



California Public Expenditures

In the 2007-08 fiscal year, the State of California was projected to spend \$145 billion in state funding plus an additional \$58 billion in federal funds for a total of \$203.6 billion. From 1997 to 2007, controlling for inflation, state spending increased by 65 percent.¹

For fiscal year 2008-09, the Governor has proposed to spend \$198.5 billion, including \$57 billion in federal funds.

The General Fund is the largest source of state spending, followed by federal funds.

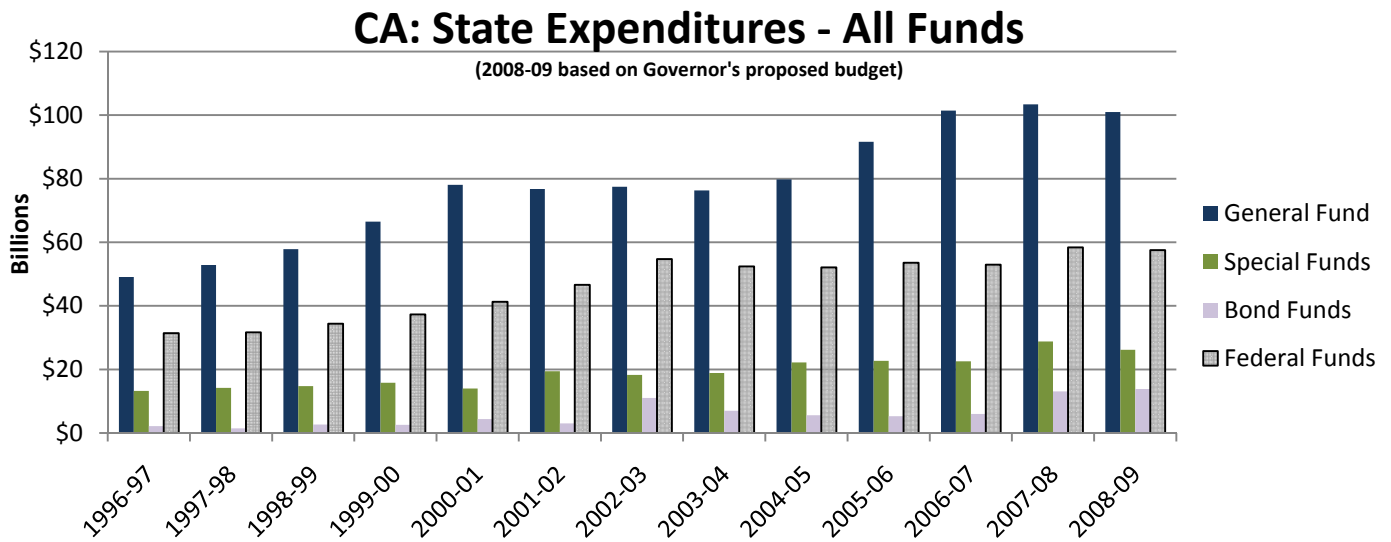
Four primary funds, which are similar to bank accounts, are used to provide the money to cover state expenditures:

- **General Fund.** Money in the General Fund comes from California taxpayers and generally can be used to support any public program as authorized by the Governor and Legislature.
- **Special Funds.** California has established numerous Special Funds, think of these as bank accounts in which money is set aside or raised for special purposes. The money that goes into each account – or fund – comes from a specific source, such as taxes on cigarettes. In creating these accounts, policymakers also limit what the money can be spent on. For instance, California has a Special Fund that receives taxes on gasoline and is only supposed to be spent on California’s transportation system. The Legislature can borrow from Special Funds to pay other costs, but that money must be repaid.
- **Bond Funds.** The state also sells bonds to raise money for specific projects. The state then must make payments to the bond holders who in effect have loaned money to the state. Bond repayment often occurs over the course of 30 years. Like special funds, bond funds can only be used for the specific purpose for which the bonds were authorized. Some bonds are repaid from the General Fund. Other are repaid from specific sources that are usually linked to the purpose of the bonds. For instance, bonds used to fund a water project, such as a new waterway, are typically repaid with fees charged for using the water in that project.
- **Federal Funds.** The state also receives federal funds to cover the costs of running specific programs. Some federal funds are allocated based on a formula that is used to reimburse the state. For instance, the state receives roughly 50 cents in federal money for every state dollar that is spent on the Medi-Cal program, California’s program to provide health care to poor and elderly residents. Other federal funds come in the form of grants. The federal government establishes rules on how different federal dollars can be used.

¹ Declining state revenue at the end of 2007 resulted in the Governor and Legislature renegotiating the 2007-08 budget. The figures presented reflect the budget that was passed and signed in the summer of 2007.

In fiscal year 2007-08, the General Fund accounts for 51 percent of California's expenditures, with special funds contributing 14 percent and bond funds contributing 6 percent. Federal funds will make up 29 percent of total state spending in 2007-08.

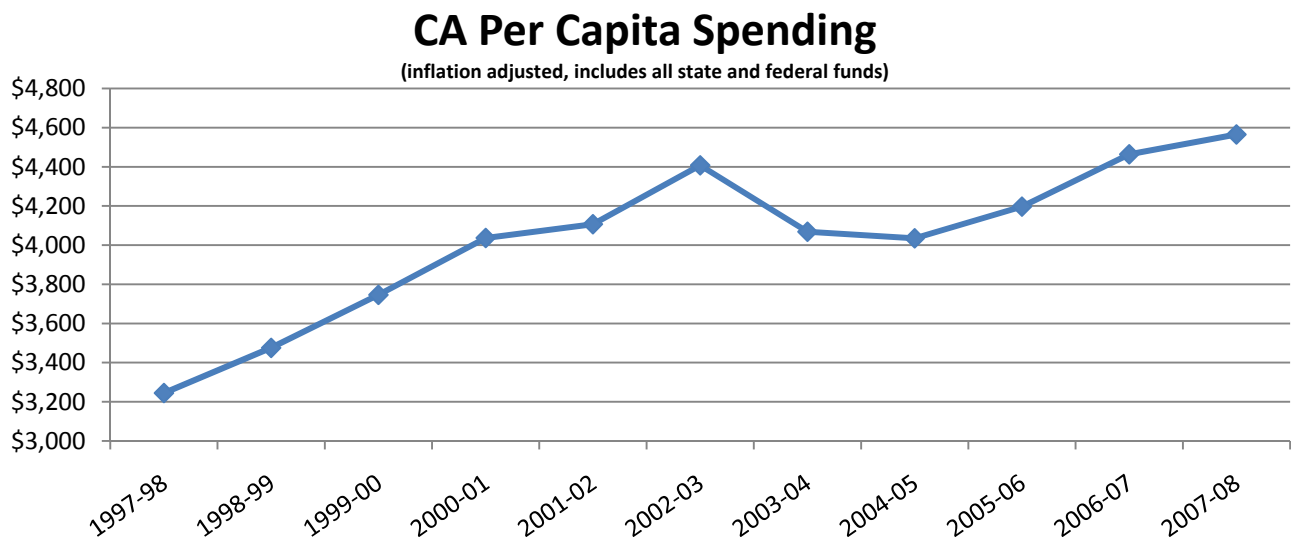
Over the past 20 years, the General Fund has made up approximately half of all annual state spending. Looking back as far as 1984, federal funds have constituted between 26 percent and 38 percent of total state spending, representing the second largest source of annual state funding. In that timeframe, special funds covered between 10 percent and 15 percent of annual spending. Lastly, reliance on bond funding has ranged from a low of less than 1 percent to a high of nearly 7 percent.



Source: Legislative Analyst's Office. Historic expenditures.

Per capita spending in California has risen over the past decade

One way to measure change in state spending, is to track spending per person. Over the past ten years, controlling for inflation, California's per capita spending has risen by 41 percent, increasing from \$3,244 in 1997-98 to \$4,565 in 2007-08.¹



Source: California Department of Finance

State spending has increased in all areas of California's state budget

Over the past decade, the state population has increased, inflation has increased costs and the state has taken on many new challenges. For example, the cost of providing forest and fire protection services has increased as the state has battled larger and more devastating blazes. Homeland security concerns also have risen, resulting in the development of new programs and new expenditures. Federal mandates and court orders have resulted in increased spending in California's correctional system and health care costs have gone up as new and more effective treatments have become available. Also as the state's population has aged, additional costs have resulted from the larger numbers of residents needing state funded health care and related services.

California's annual budget is spread across 12 major expenditure areas:

Changes in State Spending 1997-98 to 2007-08

(inflation adjusted dollars)

Agency	Fiscal Year 1997-98	Fiscal Year 2007-08	Percent Change 1997-98 to 2007-08
Health and Human Services	\$36,795,426	\$83,720,915	127.53%
K-12 Education	\$24,310,124	\$61,063,546	151.19%
Higher Education	\$11,493,561	\$21,951,690	90.99%
Business, Transportation and Housing	\$6,499,440	\$20,374,514	213.48%
Youth and Adult Corrections	\$4,197,719	\$12,048,260	187.02%
General Government	\$6,665,441	\$9,633,755	44.53%
Legislative, Judicial and Executive	\$2,074,625	\$8,958,050	331.79%
Labor and Workforce Development Agency	\$0	\$8,322,411	-----
Resource Agency	\$1,638,905	\$8,861,538	440.70%
California Environmental Protection	\$780,498	\$2,635,237	237.64%
State and Consumer Services	\$756,364	\$1,759,864	132.67%
Trade and Commerce Agency	\$63,339	\$0	-----

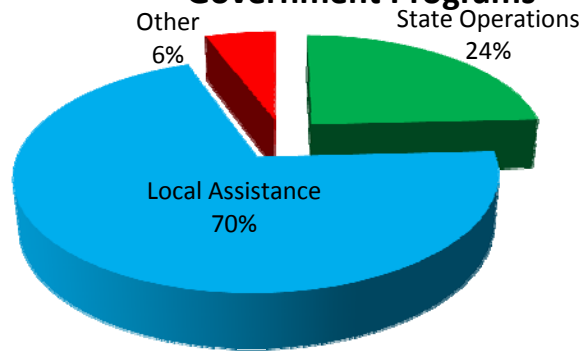
Source: Legislative Analyst's Office. The Trade & Commerce Agency was disbanded and most of its functions were integrated into the Business, Transportation and Housing Agency in 2004. The Labor & Workforce Development Agency was established in 2001.

Despite the size of the state budget, state agencies provide few direct services.

The State of California allocates some \$200 billion annually, but most of that money is spent by local agencies, counties, cities, school districts, regional entities and community organizations.

For example, the largest portion of California’s spending is on education and health and human services. The majority of health and human services and educational services are delivered through counties and school districts. Some 70 percent of state funding is allocated to local governments and local agencies and spent by those agencies. Just 24 percent of the state budget is spent on what is called state operations. The balance, 6 percent includes land purchases, infrastructure improvements, and other expenditures.

Seventy Percent of State Funding in 2007-08 Supports Local Government Programs

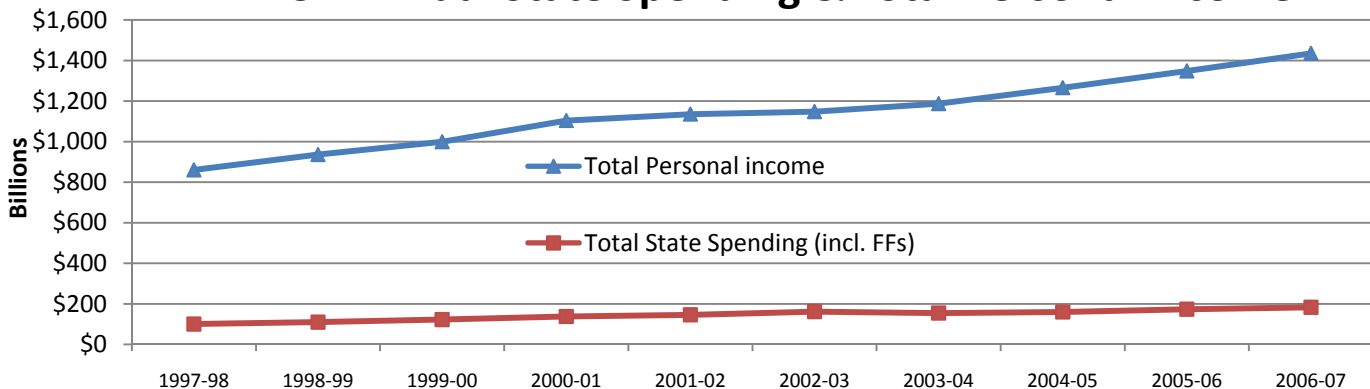


Source: Legislative Analyst's Office

California’s state spending has gone up, but total personal income has grown faster.

The size of California’s annual budget has increased nearly every year over the past decade, but so has total personal income. One way to indicate the relative growth of state spending is to compare growth in state spending to growth in total personal income. Growth in total personal income has outpaced increases in state spending.

CA Annual State Spending & Total Personal Income



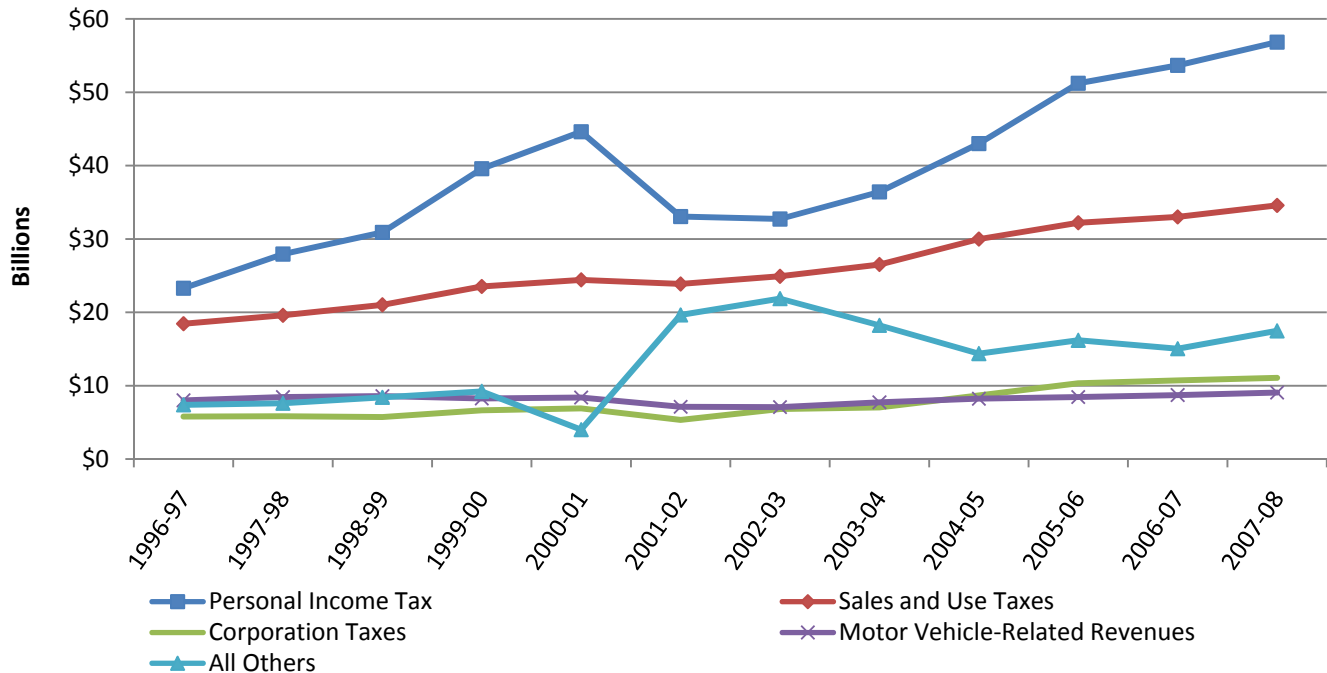
Source: Legislative Analyst's Office and Department of Finance

Personal income tax payments are the largest source of state revenues.

Personal income taxes generate the largest amount of state tax dollars, followed by sales and use taxes, corporate taxes and motor vehicle-related revenues. Other sources include taxes on insurance policies, alcohol and tobacco, gambling and other taxes and fees.

CA: Sources of State Revenue

(General Fund and Special Funds only)



Source: Legislative Analyst's Office

California has a highly progressive income tax system.

Under California’s tax rules, high-income earners pay a larger percentage of their income in income taxes than do middle-income and low-income earners. One result is that during good fiscal years, a large number of very wealthy Californians pay high taxes. But during downturns in the economy, the amount of tax payments from the very wealthy drops dramatically. As a result, the state must content with significant fluctuations in personal income tax.²

Data from the 2005 tax year, the latest available, indicate that California taxpayers paid \$43 billion in personal income taxes that year. Just one percent of California taxpayers – those earning more than \$400,000 that year, contributed 49.5 percent of all tax payments. At the highest end of the state’s income scales, those earning \$5 million or more, 5,895 taxpayers contributed over \$9.1 billion in tax payments.³

¹ California Department of Finance.

² Analysts point out that low-income families pay a higher percentage of income on all taxes, including sales taxes.

³ California Franchise Tax Board. 2005 Annual Report.