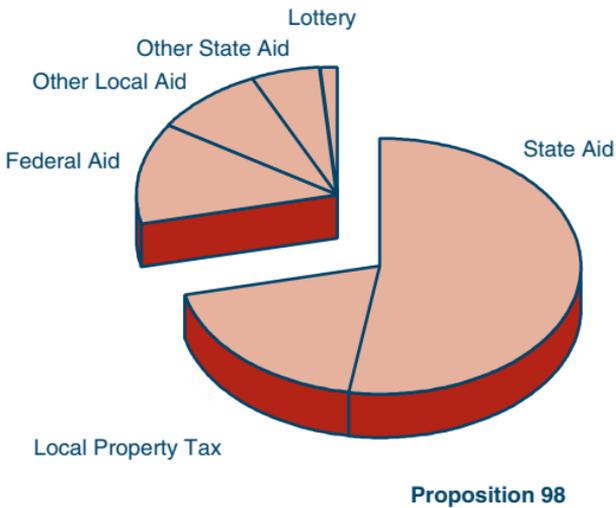


K-12 School Revenues

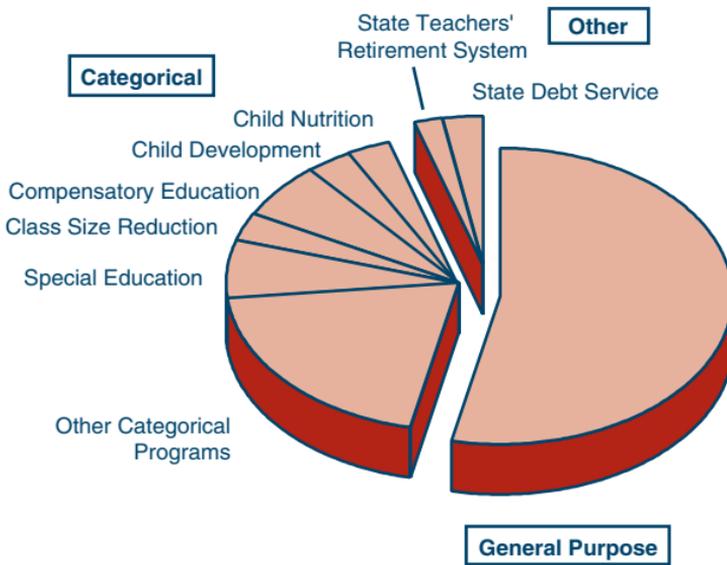
2004-05



- 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

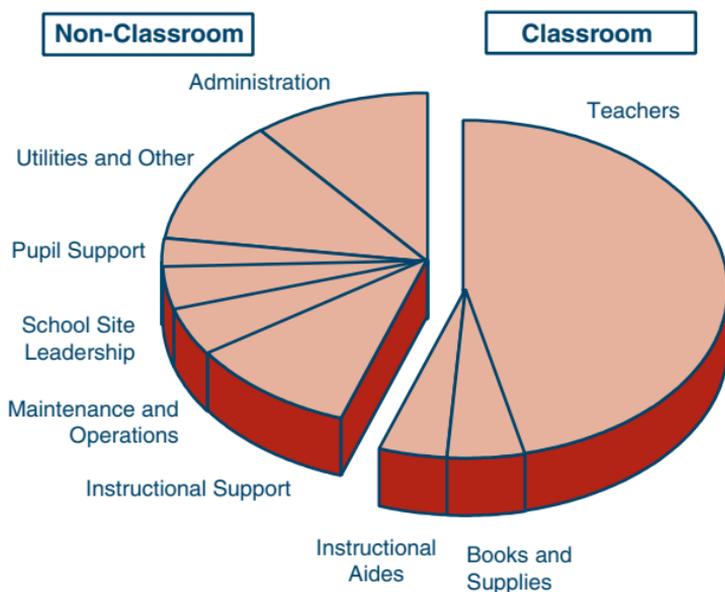
State Budgeted Funds—2004-05



- 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.

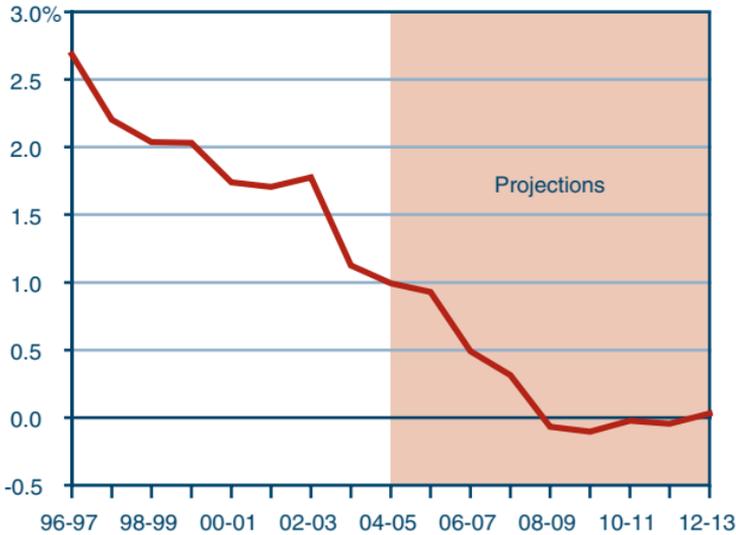
The Typical Cost of a California School

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.

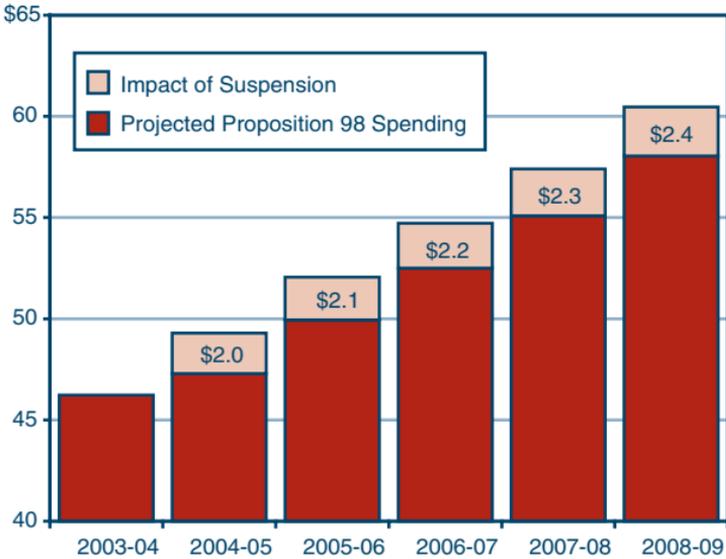
Growth in K-12 Enrollment Will Continue to Slow



- 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

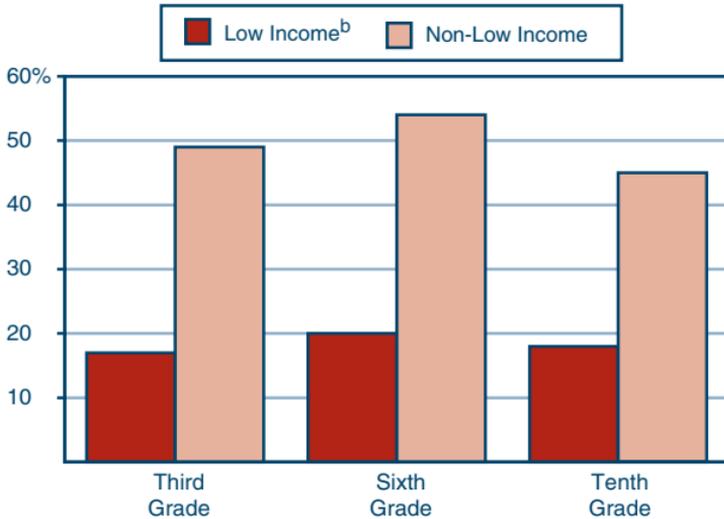
In Millions

	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

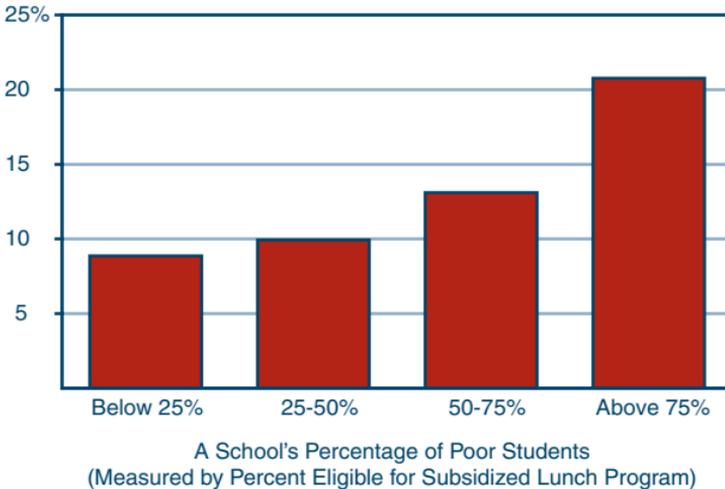


^a2004 results of the STAR English language arts tests.

^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.

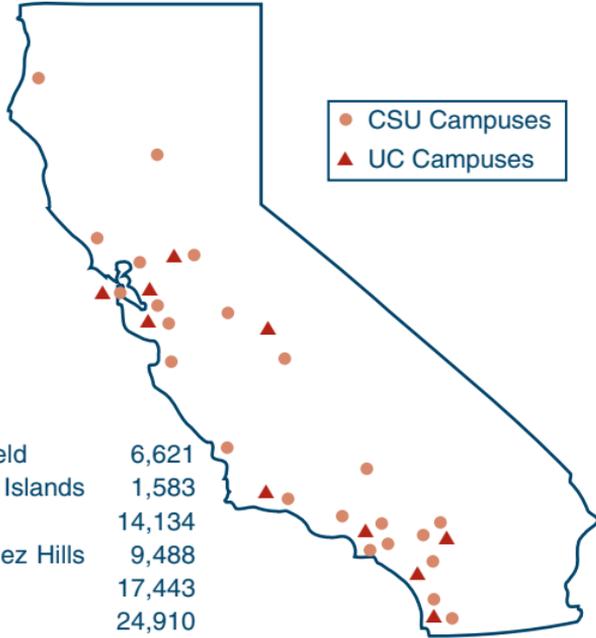
Percent of Underprepared Teachers Varies by School



- 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



CSU

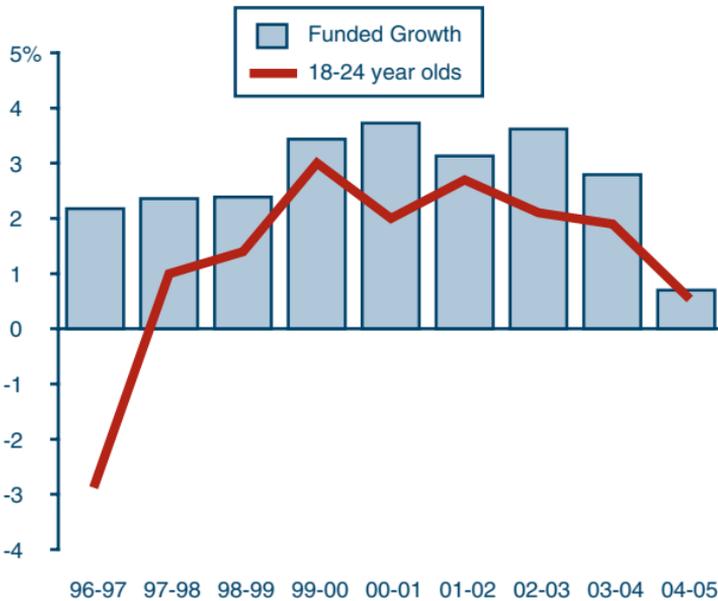
Bakersfield	6,621
Channel Islands	1,583
Chico	14,134
Dominguez Hills	9,488
Fresno	17,443
Fullerton	24,910
Hayward	12,001
Humboldt	7,329
Long Beach	27,411
Los Angeles	17,016
Maritime Academy	868
Monterey Bay	3,570
Northridge	24,232
Pomona	17,644
Sacramento	22,457
San Bernardino	13,731
San Diego	27,459
San Francisco	23,576
San Jose	21,968
San Luis Obispo	17,169
San Marcos	6,139
Sonoma	6,997
Stanislaus	6,527
Total CSU	330,276

University of California

Berkeley	33,191
Davis	29,280
Irvine	23,389
Los Angeles	37,260
Merced	— ^a
Riverside	15,457
San Diego	23,622
San Francisco	3,989
Santa Barbara	21,279
Santa Cruz	14,429
Total UC	201,896

^aCampus scheduled to open in fall 2005.

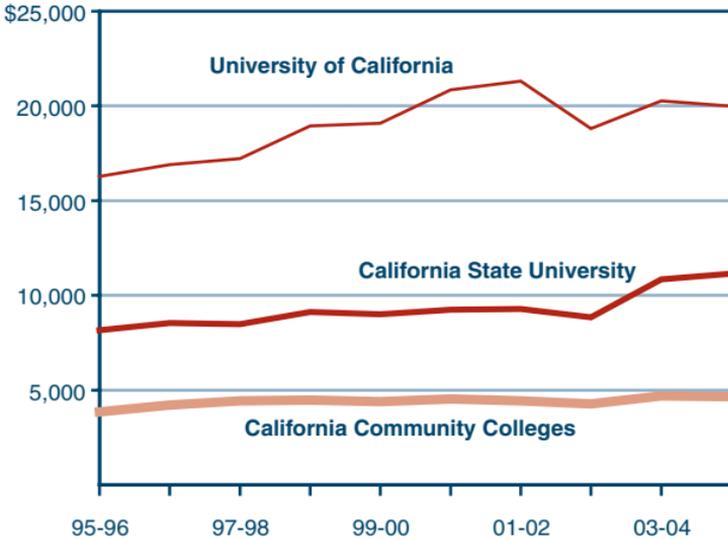
Funding for Enrollment Exceeds College-Age Population Growth



- 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

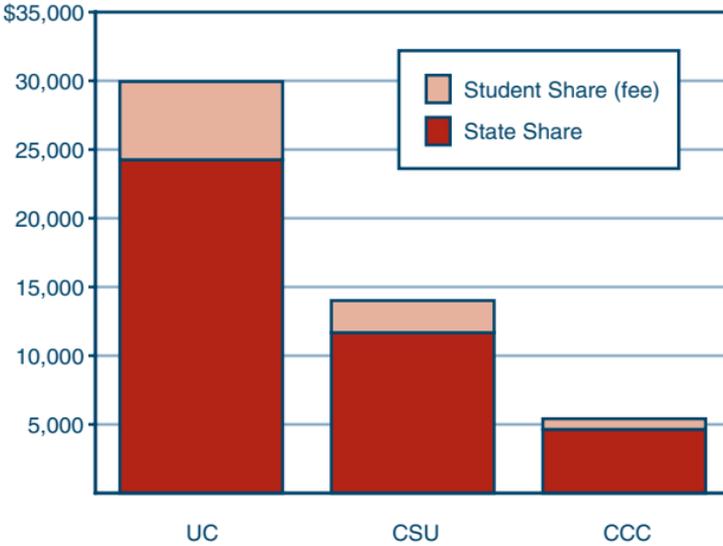


^aIncludes state and local funds and student fee revenues.

- 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

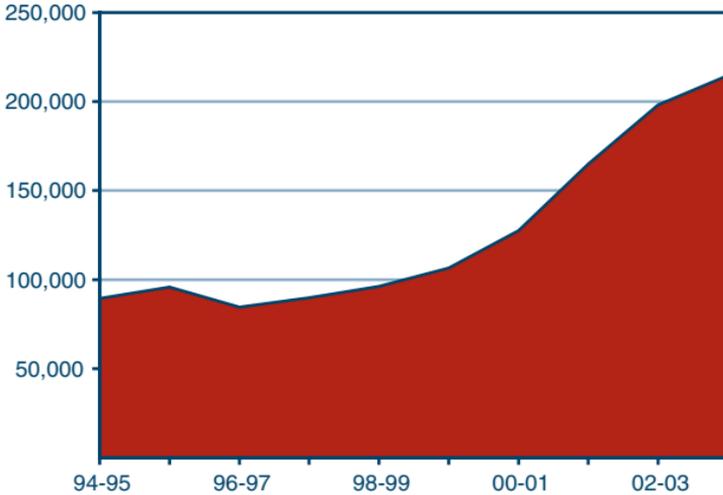
Operating Costs Per FTE Student, 2004-05



- 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

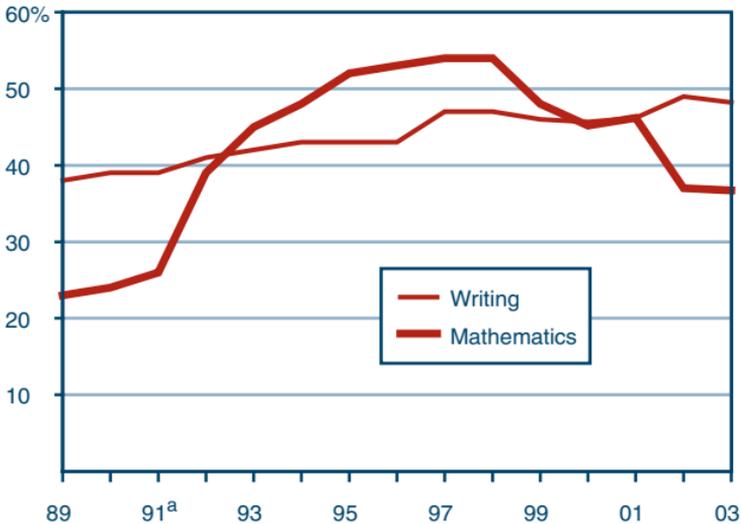
Cal Grant Recipients



- 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

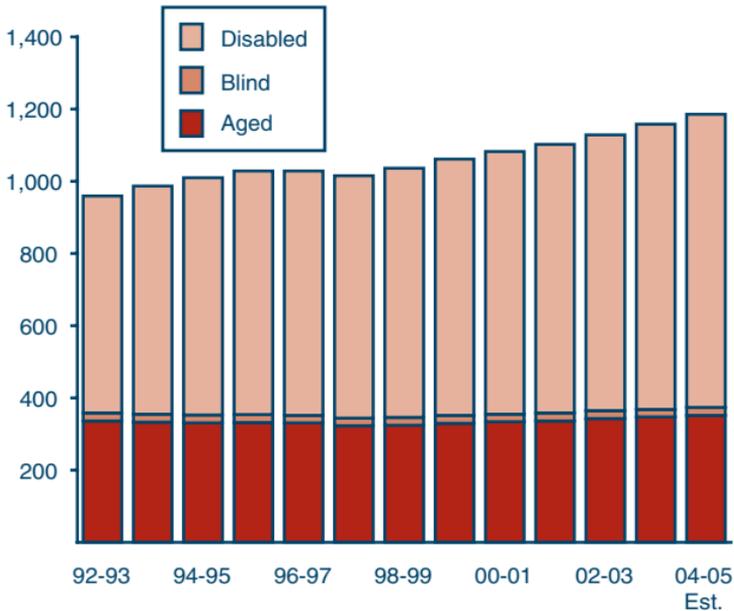


^aThe CSU made the math exam *more* difficult in 1992, and *less* difficult in 2001.

- 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.

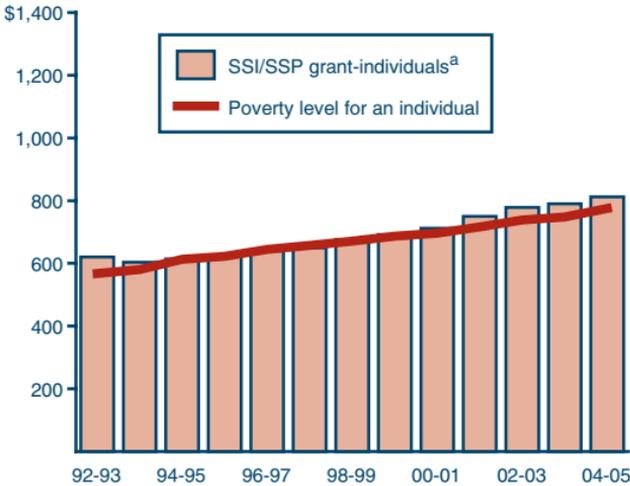
SSI/SSP Caseload Continues to Grow

Cases in Thousands

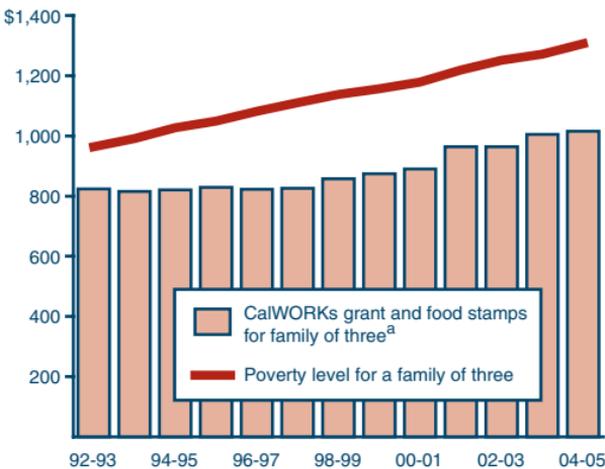


- The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to low-income persons who are elderly, disabled, or blind.
- The caseload leveled off in the mid-1990s, in part because of federal law changes that restricted eligibility for disabled children and certain 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 . . .



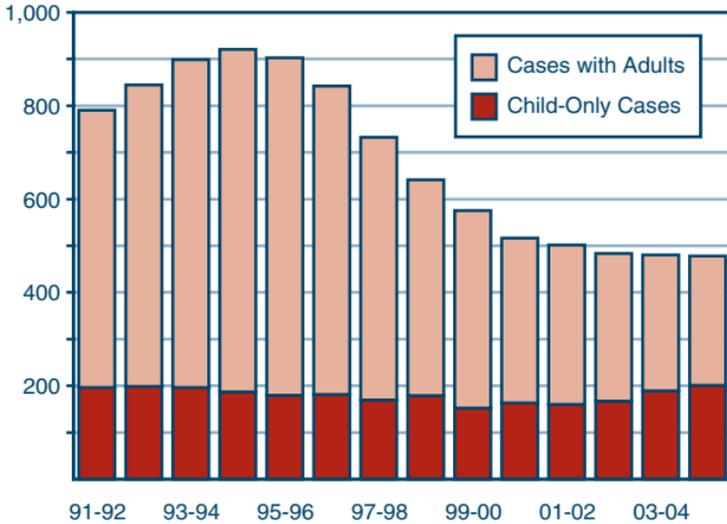
. . . While CalWORKs Grant Is Significantly Below Poverty Level



^aMaximum monthly grant.

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

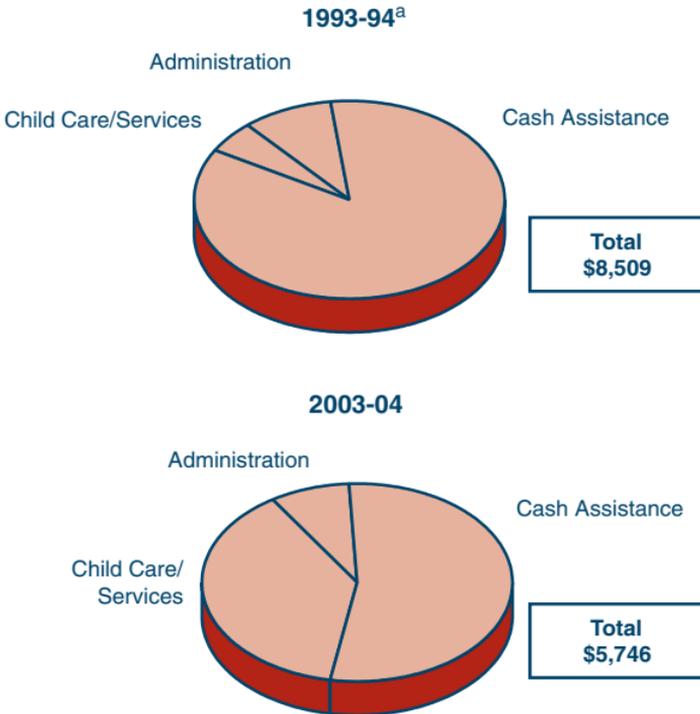
Cases in Thousands



- 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

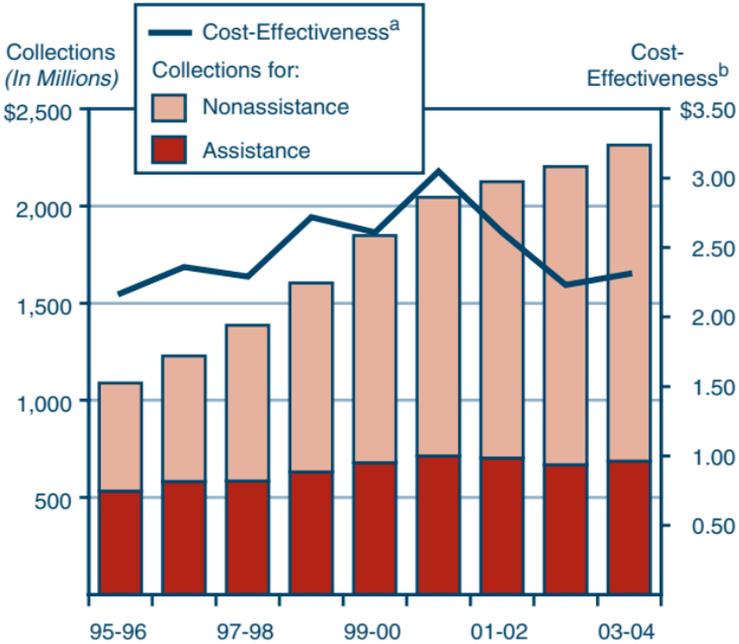
Expenditures in Millions



^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

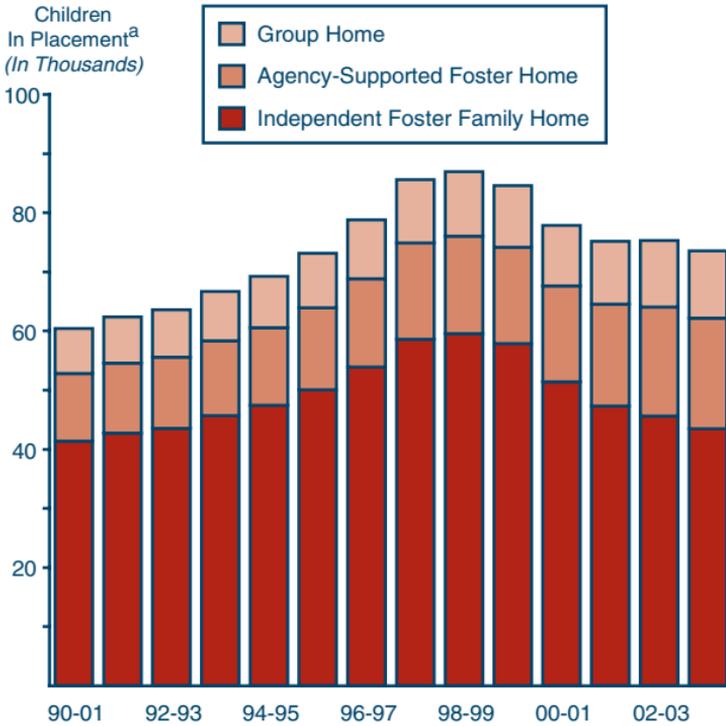


^aCost-effectiveness data are from federal fiscal years 1995 through 2003.

^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.

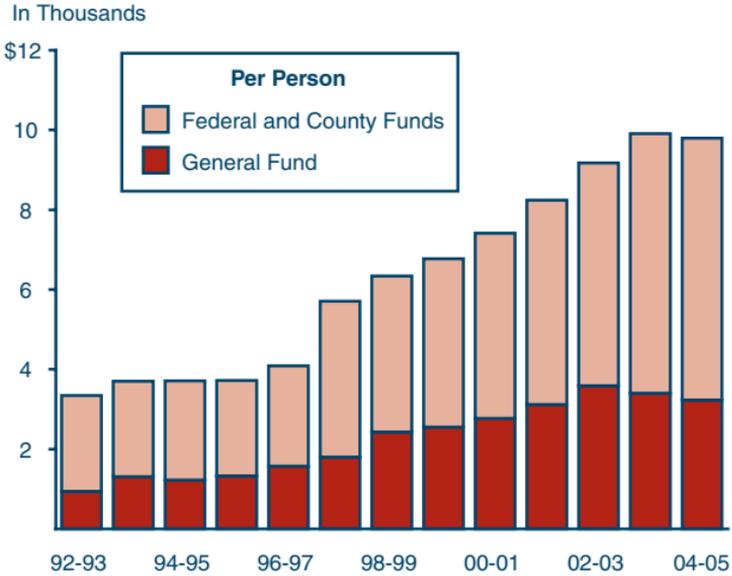
Foster Care Caseload Declines In Recent Years



^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.

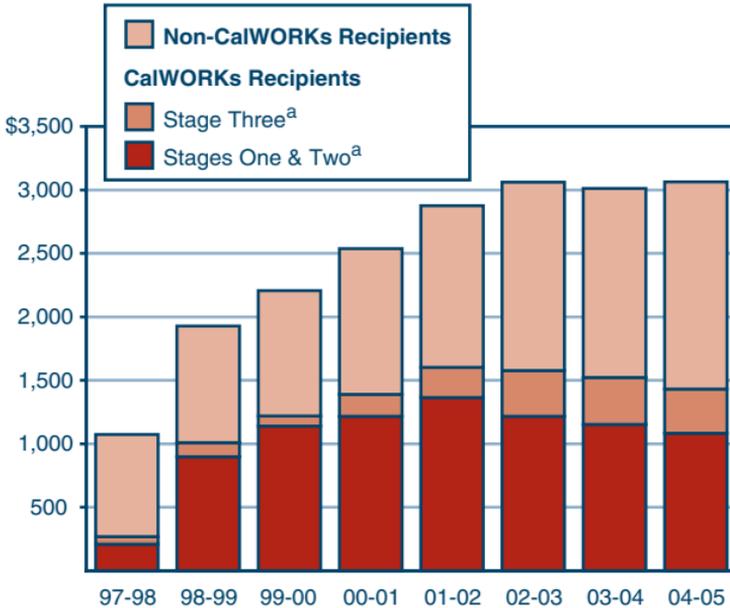
IHSS Cost Per Person Leveling Off



- 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

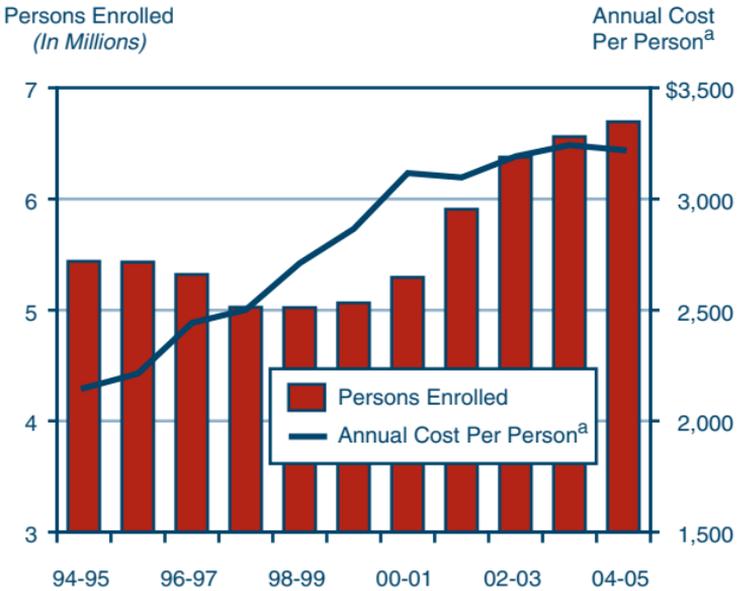
*General Fund and Federal Funds
(In Millions)*



^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.

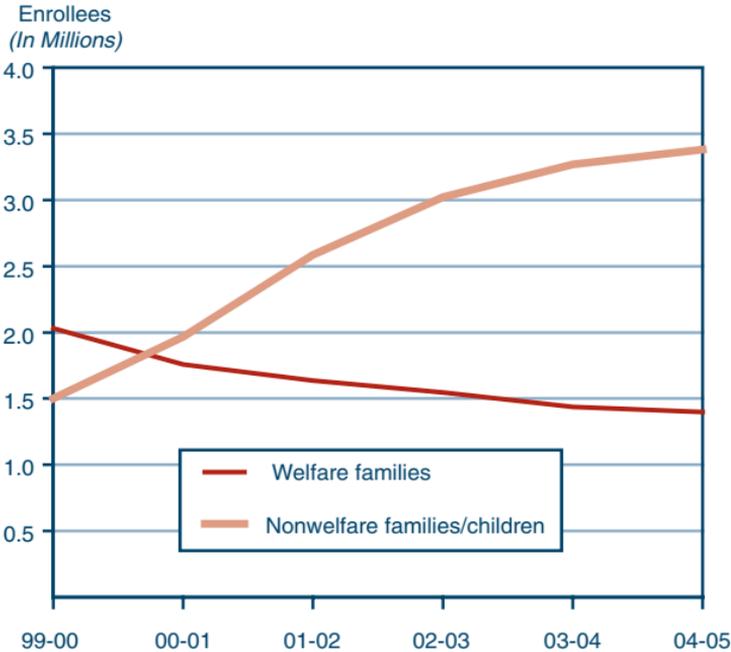
Medi-Cal Caseload Increasing as Cost Per Person Stabilizes



^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

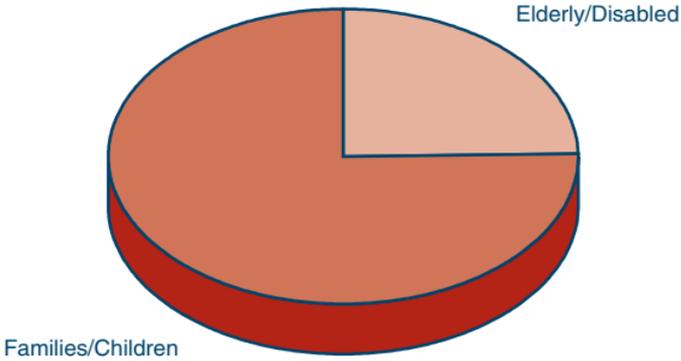


- By 2000-01, for the first time in the history of the Medi-Cal Program, welfare (CalWORKs) recipients accounted for less than half of the families and children enrolled in the program. This trend has continued and Medi-Cal enrollment of nonwelfare families and children now exceeds those on welfare by 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 . . .

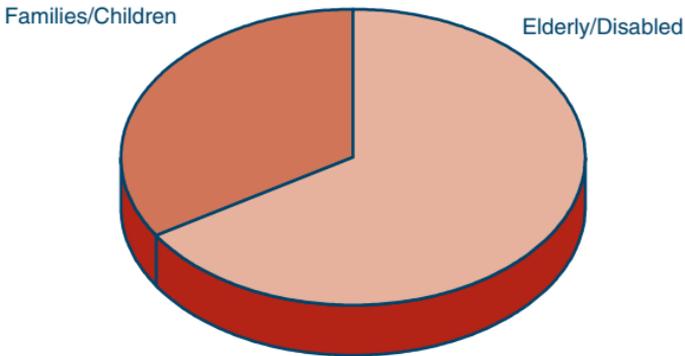
2004-05

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

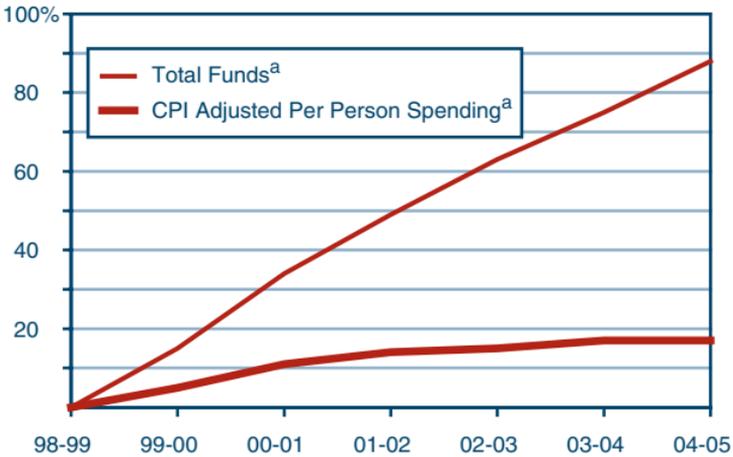


^aThe state definition of who is considered a smoker changed in 1996 to include more occasional smokers.

- 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

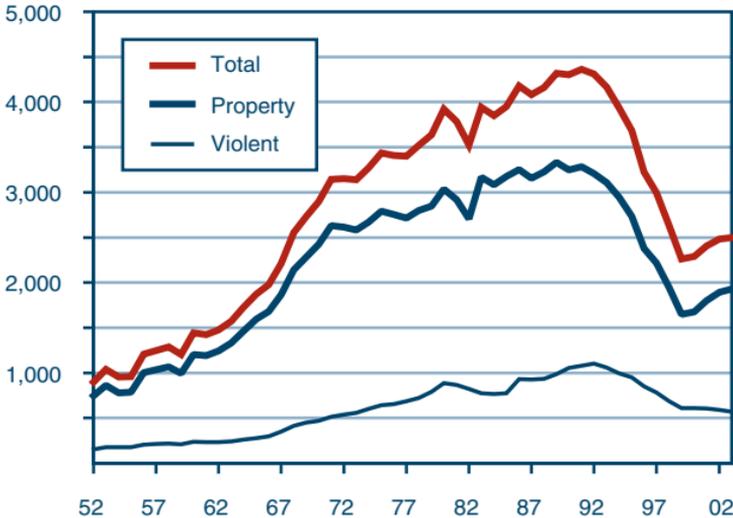


^aData adjusted to reflect programmatic changes.

- 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

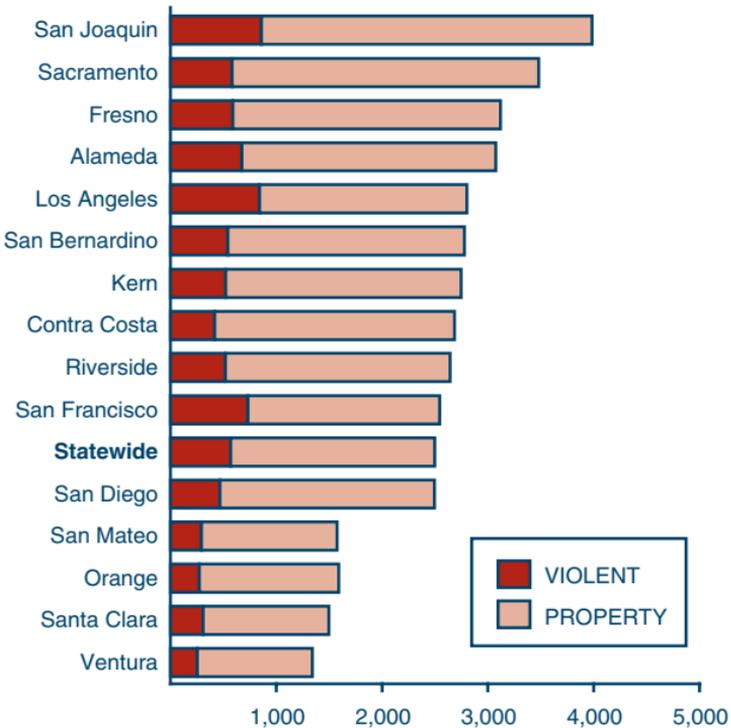
Rate Per 100,000 Population



- 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.

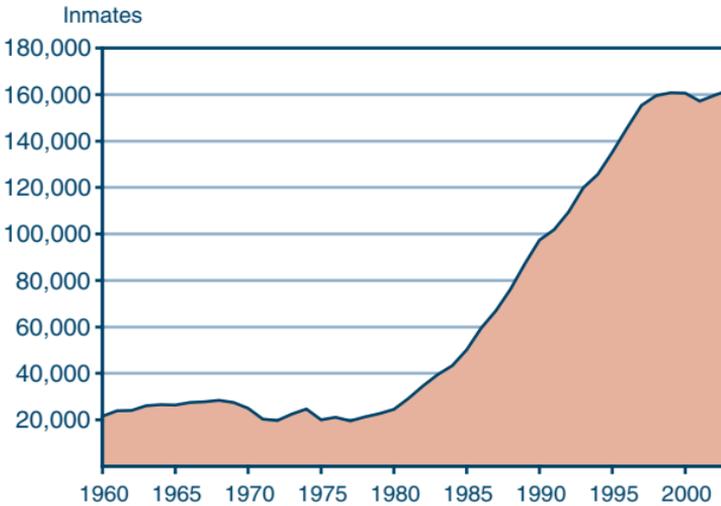
Crime Rates Vary Widely Among Large Counties

2003 Rates Per 100,000 Population



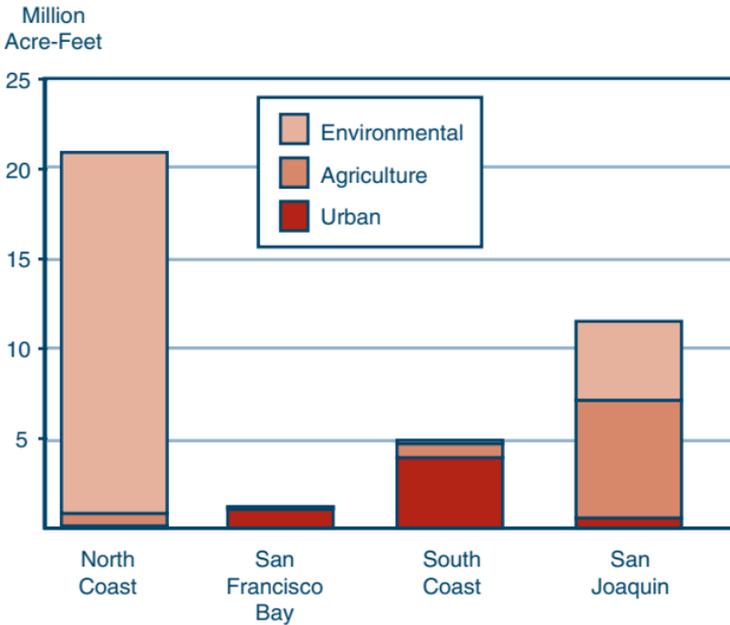
- Among the counties with populations of 500,000, or more, San Joaquin had the highest crime rate in 2003—about 59 percent higher than the statewide rate. Ventura's rate was the lowest and was about half the statewide rate.
- Variations among county crime rates are probably explained by factors such 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.

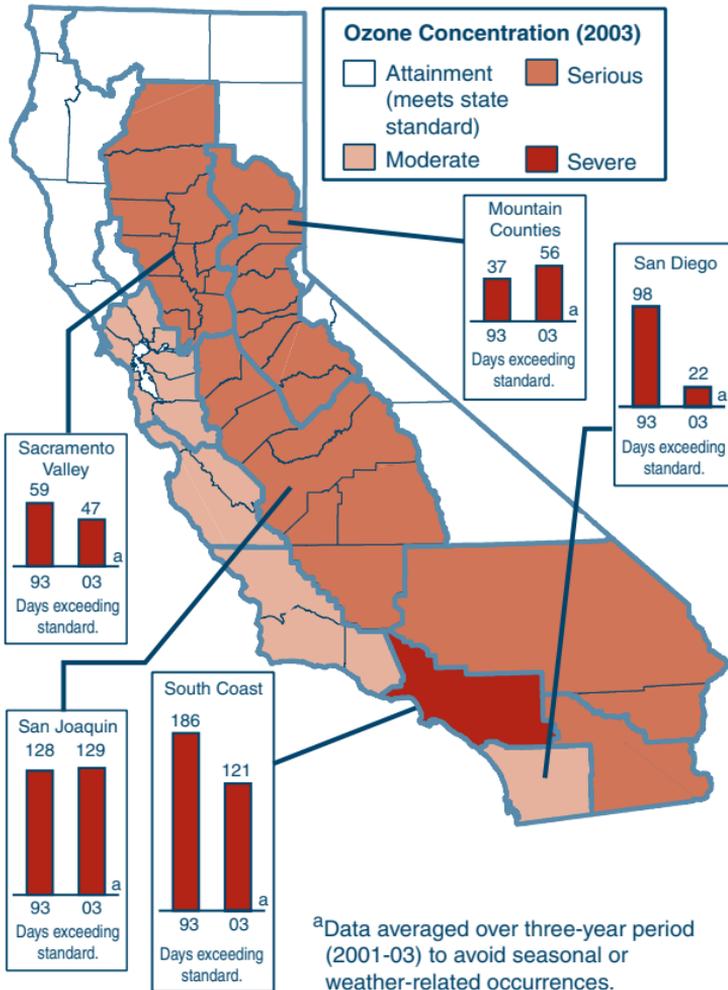
Substantial Variation In Water Use Among Water Basins^a



^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.

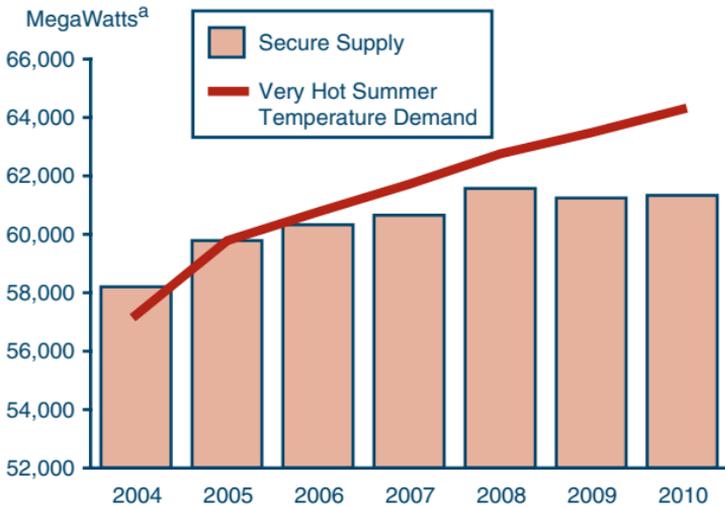
- There is substantial variation among the state's water basins in the amount of water used for urban, agricultural and environmental uses.
- Overall statewide water demand is projected to decline by 300,000 acre-feet between 2000 and 2030. However, urban and environmental water uses will increase, while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

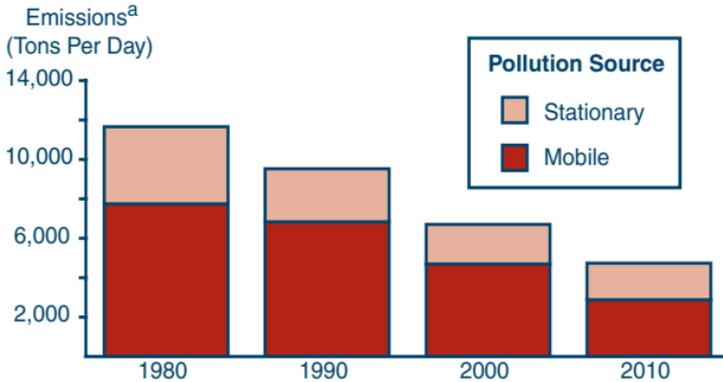
Future Electricity Demand Projected To Outstrip the State's Secure Supply



^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).

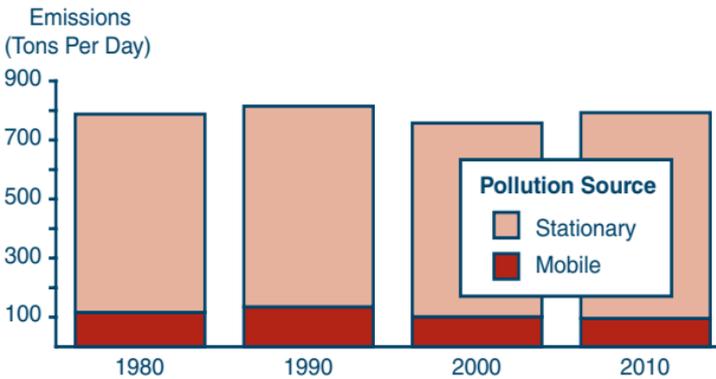
- Over the next six years electricity demand is projected to increase at an average annual rate of 2 percent, while the secure supply of electricity (existing generation, high probability new generation, and contracted generation from out of state) is projected to grow at an average annual rate of 1 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 (NOx) are pollutants which combine with sunlight to produce ozone or smog.

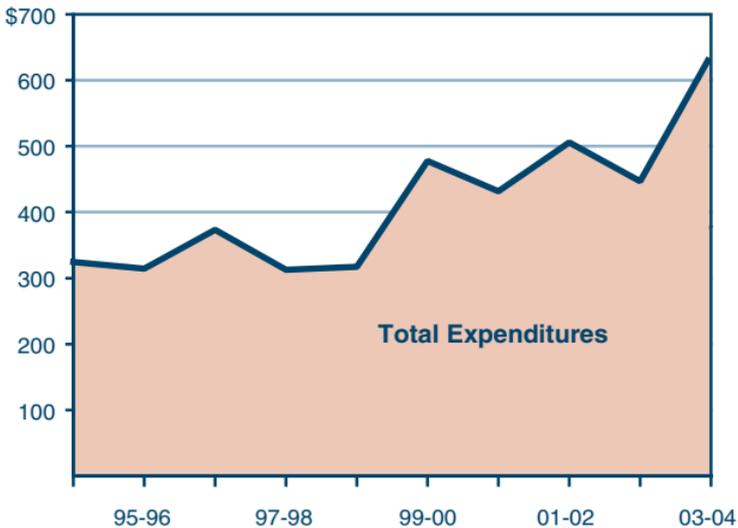
. . . While Virtually No Improvement in Particulate Matter Emissions



- 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.

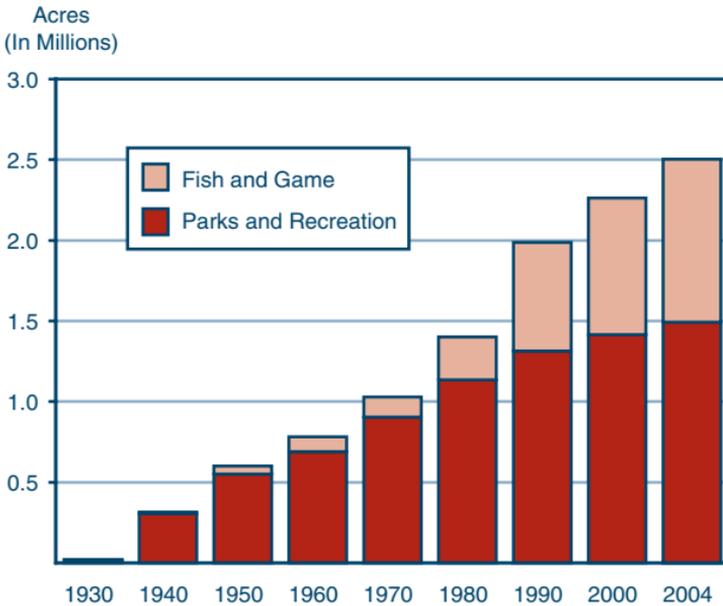
Increasing State Expenditures for Wildland Fire Protection

All Funds
(In Millions)



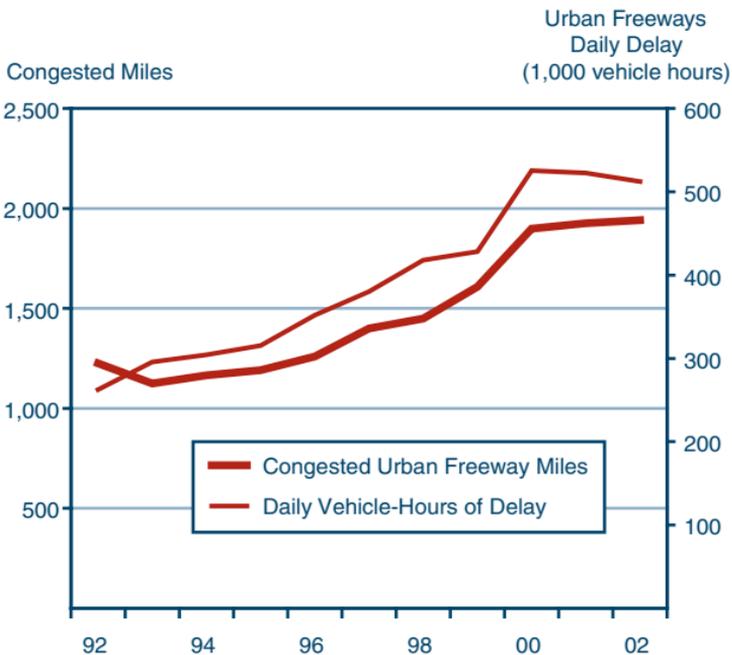
- The California Department of Forestry and Fire Protection is responsible for wildland fire protection on 31 million acres of mostly privately owned lands.
- Although state expenditures for wildland fire protection have varied significantly from year to year, expenditures have increased on average by 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



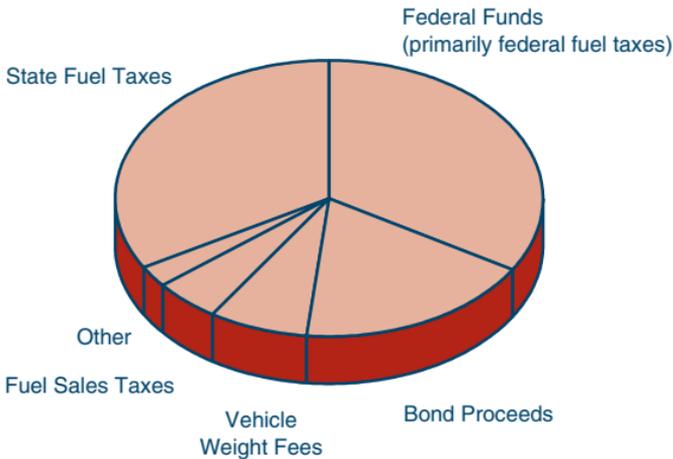
- The number of acres owned or administered by the Department of Fish and Game (DFG) and the Department of Parks and Recreation (DPR) have almost doubled since 1980. The surge in land acquisition has largely been financed by bond funds.
- About 54 percent of the acreage administered by DFG is owned, 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

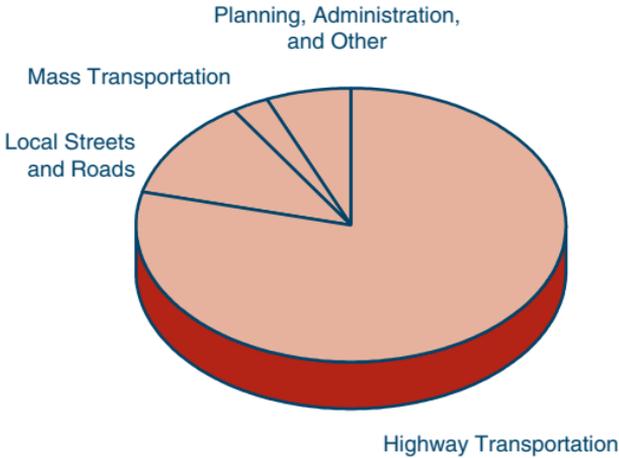


2003-04 Total: \$9.9 Billion^a

^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



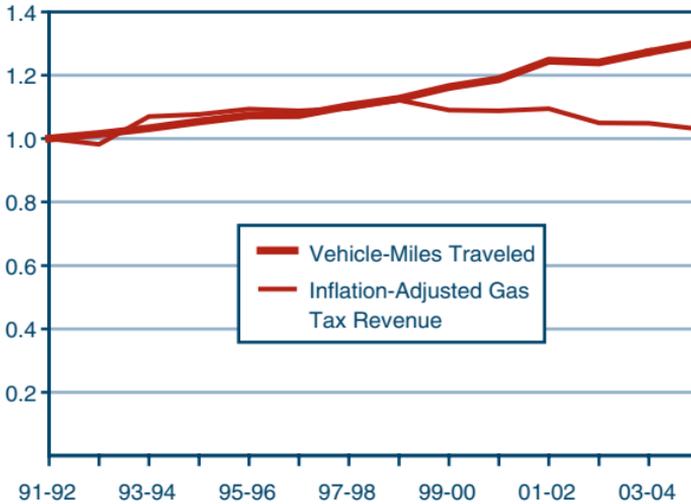
2003-04 Total: \$9.3 Billion^a

^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.

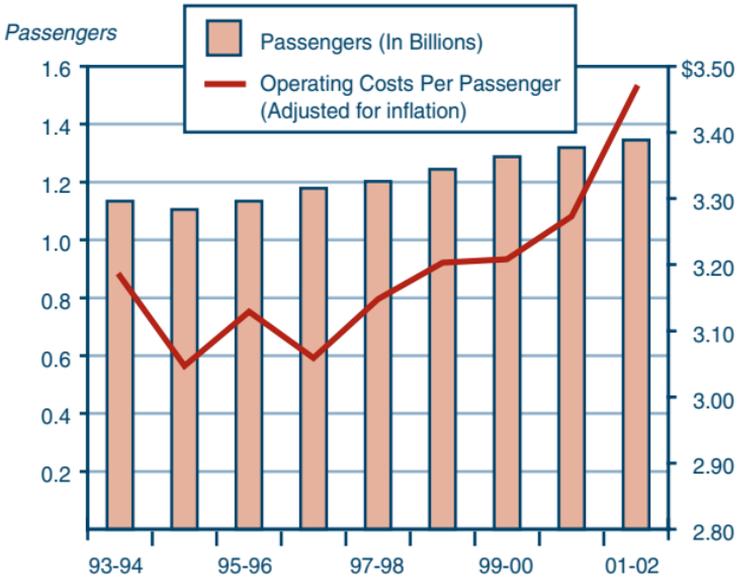
State Gas Tax Revenues Have Not Kept Pace With Road Use

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.

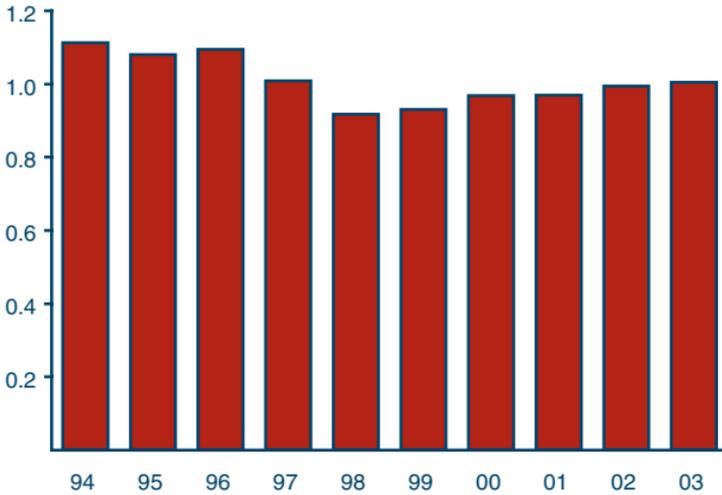
Bus and Rail Ridership Are Up, So Are Costs Per Passenger



- 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

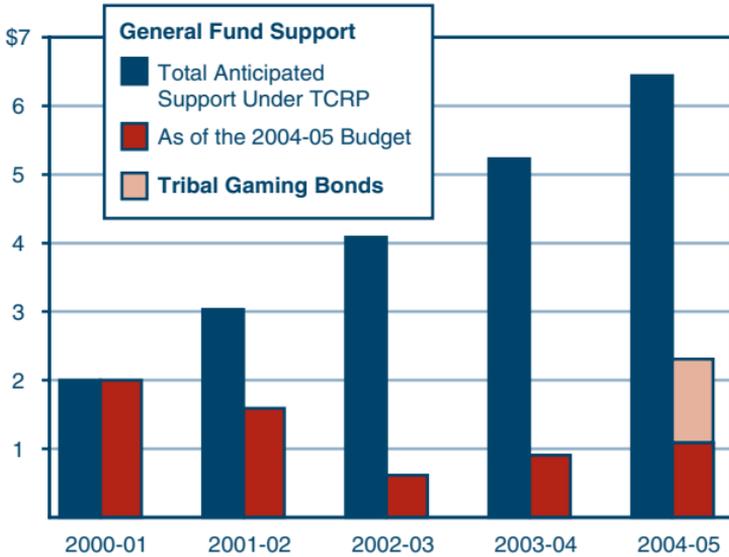
Fatalities Per
100 Million Miles



- 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.

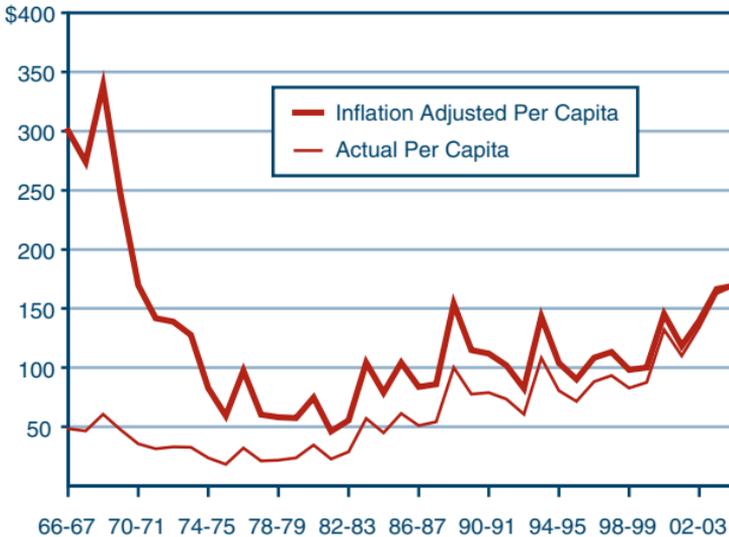
Transportation Has Received Less General Fund Support Than Expected

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.

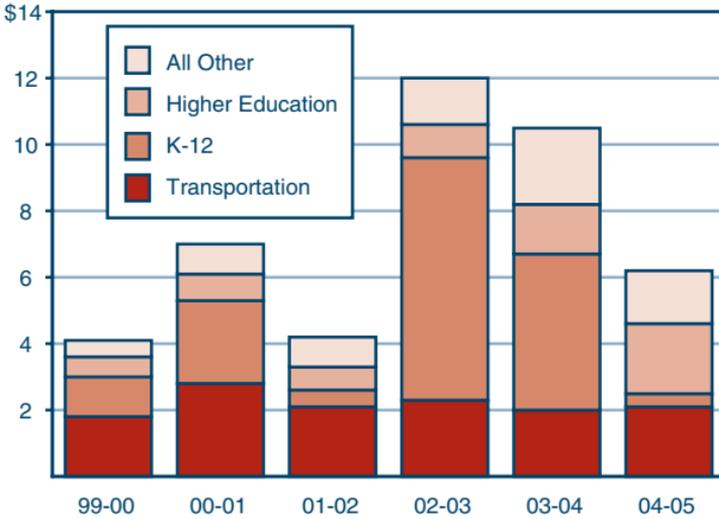
State Capital Outlay Expenditures Over Time



- 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.

