



# The California Budget Outlook

Presented To  
The California Agricultural  
Leadership Program

By  
Elizabeth G. Hill  
Legislative Analyst

January 4, 1994

LEGISLATIVE ANALYST'S OFFICE



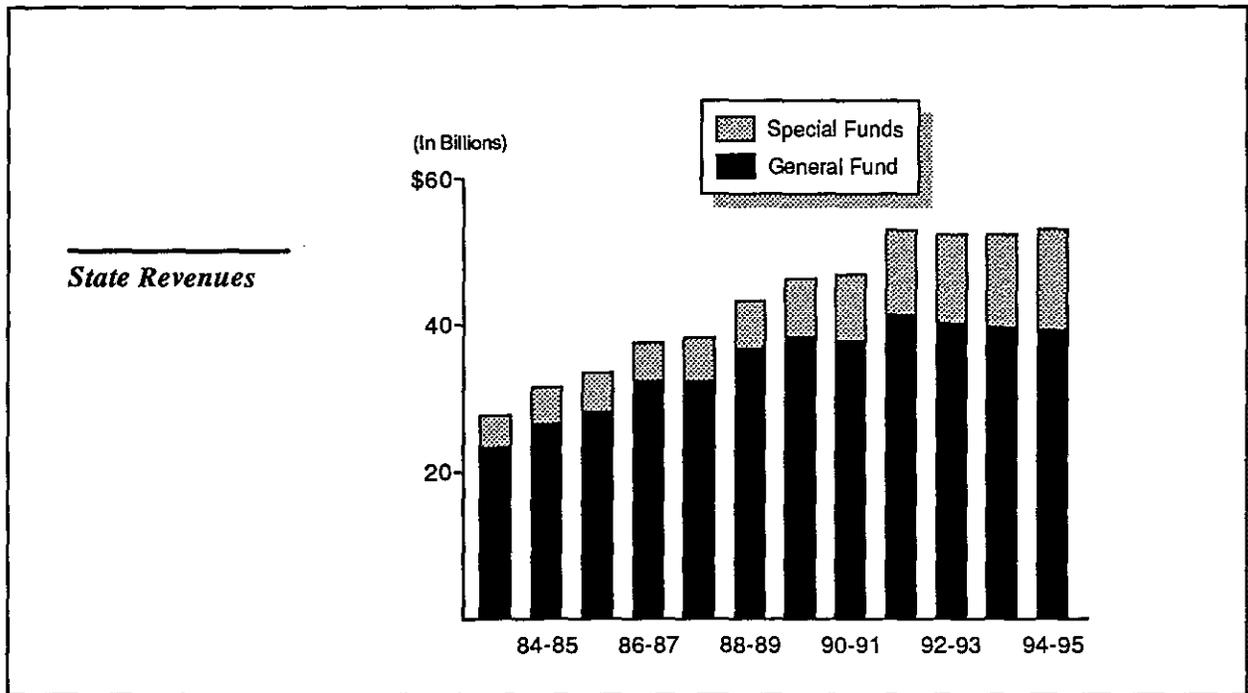
## I. California's Revenues

January 4, 1995

LEGISLATIVE ANALYST'S OFFICE

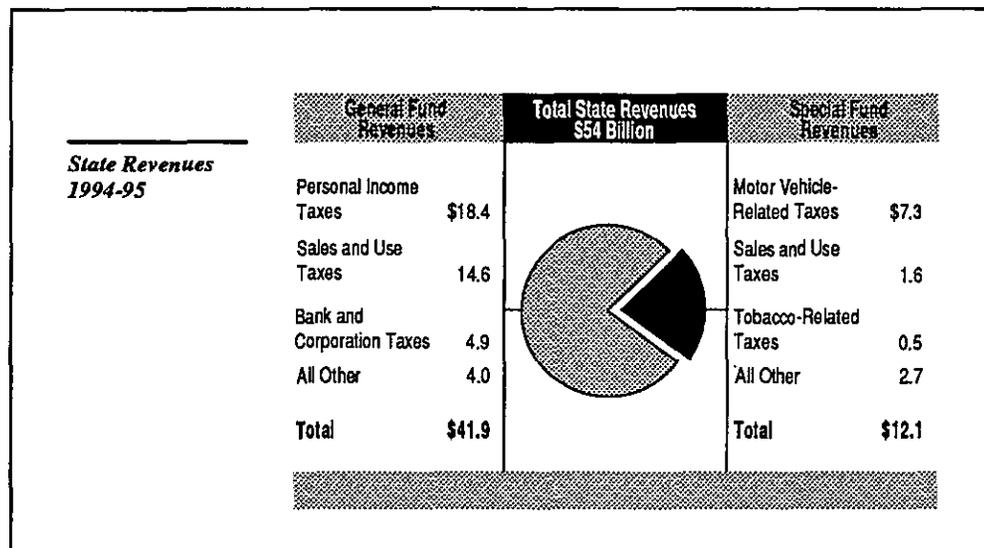


# State Revenues Have Been Flat in Recent Years



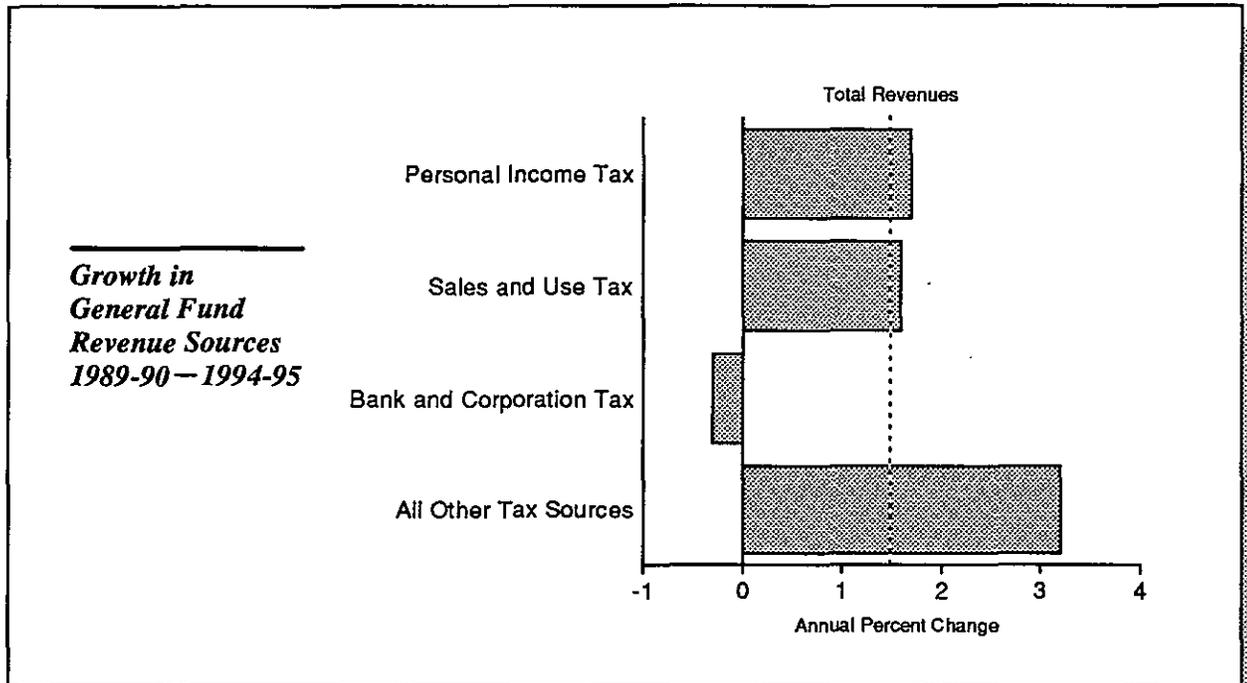


# Almost Two-Thirds of All State Revenues Come From Income and Sales Taxes



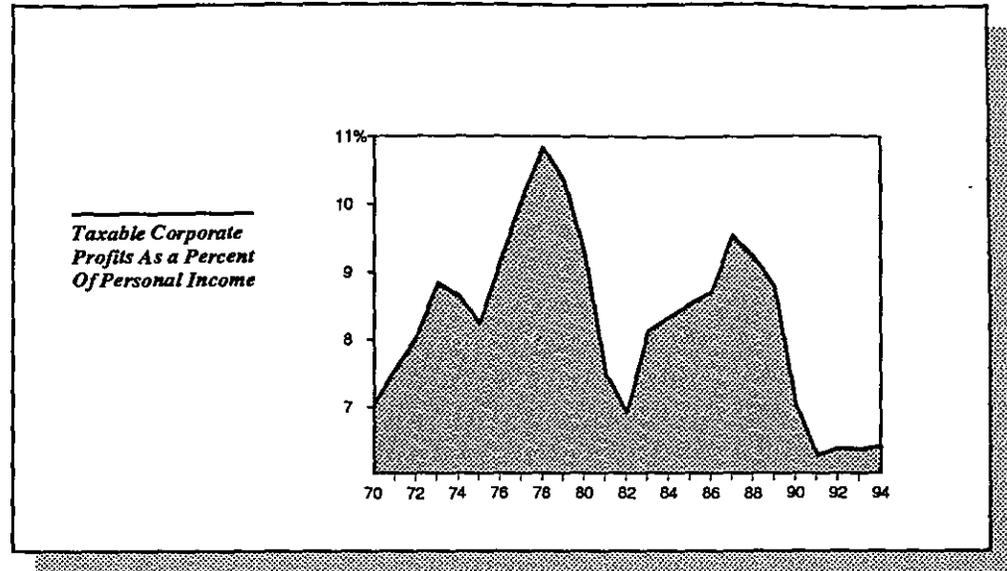


# Corporation Taxes Have Been Especially Sluggish



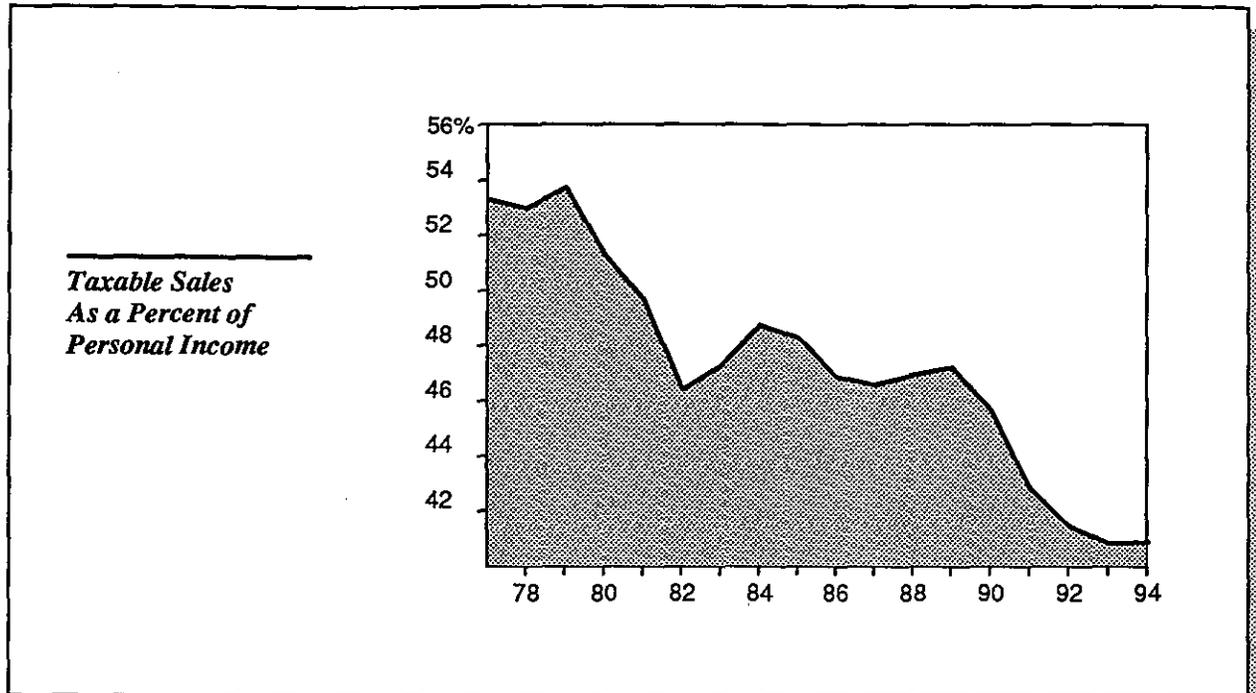


## Taxable Corporate Profits Have Been at Historic Lows





## Taxable Sales Have Generally Been Declining as a Share of the Economy





## Outlook for California's Revenues

---

### ▲ Moderate Growth

- Revenues will reflect continued economic recovery
- Rapid increases are unlikely, but so is a sharp slowing

### ▲ Key Factors Affecting Growth

- Continued growth in nontaxable services
  - Phase-out of temporary high-income tax brackets
  - Corporate use of net operating loss carry-forward deductions
-



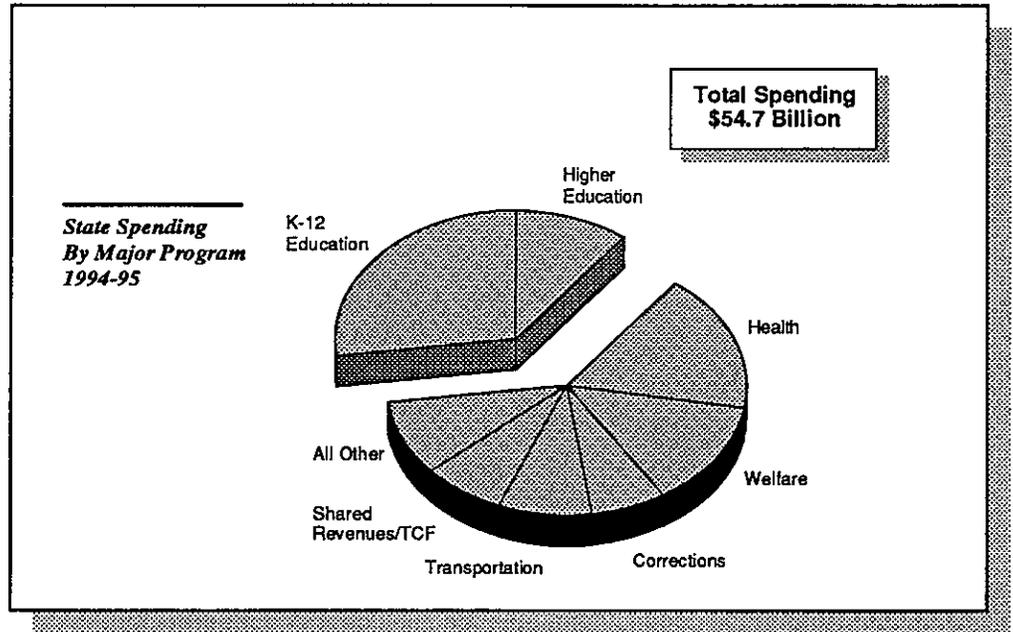
## II. California's Expenditures and Budget Condition

January 4, 1995

LEGISLATIVE ANALYST'S OFFICE

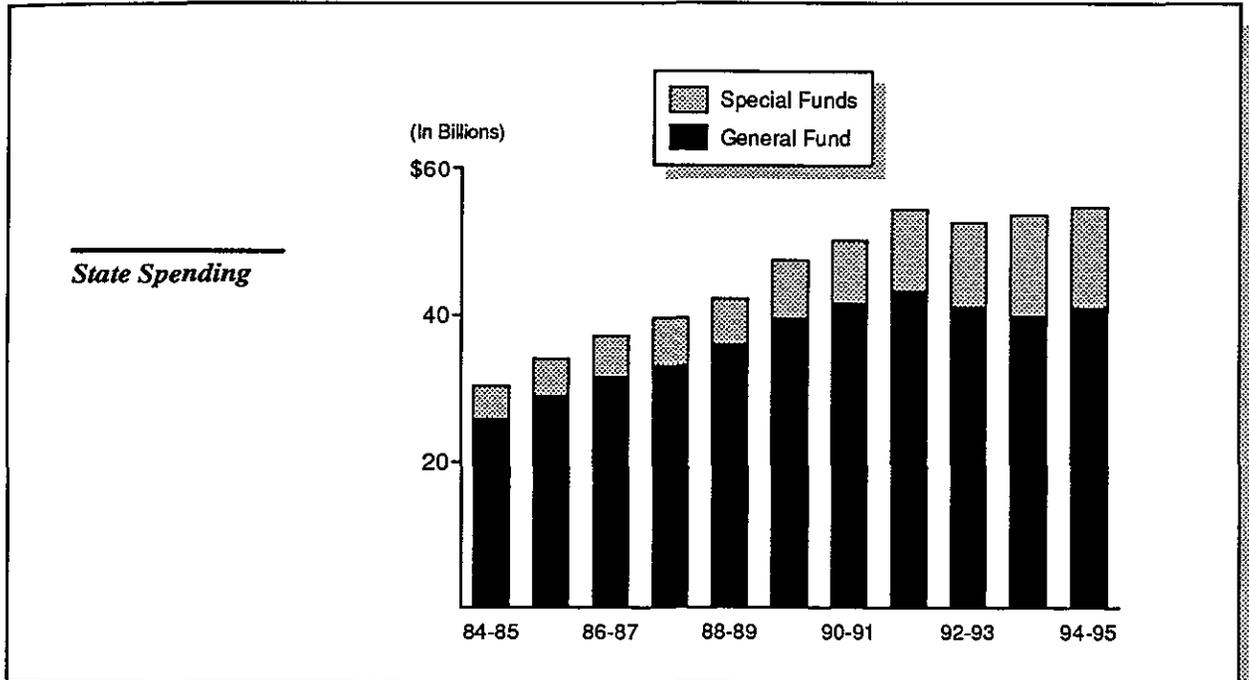


## Education Receives the Largest Share of State Spending



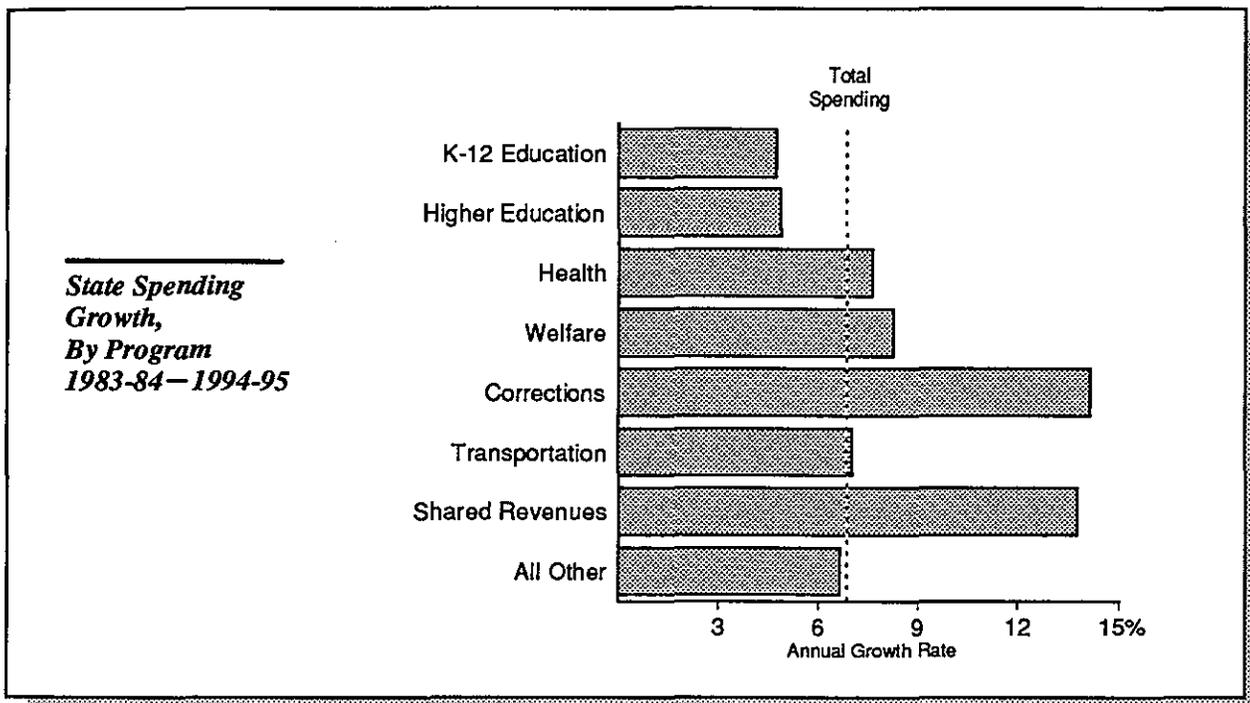


# Total State Spending Flat Since 1991-92





# Spending Growth Varies Considerably by Program Area





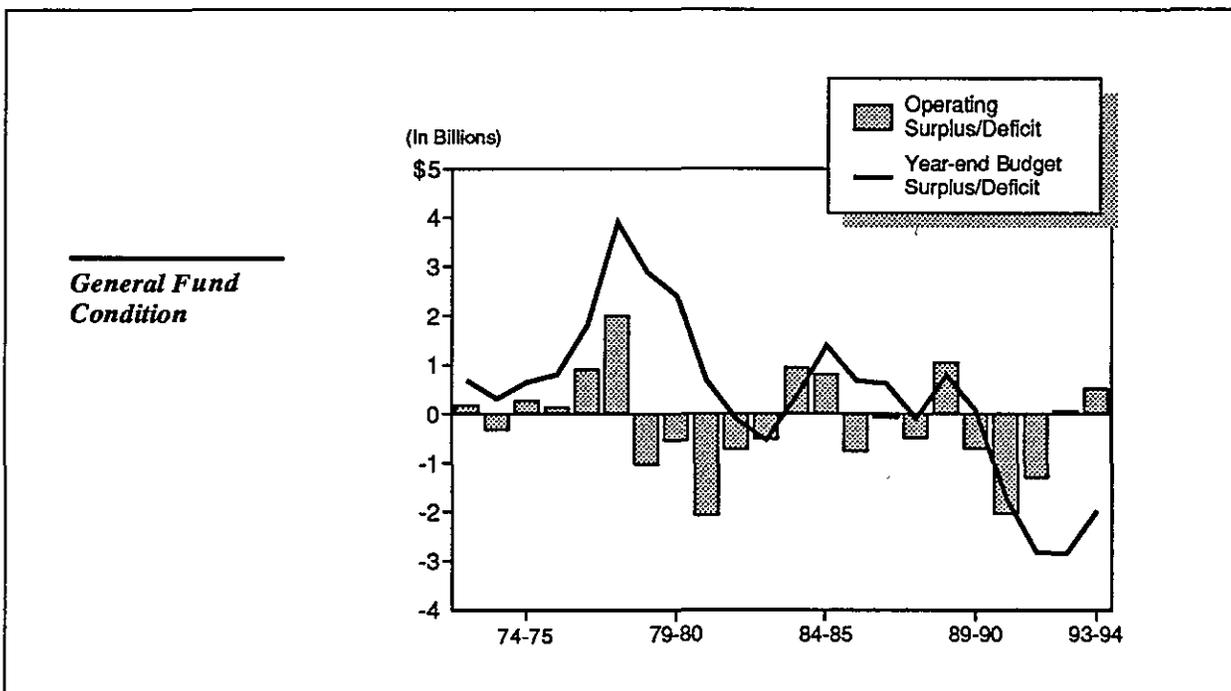
## Annual Cost Per Participant Varies Widely Among Major Programs—1993-94

|   | Number of Participants (In Millions) | Average Cost per Participant |                  |
|---|--------------------------------------|------------------------------|------------------|
|   |                                      | General Fund                 | Total Government |
| <b>Corrections—Inmates and wards</b>    |                                      |                              |                  |
| Prison                                  | 0.1                                  | \$20,900                     | \$20,900         |
| Youth Authority                         | 0.01                                 | 32,000                       | 32,000           |
| <b>Education—students<sup>a</sup></b>   |                                      |                              |                  |
| K-12                                    | 5.2                                  | \$2,534                      | \$4,217          |
| UC                                      | 0.2                                  | 11,816                       | 11,816           |
| CSU                                     | 0.2                                  | 6,014                        | 6,014            |
| Community Colleges                      | 0.9                                  | 1,054                        | 2,811            |
| <b>Health and Welfare—beneficiaries</b> |                                      |                              |                  |
| Medi-Cal                                | 5.4                                  | \$1,500                      | \$2,300          |
| AFDC                                    | 2.6                                  | 1,100                        | 2,200            |
| SSI/SSP                                 | 1.0                                  | 2,100                        | 5,300            |

<sup>a</sup> Does not include federal funds or lottery funds.

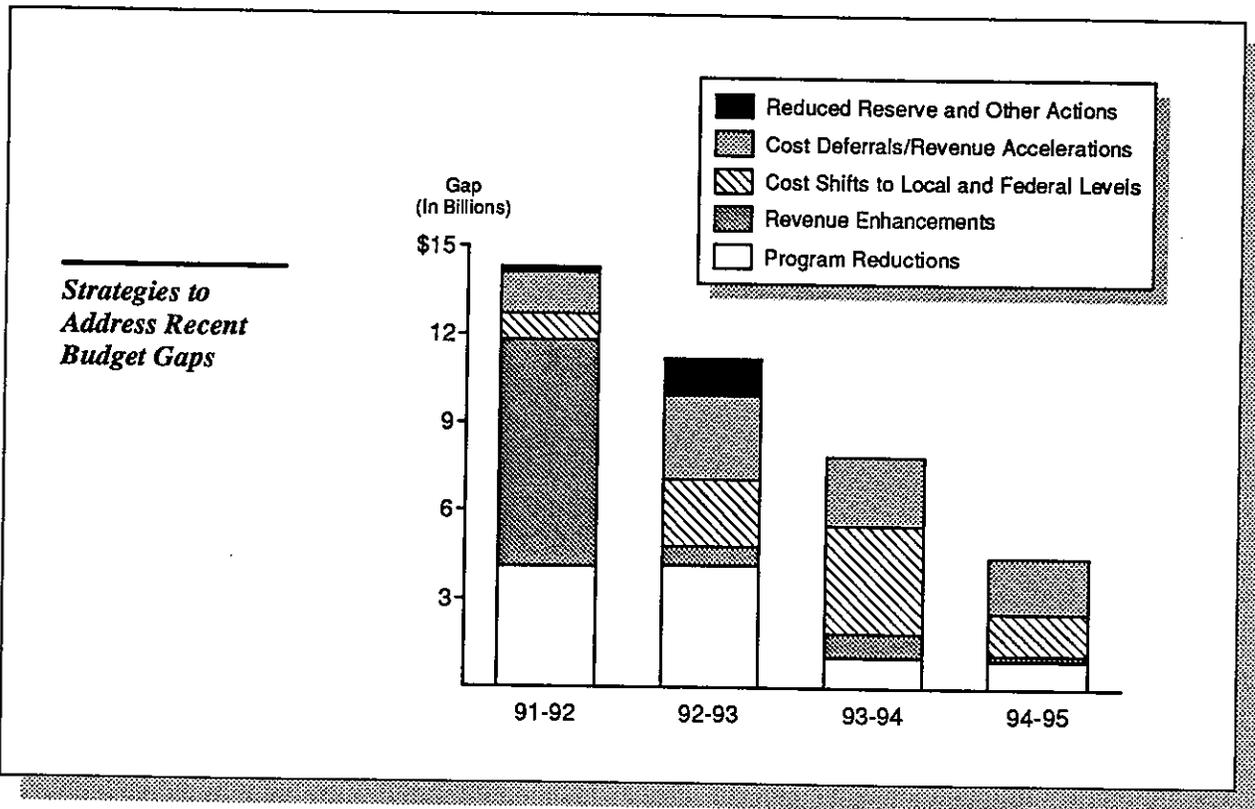


## Past Operating Shortfalls Have Resulted in Budget Deficits





## Strategies to Address Budget Gaps Have Varied





# State Plans Balanced Budget In 1995-96

|  |                                      | 1994-95               | 1995-96   |
|--|--------------------------------------|-----------------------|-----------|
|  |                                      | (Dollars in Millions) |           |
| <u>Two-Year General<br/>Fund Budget Plan</u> | Carryover deficit from<br>prior year | -\$1,971              | -\$1,019  |
|  | Revenues and transfers               | 41,892                | 45,442    |
|  | Expenditures                         | 40,940                | 44,394    |
|  | Operating surplus                    | \$952                 | \$1,048   |
|  | Year-end deficit or<br>reserve       | -\$1,019              | \$29      |
|  | Federal immigrant<br>funding assumed | (\$763)               | (\$2,824) |



## Near-Term Outlook for California's Budget

---

### ▲ Some Positive News

- Recent favorable economic trends
- Recent improvement in revenues
- Slower growth in some caseloads
- 1993-94 carryover deficit revised downward

### ▲ Budget Risks and Pressures

- Ongoing economic uncertainties
  - Federal funds for immigration costs
  - Court cases
  - Continued service demands
    - Continued population growth, despite weak economy
    - Corrections' budgets to double in next four years
    - Health and welfare caseloads growing faster than ten years ago
    - K-14 education enrollments growing faster than revenues
-



### III. Long-Term Challenges



## California Has Nearly 7,000 Local Entities—1991-92

| Entity Type                 | Number of Entities |
|-----------------------------|--------------------|
| Counties                    | 58                 |
| Cities                      | 466                |
| Special districts           | 4,857              |
| Redevelopment agencies      | 381                |
| K-12 school districts       | 1,067              |
| Community college districts | 71                 |
| <b>Total</b>                | <b>6,900</b>       |

- Special districts account for the overwhelming number of local entities.
- The number of cities, special districts, and redevelopment agencies is growing over time.

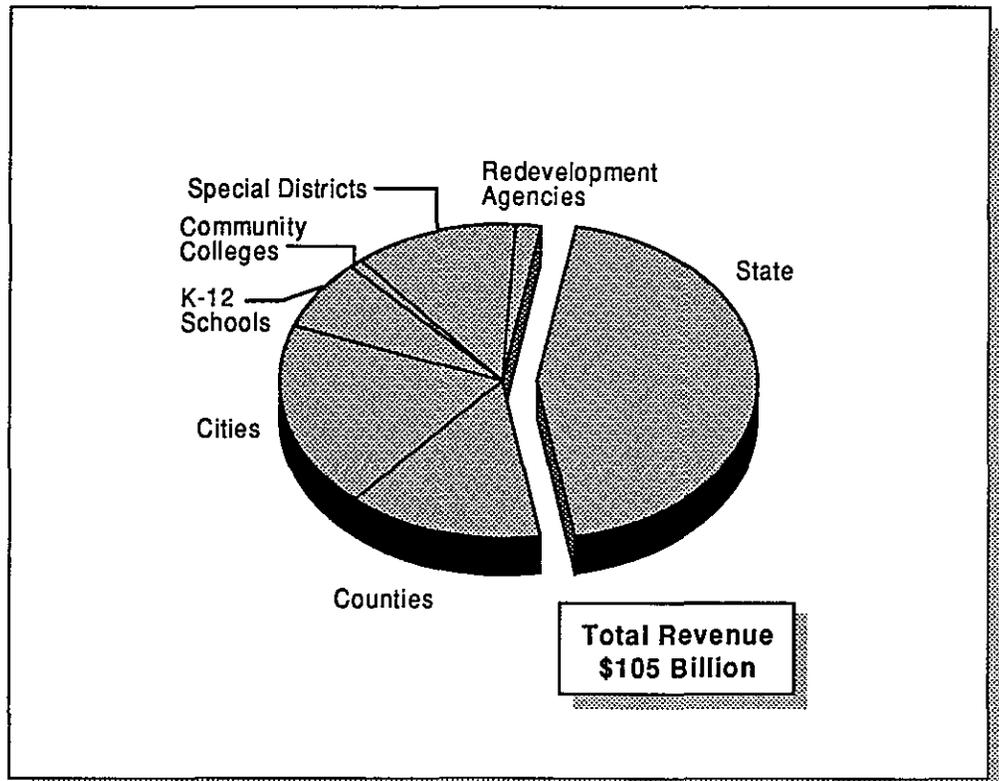


## State's Involvement in Most Program Areas is Extensive—1993-94

| Program              | Policy Control | Operation       | Funding |
|----------------------|----------------|-----------------|---------|
| AFDC                 | Federal/State  | Counties        |         |
| SSI/SSP              | Federal/State  | Federal         |         |
| General Assistance   | State          | Counties        |         |
| Mental Health        | Counties       | Counties        |         |
| Medi-Cal             | Federal/State  | State/Counties  |         |
| Indigent Health Care | State/Counties | Counties        |         |
| Public Health        | State          | Counties        |         |
| Courts               | State          | Counties        |         |
| Custody/Supervision  | State/Counties | Counties/State  |         |
| Prosecution/Defense  | State          | Counties        |         |
| Public Safety        | State          | Counties/Cities |         |
| Transportation       | State/Local    | State/Local     |         |



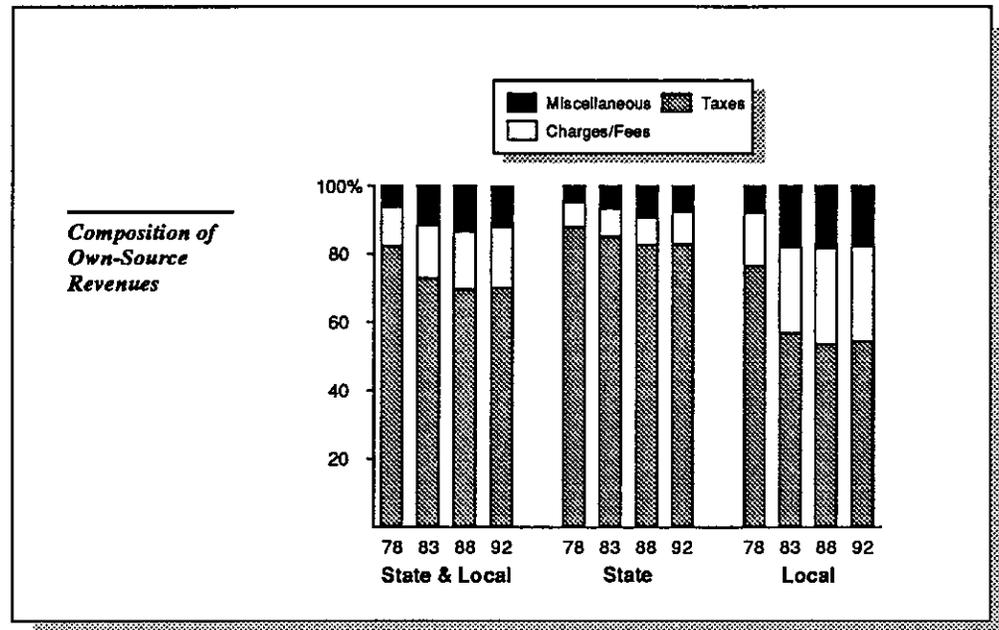
# Local Governments Raise More Revenue Than the State—1990-91



- ✓ The figure shows state and local own-source revenue, which includes tax and fee revenues but excludes funds received from another government entity. Local revenues include income of publicly owned utilities and other local government enterprises.
- ✓ More than half of the state's revenues were allocated to local schools and other local agencies.



# Taxes Remain Below Pre-Proposition 13 Levels As a Share of Revenues





## The Problems in California's State-Local Relationship

- Jumbled assignment of responsibilities.
- Counterproductive fiscal incentives.
- Lack of accountability for program outcomes.
- Unproductive competition for resources.
- Erosion of local control.



## Reform Principles

- Maximize separation of state and local government duties.
- Match redistributive programs with redistributive revenue sources.
- Recognize program linkages to promote coordination of service delivery.
- Rely on financial incentives to promote prevention and coordination.