

## California's Budget Realities

Popular imagination paints California as a land of high wages and high living, but many Californians—to their frustration—have a different view. The state rarely seems to have sufficient funds available to reduce its citizens' exhausting commutes, give their children smaller and more effective K–12 classes, or provide housing that a middle-income family can afford. Some blame Californians' antipathy to taxation. Others point to endemic government waste of tax revenues. And when they look into the state's budget processes with an eye to reform, Californians are confronted with a dense web of fiscal mandates and restrictions that seem as contradictory as they are complex. This makes it difficult to see, from a broad perspective, exactly how money comes and goes, what good it's doing, and where in the process there might be some room to make changes.

In *Fiscal Realities: Budget Tradeoffs in California Government*, the authors shine new light on the often obscure finances of state and local budgets, lay out the explicit and implicit priorities that those budgets imply, and suggest what might happen if those priorities were shifted to reflect public sentiment. Tracy M. Gordon, Jaime Calleja Alderete, Patrick J. Murphy, Jon Sonstelie, and Ping Zhang examine revenues and spending in every major budget category—including K–12 education, health services, public safety, higher education, transportation, environment and housing, social services, and government administration. They then compare those revenues and spending to those in other, similar states and in the nation as a whole. Captured in broad relief this way, rather than through the minutiae of individual program line-items, the report seeks to make it easier to gauge the potential effect of changing priorities and making tradeoffs, should Californians decide to do so.

“What kind of a state do Californians want and what are they willing to pay for?” is the question the authors pose and then set out to answer.

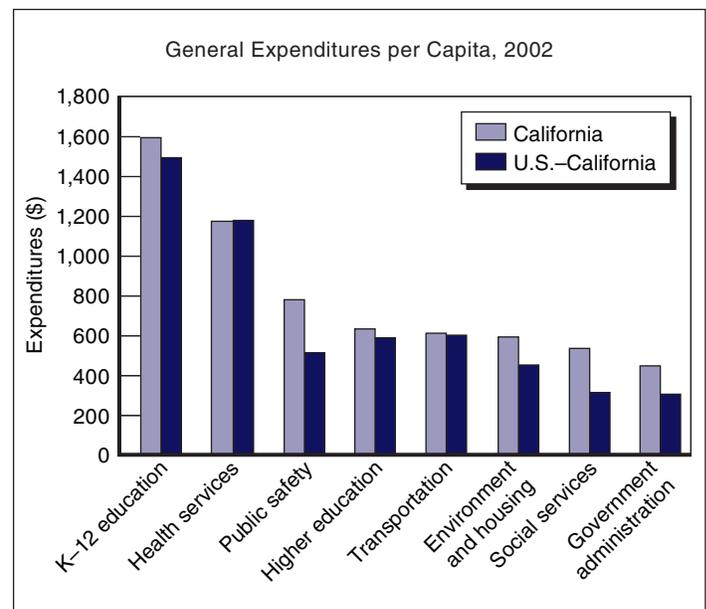
### *Tax Revenues Above Average—But So Are Costs*

Californians pay more in taxes than many residents in similar large states and the rest of the country. In 2002, the

year the report focuses on, California state and local governments raised \$5,099 in taxes and fees per state resident, compared to an average of \$4,530 in the United States excluding California, \$6,232 in New York, \$4,480 in Illinois, \$4,299 in Florida, and \$3,969 in Texas.

The way that California collects those revenues differs from that of other states as well—a legacy of Proposition 13 and the state's highly progressive personal income tax. California depends on property tax revenues for about a quarter of its tax revenues and on income taxes for about 32 percent. (The rest comes from sales and corporate taxes and certain fees.) Those proportions are reversed in other states, where property taxes supply a greater proportion of government revenues than income taxes.

California also spends more than other states on public services. California's total annual per capita spending is \$8,386 versus \$6,939 in the rest of the nation. The difference between what Californians pay and what residents of other states pay is particularly noticeable in the areas of public safety (\$266 more), social services (\$222 more), environment



and housing (\$142 more), and government administration (also \$142). In only one area, health care, do Californians pay about the same as residents of other states.

Why are these costs so much higher in California than in other states? The answer varies for different areas of spending, but the sheer size of the state's population is a significant factor—the state must provide services to more people. In K–12 education, for example, the state spends more per resident than the average in all other states, \$1,592, compared to \$1,489. But California has more students than any other state. As a result, spending per pupil in California is slightly below the average in the rest of the nation, \$7,391, compared to \$7,523. California also pays its teachers more than any other state, an average of \$54,348. Of course, all employers in California, including school districts, must pay more to cover a higher cost of living, but this does not explain all of the teacher salary differential. And again, the size of the student population and high teacher salaries does not mean that those teachers are able to spend more time with each student. To the contrary, 49 teachers in California are spread out among 1,000 students, compared to 65 teachers per 1,000 students in the rest of the country.

Public safety, social services, and government administration are other areas where California spends noticeably more than other states. For example, in 2002, 9 percent of all local and state expenditures in California were devoted to public safety, compared to 7 percent in the rest of the nation—even though the number of prison inmates per capita in California is among the lowest of large states. The size of the state's population explains some of these amounts, but labor costs represent the most important component of operating expenses. As in the case with teachers, the differential between wages paid here and wages paid in other states is not entirely explained by the need to compensate employees for living in a high-cost state. Similarly, in 2002, spending on social services

(which includes direct assistance payments to poor families as well as subsidized services) in California amounted to 6 percent of total state expenditures, compared to 4 percent in the rest of the country, because more people receive more generous welfare benefits (only one of several social services programs considered). However, because the money must be spread among more people, the average payment per person is not as high.

## *Tradeoffs*

Surveys by PPIC in recent years have indicated that Californians would like to reduce class sizes and increase spending on social services and roads and infrastructure but reduce spending on correctional services. The report's authors evaluate what would need to happen to make some of these wishes reality. It would be expensive to increase K–12 teacher-student ratios to match those of other states, an additional \$430 per capita. This amount could be offset through a variety of mechanisms: For example, raising Californians' property taxes to a level that matches the average in the rest of the country could make up \$192 of that \$430. Reducing payroll costs for correctional services to an amount that matches the average in the rest of the country could make up \$24, and reductions in other nonpayroll costs for corrections could make up another \$70. Raising tuition costs and other higher education fees could provide another \$123.

The authors also examine what it might cost to raise the amount of social services poor Californians receive as well as to increase annual capital expenditures for roads and other infrastructure. These kinds of tradeoffs would have to overcome substantial legal, bureaucratic, and political barriers. They would require from voters and elected officials the kind of boldness and ingenuity that the popular imagination also envisions for California.

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*This research brief summarizes a report by Tracy M. Gordon, Jaime Calleja Alderete, Patrick J. Murphy, Jon Sonstelie, and Ping Zhang, Fiscal Realities: Budget Tradeoffs in California Government. (2007, 278 pp. \$25.00, ISBN 978-1-58213-118-4). The report may be ordered online at [www.ppic.org](http://www.ppic.org) or by phone at (800) 232-5343 or (415) 291-4400 (outside mainland U.S.). A copy of the full text is also available at [www.ppic.org](http://www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California. This study was supported with funding from the James Irvine Foundation.*