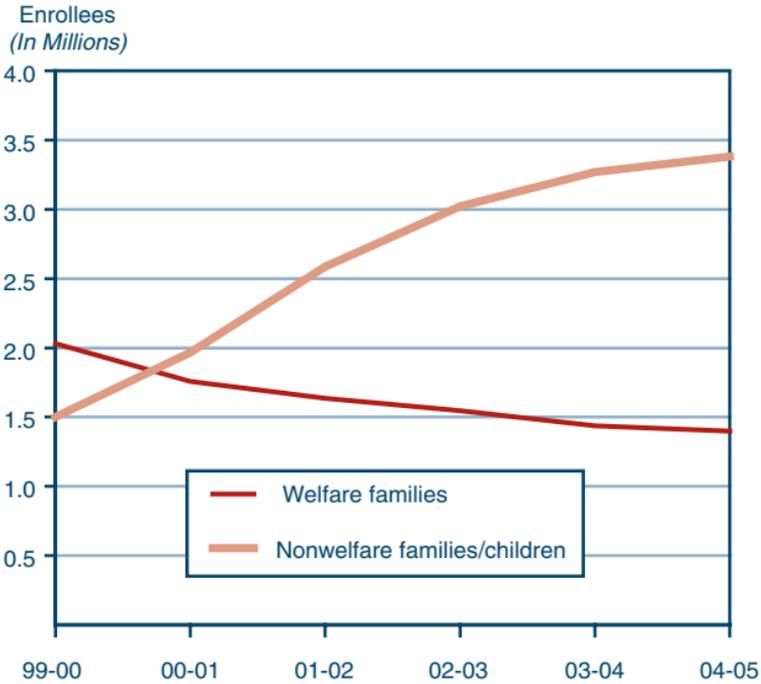
Medi-Cal Caseload Increasing as Cost Per Person Stabilizes



^aIncludes federal funds. Excludes disproportionate share hospital payments and most pass-through funding for related programs.

- Between 1994-95 and 1996-97, the Medi-Cal caseload was relatively flat, then it declined as the economy recovered. The caseload grew rapidly from 2001-02 through 2002-03 due to various eligibility expansions and simplified eligibility processes. Since then it has continued to grow, but at a slower rate.
- The annual cost increase per Medi-Cal beneficiary trended steadily upward until 2001-02. The turnaround in 2001-02 appears to be partly the result of an increase in the number of healthy beneficiaries rather than a decrease in costs. In recent years, the costs have been relatively flat, partly because few rate increases were given to Medi-Cal providers.

Most Medi-Cal Families/Children Are Not on Welfare

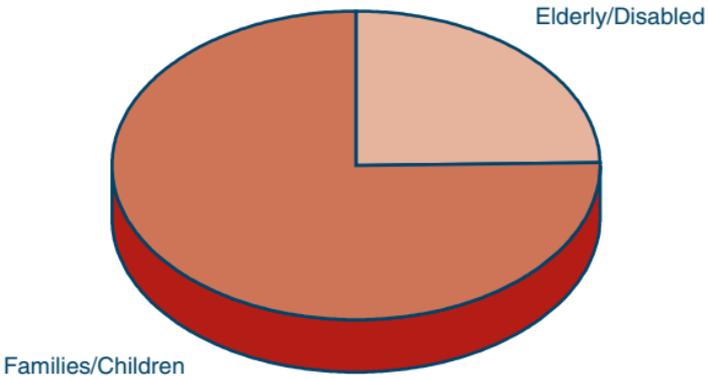


- By 2000-01, for the first time in the history of the Medi-Cal Program, welfare (CalWORKs) recipients accounted for less than half of the families and children enrolled in the program. This trend has continued and Medi-Cal enrollment of nonwelfare families and children now exceeds those on welfare by about 2 million persons.
- The reduction in the welfare component of the Medi-Cal caseload is generally attributable to welfare reform. The growth in the nonwelfare component is due to recent legislative changes that have expanded and simplified Medi-Cal eligibility for low-income working families.

Medi-Cal Caseload Is Primarily Families/Children . . .

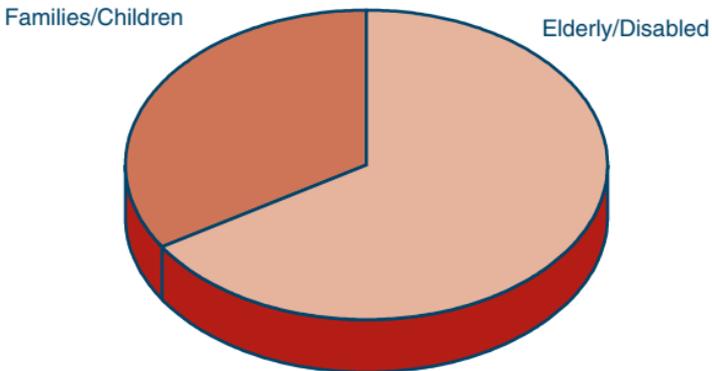
2004-05

Percent of Caseload



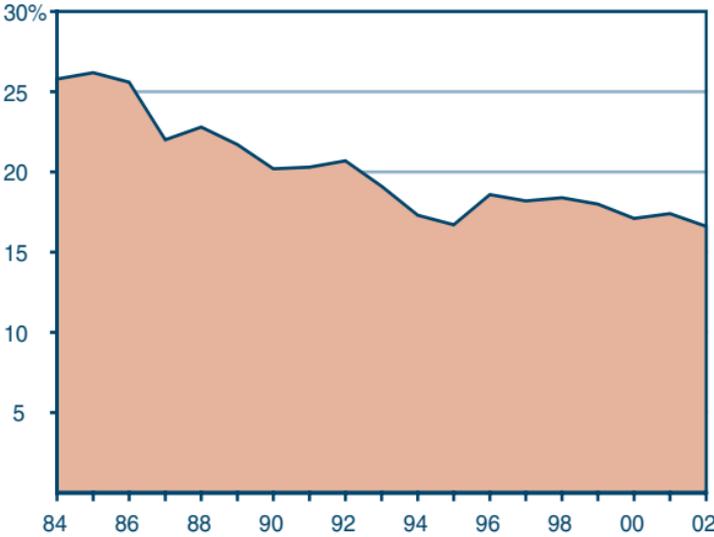
. . . While Most Medi-Cal Spending Is for Elderly/Disabled

Percent of Spending



Smoking Has Declined Among California Adults

Prevalence of smoking among adults 18 and older^a

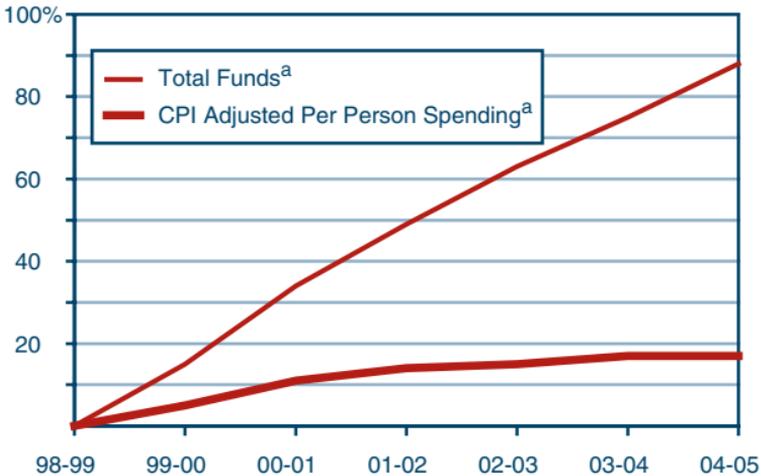


^aThe state definition of who is considered a smoker changed in 1996 to include more occasional smokers.

- The prevalence of smoking among California adults has dropped significantly over time from about 26 percent in 1984 to about 17 percent in 2002. Among the factors believed to have contributed to this downward trend in smoking are the enactment of state-wide ballot measures that increased taxes on tobacco products.
- Proposition 99 of 1988 imposed a 25 cent per pack surtax on cigarettes and earmarked the proceeds for various tobacco prevention, health, and resources programs. Proposition 10 of 1998 imposed a further 50 cent per pack surtax on cigarettes that is devoted to childhood development programs.

Regional Center Spending Up Significantly

Percent Change Since 1998-99

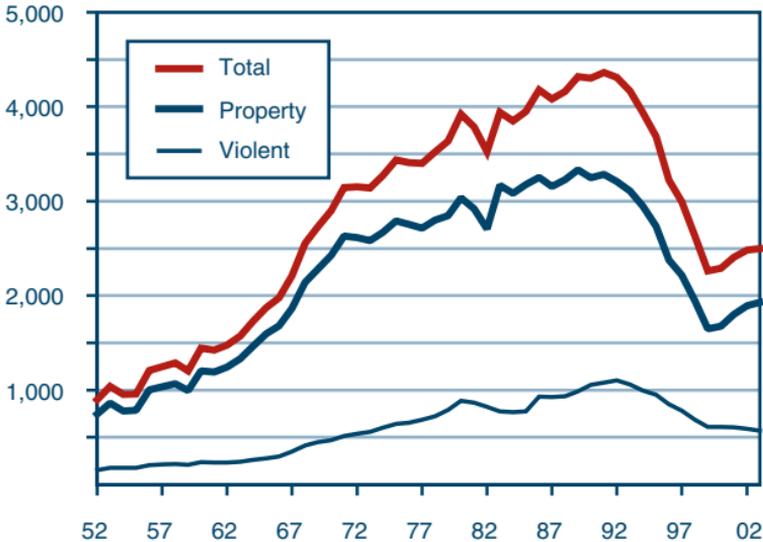


^aData adjusted to reflect programmatic changes.

- The state provides community-based services to about 199,000 developmentally disabled individuals through 21 nonprofit corporations known as regional centers (RCs). Between 1998-99 and 2004-05, total spending has increased by 88 percent while spending per person after adjusting for inflation has gone up 17 percent.
- The increases in costs are attributable to several factors. New medical technology, treatments and equipment are broadening the scope of services available to the developmentally disabled. Other factors include increased life expectancies of RC clients, increases in the number of diagnosed cases of autism, and the comparatively higher costs of treating autistic individuals.

Crime Rate Up After Decade Decline

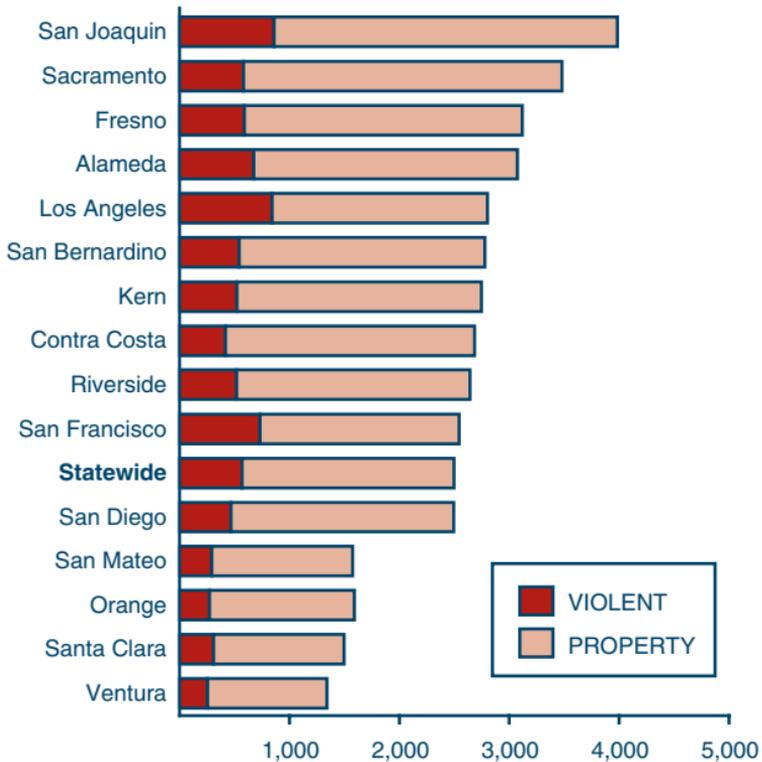
Rate Per 100,000 Population



- After nearly ten consecutive years of decline, California's crime rate increased slightly in 2002 and 2003. Nonetheless, crime in California remains at a level not seen since the mid 1960s.
- As the above figure shows, this upward shift is driven by an increase in the level of property crimes such as burglary and motor vehicle theft. Violent crime, such as murder, rape, and assault, has held relatively steady.
- There are probably many reasons for this slight increase, including the changing demographics (growth in crime prone age groups), higher reporting of crimes, and improvements in policing and other law enforcement techniques.

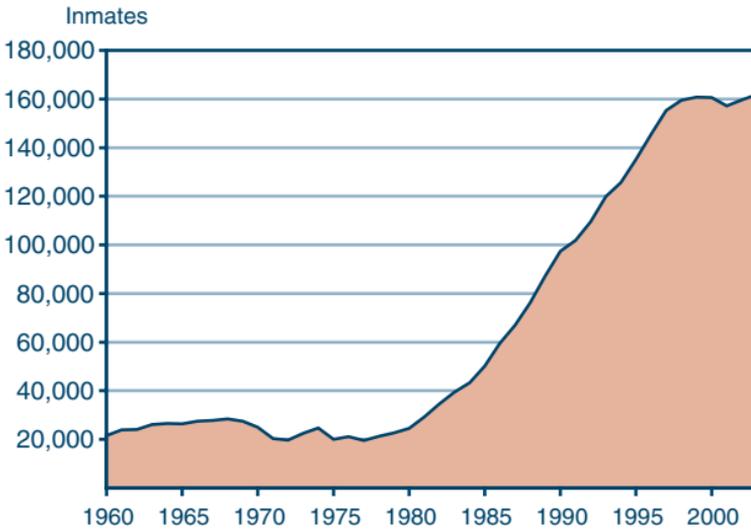
Crime Rates Vary Widely Among Large Counties

2003 Rates Per 100,000 Population



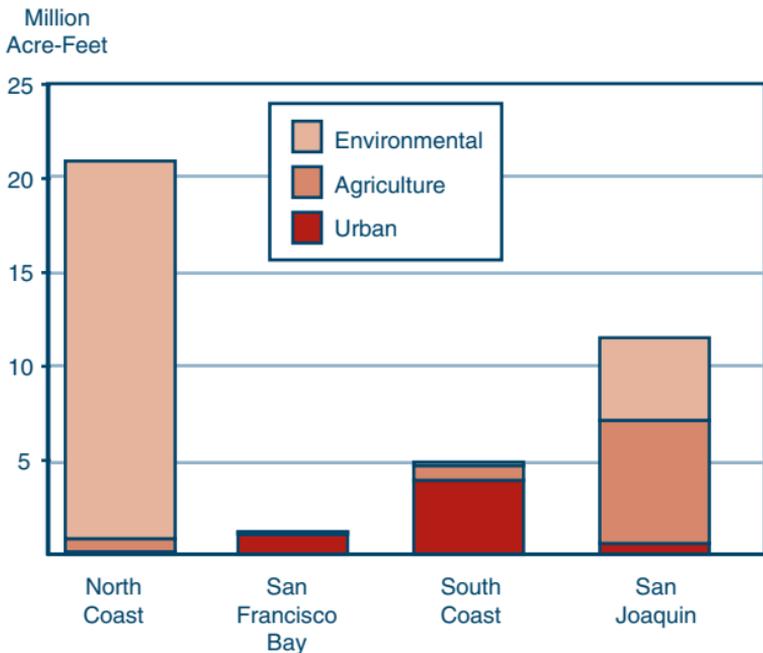
- Among the counties with populations of 500,000, or more, San Joaquin had the highest crime rate in 2003—about 59 percent higher than the statewide rate. Ventura’s rate was the lowest and was about half the statewide rate.
- Variations among county crime rates are probably explained by factors such as demography (areas with larger populations of young men tend to have higher crime rates), local economy, law enforcement resources, and degree of urbanization.

Prison Population Climbing Slowly After Two Decades of Rapid Growth



- Over twenty years, California's prison inmate population increased from about 22,000 inmates in 1979 to a peak of about 161,000 in 1999. This increase of over 600 percent has largely been attributed to changes in law that increased the length of prison sentences.
- Between 1999 and 2001, the prison inmate population declined by 3 percent to about 157,000 inmates. This decline in population is due primarily to Proposition 36, the Substance Abuse and Crime Prevention Act, which went into effect on July 1, 2001 and redirects some drug offenders into treatment rather than prison.
- Between 2001 and 2003, the prison inmate population increased by 3 percent to about 162,000. This increase in population is due primarily to increases in the number of inmates sentenced to prison by courts.

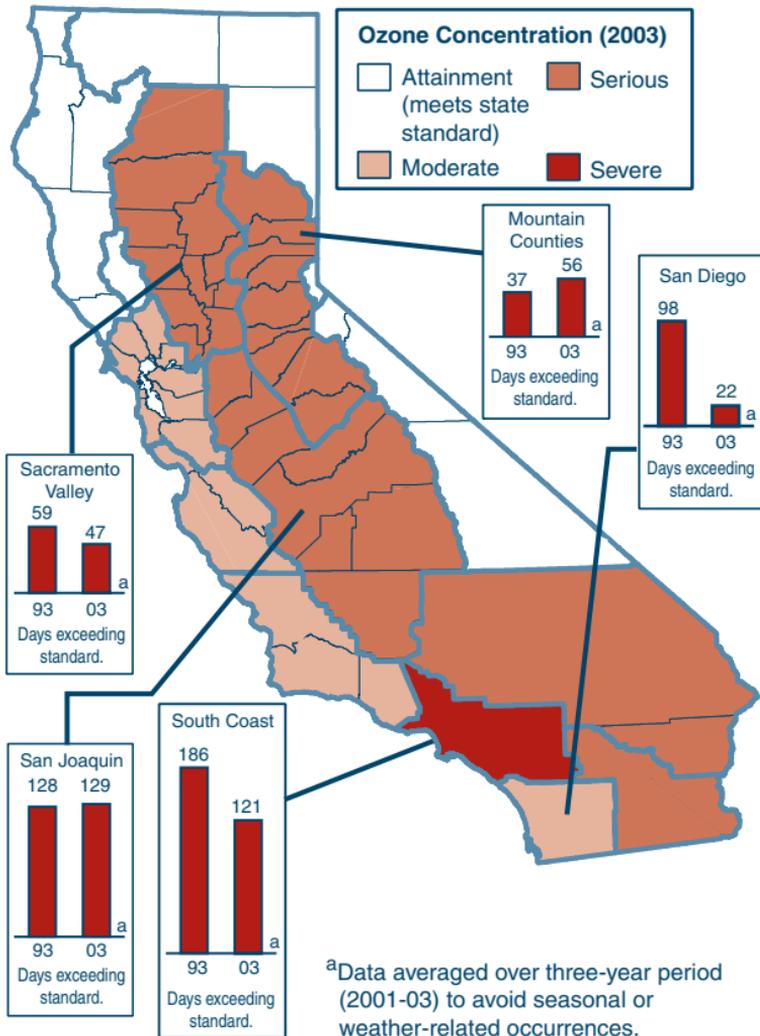
Substantial Variation In Water Use Among Water Basins^a



^aData reflects average use for selected water basins for 1998, 2000, and 2001—a wet year, a slightly above-normal year, and a dry year, respectively.

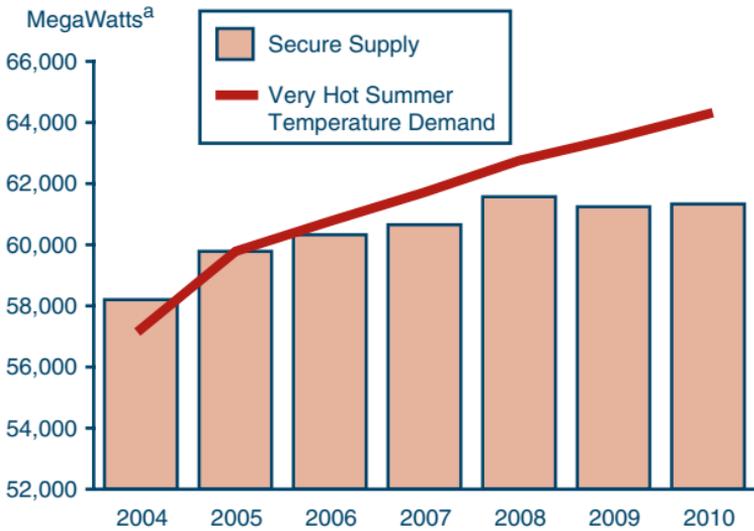
- There is substantial variation among the state's water basins in the amount of water used for urban, agricultural and environmental uses.
- Overall statewide water demand is projected to decline by 300,000 acre-feet between 2000 and 2030. However, urban and environmental water uses will increase, while agricultural uses will decline.

State Failing Ozone Standard, But Air Quality Improving in Most Regions



- Although ozone concentrations (a key component of smog) have decreased in most air basins since 1993 reflecting increasingly stringent air pollution controls, most of the state did not attain the state's air quality standard for ozone in 2003. Ozone levels and progress made to improve air quality vary regionally.

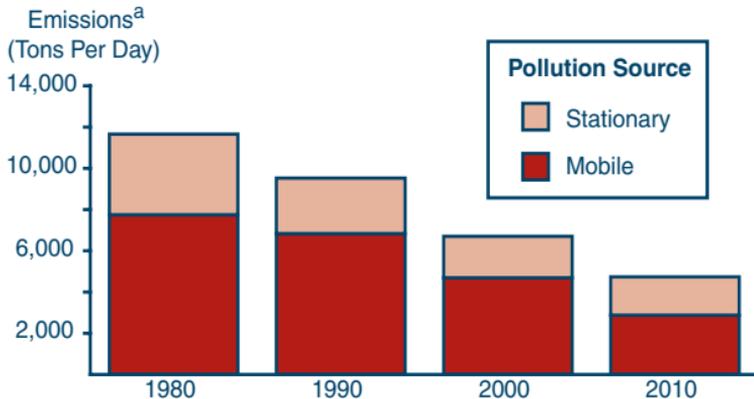
Future Electricity Demand Projected To Outstrip the State's Secure Supply



^aRepresents the amount of electricity supplied and demanded at the time of peak demand for the year (typically the afternoon peak of a hot summer day).

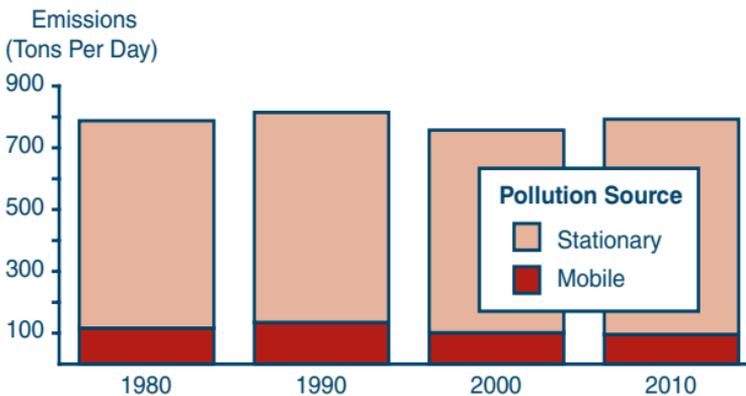
- Over the next six years electricity demand is projected to increase at an average annual rate of 2 percent, while the secure supply of electricity (existing generation, high probability new generation, and contracted generation from out of state) is projected to grow at an average annual rate of 1 percent.
- Currently, California electricity providers rely largely on their own generation capacity and long-term contracts with suppliers to meet electricity demand. Meeting projected demand is likely to require increasing reliance on spot market purchases and programs where consumers agree in advance to reduce demand during peak energy demand periods in return for lower rates.

Ozone Emissions Declining . . .



^aReactive organic gas (ROG) and oxides of nitrogen (NO_x) are pollutants which combine with sunlight to produce ozone or smog.

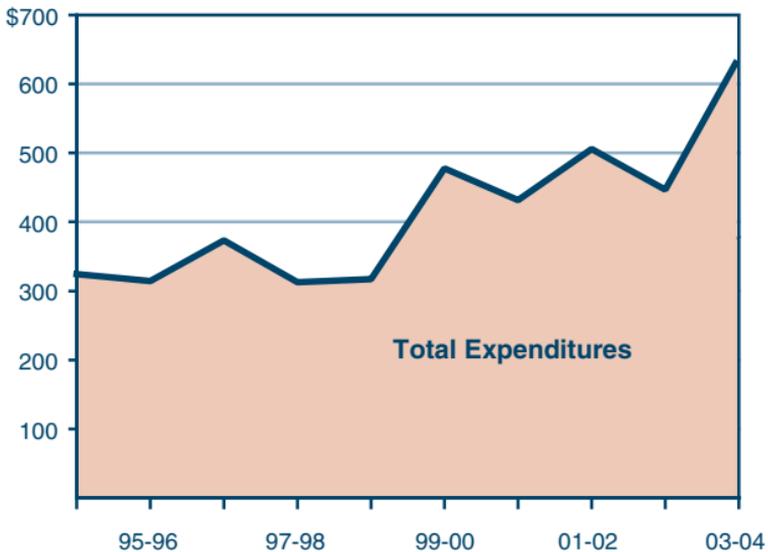
. . . While Virtually No Improvement in Particulate Matter Emissions



- Ozone emissions are projected to continue to decline largely due to reductions in mobile source emissions.
- Numerous studies indicate that increased exposure to particulate matter contributes to increased respiratory and heart disease.

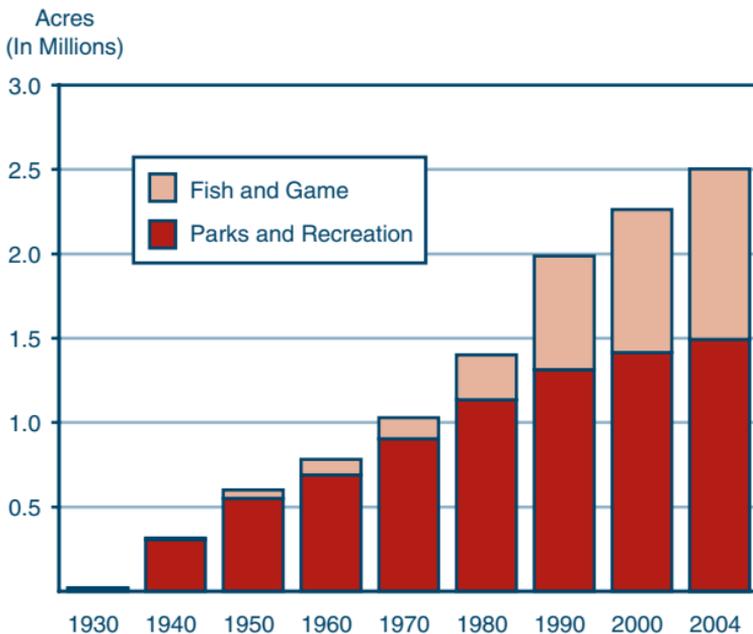
Increasing State Expenditures for Wildland Fire Protection

All Funds
(In Millions)



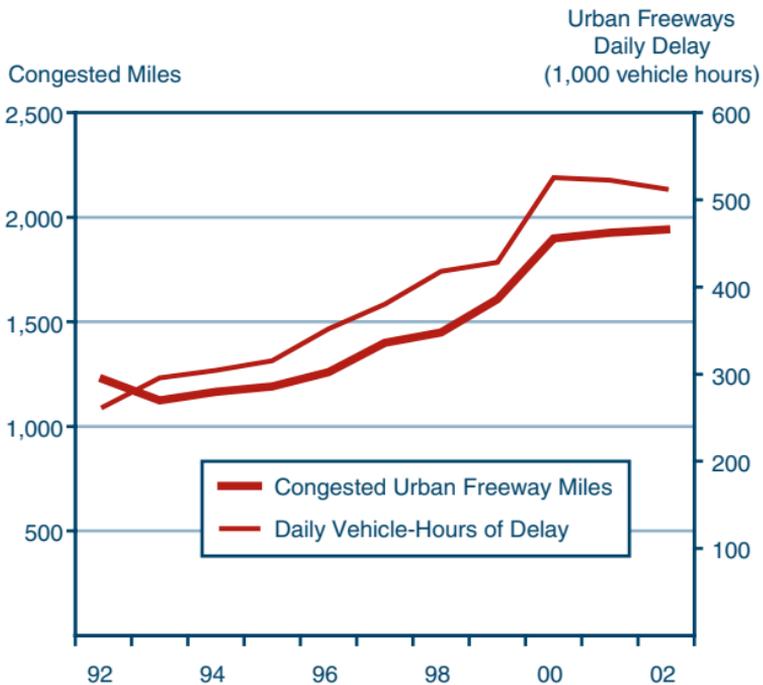
- The California Department of Forestry and Fire Protection is responsible for wildland fire protection on 31 million acres of mostly privately owned lands.
- Although state expenditures for wildland fire protection have varied significantly from year to year, expenditures have increased on average by 10 percent annually since 1994-95.
- There are a number of factors that have been driving the state's costs upwards—the greater occurrence of large and damaging fires, increasing labor costs, forest fuel conditions, and increasing development in and around wildland areas.

Substantial Increases in State Owned Or Administered Resources Lands



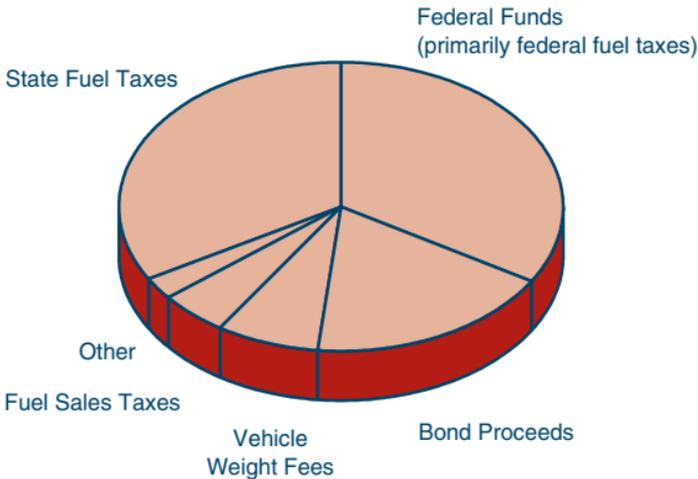
- The number of acres owned or administered by the Department of Fish and Game (DFG) and the Department of Parks and Recreation (DPR) have almost doubled since 1980. The surge in land acquisition has largely been financed by bond funds.
- About 54 percent of the acreage administered by DFG is owned, with the balance administered through easements, leases, and other types of management agreements. On the other hand, 86 percent of acreage administered by DPR is owned, with the balance administered through various agreements.

Urban Highway Congestion Remains High After Increasing in the 1990s



- In 2002, 1,941 miles of the state's urban freeways were congested—up from 1,225 miles in 1992. Congestion occurs when vehicles are traveling on freeways at 35 mph or less during peak commute periods on a typical weekday.
- For 2002, congestion on urban highways cost Californians an estimated \$11.9 million a day in time and fuel, and caused an additional 512 tons of emissions.
- Vehicle-hours of delay on urban freeways more than doubled from approximately 262,000 hours per day in 1992 to about 525,000 hours per day in 2000. Daily delay dropped to 512,000 vehicle-hours by 2002, coinciding with a downturn in the state's economy.

State Transportation Funding Comes Primarily From Fuel Taxes

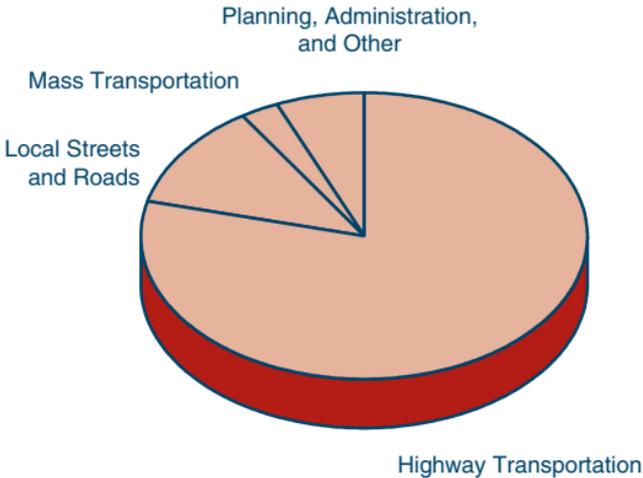


2003-04 Total: \$9.9 Billion^a

^a2003-04 budget estimate. Does not include local transportation funds.

- The state excise taxes on gasoline and diesel fuel (18 cents per gallon) is California's largest source of transportation revenue, providing about \$3.3 billion in 2003-04. The federal excise taxes on gasoline (18.4 cents per gallon) and diesel (24.4 cents per gallon) also provided about \$3.3 billion of revenue in 2003-04.
- The state augmented transportation revenues by issuing two large bonds in 2003-04. One bond (\$1.16 billion) was for the seismic retrofit of toll bridges and is to be repaid with future toll revenues. The other bond (\$632 million) was to accelerate several transportation projects and is to be repaid by future federal revenues.
- Fuel sales tax revenues include funds provided through Proposition 42.

Most State Transportation Spending Is For Highway Transportation



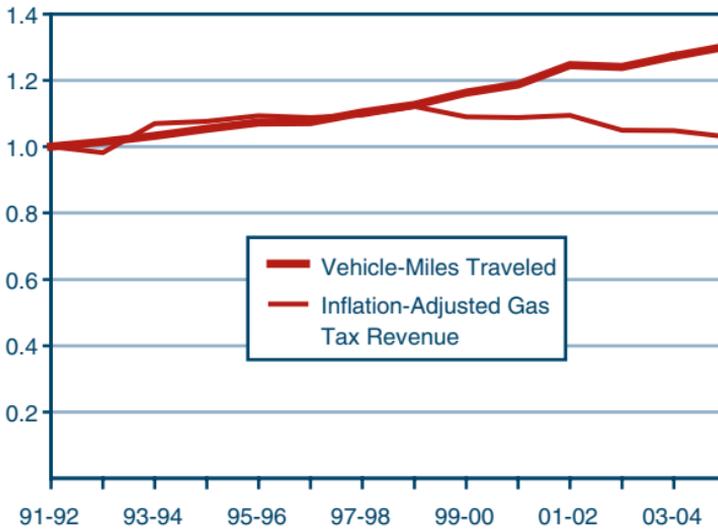
2003-04 Total: \$9.3 Billion^a

^aEstimated expenditures based on most recent Governor's budget.

- Most state transportation expenditures are for the state highway system, including the design, engineering, and construction of capital outlay projects; maintenance; and operations. Highway transportation expenditures are estimated at \$7.3 billion in 2003-04.
- The state also provides a portion of gas tax revenues directly to cities and counties for maintenance of local streets and roads. These transfers to local entities amount to about \$1 billion per year.
- Mass transportation, planning, administration of the Department of Transportation, and other expenditures are estimated to total \$850 million in 2003-04.

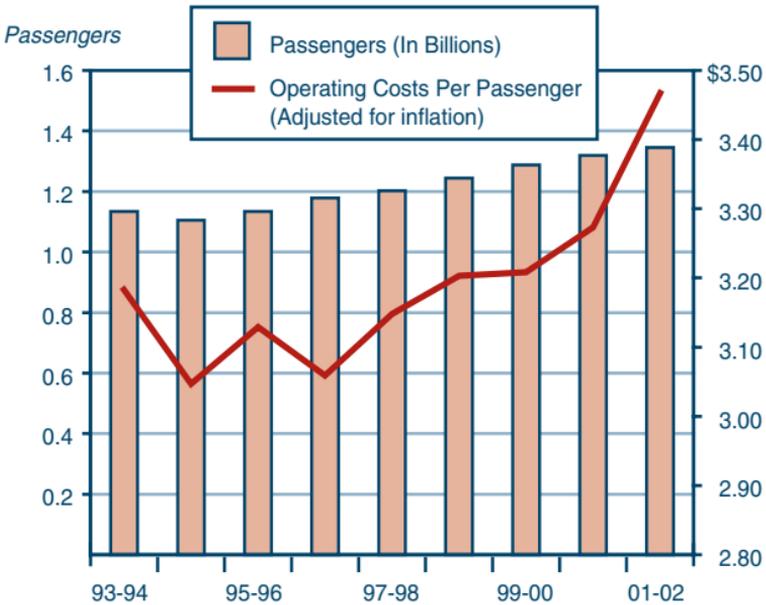
State Gas Tax Revenues Have Not Kept Pace With Road Use

Index Value = 1 in 1991-92



- The number of miles driven on California roads has steadily increased over the past decade. By 2004-05, vehicle-miles traveled on all roads in the state will be 30 percent higher than in 1991-92.
- Inflation-adjusted revenues from the excise tax on gasoline and diesel fuel roughly kept pace with miles traveled through most of the 1990s, as the tax rate was gradually increased from 9 cents to 18 cents per gallon.
- Because gas taxes have not increased since the mid-1990s, inflation-adjusted gas tax revenues are projected to decline 8 percent from 1998-99 through 2004-05. Over the same period, vehicle-miles traveled are projected to increase by more than 15 percent.

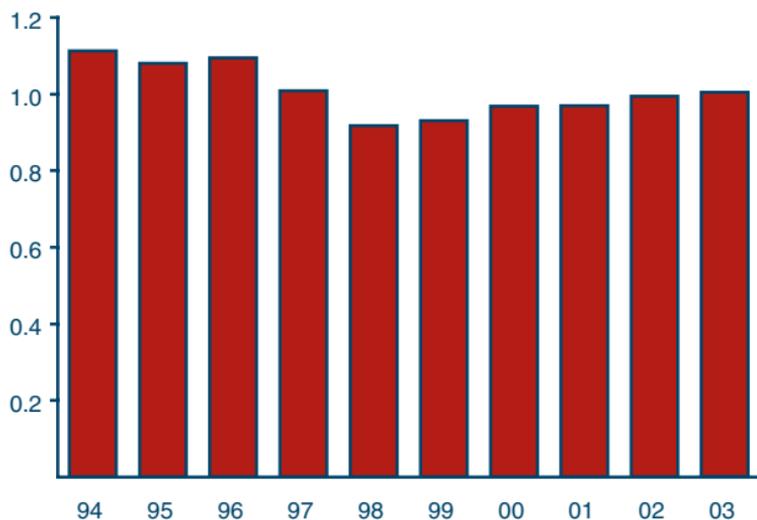
Bus and Rail Ridership Are Up, So Are Costs Per Passenger



- In 2001-02, transit systems served about 1.3 billion passengers throughout the state, with operating expenditures totaling about \$4.7 billion. Over three-quarters of these passengers used buses while the remainder used urban and commuter rail services.
- Between 1993-94 and 2001-02, total transit ridership grew by 19 percent, while transit operating expenditures (when adjusted for inflation) increased by 29 percent. On a per passenger basis, the cost increased from a low of about \$3.05 to about \$3.45. Major cost drivers include employee compensation costs, fuel costs, and liability insurance.
- Transit services are funded by a combination of passenger fares and local, state and federal funds.

Highway Fatality Rate Up After Declining in 1990s

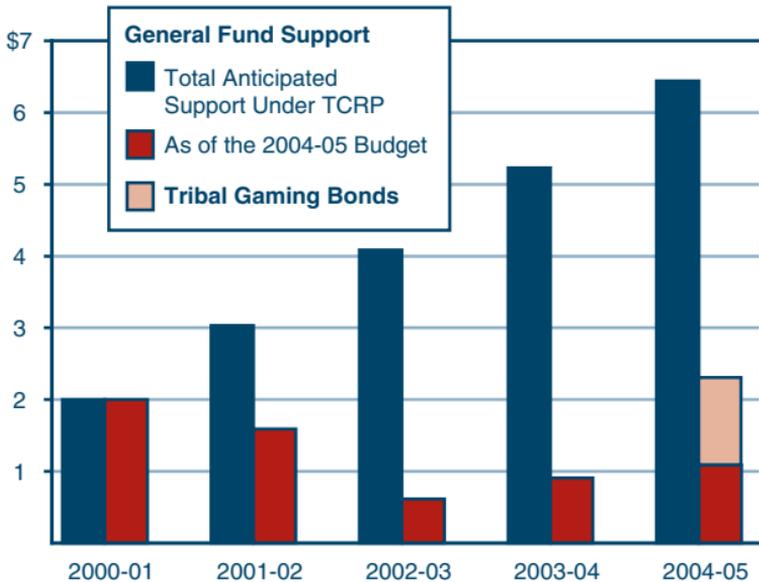
Fatalities Per
100 Million Miles



- After declining throughout most of the 1990s, the number of fatalities per 100 million miles driven on state highways has risen every year since 1999.
- In 2003, 1,752 people lost their lives on state highways, an average of almost 5 per day.
- Over 20 percent of traffic-related fatalities involve drunk driving, the primary cause of fatal accidents.

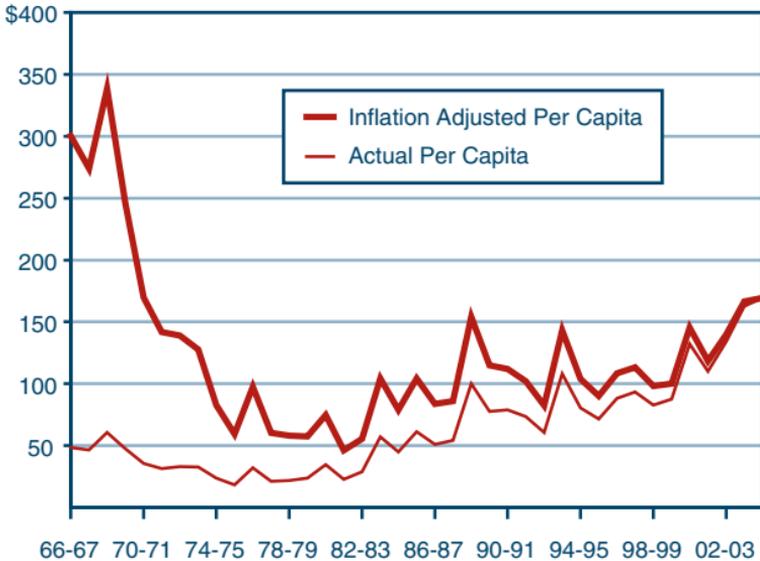
Transportation Has Received Less General Fund Support Than Expected

Cumulative Dollars in Billions



- Under the Traffic Congestion Relief Program (TCRP) enacted in 2000, the General Fund would have provided a total of \$6.4 billion to transportation by the end of 2004-05. Instead, much of this funding has been delayed or loaned back to the General Fund. As a result, transportation will receive from \$1.1 billion to \$2.3 billion from the General Fund through 2004-05.
- Under current law, amounts loaned to the General Fund will be repaid to transportation. By the end of 2004-05, total General Fund loan repayments owed to transportation will be \$3.3 billion if tribal gaming bonds are not issued. However, if tribal gaming bonds generate \$1.2 billion in 2004-05, as anticipated, \$2.1 billion will remain to be repaid by the General Fund in future years.

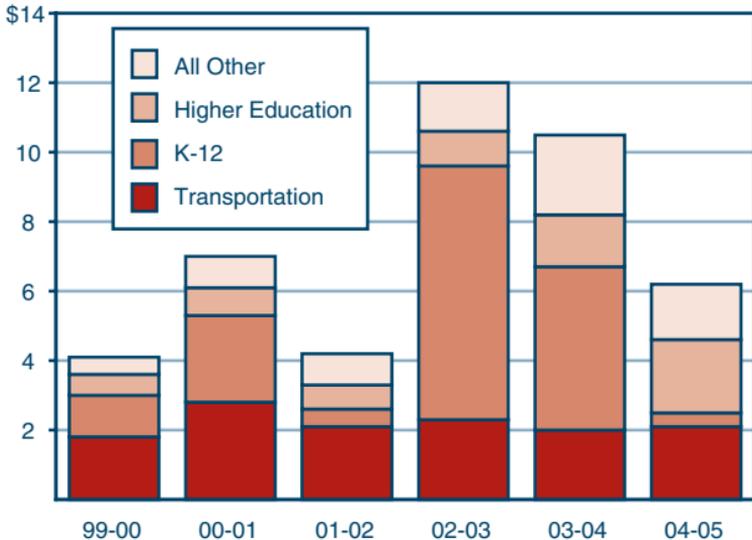
State Capital Outlay Expenditures Over Time



- Per capita expenditures on state-supported infrastructure, adjusted for inflation, declined rapidly from over \$338 in 1968-69 to a low of about \$50 in 1981-82. This decline reflected a reduction in spending on major programs such as transportation and higher education. Since then, per capita spending has increased in a generally upward trend to an estimated \$169 in 2004-05.
- We estimate that 36 percent of infrastructure spending in 2004-05 will be for transportation purposes and 27 percent for higher education. The remainder will be for other programs, including natural resources, corrections, and general government.

Infrastructure Spending Focuses on Transportation and Education

In Billions



- Since 1999-00, the state has spent over \$44 billion on infrastructure.
- In the past six years, transportation and educational facilities, including K-12 school facilities, accounted for over 80 percent (\$37 billion) of all state spending on infrastructure. The remaining 17 percent (about \$8 billion) of infrastructure spending was for all other state facilities, including office buildings, prison facilities, state parks, open space, and wildlife habitat.
- Spending on school facilities increased significantly in 2002-03 and 2003-04 because of Proposition 47 (2002), which authorized \$11.4 billion in general obligation bonds for K-12 facilities.
- While transportation projects are financed mostly with federal funds and state special funds, education projects are financed principally by General Fund-supported bonds.