



CALIFORNIA BUDGET PROJECT

Tough Budget Times in California: How Did We Get Here?

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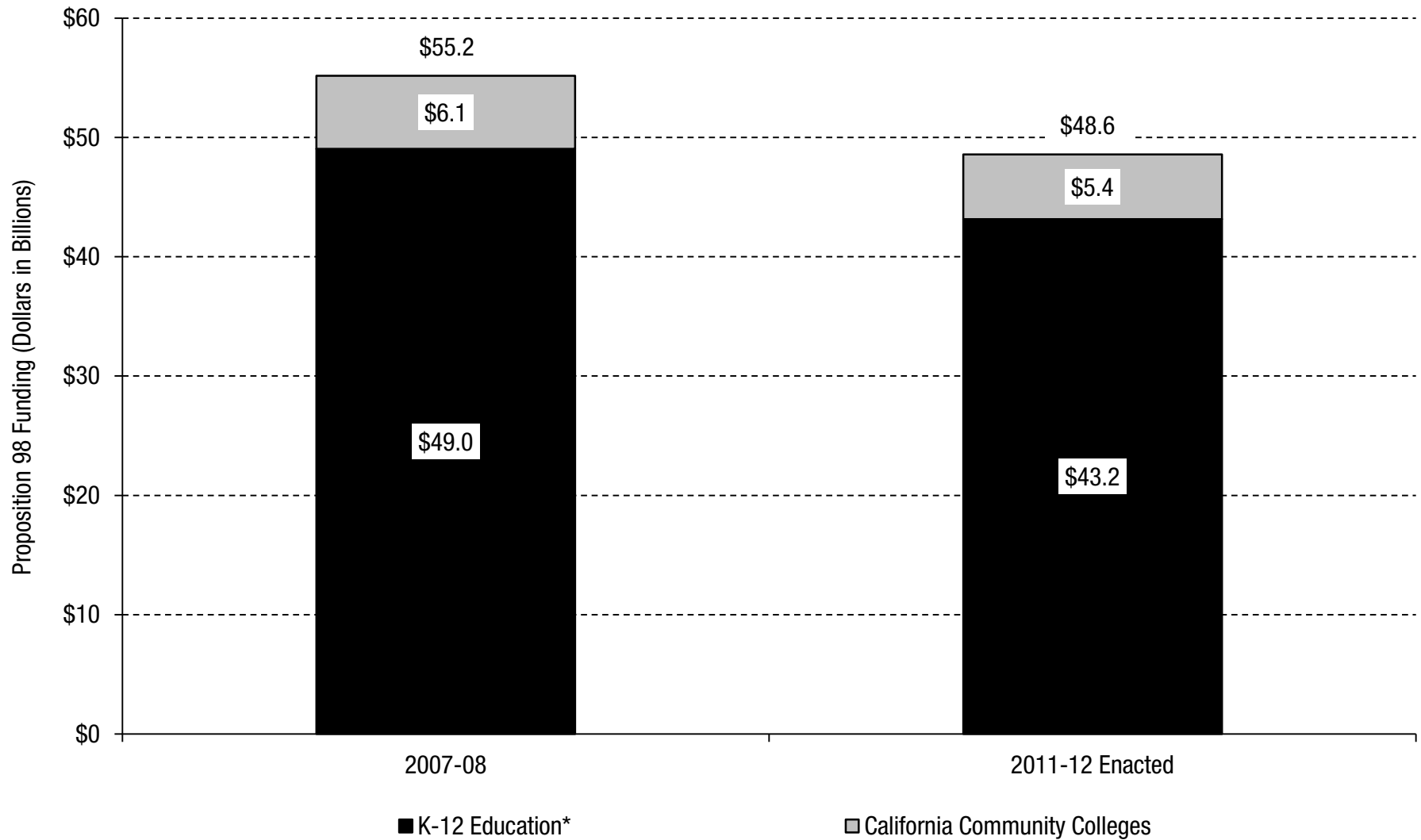
A PRESENTATION BY
SCOTT GRAVES, SENIOR POLICY ANALYST
September 2011

Budgets Express Values and Priorities. State Budget Choices Affect All Californians.

Why Are Budgets Important?

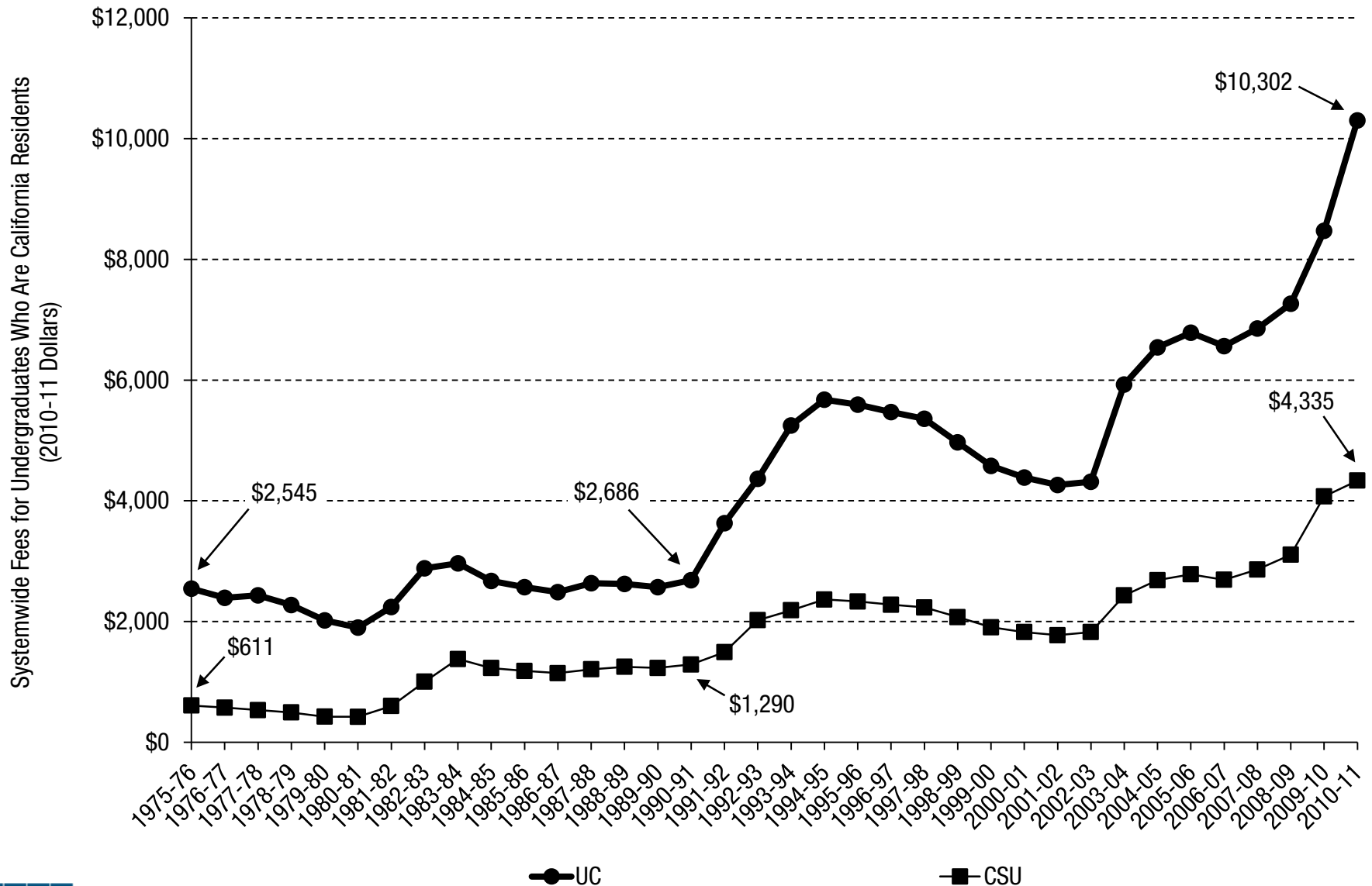
- Budgets:
 - Express our values and priorities as a society.
 - Provide the framework and funding for public programs and services.
- State budget choices affect:
 - The quality of our schools and highways;
 - The cost of a college education;
 - Children's access to health care;
 - Seniors' ability to live safely in their own homes;
 - And more.
- In other words, the state budget affects *all* Californians.

Support for K-12 Schools and Community Colleges Will Be \$6.6 Billion Lower in 2011-12 Than in 2007-08

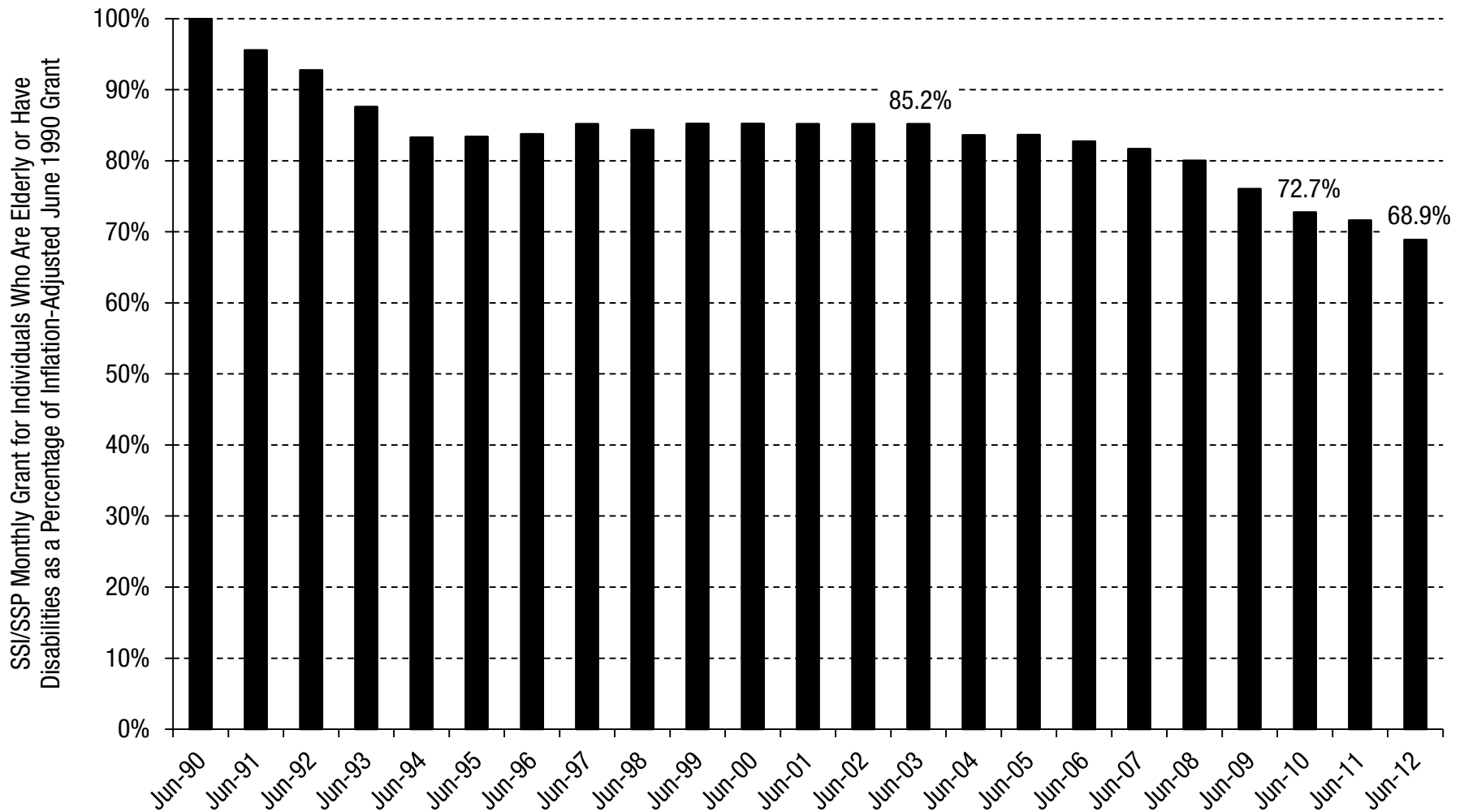


* Includes funding for the state preschool program.
Note: Subtotals may not sum to totals due to rounding.
Source: Legislative Analyst's Office

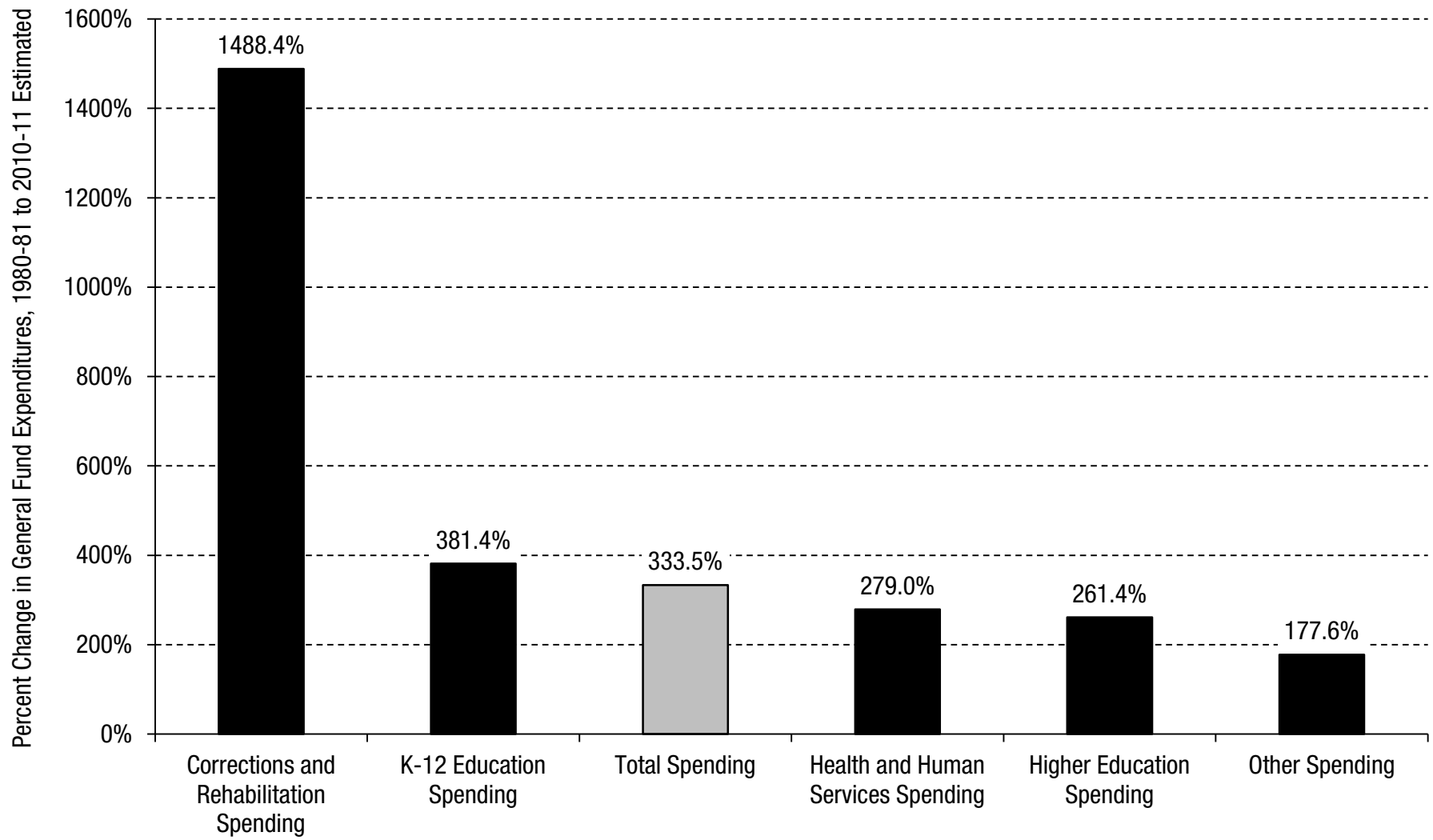
Inflation-Adjusted UC and CSU Fees Have More Than Tripled Since 1990-91



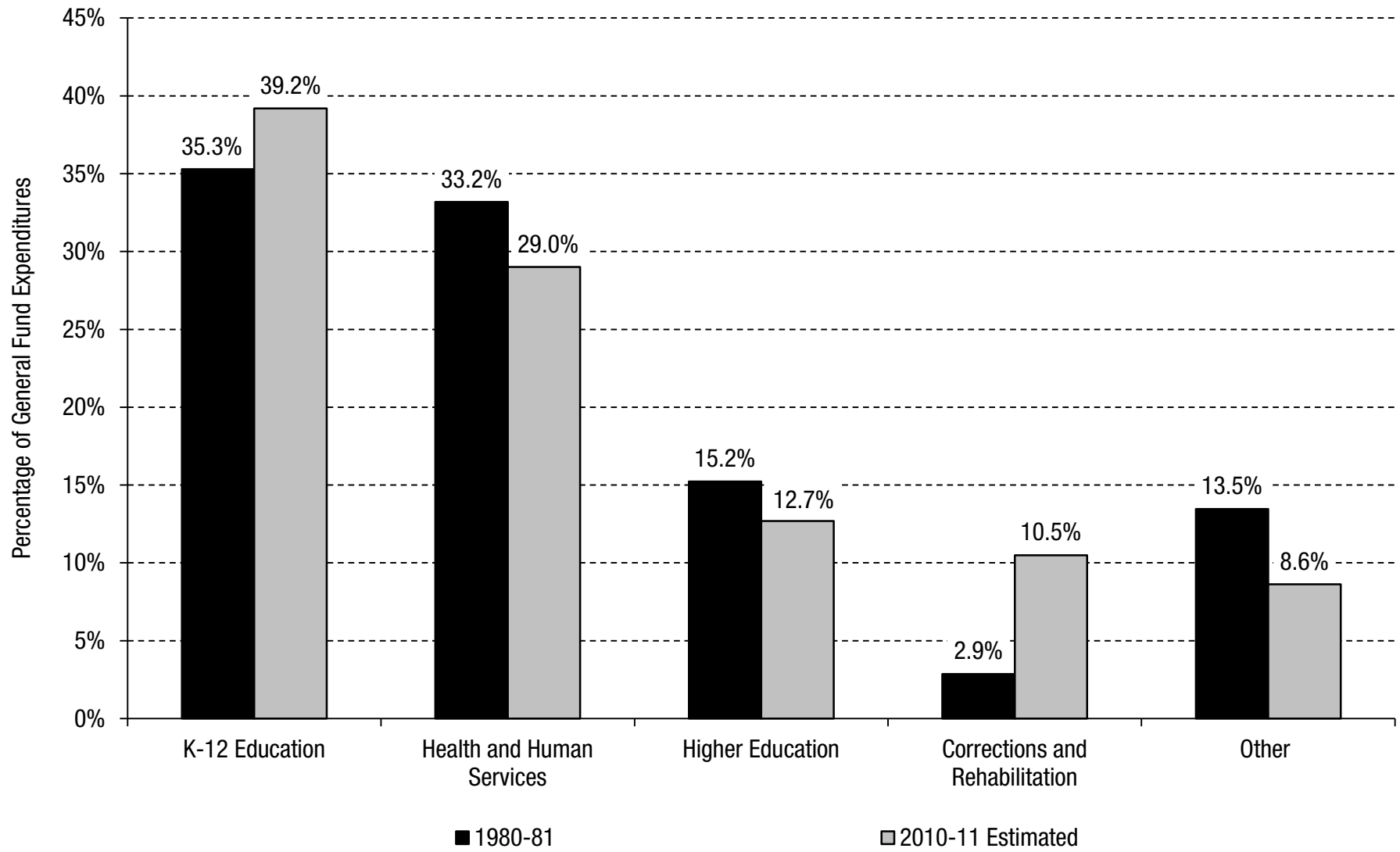
SSI/SSP Grants for Low-Income Seniors and People With Disabilities Have Lost Nearly One-Third of Their Purchasing Power Since 1990 Due to State Budget Cuts



Corrections Spending Has Grown at More Than Four Times the Rate of General Fund Spending as a Whole Since 1980-81

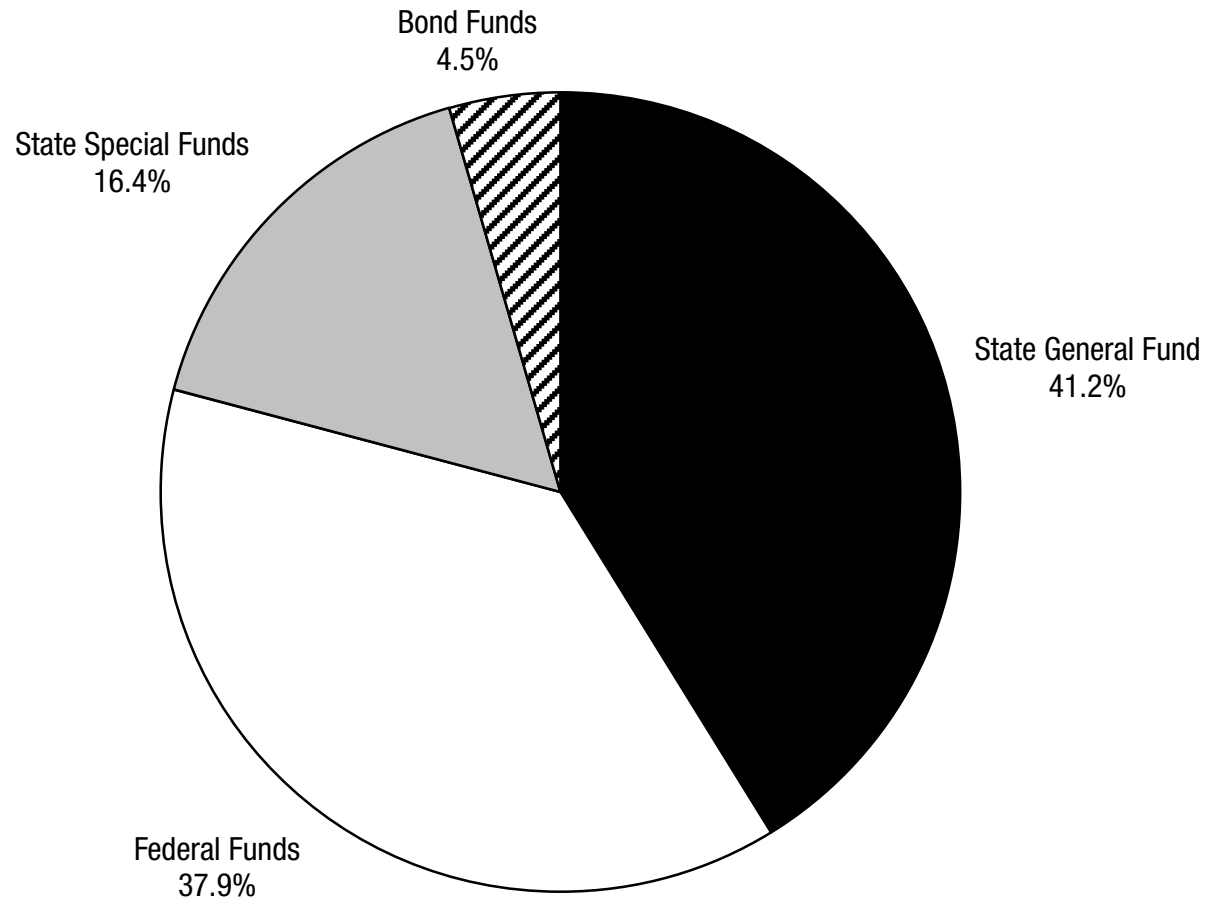


Spending on Corrections Has More Than Tripled as a Share of Total General Fund Spending Since 1980-81



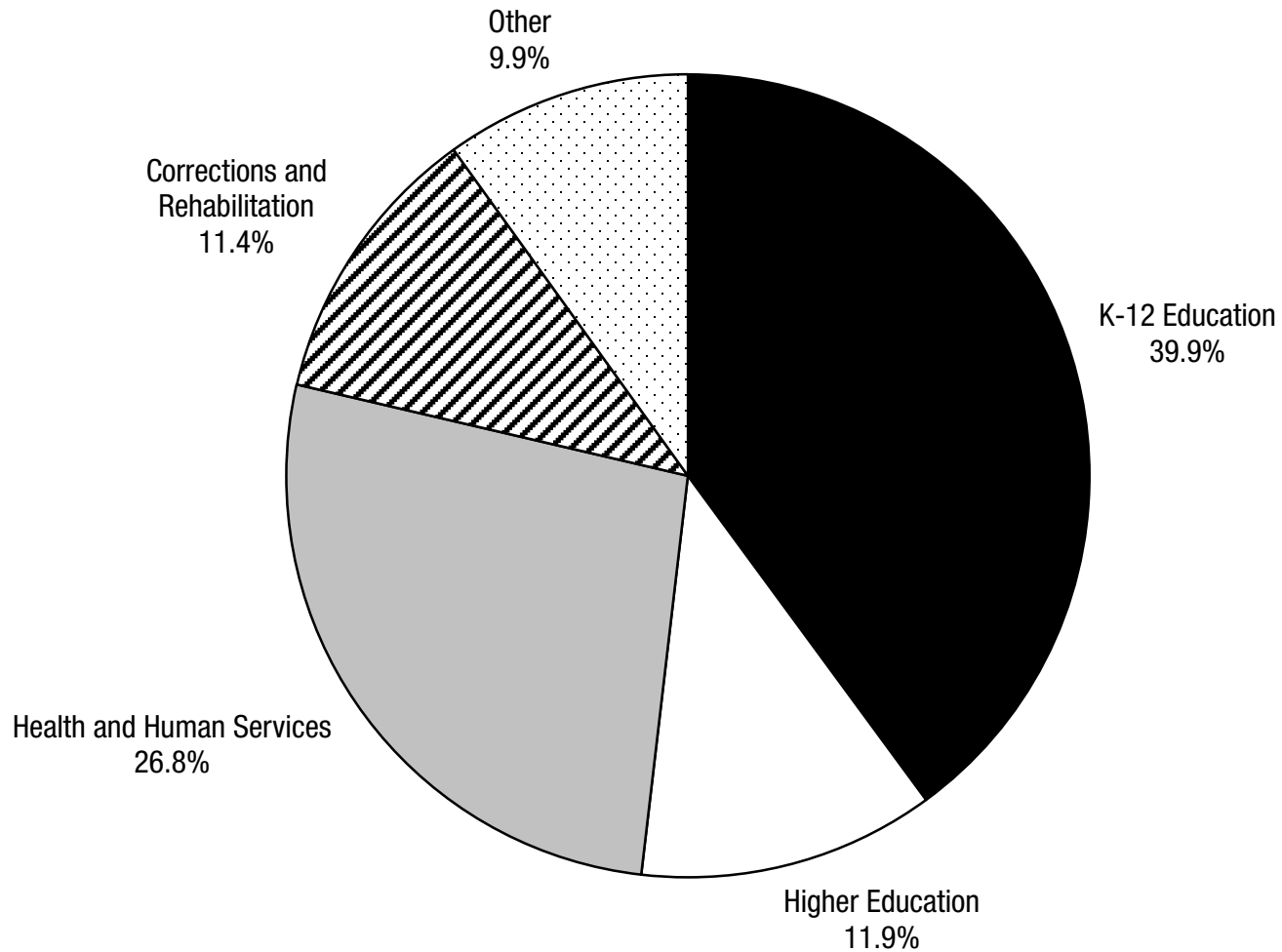
California Budget Basics

The State General Fund Accounts for More Than 40 Cents Out of Every Dollar Spent Through California's Budget



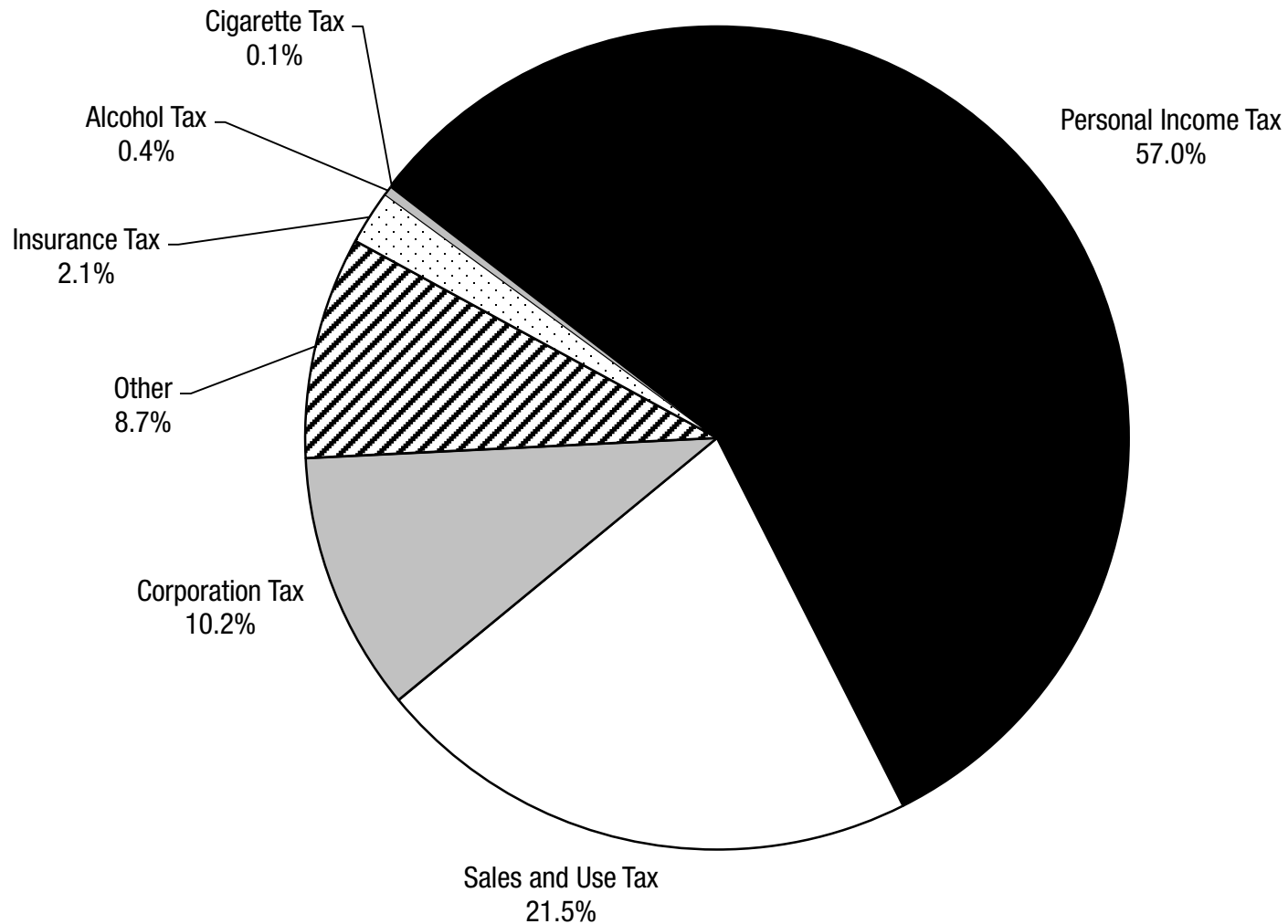
Enacted 2011-12 Expenditures = \$208.7 Billion

K-12 Education Accounts for the Largest Share of State General Fund Spending in 2011-12



Enacted 2011-12 General Fund Expenditures = \$85.9 Billion

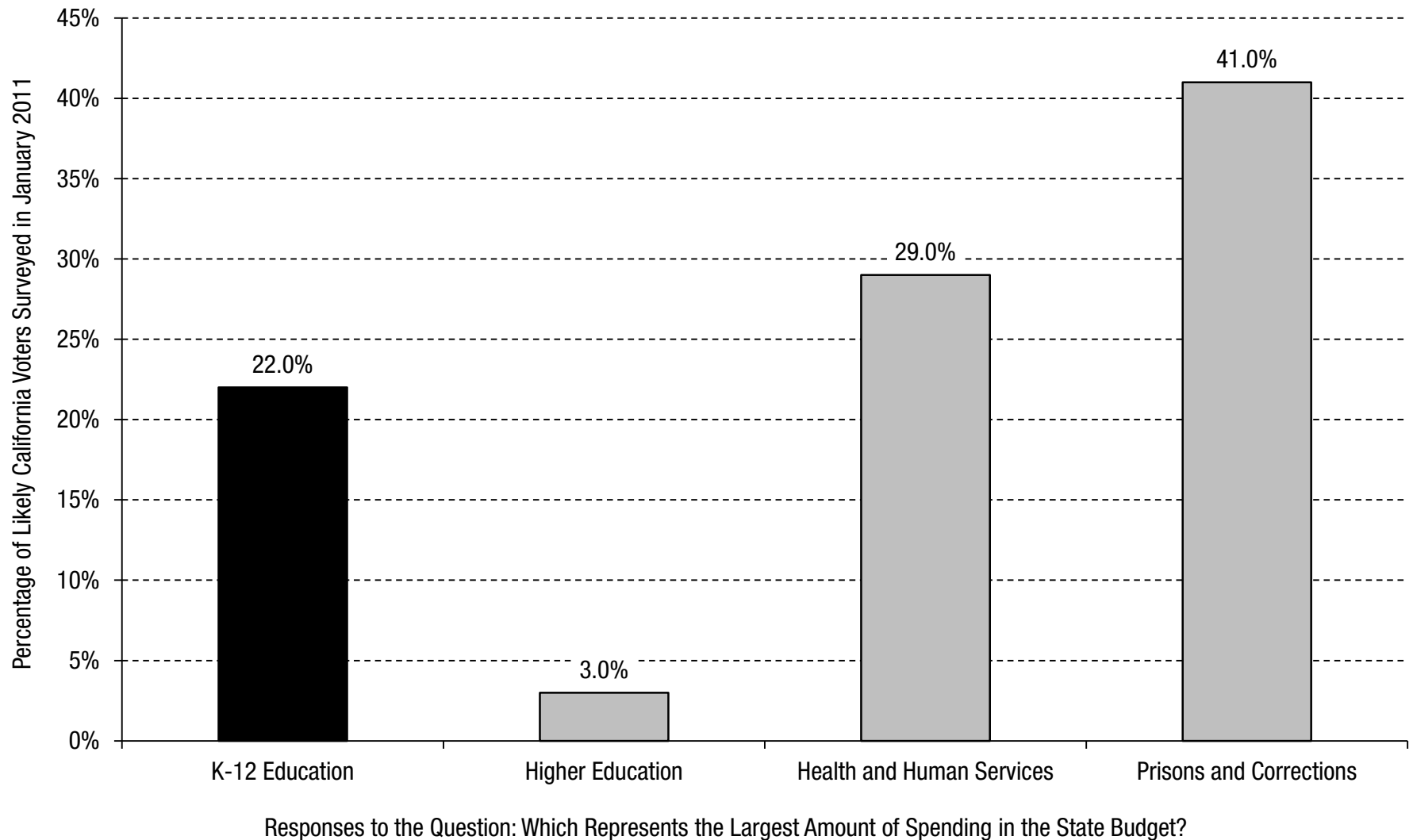
The Personal Income Tax Is Projected To Provide More Than Half of General Fund Revenues in 2011-12



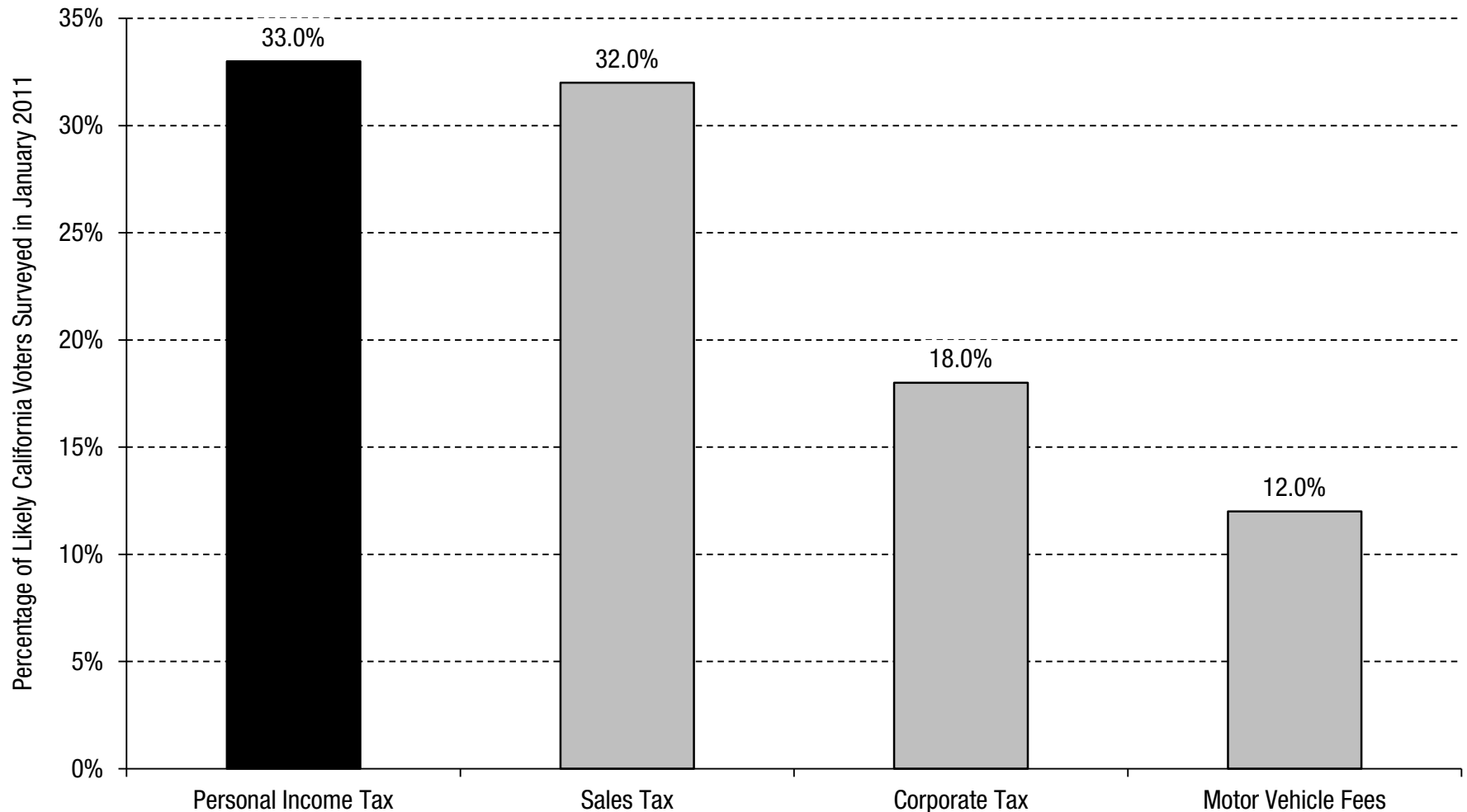
Projected 2011-12 General Fund Revenues and Transfers = \$88.5 Billion

Californians Lack Basic Knowledge of State Spending and Revenues.

Only About One-Fifth of Likely Voters in California Know That K-12 Education Makes Up the Largest Share of State Spending



Only One-Third of Likely Voters in California Know That the Personal Income Tax Provides the Most Revenue for the State Budget

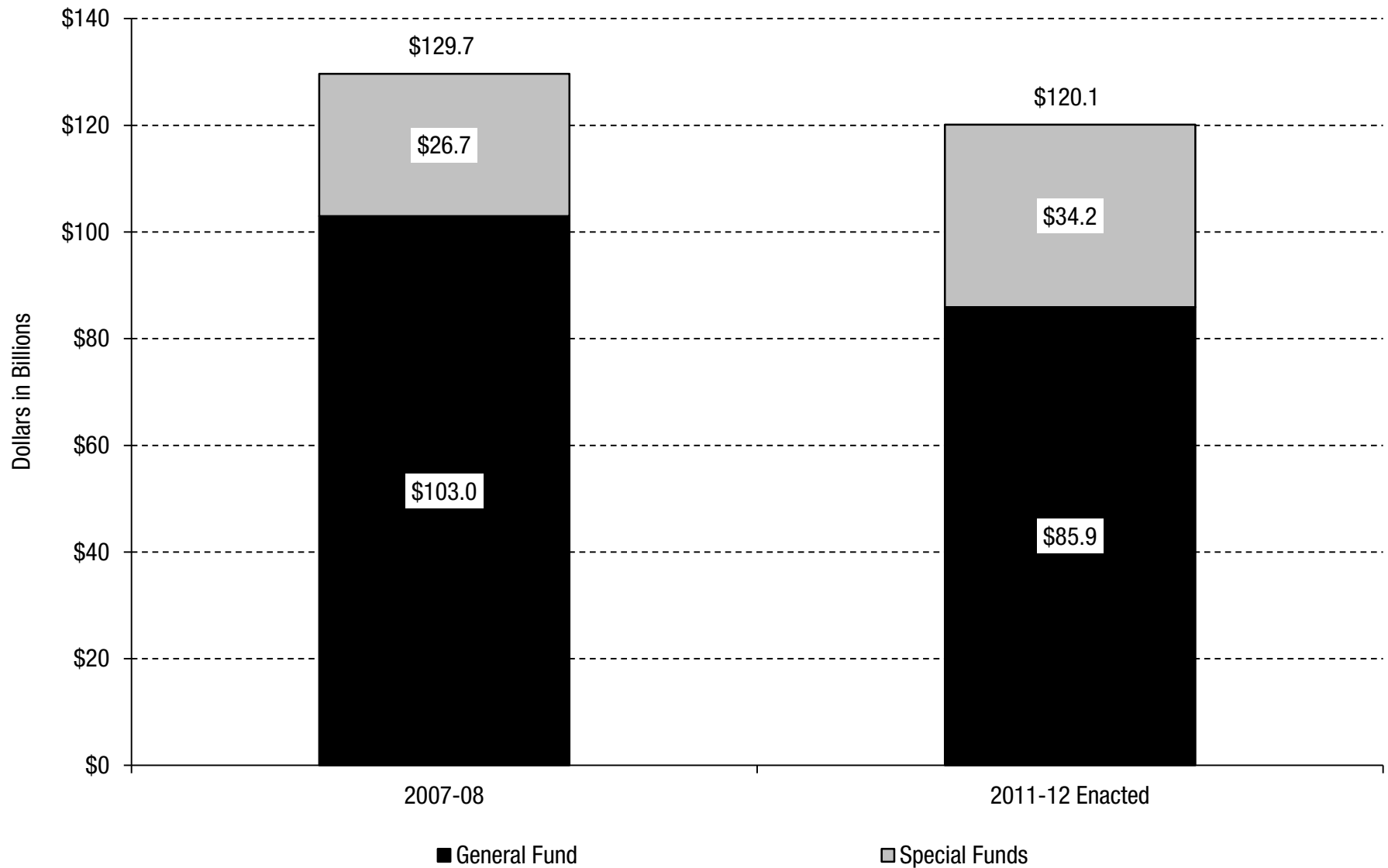


Responses to the Question: Which Provides the Most Revenue for the State Budget?

California Has Consistently Faced Multi-Billion Dollar Budget Shortfalls in Recent Years. How Did We Get Here?

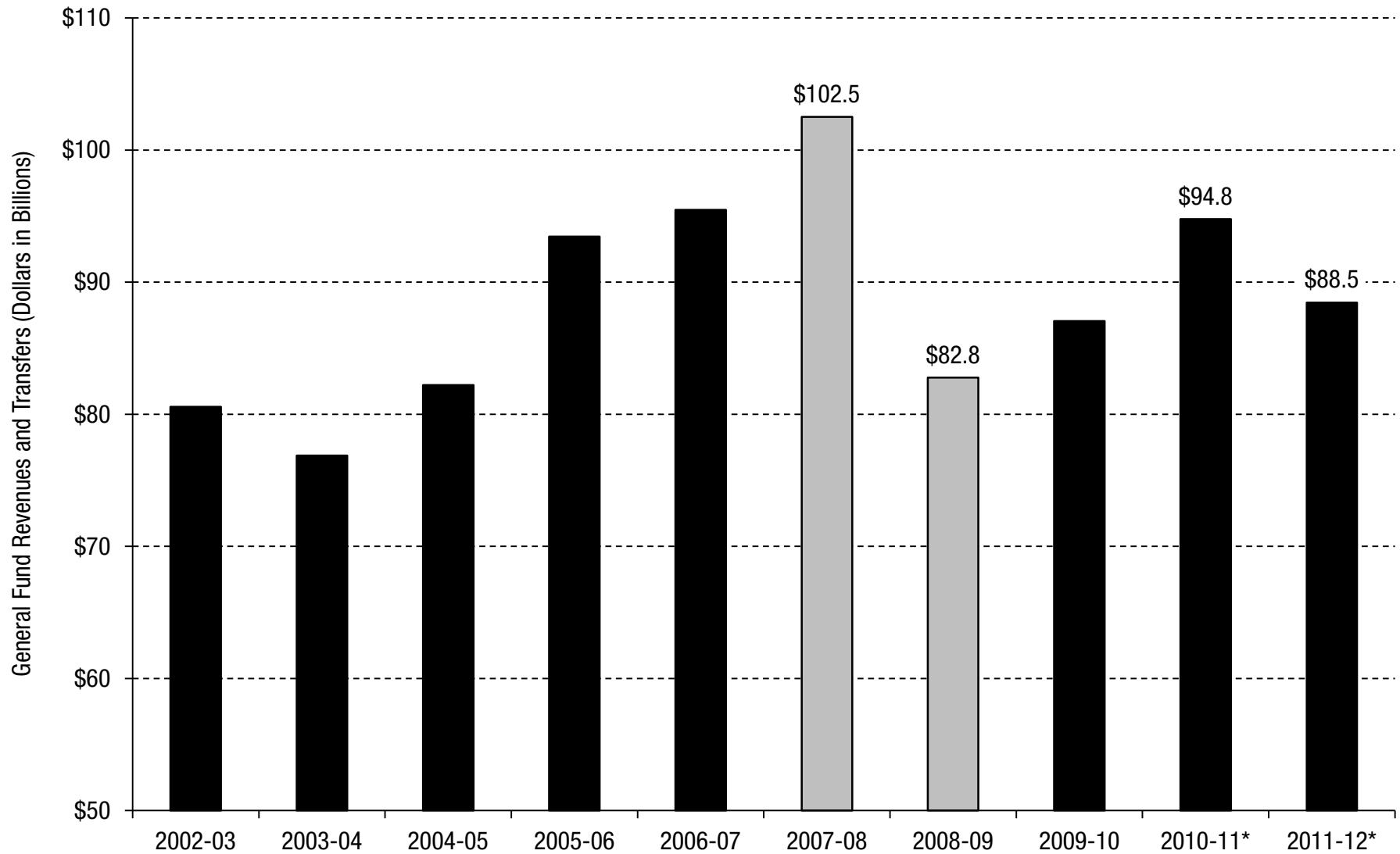
Do We Have a “Spending Problem”?
No.

Total Annual State Spending Has Declined by Nearly \$10 Billion Since 2007-08 Due to Budget Cuts



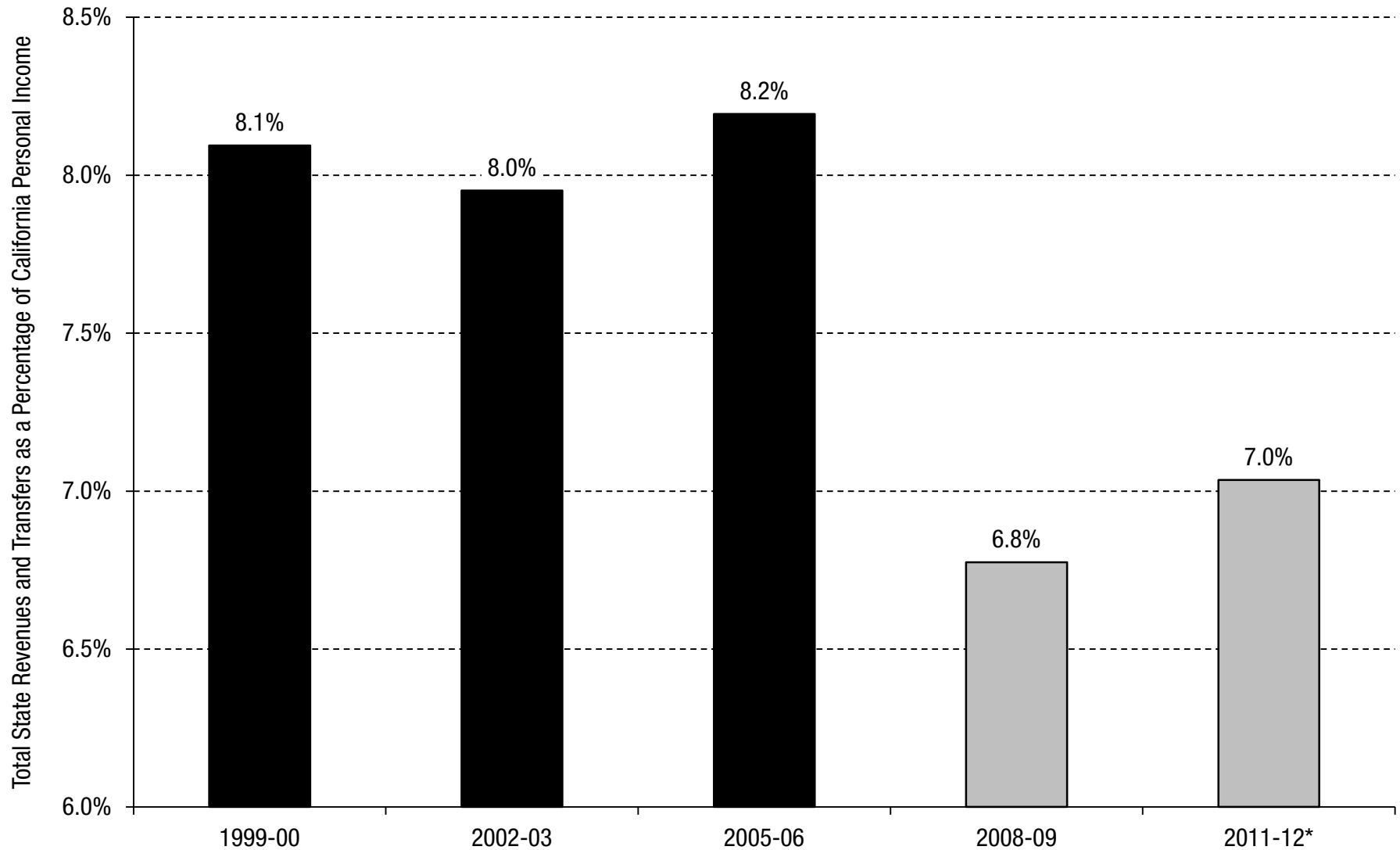
The Great Recession Led to a
Steep Decline in State Revenues.
Yes, We Have a Revenue Problem.

General Fund Revenues Plunged by Nearly \$20 Billion Between 2007-08 and 2008-09



* 2010-11 estimated and 2011-12 enacted.
Source: Legislative Analyst's Office

Total State Revenues Have Dropped Significantly as a Share of the California Economy Since 2005-06



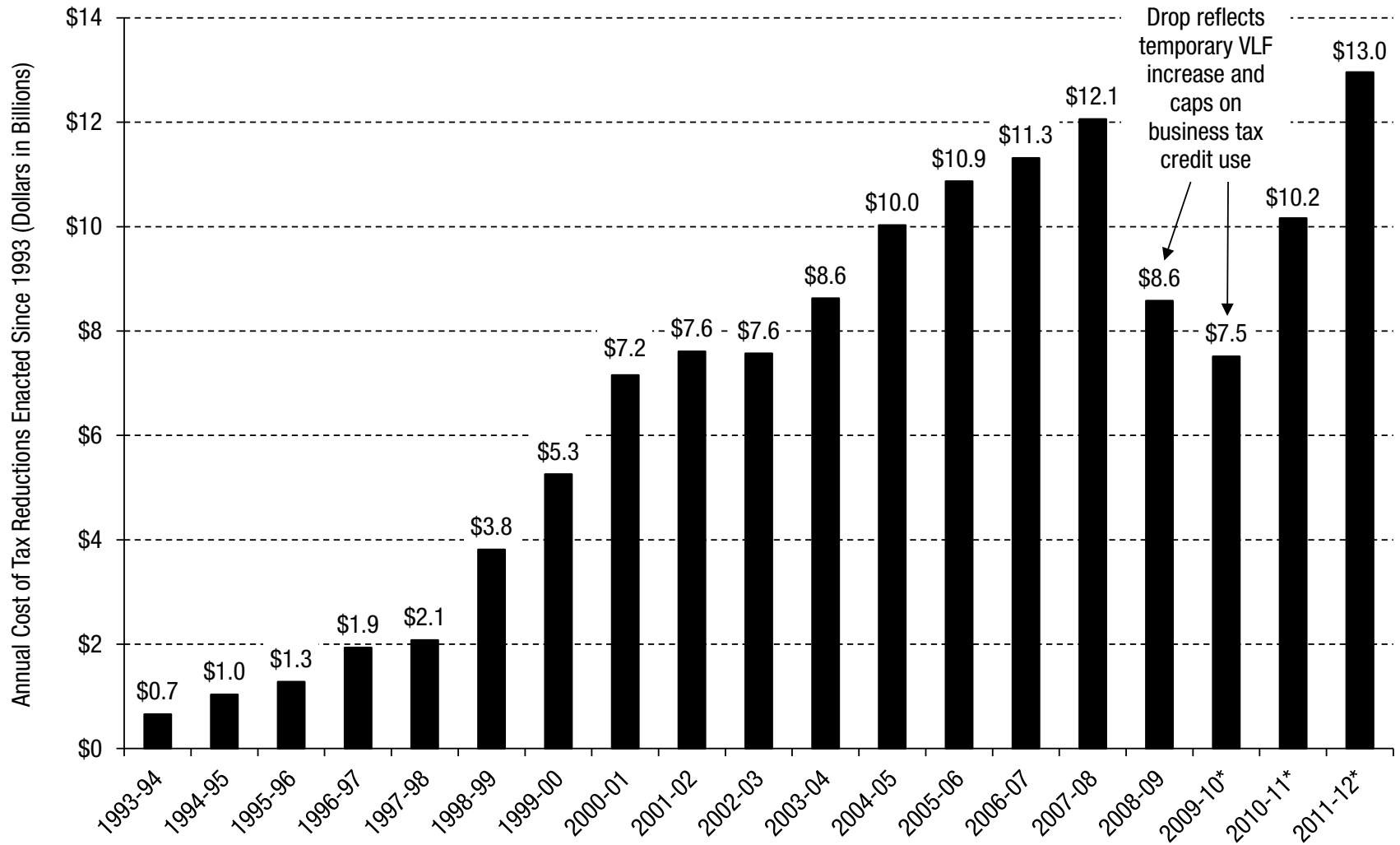
* Projected.

Source: CBP analysis of Department of Finance and US Bureau of Economic Analysis data

In California, Cutting Taxes Is
Relatively Easy. It Requires a Simple
Majority Vote of the Legislature and
the Governor's Signature.

Years of Tax Cuts Have Undermined California's Revenue Base. Why? Tax Cuts Don't "Pay for Themselves."

Tax Cuts Enacted Since 1993 Will Cost an Estimated \$13.0 Billion in 2011-12

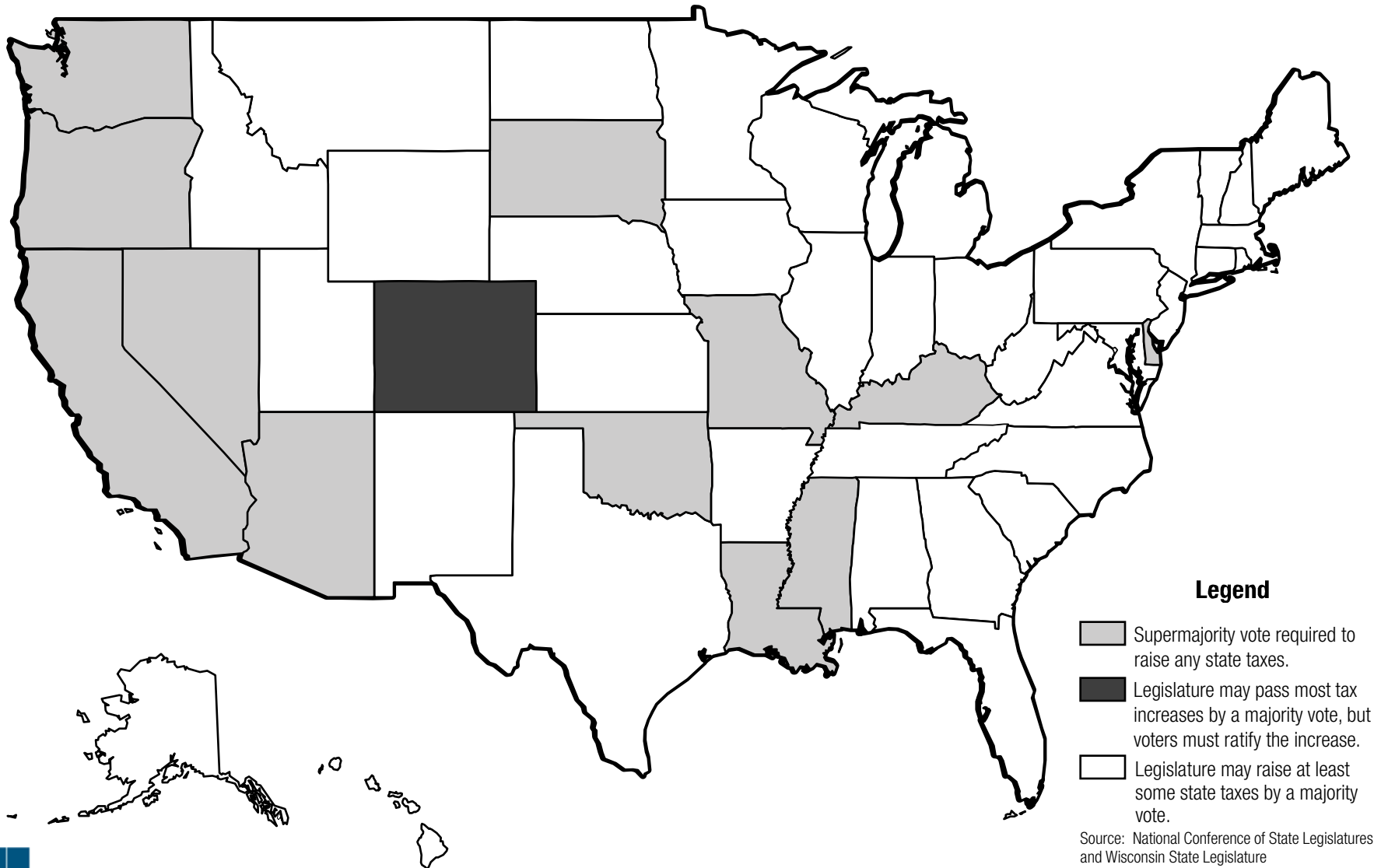


* 2009-10 and 2010-11 estimated; 2011-12 projected.

Source: Assembly Revenue and Taxation Committee, Board of Equalization, Department of Finance, Franchise Tax Board, and Legislative Analyst's Office

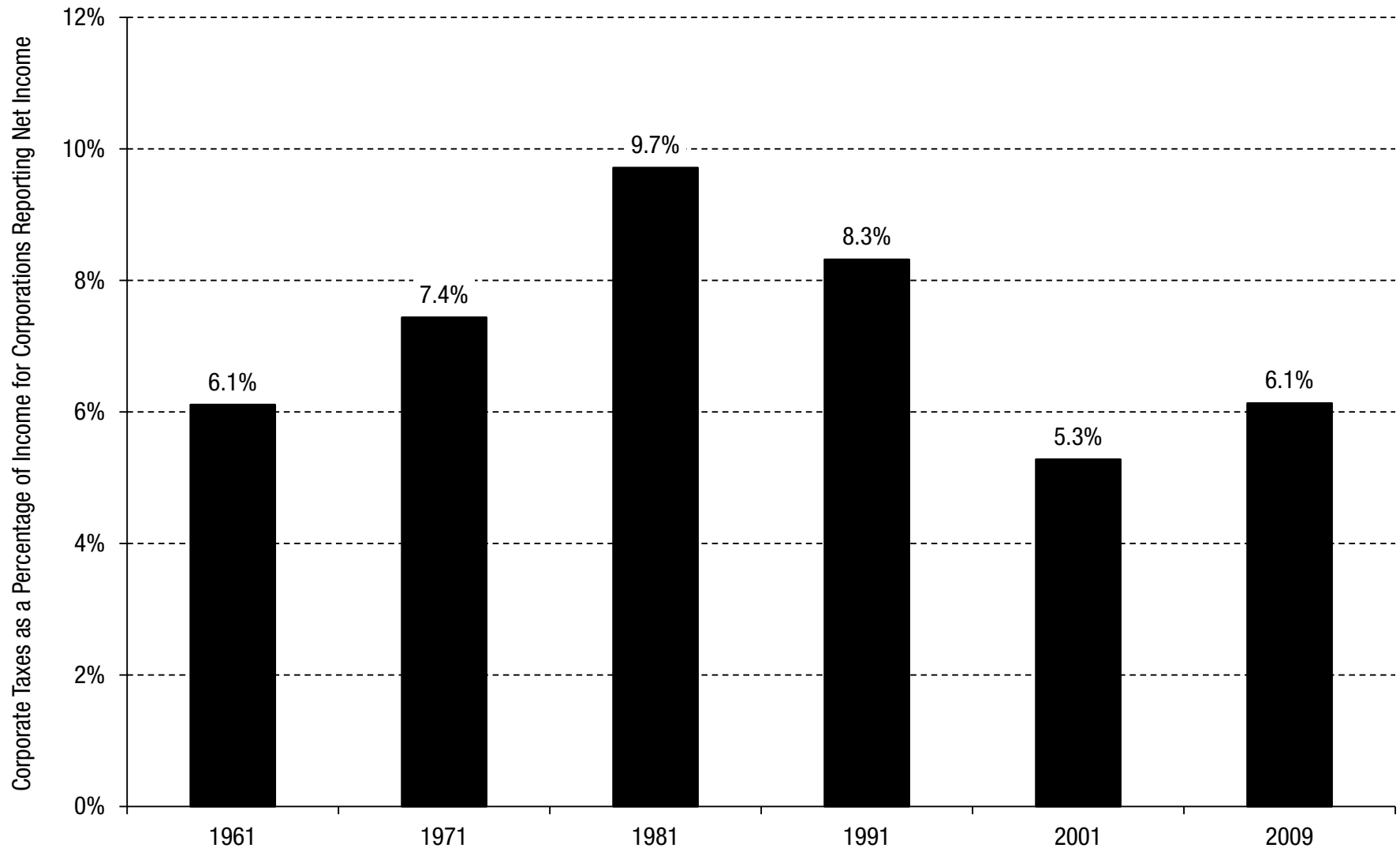
In Contrast, Raising Taxes Is
Extremely Difficult in California.
It Requires a Two-Thirds Vote of the
Legislature and the Governor's Signature.

California Is the Only Large State To Require a Supermajority Vote of Its Legislature for Any State Tax Increase



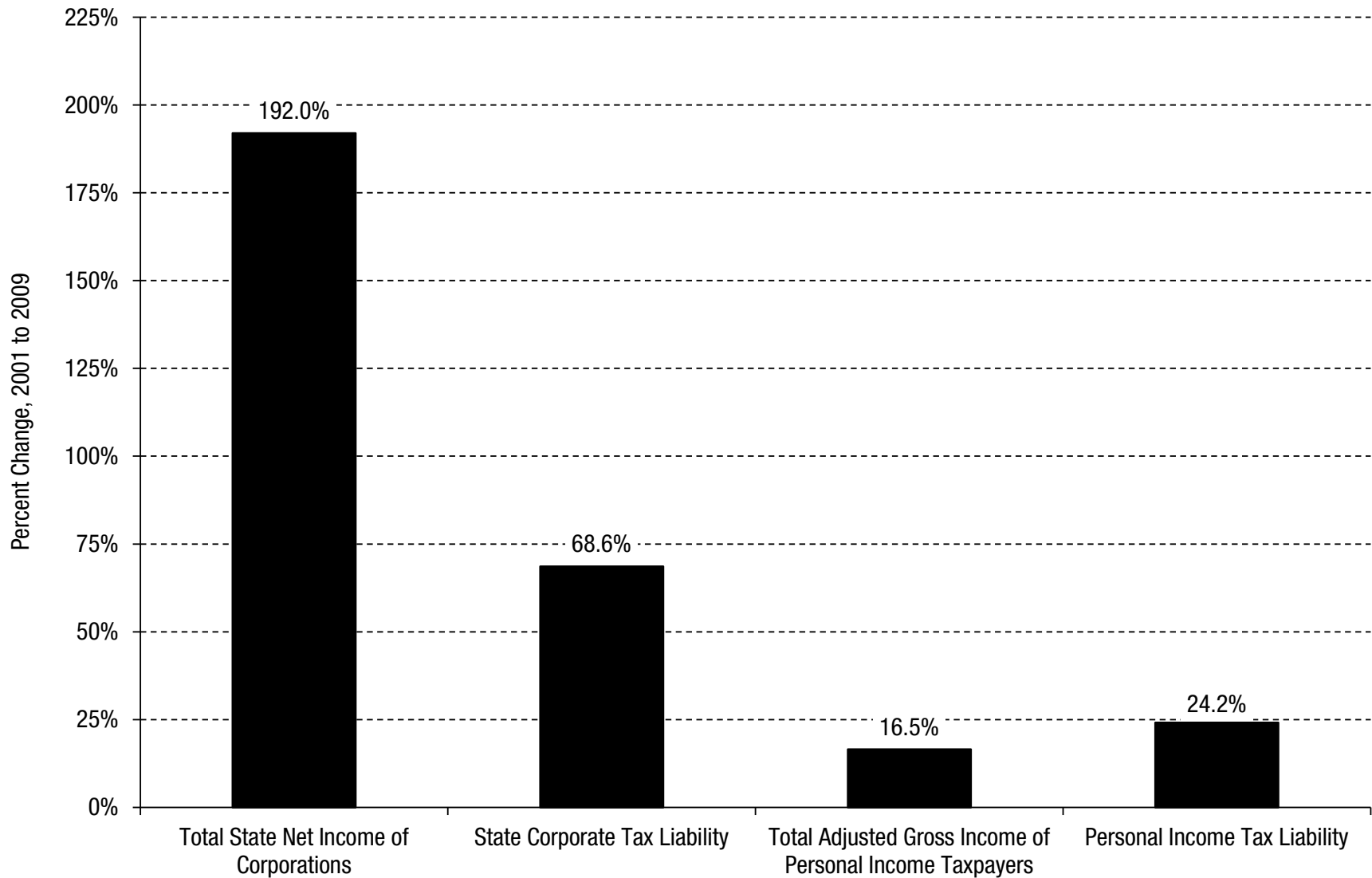
Corporations Doing Business
in California Are Paying a Smaller
Share of Their Profits in Taxes,
Even as Their Profits Have Soared.

The Share of Corporate Income Paid in Taxes Has Fallen Substantially



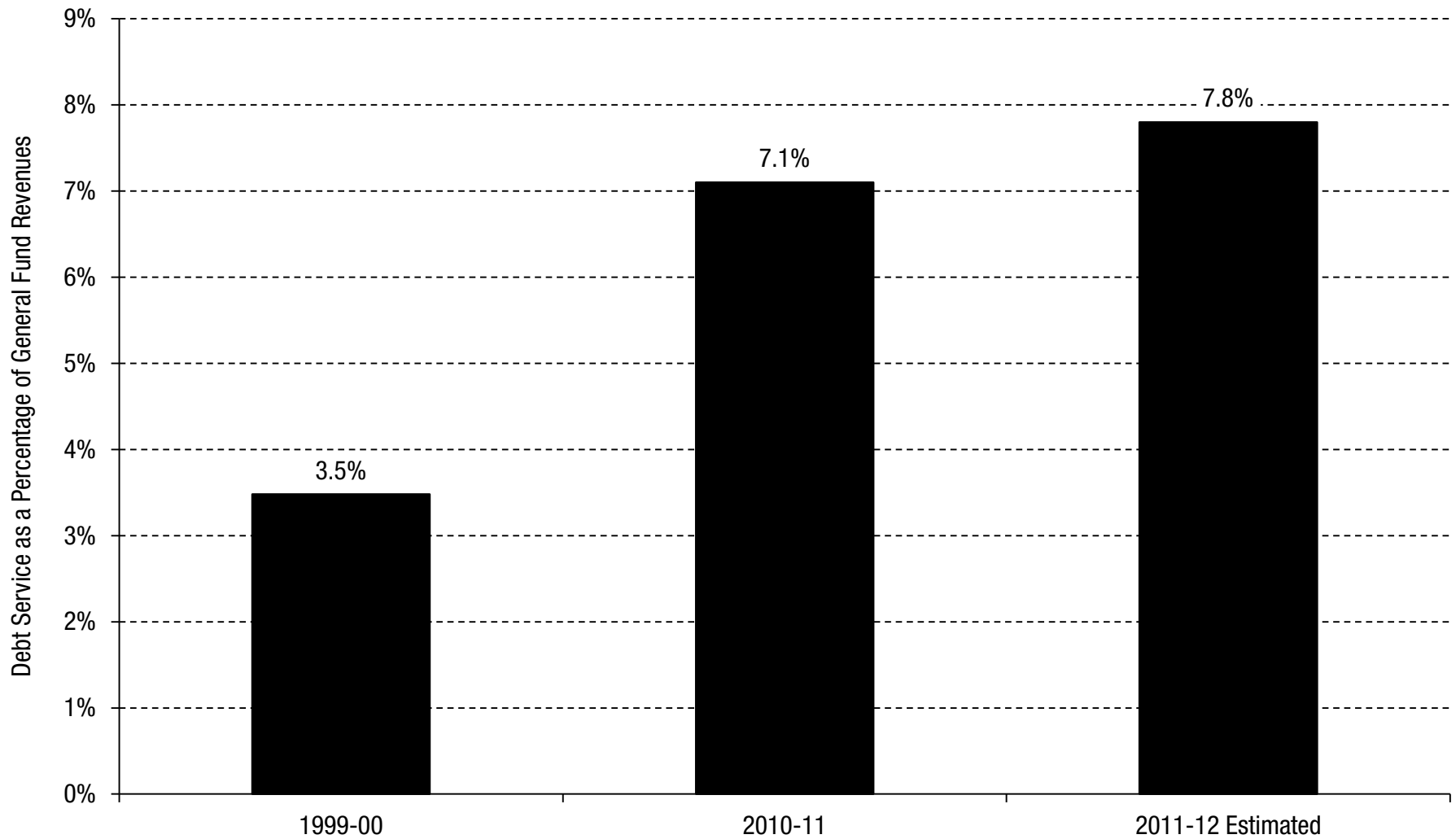
Note: 2009 data are preliminary.
Source: Franchise Tax Board

Recent Growth in Corporate Profits Has Outpaced Growth in Corporate Tax Payments



Voters Have Passed Many Ballot Measures, Mainly Bonds, That Impose New Spending Obligations Without Providing the Revenues To Pay for Them.

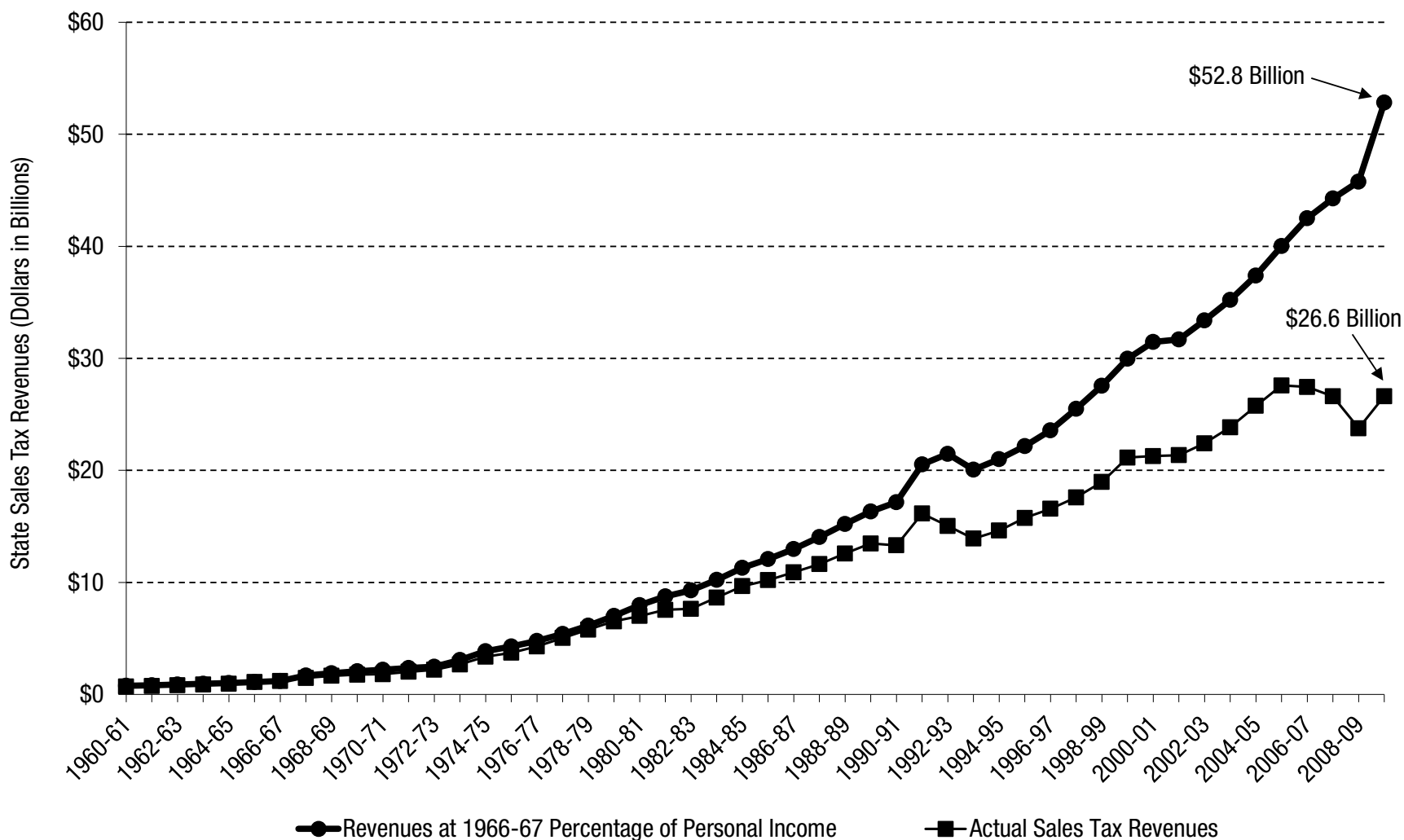
Debt Service on Bonds Has More Than Doubled as a Share of General Fund Revenues Since 1999-00



Note: Excludes debt service for Economic Recovery Bonds, Enterprise Fund Self-Liquidating Bonds, and General Obligation Commercial Paper.
Source: State Treasurer's Office

The Economy Has Shifted Toward
Services and Internet Sales,
Which Has Limited the Growth of
Sales Tax Revenues.

State Sales Tax Revenues Would Be \$26 Billion Higher if Taxable Sales Had Remained at 1966-67 Levels as a Share of the Economy



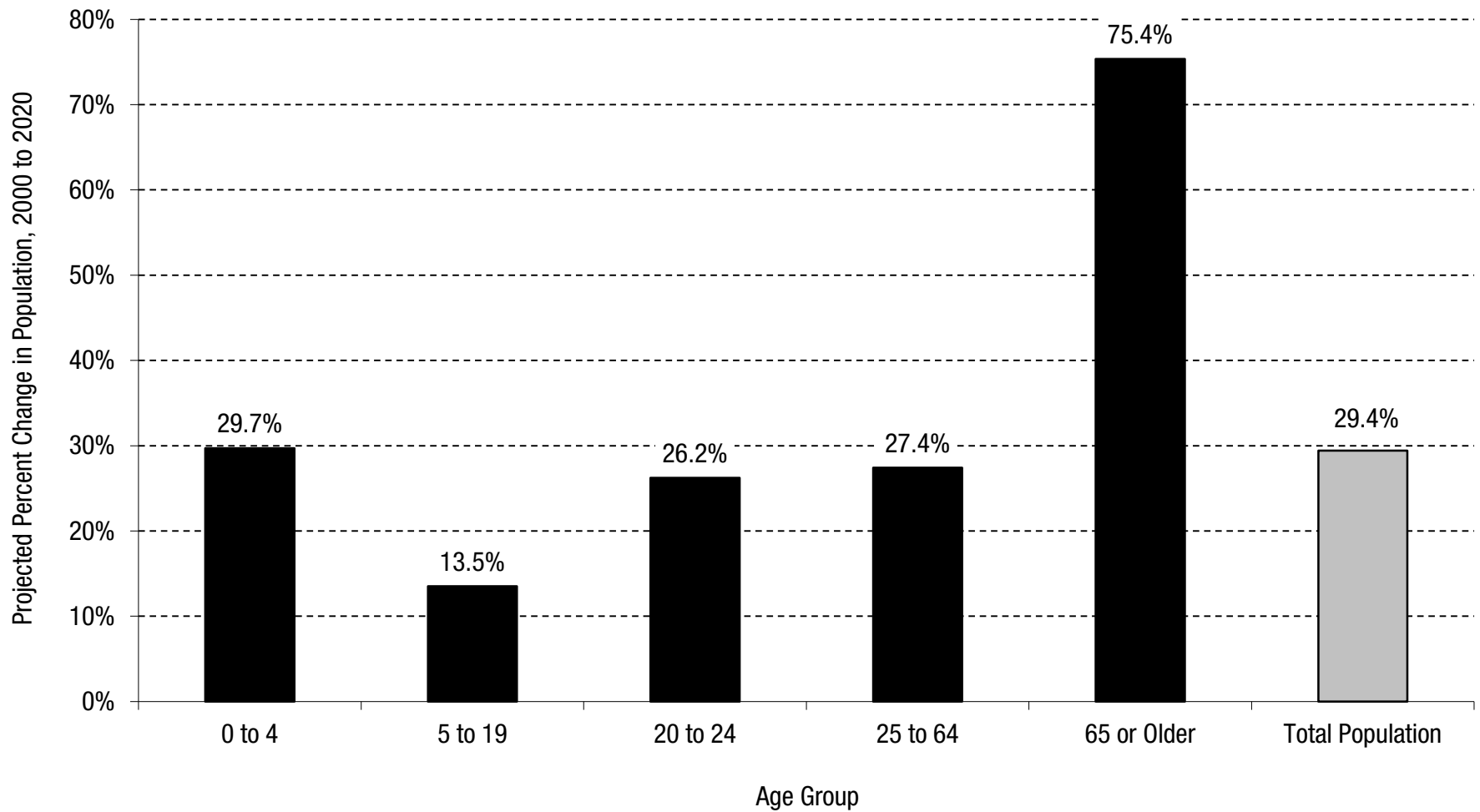
Note: 2009-10 data are estimated.

Source: Department of Finance, Legislative Analyst's Office, and US Bureau of Economic Analysis

In Addition, California's Budget Crises Have Occurred in the Context of . . .

. . . a Growing, Aging Population . . .

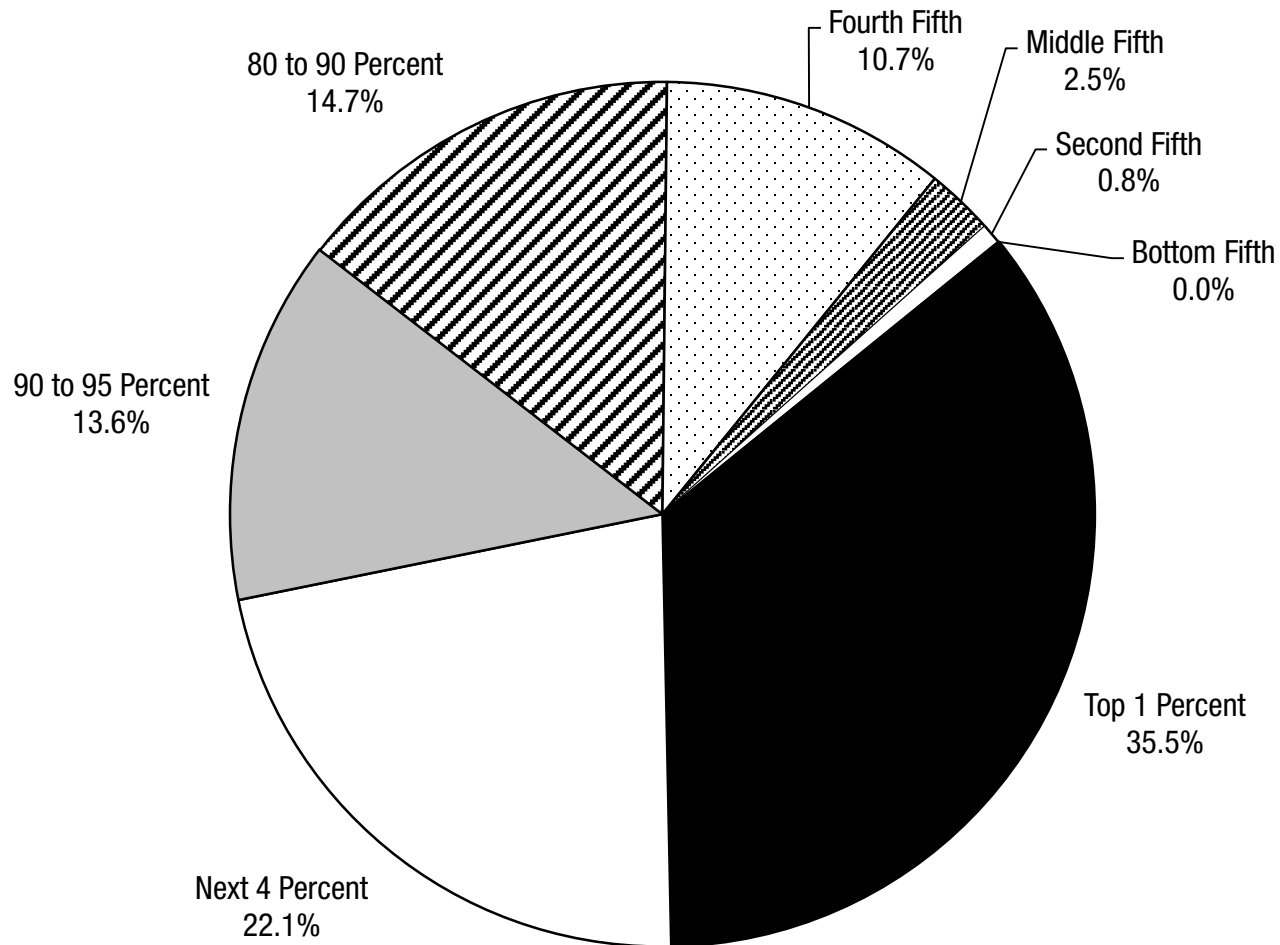
Californians Age 65 or Older Are Projected To Be the Fastest-Growing Age Group Between 2000 and 2020



Source: Department of Finance

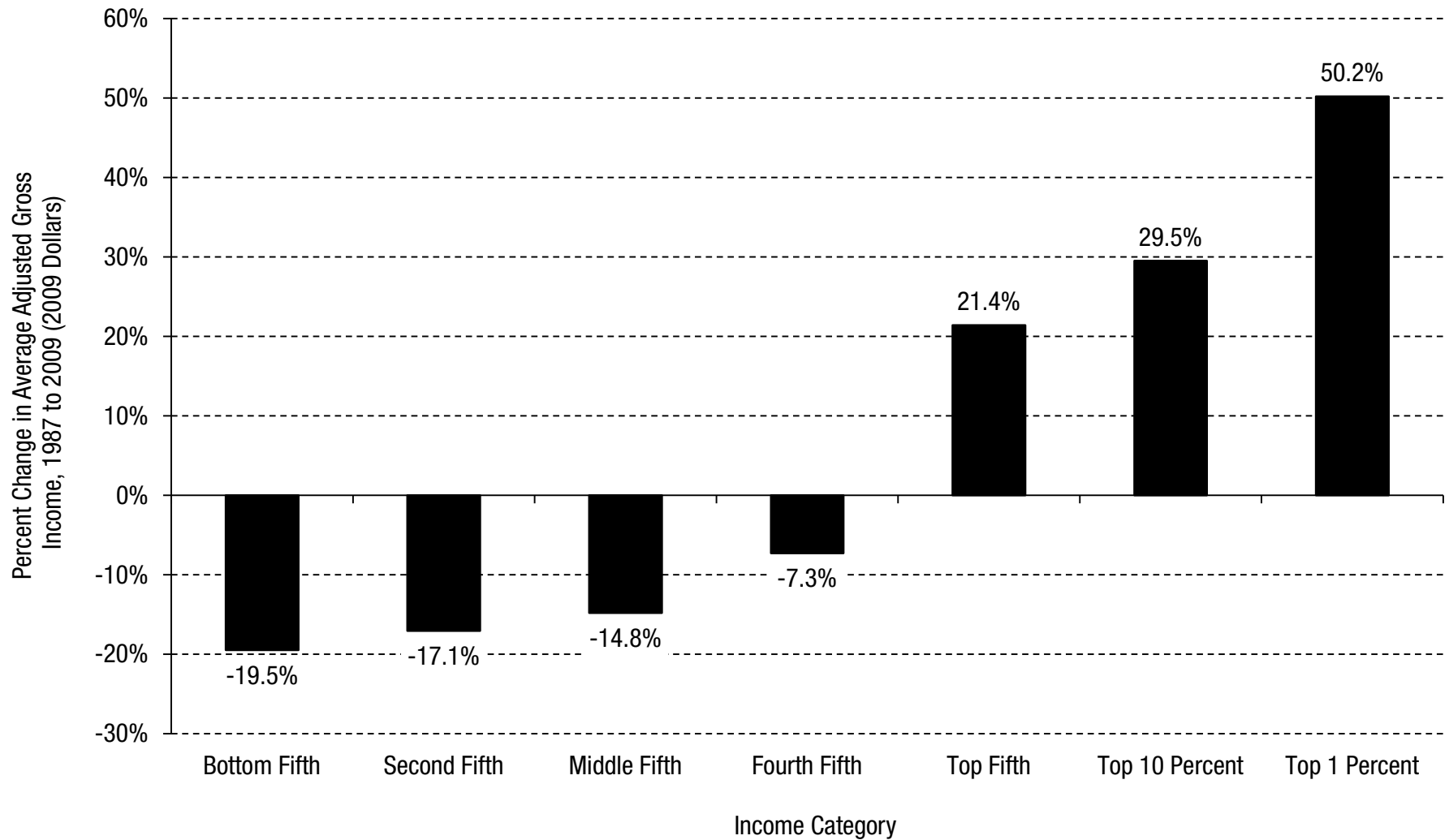
... and Rising Inequality.

More Than 70 Percent of Total Income Gains Went to the Top 10 Percent of California Taxpayers Between 1987 and 2009

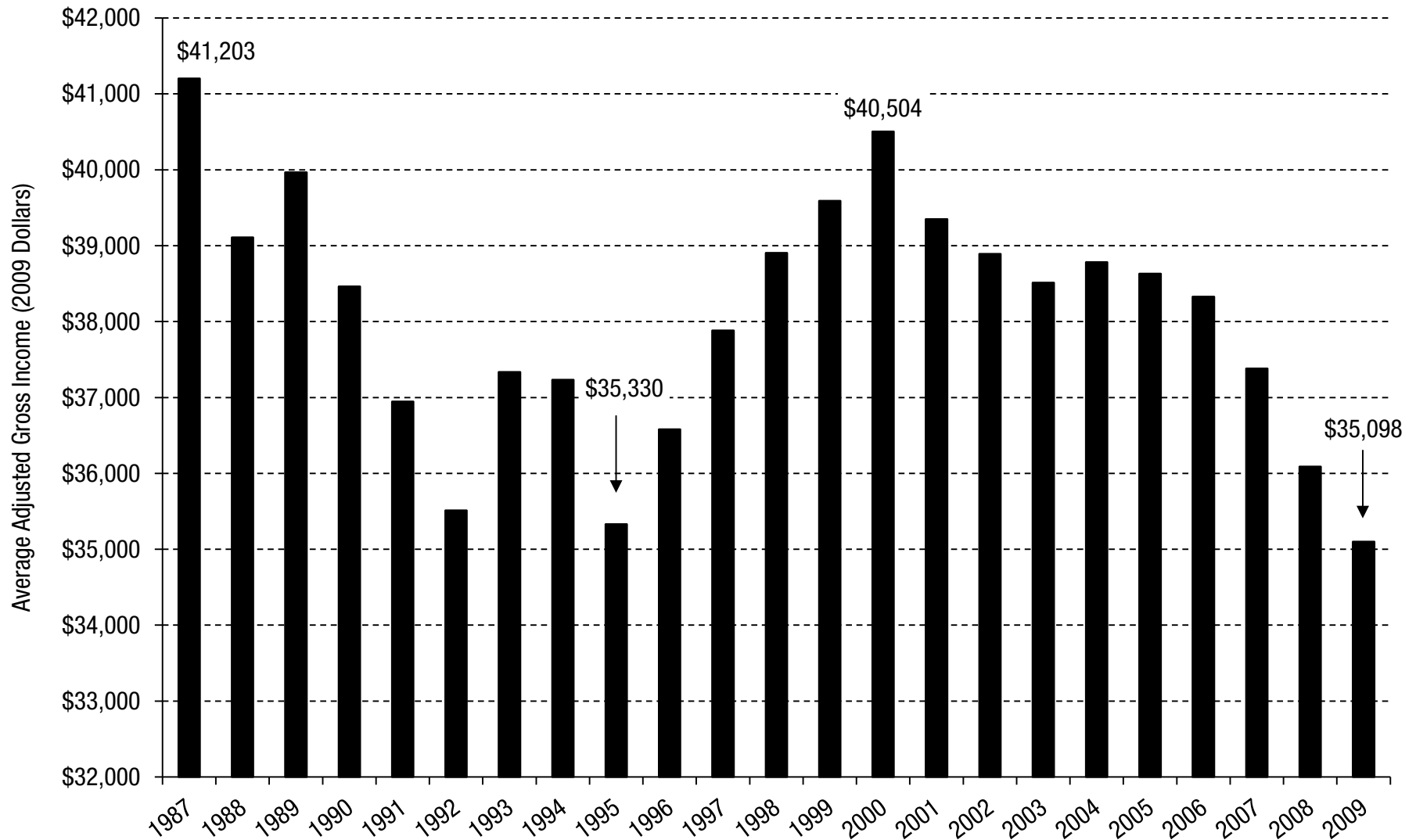


Total Adjusted Gross Income Increased by \$219.4 Billion, 1987 to 2009 (2009 Dollars)

The Incomes of the Wealthy Increased Significantly Over the Past Two Decades, While Those of All Other Californians Declined

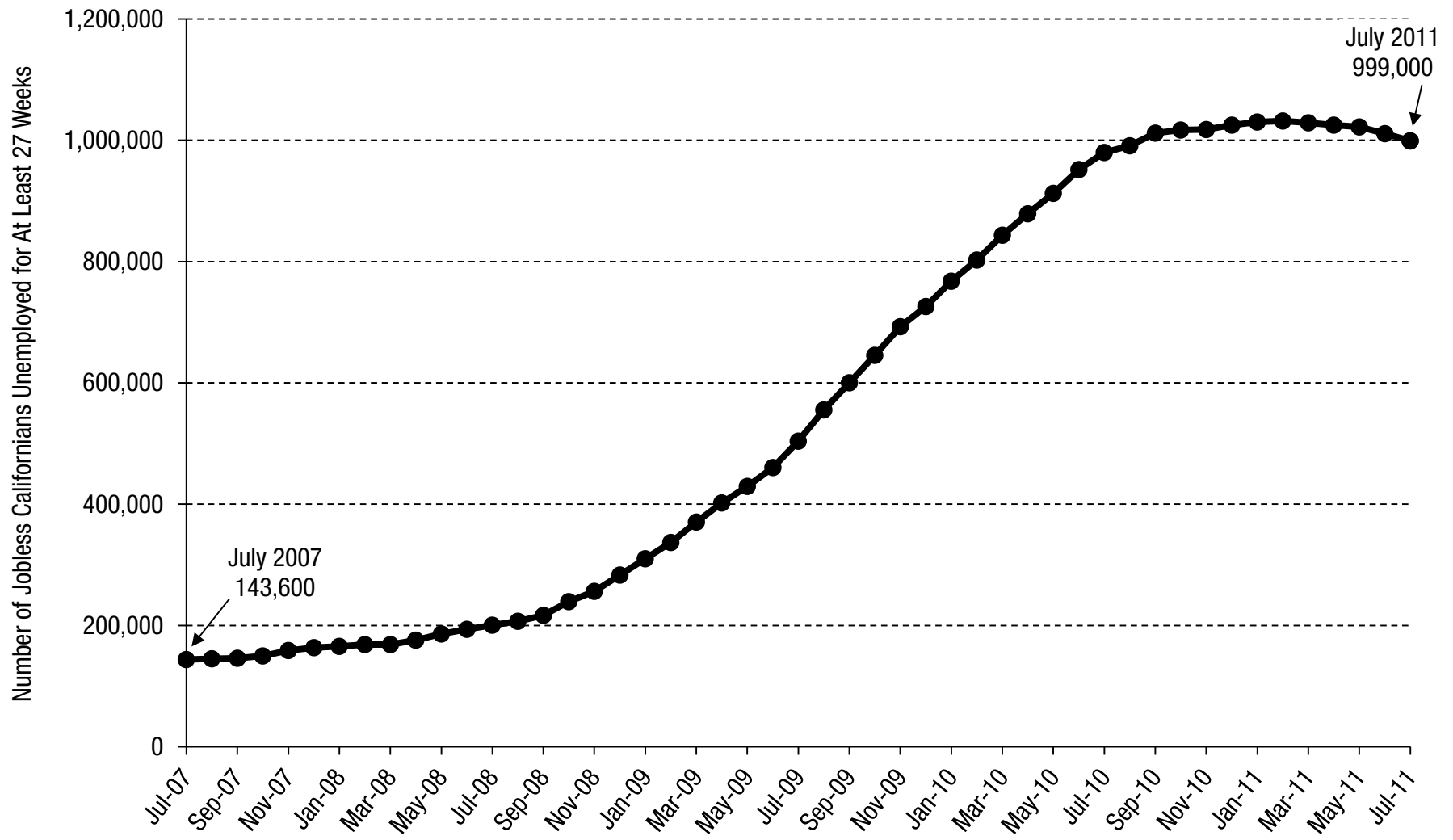


The Average Adjusted Gross Income of Middle-Income Californians Reached a More-Than-Two-Decade Low in 2009



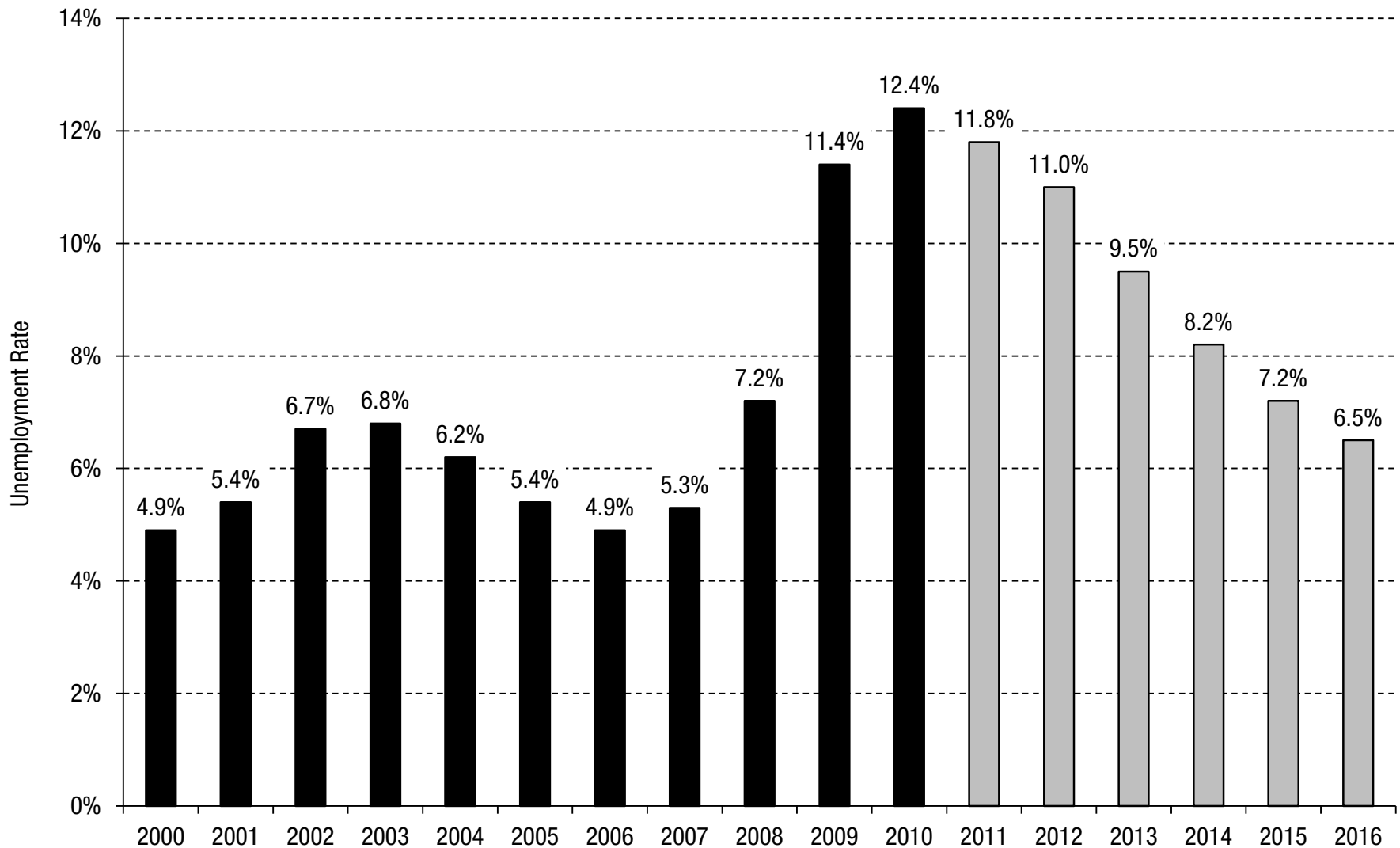
California's Families and the State Budget Will Continue To Face Challenges in the Wake of the Great Recession.

The Number of Long-Term Jobless Remains Seven Times Higher Than It Was Before the Recession Began



Note: Data reflect 12-month averages ending in the month displayed.
Source: Employment Development Department

California's Annual Jobless Rate Is Projected To Remain At or Above 11 Percent Through 2012

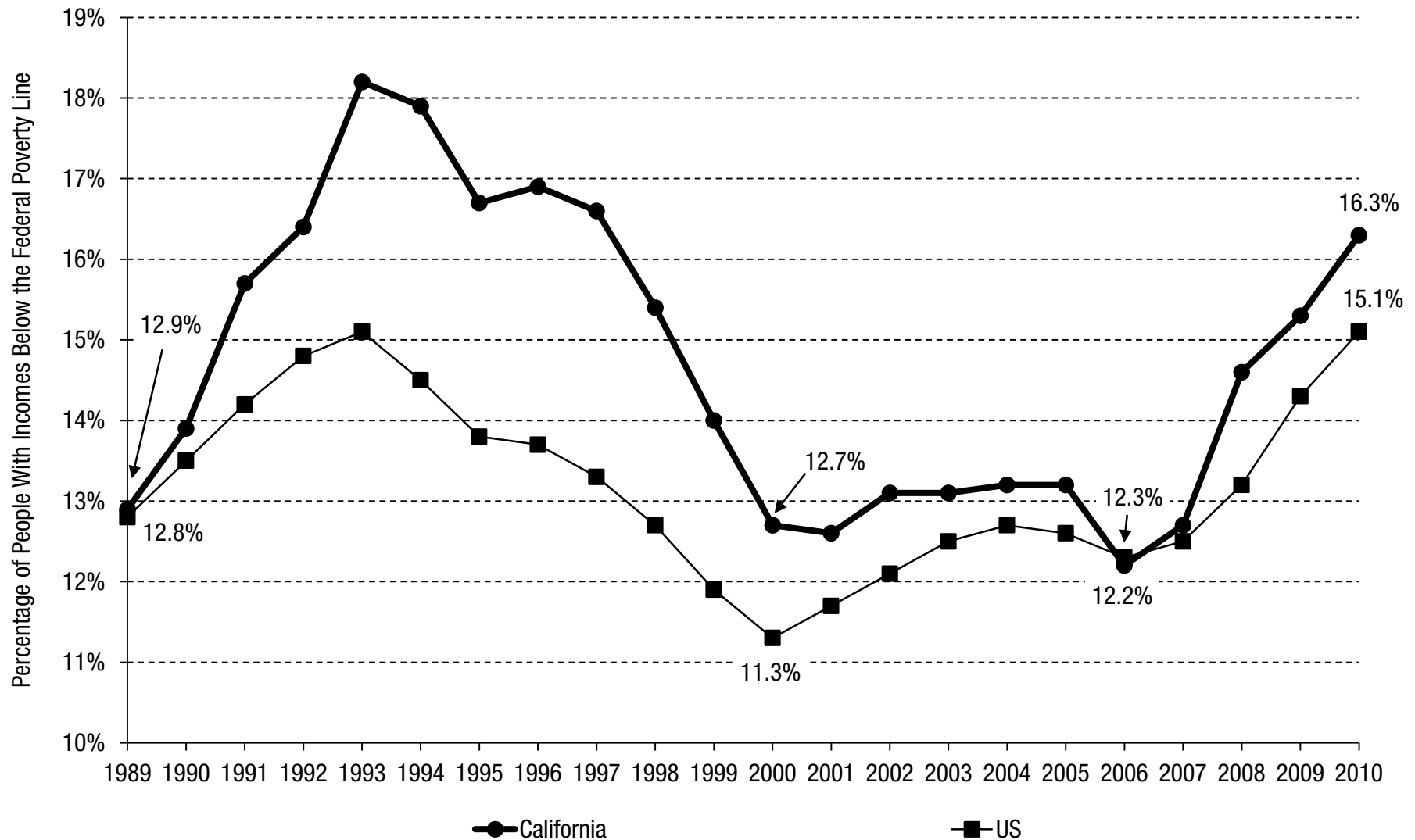


Note: 2011 through 2016 are projected.

Source: Legislative Analyst's Office and US Bureau of Labor Statistics

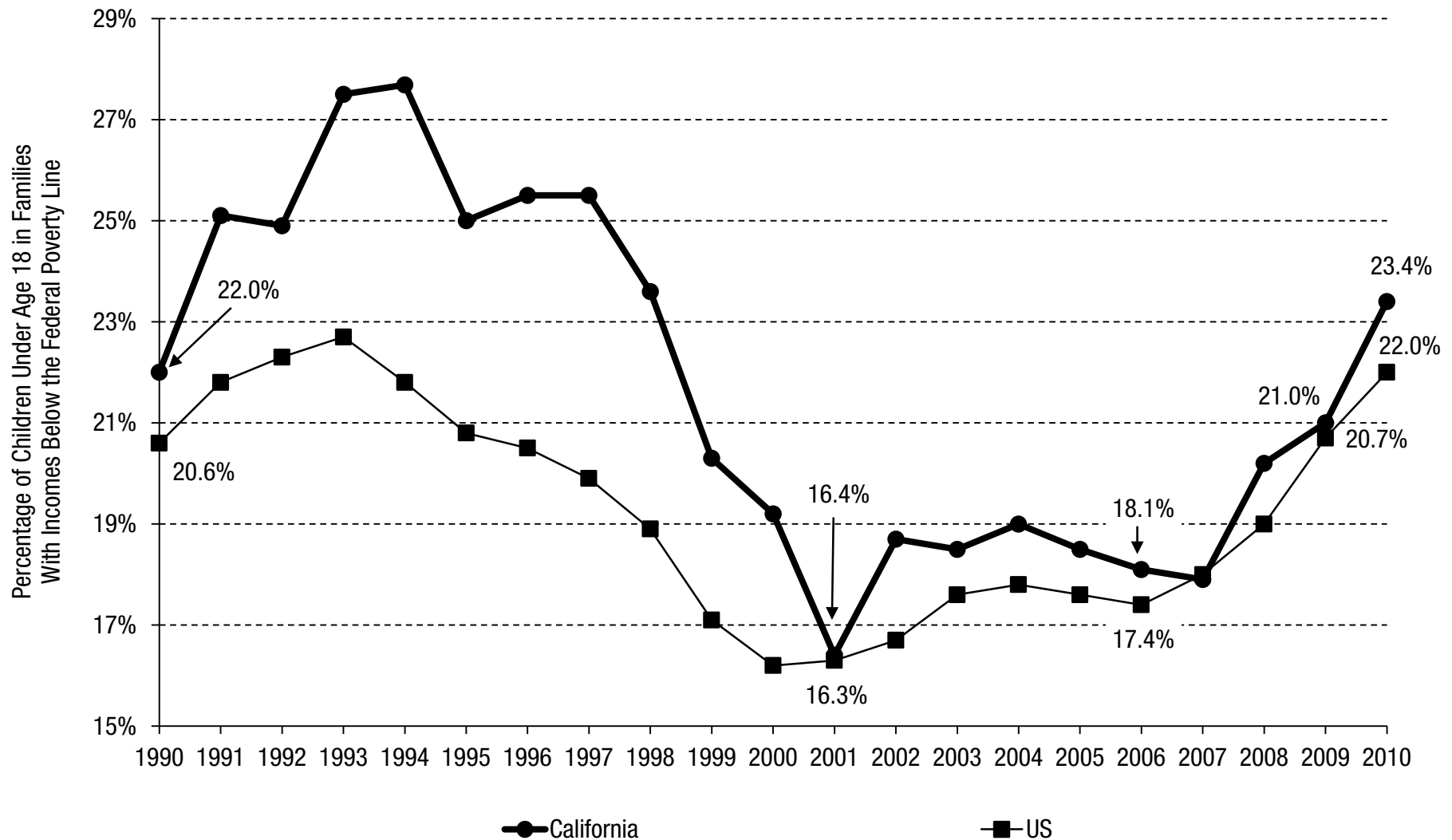
California's Poverty Rate Increased Significantly Between 2006 and 2010

The State's 2010 Poverty Rate Was the Highest Since 1997

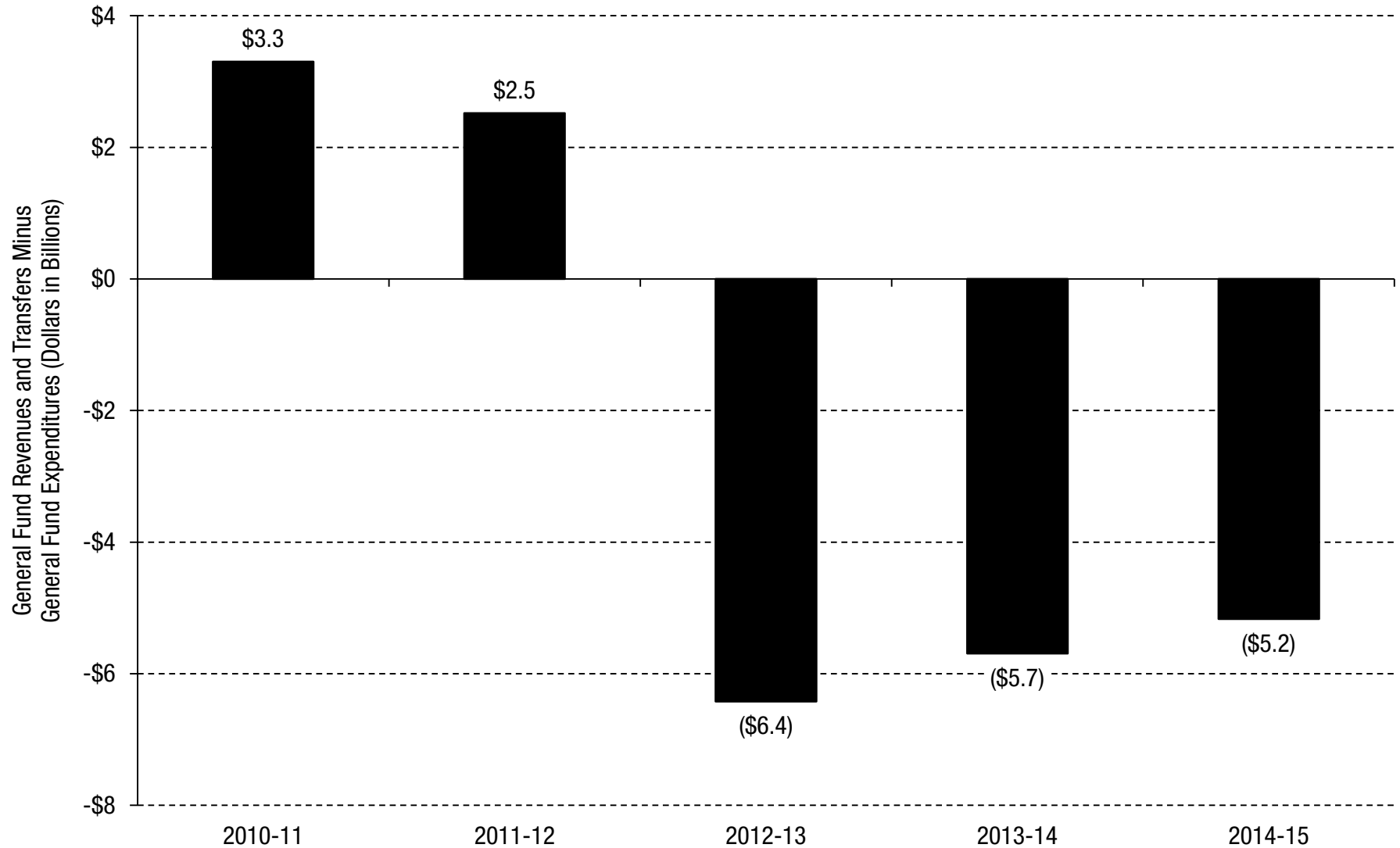


California's Child Poverty Rate Increased Significantly Between 2009 and 2010

Nearly One Out of Four California Children Lived in Families With Incomes Below the Poverty Line in 2010



Operating Deficits Are Projected To Return Beginning in 2012-13



Note: 2010-11 is estimated; 2011-12 through 2014-15 are projected.
Source: Department of Finance

Conclusion

- Closing California's state budget gap with a balanced approach that includes new revenues is essential in order to:
 - Preserve and strengthen programs that serve low-income families and vulnerable populations;
 - Boost investment in innovation and a skilled workforce; and
 - Lay the foundation for broadly shared prosperity in California.

Web Resources

- **California Budget Project:** Budget and policy analyses, email updates (www.cbp.org), and a blog (californiabudgetbites.org).
- **Department of Finance:** Access to the Governor's budget proposals and related documents (www.dof.ca.gov).
- **Legislative Analyst's Office:** Access to analyses on a range of state budget issues (www.lao.ca.gov).
- **State Senate:** Provides a free bill-tracking service and the ability to monitor Senate hearings and floor sessions (www.sen.ca.gov).
- **State Assembly:** Provides the same services as the Senate's website (www.assembly.ca.gov).
- **Legislative Counsel:** Provides a free bill-tracking service and the ability to search California Codes (www.leginfo.ca.gov).
- **California State Homepage:** Gateway to agency information and data (www.ca.gov).