CALIFORNIA BUDGET PROJECT

The California Budget

The Top Ten Budget Myths...and the Truth

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A PRESENTATION BY
THE CALIFORNIA BUDGET PROJECT
March 2010

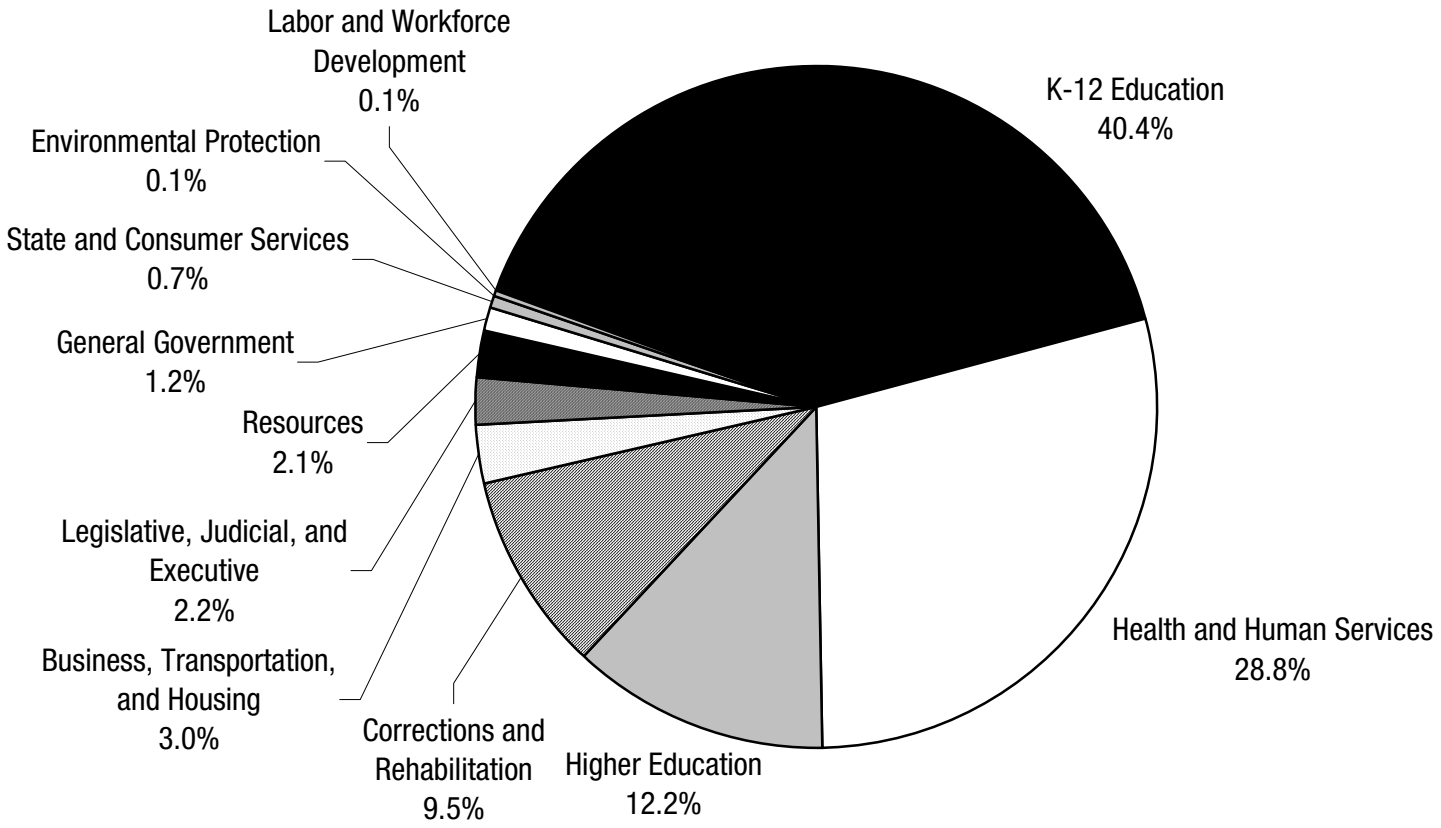
Myth : The Largest Share of the State Budget Goes To Prisons

The Facts:

- The State spends more than four times as much on K-12 education as it does on corrections and one and one-quarter times as much on higher education as it does on corrections.
- The state spends three times as much on health and human services as it does on corrections.

K-12 Education Accounts for the Largest Share of 2009-10 Spending

General Fund Spending by Agency



Enacted 2009-10 General Fund Expenditures = $86.8 Billion

Note: Does not reflect $2.184 billion expenditure reduction. Based on the 2009-10 Enacted Budget.
Source: Department of Finance

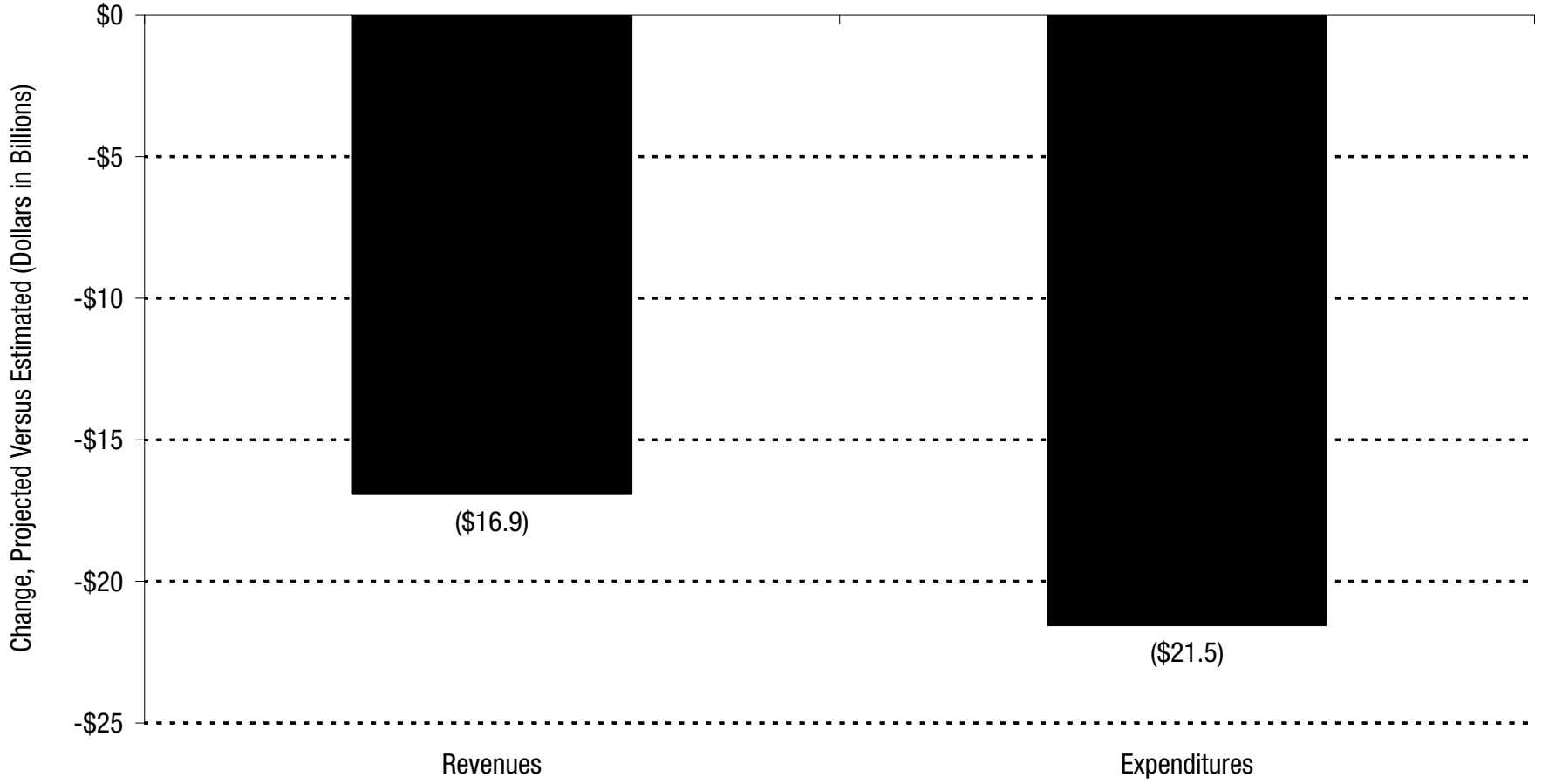
Myth: State Spending Is Out of Control

The Facts:

- Current year spending is $16.9 billion below 2007-08 levels and Proposed 2010-11 spending is $20.1 billion below 2007-08 levels.
- 2009-10 General Fund spending is $21.5 billion below the baseline level projected by the Legislative Analyst's Office in 2004.
- As a share of the state's economy state spending is at its lowest levels since the early 1970s.

General Fund Revenues and Spending Both Are Significantly Below Projected Levels

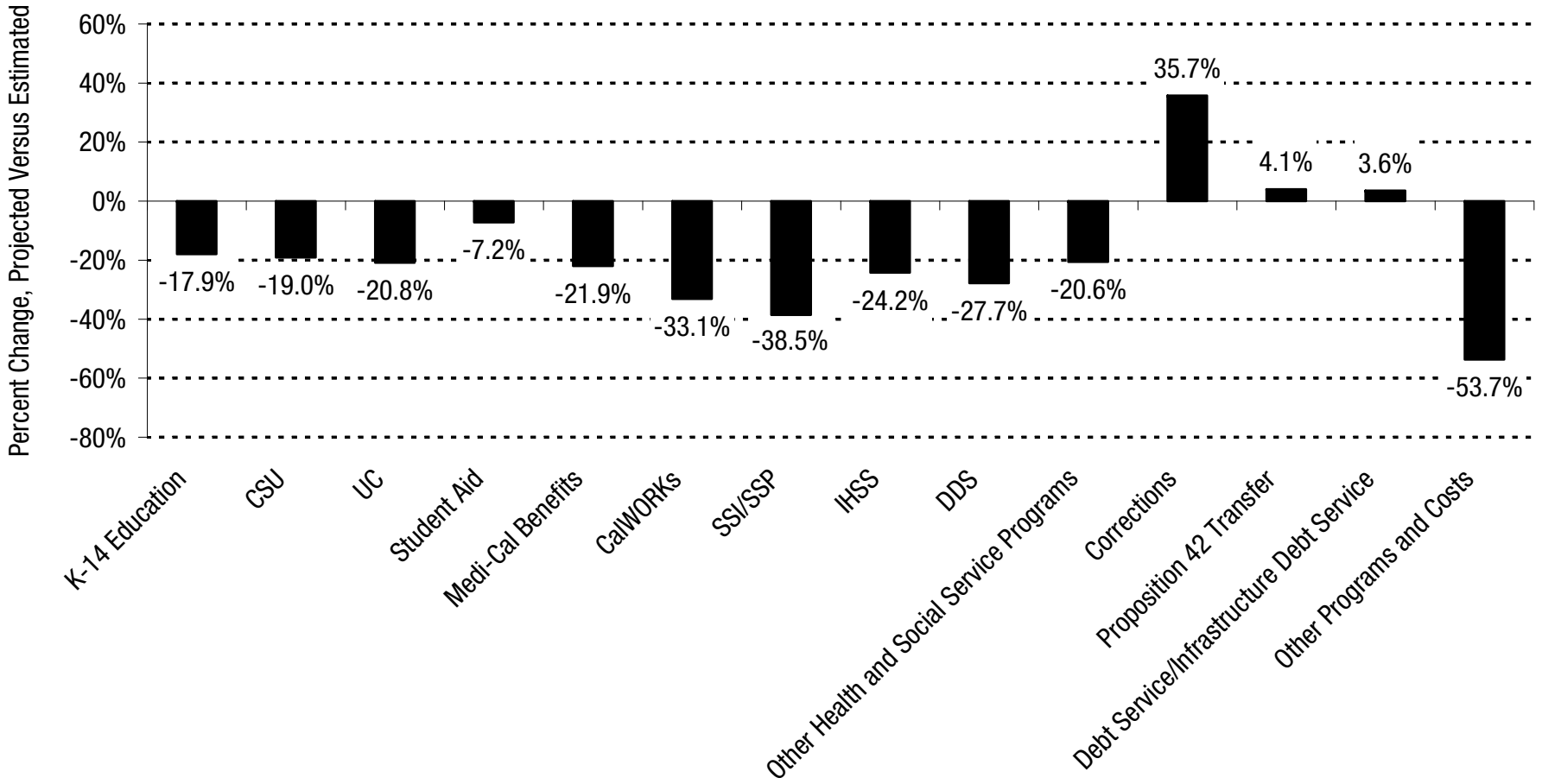
2009-10 General Fund Revenues and Expenditures as Projected in November 2004 Compared to 2009-10 as Estimated in November 2009



Source: Legislative Analyst's Office

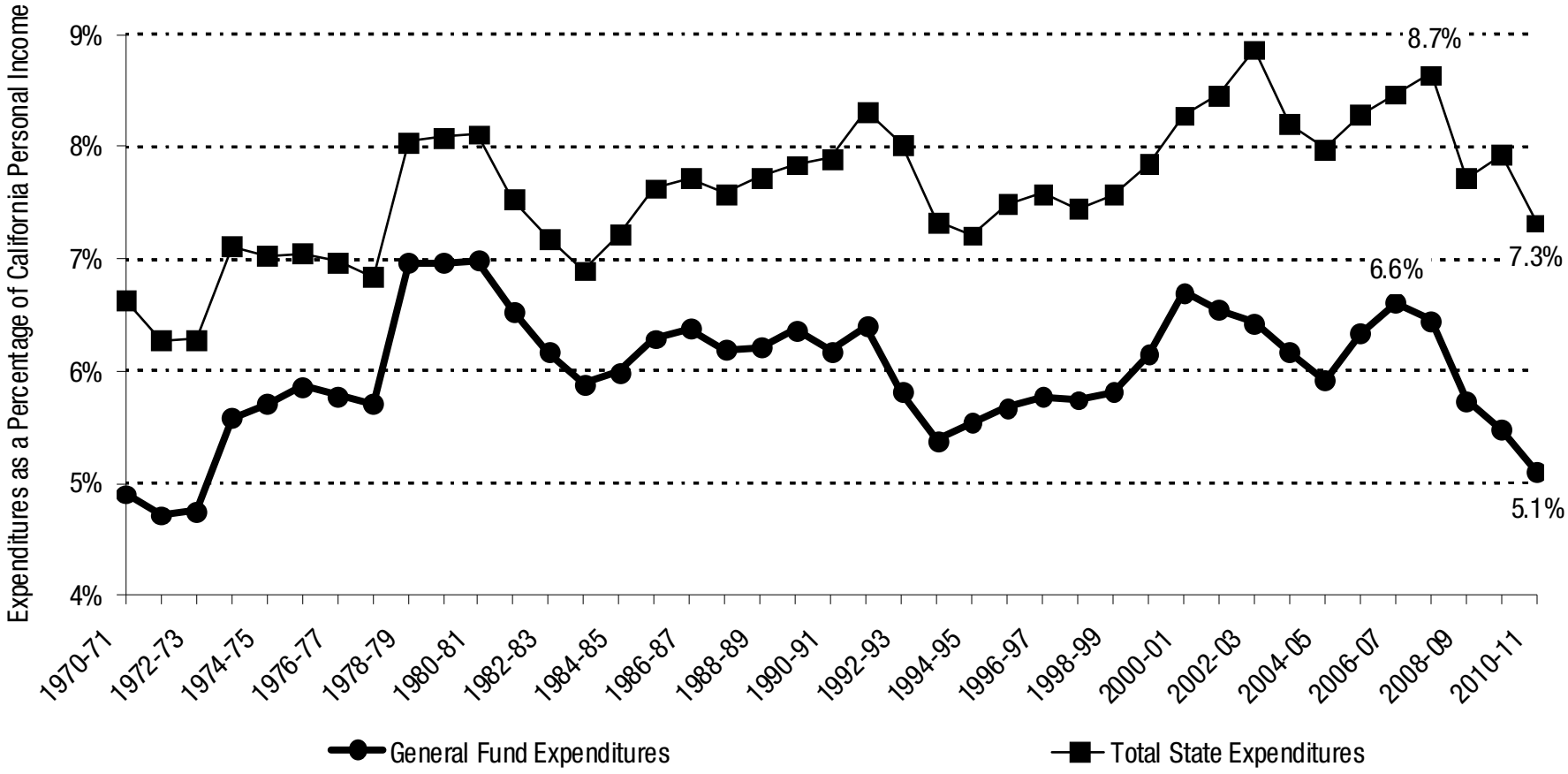
Growth in Corrections and Infrastructure Spending Have Exceeded Projected Levels

2009-10 General Fund Expenditures as Projected in November 2004 Compared to 2009-10 Expenditures as Estimated in November 2009



Source: Legislative Analyst's Office

State Spending as a Share of Personal Income Has Declined Significantly in Recent Years and Would Drop Further Under the Governor's Proposed 2010-11 Budget



Note: Spending is estimated for 2009-10 and proposed for 2010-11.
Personal income is projected for 2009-10 and 2010-11.
Source: CBP analysis of Department of Finance and US Bureau of Economic Analysis data

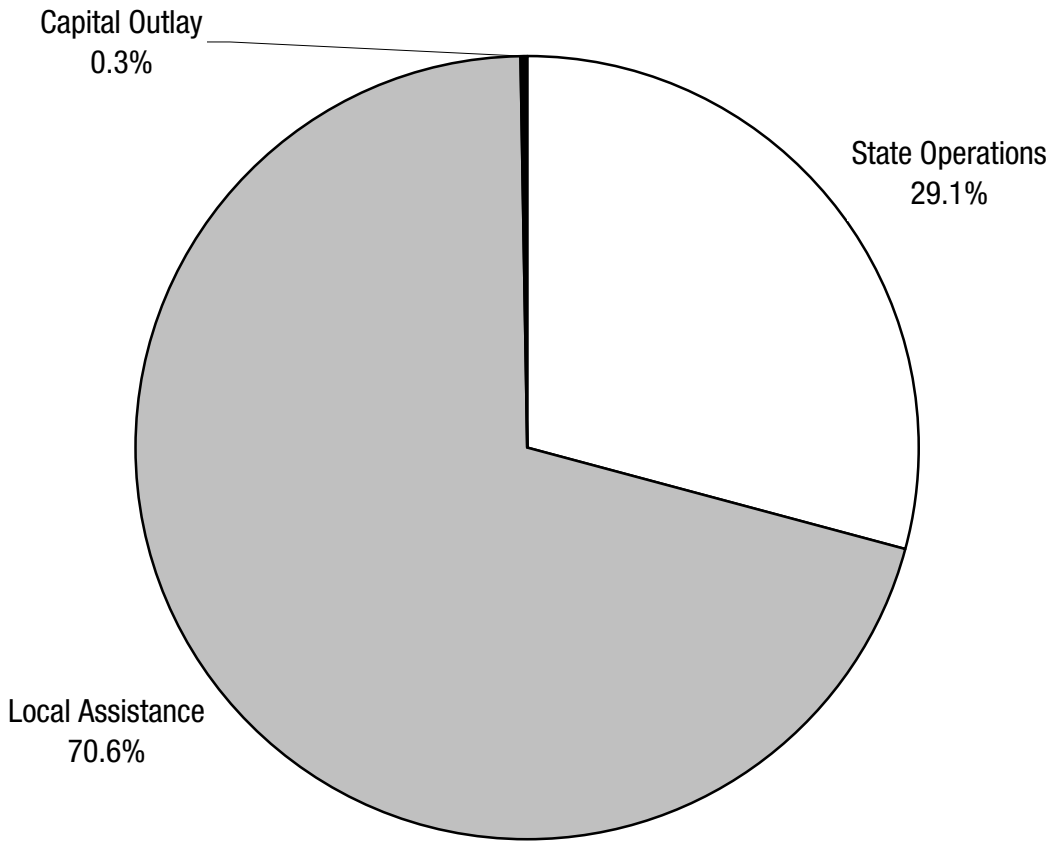
Myth: The Budget Can Be Balanced By Cutting "Waste, Fraud, And Abuse"

The Facts:

- More than two-thirds of General Fund spending goes to schools, local governments, individuals, and health care providers.
- California's overall spending levels are moderate in comparison to those of other states.
- State spending is low in major programs areas, such as health and education, in comparison to other states.

Most State Dollars Go to Local Communities and Individuals

2010-11 Proposed General Fund Spending



Note: Excludes unclassified spending.
Source: Department of Finance

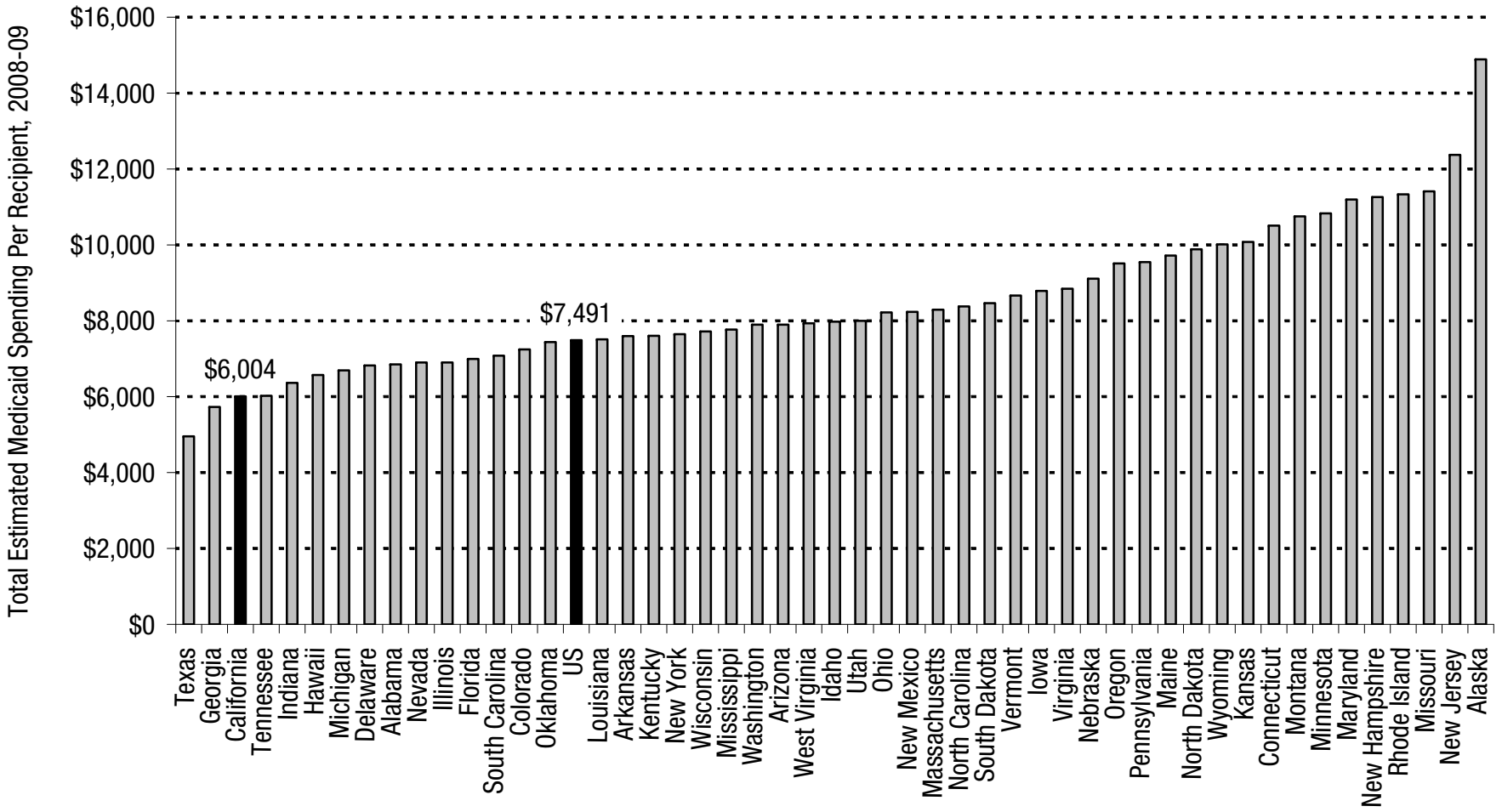
How Does California's Spending Compare?

Spending as a Percentage of State Personal Income, 2008-09

	California Rank	California	US
Total Expenditures	23	15.56%	14.37%
General Expenditures	27	13.17%	12.45%
Corrections	5	0.56%	0.41%
Highways	40	0.77%	0.89%
Hospitals	24	0.43%	0.44%
Natural Resources	12	0.31%	0.19%
Parks and Recreation	42	0.03%	0.05%
Police Protection	30	0.10%	0.11%

Source: US Bureau of Economic Analysis and US Census Bureau

California's Spending Per Medi-Cal Enrollee Is Among the Lowest Nationwide



Note: Number of recipients is for December 2008. Medicaid spending for 2008-09 is estimated.
Source: Kaiser Family Foundation and National Association of State Budget Officers

Myth: California's Schools Don't Have a "Money Problem"

The Facts:

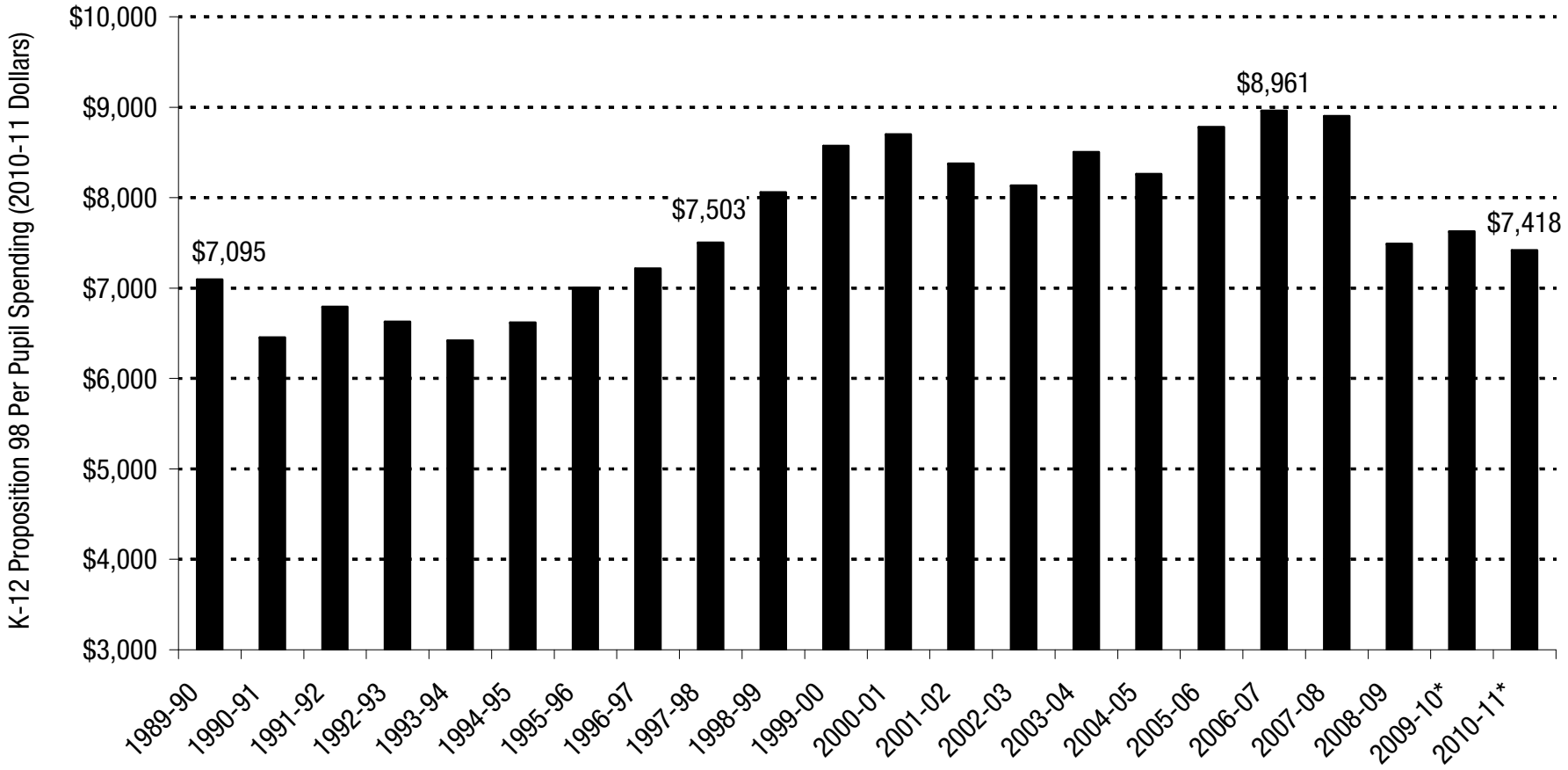
- By all measures, California's schools rank near the bottom in terms of per pupil spending.
- Under the Governor's budget proposals, 2010-11 per pupil spending would be $1,543 less than in 2006-07, after adjusting for inflation.

How Do California's Schools Compare?

	California Rank	California	US
K-12 Per Pupil Spending (2009-10)	45	$8,825	$11,052
K-12 Spending as a Percentage of Personal Income (2008-09)	46	3.3%	4.1%
Number of K-12 Students Per Teacher (2009-10)	51	21.3	14.4
K-12 Per Pupil Spending, Adjusted for Regional Cost Differences (2006-07)	46	$8,164	$10,557
Percentage of K-12 Students in Districts With Adjusted Per Pupil Spending at or Above the US Average (2006-07)	21	34.6%	40.5%
Percentage of High School Students Who Graduate With a Diploma (2005-06)	36	67.5%	69.2%

Source: Education Week, National Education Association, and US Bureau of Economic Analysis

Schools Would Receive Less in 2010-11 Than in 1997-98
Under the Governor's Proposals, After Adjusting for Inflation



* 2009-10 estimated and 2010-11 proposed.
Note: Excludes one-time "settle-up" funds.
Source: Department of Finance and Legislative Analyst's Office

Myth: California Has a "Bloated" State Bureaucracy

Facts:

- California ranks 48th among the 50 states with respect to the number of state employees per 10,000 population.
- California ranks 41st with respect to the number of state and local government employees per 10,000 population.

California Has Relatively Few Public Employees

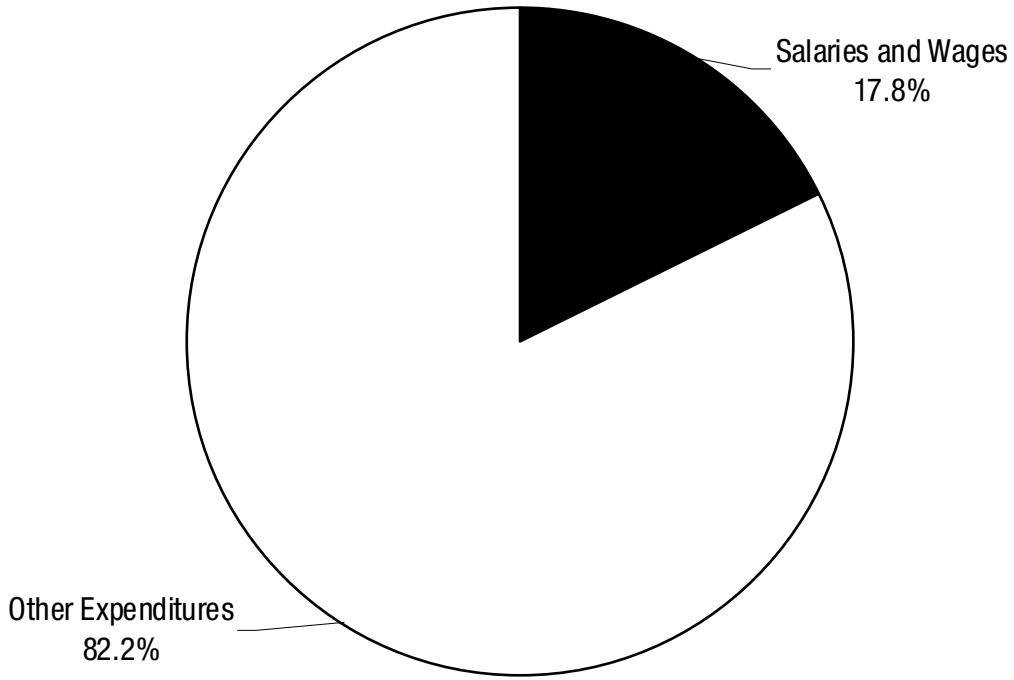
Full-Time Equivalent Government Employees Per 10,000 Population

	California Rank	California	Rest of US
State Government			
1998	50	103	154
1999	50	106	154
2000	49	105	151
2001	49	108	152
2002	50	109	153
2003	48	110	149
2004	47	111	148
2005	47	108	147
2006	46	109	147
2007	48	107	148
2008	48	108	149
State and Local Government			
1998	49	474	544
1999	48	486	548
2000	46	493	539
2001	44	503	544
2002	45	510	550
2003	41	512	547
2004	45	499	544
2005	44	495	544
2006	41	505	545
2007	42	507	550
2008	41	505	553

Source: US Census Bureau

Salaries and Wages Account for Less Than One-Fifth of Total State Spending

2009-10 Estimated Spending, All Funds



Source: Department of Finance

Myth: High Taxes Are Driving Business and the Wealthy Out of California

The Facts:

- Measured as a share of the state's economy, California is a moderate tax state.
- The number of millionaire taxpayers has increased more rapidly than the number of taxpayers as a whole since the passage of Proposition 63, which imposed an additional tax rate on high-income individuals.
- There is no empirical evidence that businesses are leaving California.

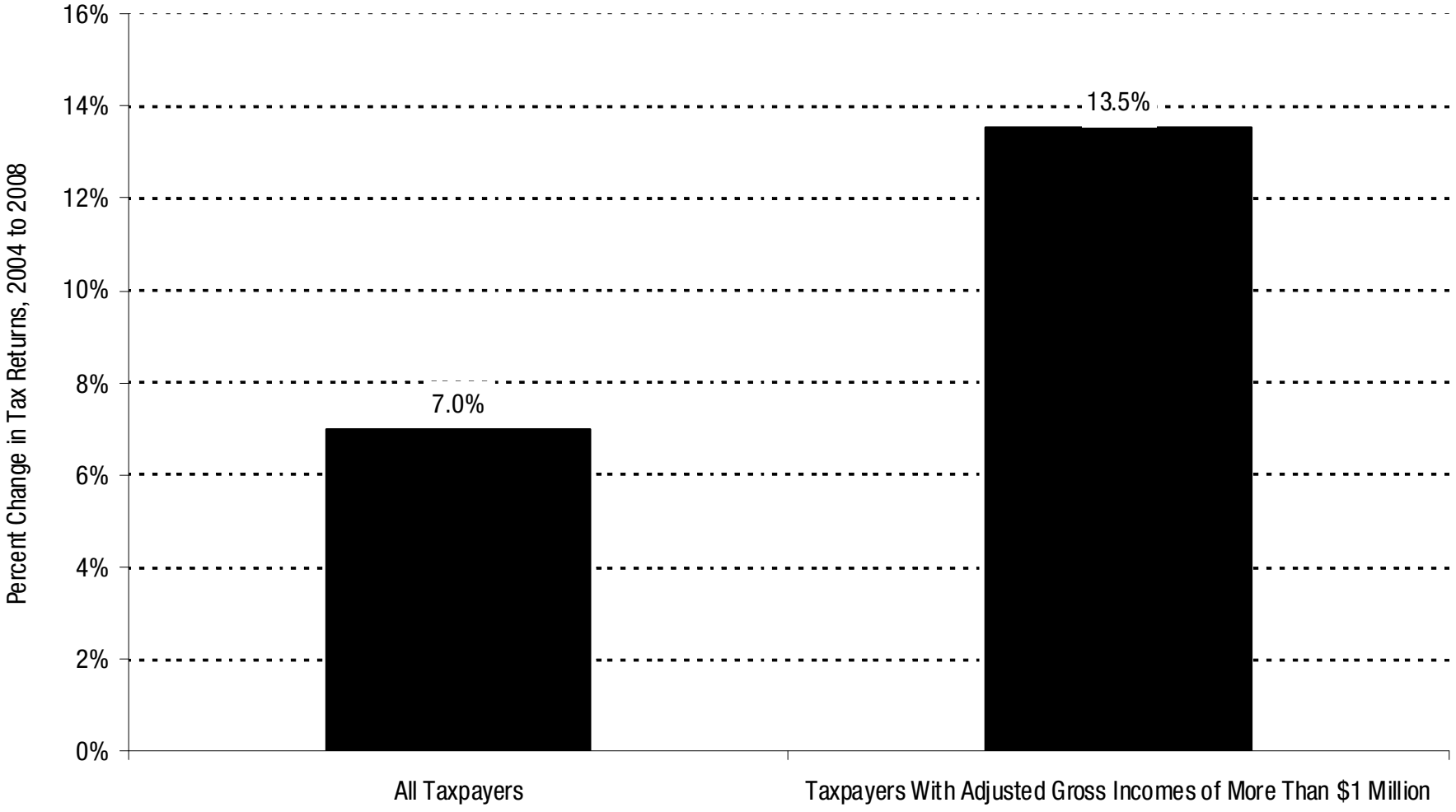
How Does California Compare?

Revenues as a Percentage of Personal Income

	California Rank	California	US
Total State and Local Own Source (2006-07)	19	16.59%	16.07%
Total State and Local Taxes (2006-07)	15	11.27%	11.00%
State Taxes (2007-08)	15	7.35%	6.47%
Local Taxes (2006-07)	29	3.79%	4.45%
State Individual Income Tax (2007-08)	6	3.49%	2.30%
State Corporate Income Tax (2007-08)	5	0.74%	0.42%
State and Local General Sales Taxes (2006-07)	18	2.73%	2.58%
State General Sales Tax (2007-08)	27	2.00%	1.99%
State and Local Property Tax (2006-07)	34	2.72%	3.31%
State Motor Fuels Taxes (2007-08)	45	0.21%	0.30%
State Tobacco Tax (2007-08)	46	0.07%	0.13%
State Alcoholic Beverage Sales Taxes (2007-08)	42	0.02%	0.04%

Source: US Bureau of Economic Analysis and US Census Bureau

The Number of Millionaire Taxpayers Has Increased Since the Imposition of the Proposition 63 Surcharge



Source: Franchise Tax Board

"...(T)here has been no substantial business exodus from California and there has been little if any change in the rate at which businesses are leaving or avoiding California...(T)he negligible role of business relocation in employment change also indicates that any public policy focus on business relocation would be badly misdirected...(E)xamination of employment trends since the mid-1990s suggests that California has been more or less in line with the rest of the nation and other western states in terms of job growth and unemployment."

David Neumark, Junfu Zhang, and Brandon Wall

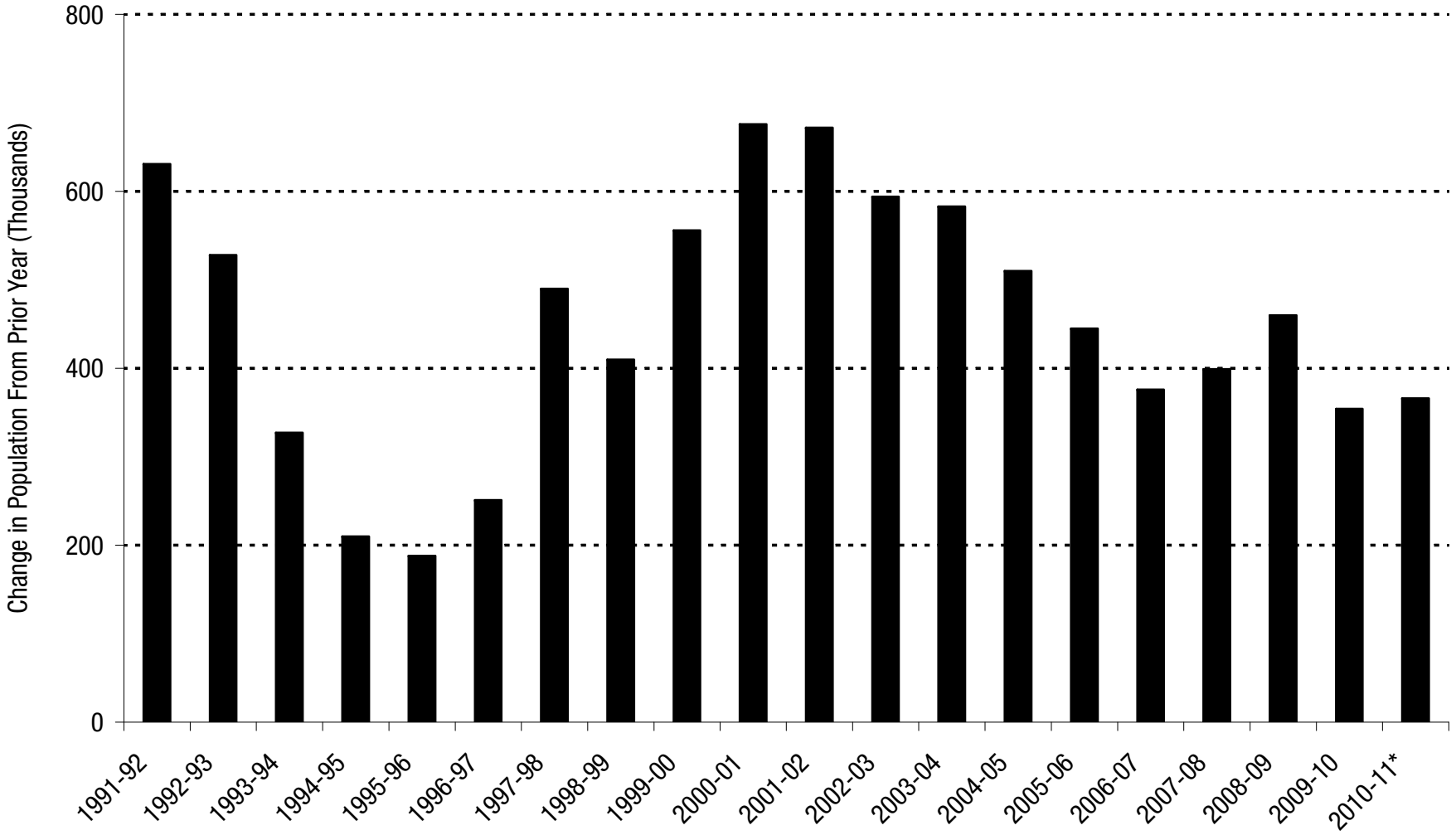
Public Policy Institute of California

Myth: California's Budget Problems are Spending Problems, Not Revenue Problems

The Facts:

- California is growing, aging, and becoming more diverse creating new demands on the budget.
- Tax cuts enacted over the past two decades have taken a large bite out of the budget and recently enacted reductions further widen state budget gaps.

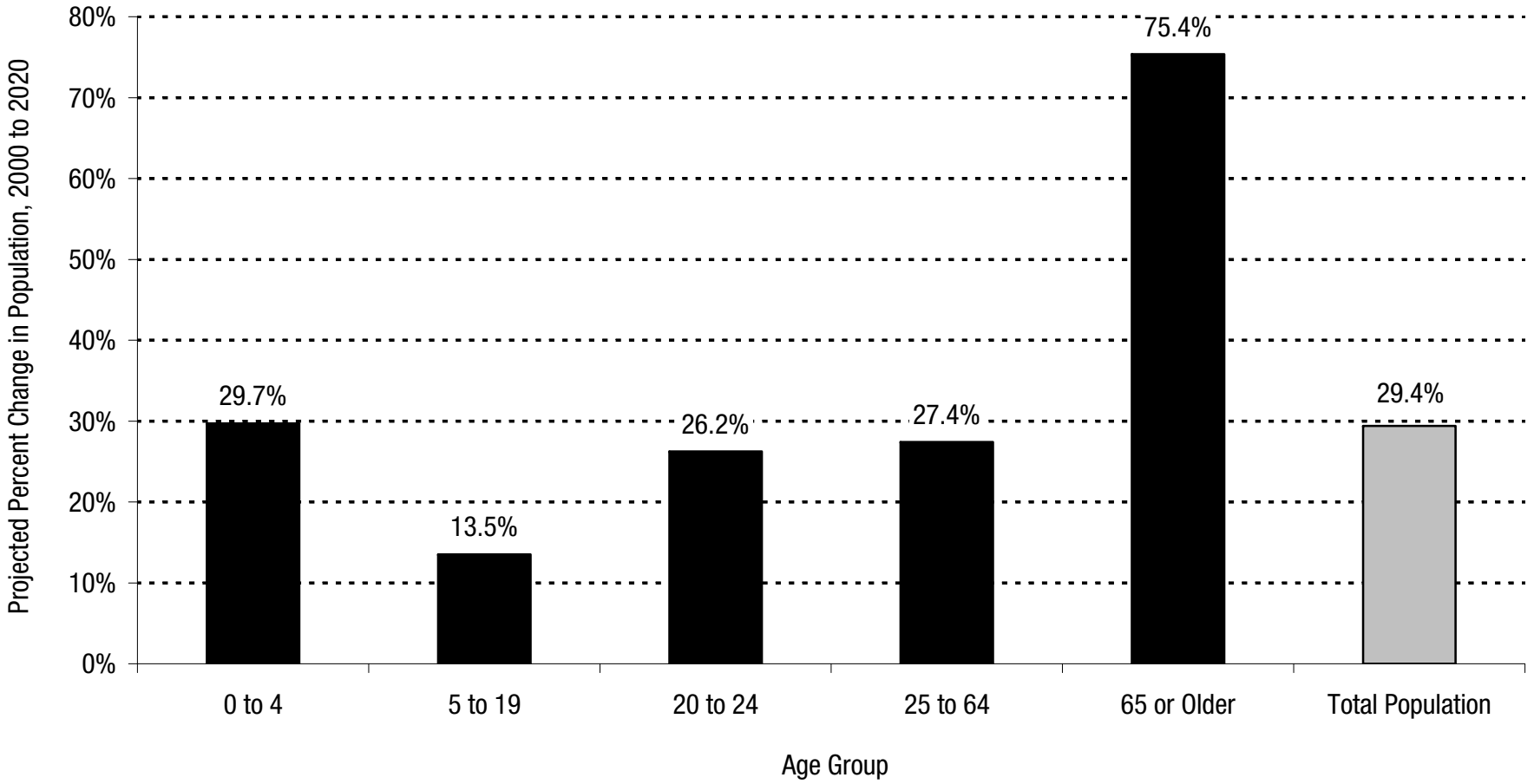
California's Population Continues To Increase



* 2010-11 projected.

Source: Department of Finance

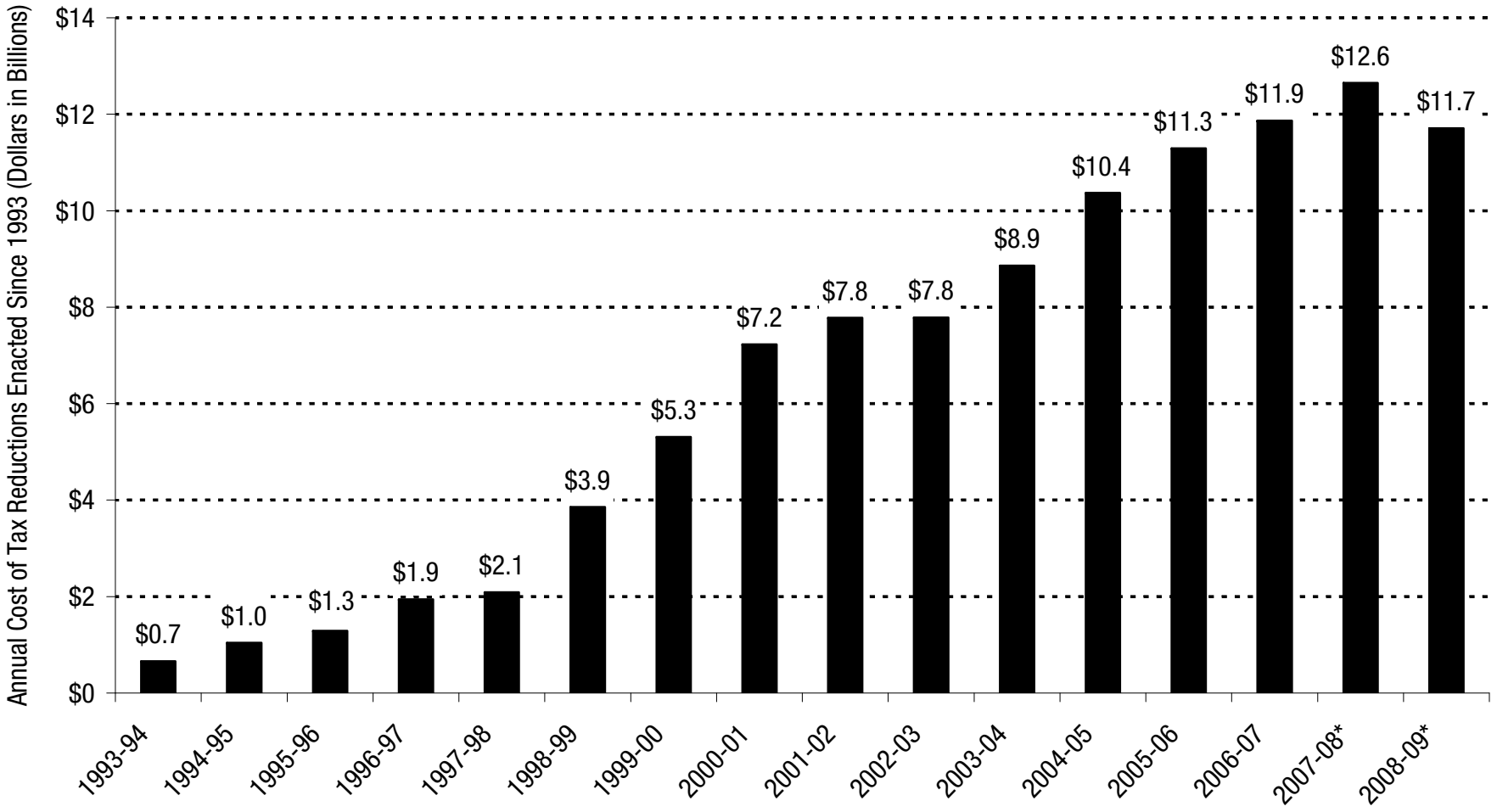
Californians Age 65 or Older Are Projected To Be the Fastest-Growing Age Group Between 2000 and 2020



Source: Department of Finance

Tax Cuts Enacted Since 1993 Will Cost $11.7 Billion in 2008-09

2008-09 Drop Reflects Suspension of Net Operating Loss Deductions

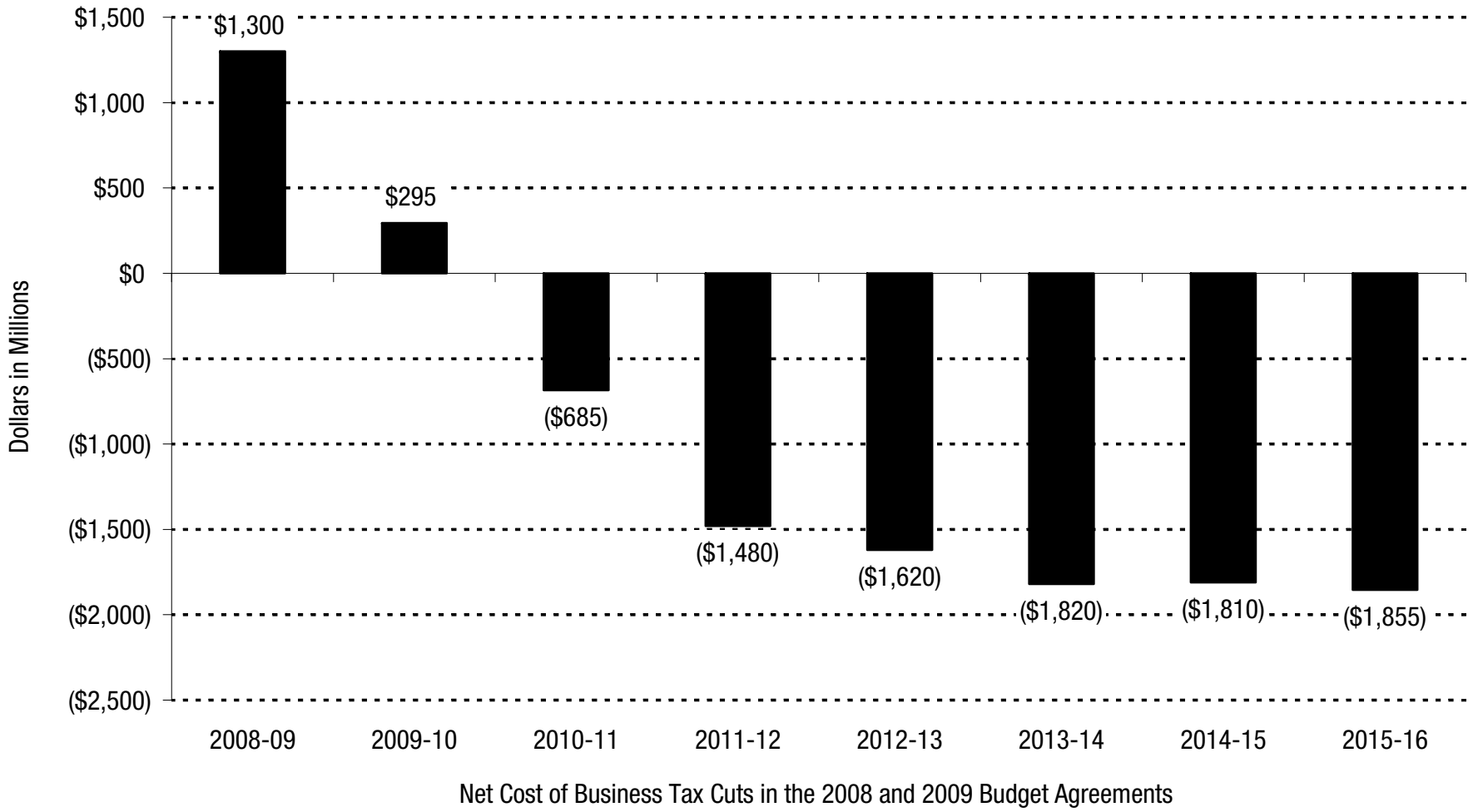


*2007-08 and 2008-09 estimated.

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

2008 and 2009 Tax Deals Will Lose Nearly $8 Billion Over Eight Years

Losses Will Continue Permanently



Source: Franchise Tax Board

Myth: Raising Taxes During an Economic Downturn Is Bad for the Economy

The Facts:

- Prominent economists argue that spending cuts are more harmful to the economy than carefully targeted tax increases.
- An analysis by Moody's.com for the Senate Human Services Committee concluded that the largest "bang for the buck" in terms of state spending would come from spending on food stamps and cash assistance.

"[E]conomic analysis suggests that tax increases would not in general be more harmful to the economy than spending reductions... (T)he least damaging approach in the short run involves tax increases concentrated on higher-income families. For states interested in the impact only on their own economy rather than the national economy, the arguments made above are even stronger. In particular, the government spending that would be reduced if direct spending programs are cut is often concentrated among local businesses...(B)y contrast, the spending by individuals and businesses that would be affected by tax increases often is less concentrated among local producers...The conclusion is that, if anything, tax increases on higher-income families are the least damaging mechanism for closing state fiscal deficits in the short run. "

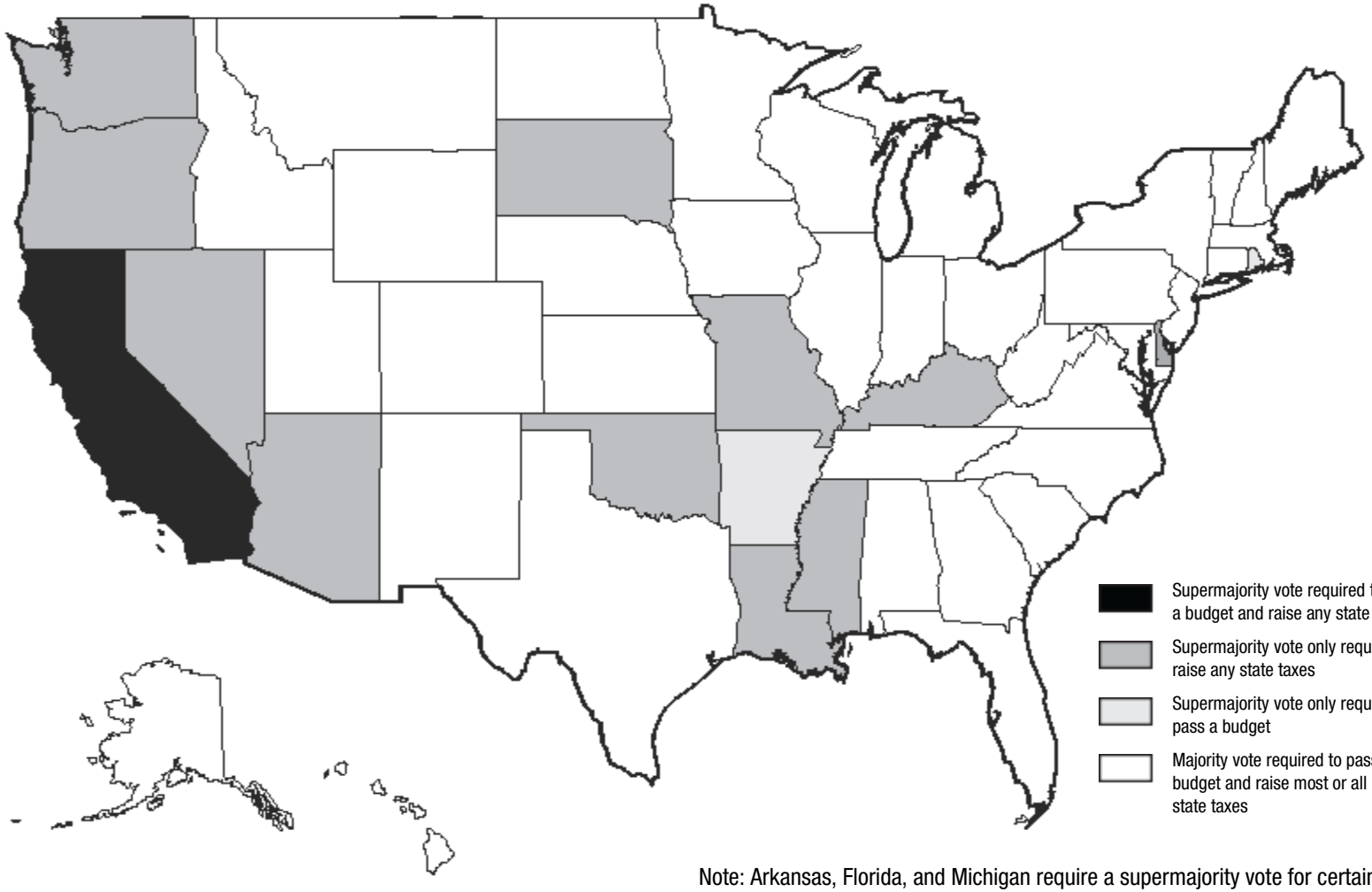
Nobel Prize winner Joseph Stiglitz of Columbia University, and
Peter Orszag, now Director of the Office of Management and Budget in the Obama Administration

Myth: There Are No Alternatives to an "All Cuts" Budget

The Facts:

- Budgets are about values and choices.
- In 2009, 24 states — including California — increased taxes to help balance their budgets. However, California's temporary tax increases begin to sunset.
- However, California is the only state in the nation to require a supermajority vote for passing a budget and any tax increase.

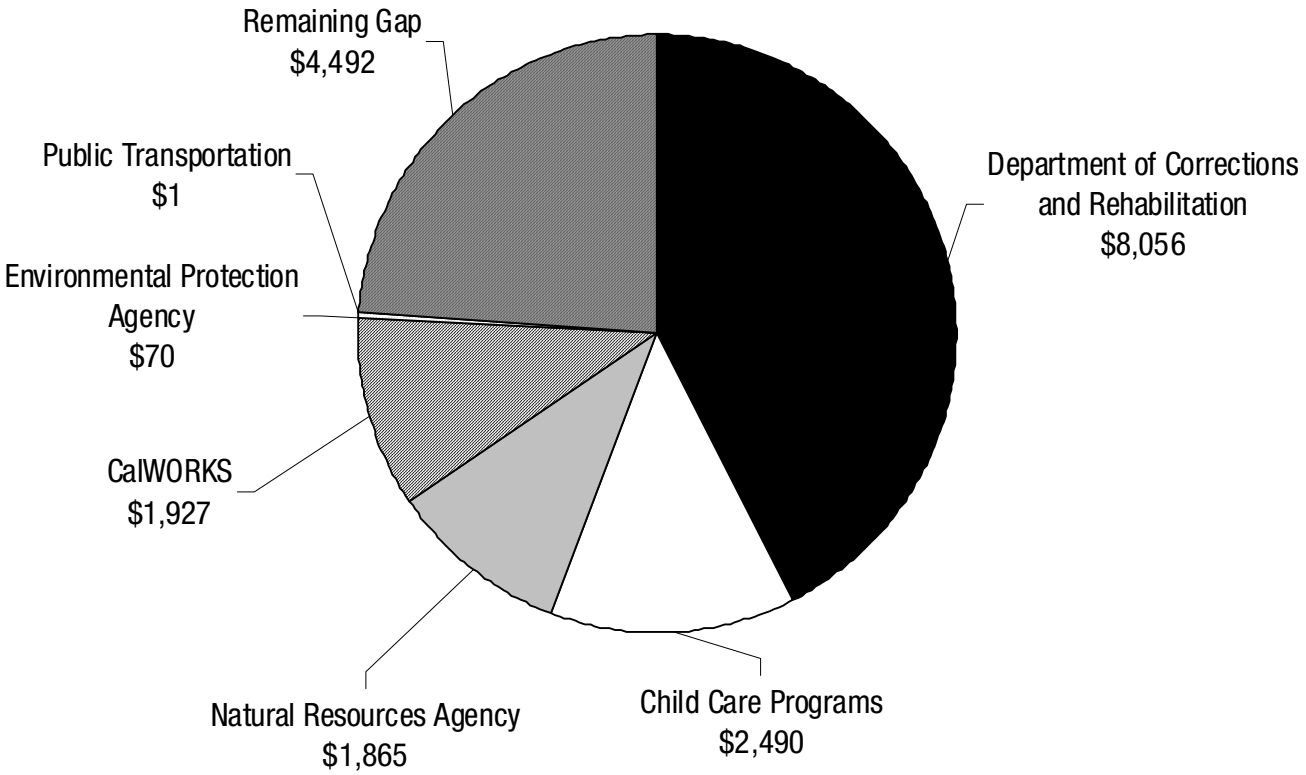
California Is the Only State To Require a Supermajority Vote To Pass Both a Budget and Any State Tax Increase



Note: Arkansas, Florida, and Michigan require a supermajority vote for certain taxes.
Source: National Conference of State Legislatures

Total Elimination of Programs Republican Voters Would Cut Still Leaves a $4.5 Billion Gap

Dollars in Millions



Total Budget Gap= $18.9 Billion

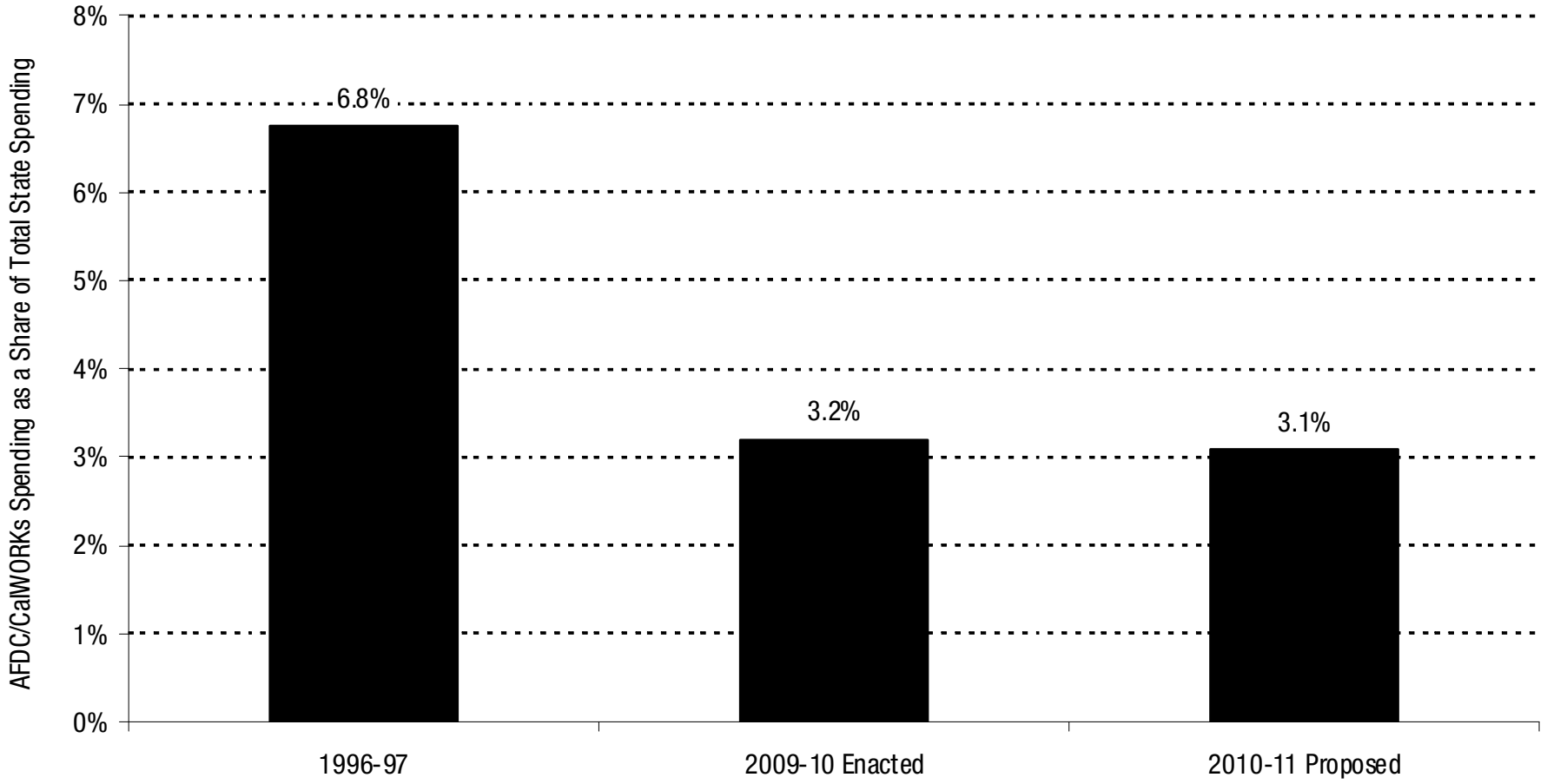
Note: Based on 2009-10 estimated expenditures.
Source: Department of Finance, Department of Social Services and the Field Poll.

Myth: Rising Welfare Costs Are a Major Source of the State's Budget Problems

The Facts:

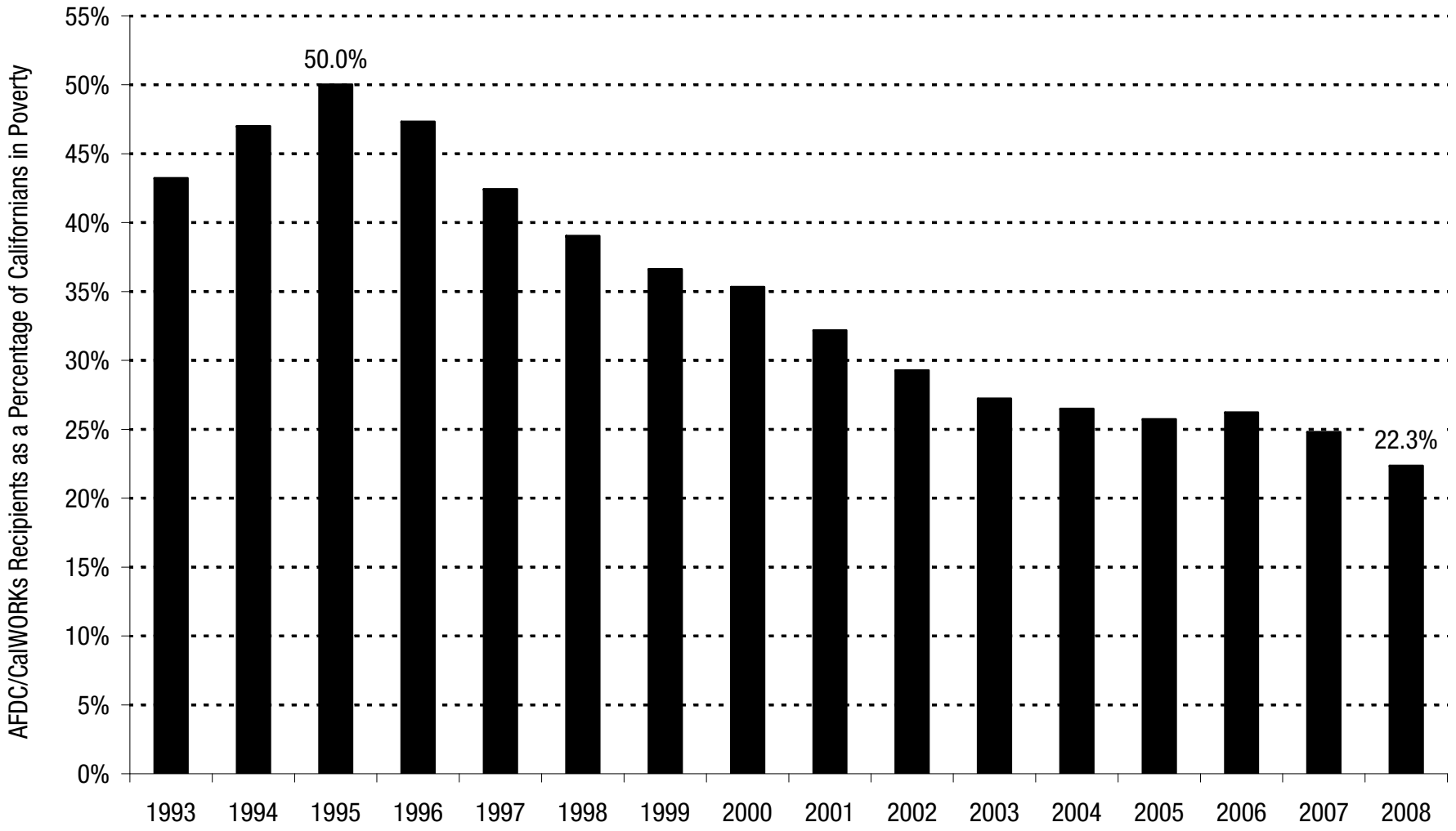
- Welfare spending dropped $349 million between 1996-97 and 2009-10, without adjusting for inflation. On an inflation-adjusted basis, spending is down by $2.5 billion.
- The share of Californians with incomes below the poverty level receiving cash assistance has dropped by more than half since 1995.

Welfare Spending as a Share of Total Spending in California Has Dropped by More Than Half Since 1996-97



Note: AFDC/CalWORKs spending includes federal, state, and county funds. Total state spending includes federal and state funds.
Source: Department of Finance and Department of Social Services

Californians in Poverty Are Less Likely To Receive Cash Assistance



Source: Department of Social Services, US Census Bureau, and US Department of Health and Human Services