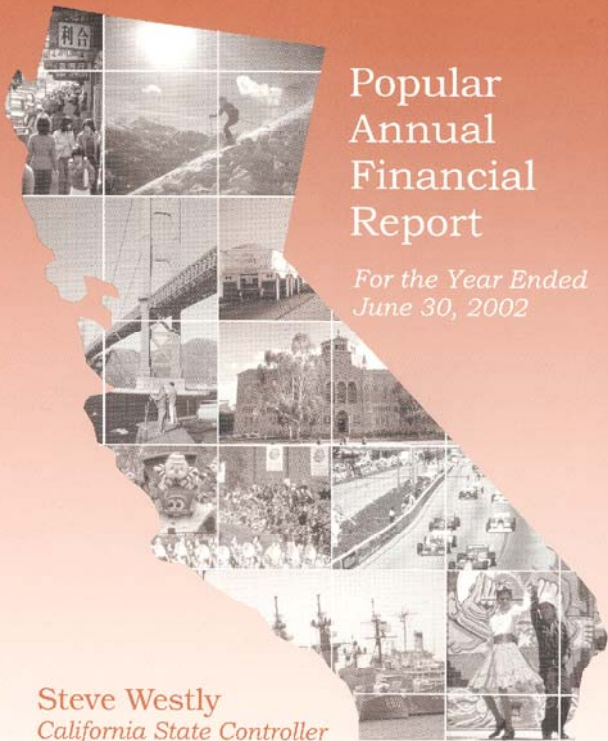


# State of California

## Popular Annual Financial Report

*For the Year Ended  
June 30, 2002*

**Steve Westly**  
*California State Controller*



# Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

**STATE OF CALIFORNIA**

For the fiscal year ending  
June 30, 2001



*William Patrick Harte*  
President

*Jeffrey L. Essler*  
Executive Director

This Popular Annual Financial Report provides the citizens of California with an overview of the state's financial condition. It presents selected basic information about the state of California's budget, economy, revenues, spending, and demographics in a nontechnical, easy to understand format.

The object of this report is to meet the State Controller's commitment to provide relevant disclosure to California taxpayers about the fiscal condition of the state, the economy and trends that affect the state's ability to meet the needs of its citizens. The report is presented in a concise, informal format. It is not intended to replace the more detailed reports prepared by the State Controller's Office. A more detailed and complete presentation of the State's financial information is contained in the Comprehensive Annual Financial Report.

Unless otherwise noted, this report uses accounting principles generally accepted in the United States of America to present financial information. This standardized method is the same or comparable to the methods used by other governmental entities in reporting financial data.

***A Message From***

**STEVE WESTLY**

California State Controller

March 19, 2003

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I am pleased to present the citizens of California with this, our fourth *Popular Annual Financial Report* of the State. The previous three reports have received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association. The award for last year's report can be seen on the inside front cover.

This report provides California taxpayers with a general overview of the State's financial condition and operations and economic trends for a five-year period. This information, presented in a nontechnical format, is intended to provide financial data that is relevant to the citizens of the state.

A booming economy in the late 1990s and 2000 allowed California to increase program expenditures and reduce certain taxes. However, the recent economic decline has created a structural mismatch between revenues and expenditures, which is estimated at \$34.6 billion through the 2003-04 fiscal year. This mismatch is illustrated by the following:



- California's per capita personal income grew by only 1.1% between 2000 and 2001, from \$32,334 to \$32,702. While the national per capita average was only \$30,472 in 2001, it grew by 2.4% over the preceding year. Also, California's nationwide ranking declined, from the state with the 8th highest per capita personal income to the 10th.
- While the number of persons employed in California grew by approximately 200,000 between 2000 and 2001, the rate of unemployment rose from 4.9% to 5.3%.
- Total revenues declined from \$125.2 billion in the 2000-01 fiscal year to \$117.7 billion in the 2001-02 fiscal year. Personal income tax revenues alone declined from \$44.6 billion to \$32.9 billion, a 26.2% drop.
- Total spending increased from \$121.2 billion in the 2000-01 fiscal year to \$133.1 billion in the 2001-02 fiscal year. The major increases were \$3.7 billion for health and human services and \$4.4 billion for education.
- The value of net assets for governmental activities declined between the 2000-01 and 2001-02 fiscal years by \$12.2 billion. Net assets for governmental activities (not including state highway infrastructure) totaled a negative \$1.7 billion at the end of the 2001-02 fiscal year.
- The 2002-03 budget contained a series of one-time fund transfers and loans, expenditure deferrals, and fund shifts. However, it is expected that the year will end with a deficit of \$6.1 billion. Without effective action, the deficit will grow during the 2003-04 fiscal year and might carry over into the 2004-05 fiscal year.

The State Controller's Office has taken actions to ensure that the State has sufficient cash, through external borrowing, to address its legal obligations. California currently has \$12.5 billion in Revenue Anticipation Notes outstanding that must be redeemed in June 2003. However, if action to address the structural deficit is delayed, the State may need to borrow in excess of this amount for the 2003-04 fiscal year.

**STEVE WESTLY**

California State Controller

# Government-Wide Financial Statements

## Governmental Activities

Starting with the 2001-02 fiscal year, new accounting standards require statements be prepared that present California's finances as a single unified entity, similar to a private-sector business. These new government-wide financial statements are prepared in addition to traditional fund-based financial statements.

Traditional reporting of governmental activities has focused on short-term receipts and disbursements and balances of spendable resources. The government-wide statements have incorporated long-term information with the short-term to provide a complete picture of the State's finances. They also account for all revenues and expenses connected with the fiscal year, regardless of when the cash was received or spent. The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities.

The Statement of Governmental Activities (Table 1) presents information showing the

change in net assets from the prior fiscal year for California's governmental activities. The net assets amount represents the difference between total assets (not including state highway infrastructure) and total liabilities.

The Statement of Governmental Activities presents a comparison between expenses and program revenues for each function of the State. Program revenues are produced or provided for use in a particular function and reduce the net expense that is financed with the State's general revenues.

The State's total net assets for governmental activities decreased by 116.2%, or \$12.2 billion, during the 2001-02 fiscal year, mainly because of a sharp decrease in personal income taxes. The total revenues supporting California's governmental expenses consisted of 58.7%, or \$69.3 billion, from general revenues (mainly taxes) and 41.3%, or \$48.8 billion, from program revenues.

**Table 1**  
**Statement of Governmental Activities**  
Year Ended June 30, 2002  
(Amounts in billions)

Functions and Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Grants and Contributions	
General government .....	\$ 8.0	\$ 4.1	\$ 1.1	\$ (2.8)
Education .....	45.9	2.3	4.6	(39.0)
Health and human services .....	53.1	2.1	26.6	(24.4)
Resources .....	3.6	1.2	0.3	(2.1)
State and consumer services .....	1.0	0.6	—	(0.4)
Business and transportation .....	7.5	2.8	2.7	(2.0)
Correctional programs .....	5.8	—	0.4	(5.4)
Tax relief .....	3.7	—	—	(3.7)
Interest on long-term debt .....	1.7	—	—	(1.7)
<b>Total governmental activities .....</b>	<b>\$ 130.3</b>	<b>\$ 13.1</b>	<b>\$ 35.7</b>	<b>(81.5)</b>
General revenues:				
Taxes .....				68.1
Investment and interest .....				0.8
Miscellaneous .....				0.4
<b>Total general revenues .....</b>				<b>69.3</b>
Change in net assets .....				(12.2)
<b>Net assets, July 1, 2001 (restated) .....</b>				<b>10.5</b>
<b>Net assets, June 30, 2002 .....</b>				<b>\$ (1.7)</b>

# Governmental Funds

## Fund Financial Statements

Governmental funds account for services provided to Californians that are financed primarily by taxes and grants. The State's General Fund, special revenue funds, and capital projects funds are combined to form the governmental fund statements.

Governmental fund statements provide short-term information about California's financial position and a comparison with previous years' information. The revenues and spending sections of this report use governmental fund statement information rather than government-wide statement information to present multi-year comparisons.

Key measures used to analyze the finances of a governmental entity are the financial position of the entity and operating results. Operating results measure the difference between receipts and spending during the fiscal year. Depending on whether spending is more or less than the receipts for the reporting period, deficits or surpluses result. The financial position shows the assets, liabilities, and fund balance on June 30.

### Operating Results

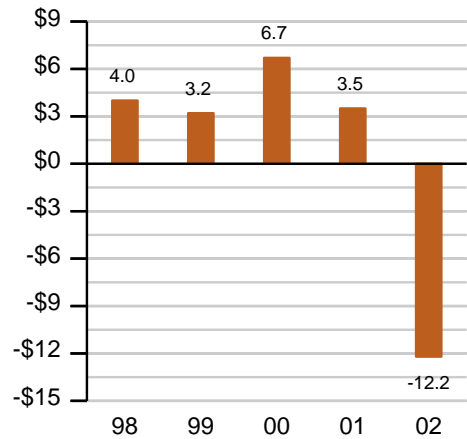
As illustrated in Chart 1, California's operating results have decreased by \$18.9 billion, from a positive \$6.7 billion for the 1999-00 fiscal year to a negative \$12.2 billion for the 2001-02 fiscal year. This decrease is a direct result of lower tax revenues due to the economic recession in 2001 and 2002.

### Fund Balance

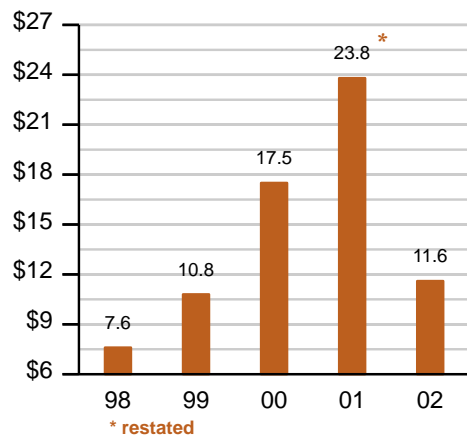
The difference between the assets and liabilities of a fund is called the fund balance. The fund balance is divided into two parts, reserved and unreserved. The reserved fund balance represents those amounts that are legally committed for encumbrances, interfund and loans receivable, and continuing appropriations. A positive unreserved fund balance represents money available to spend in the next year's budget. A negative unreserved fund balance represents an over-commitment of available money.

- During better economic times, the State's total fund balance increased from \$7.6 billion as of June 30, 1998, to a high of \$23.8 billion as of June 30, 2001. However, as of June 30, 2002, the total fund balance declined by \$12.2 billion, to \$11.6 billion (Chart 2).
- The unreserved fund balance increased to a high of \$7.0 billion as of June 30, 2001, but dropped by 185.7% to a negative \$6.0 billion balance as of June 30, 2002 (Chart 3).

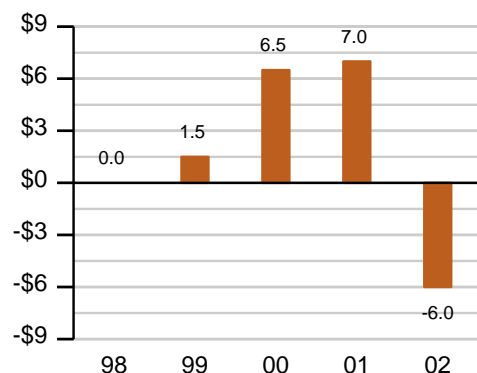
**Chart 1**  
**Governmental Funds Operating Results**  
 Year Ended June 30  
 (Amounts in billions)



**Chart 2**  
**Governmental Funds Fund Balances**  
 June 30  
 (Amounts in billions)



**Chart 3**  
**Governmental Funds Unreserved Fund Balances**  
 June 30  
 (Amounts in billions)



# General Fund Cash Management

The General Fund ended the 2001-02 fiscal year with a cash deficit before loans of \$10.4 billion, which is \$18.9 billion less than the \$8.5 billion positive cash balance on July 1, 2000 (Chart 4). The deficit was caused primarily by a shortfall in personal income tax receipts and by a delay in the sale of energy bonds that would repay \$6.5 billion loaned by the General Fund.

California manages its General Fund cash shortages through a combination of internal borrowing from other state funds and external borrowing from lenders outside of state government. The short-term external borrowing for General Fund cash purposes takes the form of Revenue Anticipation Notes (RANs) and Revenue Anticipation Warrants (RAWs). Chart 5 illustrates the variation in the monthly receipts and disbursements that results in General Fund borrowing.

On October 4, 2001, at the State Controller's request, the State issued \$5.7 billion in RANs to meet cash flow needs during the 2001-02 fiscal year. These notes were repaid on June 28, 2002.

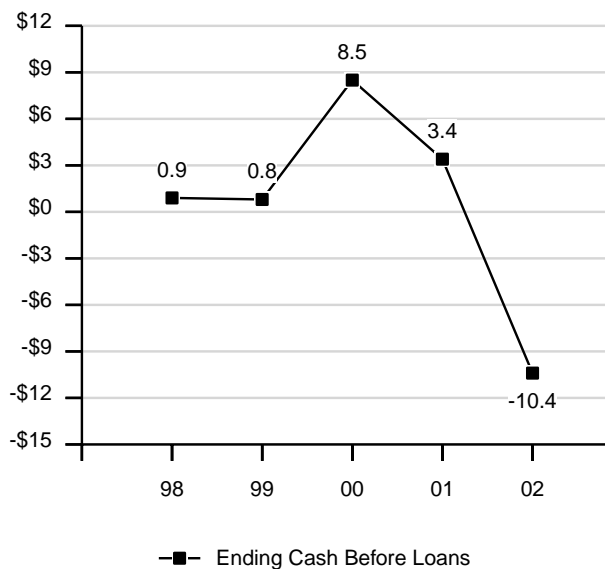
On June 24, 2002, the State Controller's Office issued \$7.5 billion in RAWs to meet cash flow needs for the early part of the 2002-03 fiscal year. The \$7.5 billion was issued in three parts, Series A, B, and C. Series A, in the principal amount of \$1.5 billion, was repaid on October 25, 2002. Series B, in the principal amount of \$3.0 billion, was repaid on November 27, 2002. Series C, in the principal amount of \$3.0 billion, was originally scheduled to mature on January 30, 2003, but was instead repaid early on November 27, 2002, resulting in savings of over \$10 million in interest expense.

On October 16 and November 6, 2002, the State issued \$9.0 billion and \$3.5 billion, respectively, in RANs to meet the cash flow needs for the balance of the 2002-03 fiscal year. The RANs are due to be redeemed at the end of June 2003.

The extent to which additional external borrowing will be needed after the RAN redemption will depend on the extent to which the structural budget shortfall in the 2002-03 fiscal year and projected shortfall in the 2003-04 fiscal year can be resolved.

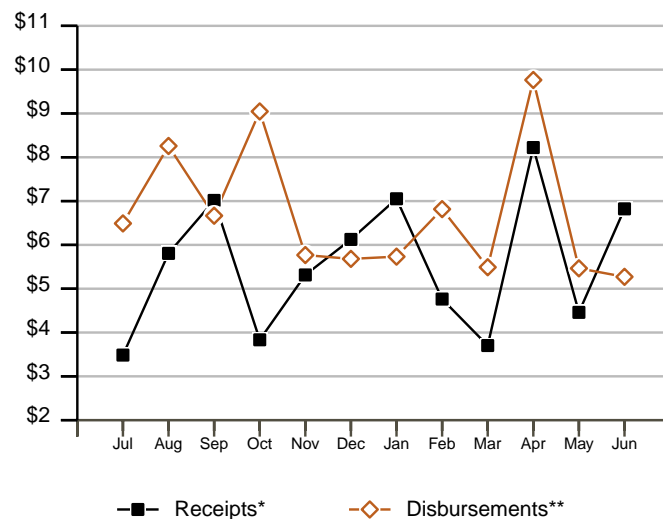
**Chart 4**  
**Ending General Fund Cash Balance Before Loans**

June 30  
(Amounts in billions)



**Chart 5**  
**Monthly General Fund Cash Receipts and Disbursements**

Year Ended June 30, 2002  
(Amounts in billions)



\* Receipts = revenues, transfers, and certain loan repayments  
\*\* Disbursements = expenditures, transfers, and certain loans

# California's Budget

Starting in 2001, California's budget has experienced serious financial difficulties. An economic recession in 2001 and 2002 resulted in a substantial deterioration of state tax revenues. Personal income taxes, which account for 48.4% of tax revenues, fell 26.2% from the 2000-01 fiscal year, mainly because of a severe drop in capital gains and stock option income.

The revenue shortfall resulted in an estimated \$23.6 billion mismatch of spending demands over state revenues for the 2001-02 and 2002-03 fiscal years. The 2002-03 Budget Act, which was not enacted until September 5, 2002, addressed the mismatch with a combination of expenditure reductions, revenue enhancements, and extensive use of one-time budgetary actions, such as fund transfers and loans, expenditure deferrals, and fund shifts. Table 2 below identifies the major actions taken in the 2002-03 Budget Act to close the budget funding gap.



State Capitol, Sacramento

**Table 2**  
**Major Actions Taken to Close**  
**the Budget Funding Gap**  
 Year Ended June 30  
 (Amounts in billions)

Major Actions	2001-02	2002-03	Total
Program cost savings .....	\$ 1.8	\$ 5.6	\$ 7.4
Increased borrowing .....	0.2	5.4	5.6
Interfund loans, funding shifts, and transfers .....	1.4	3.5	4.9
Revenue increases .....	—	2.9	2.9
Deferral of certain education disbursements .....	1.0	0.7	1.7
Assumed increased federal funds .....	0.1	1.0	1.1
<b>Total major actions .....</b>	<b>\$ 4.5</b>	<b>\$ 19.1</b>	<b>\$ 23.6</b>

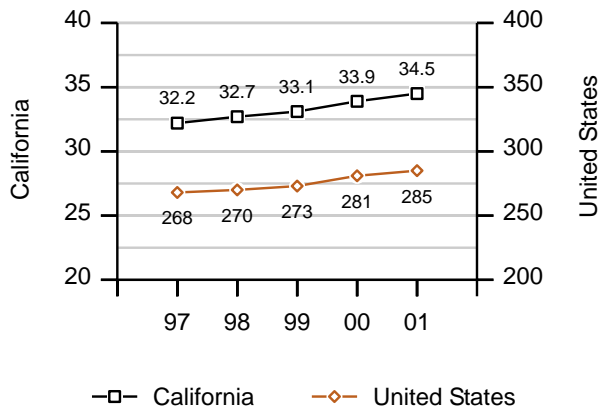
On January 10, 2003, the Governor's 2003-04 budget proposal was released, which estimated a \$34.6 billion budget shortfall through June 30, 2004. In addition to the \$10.2 billion in expenditure reductions and adjustments proposed in December 2002, the Governor proposes to balance the budget with \$11.8 billion in cuts and savings, \$8.0 billion in state-local realignment funded by revenue increases, \$1.1 billion in fund shifts, \$1.9 billion in transfers and other revenue, and approximately \$1.6 billion in loans and borrowing.

The \$10.2 billion in savings proposed by the Governor in December and the additional \$24.4 billion in savings proposed in the Governor's 2003-04 Budget are intended to resolve the total \$34.6 billion budget shortfall by the end of the 2003-04 fiscal year. It is not known which elements of the Governor's budget proposals will ultimately be enacted.

The Legislative Analyst's Office believes the Governor's proposal, if fully adopted, will result in a budget that is balanced and that addresses the long-term structural imbalance. However, balancing the budget requires all elements of the plan or similar alternatives to be enacted. If the enacted budget does not include savings of the magnitude that the Governor is proposing, the estimated budget deficit could quickly become larger.

**Chart 6  
Population**

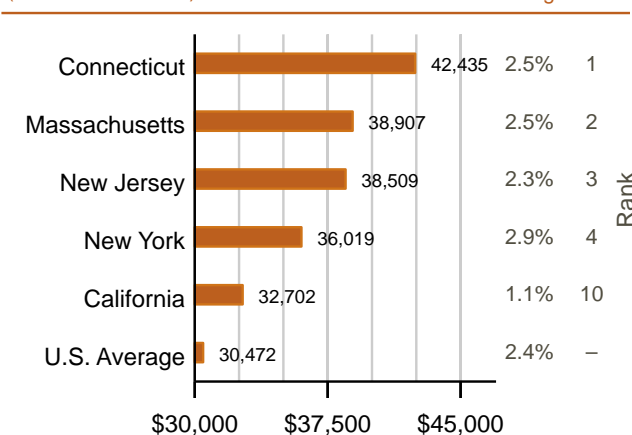
As of July 1  
(Amounts in millions)



Dunsmuir House, Oakland

**Chart 7  
Per Capita Personal Income Ranked by State  
and Percent Change from Previous Year**

Fiscal Year Ended 2001  
(Amounts in dollars)



# Economy & Demographics

California's geographic proximity to the Pacific Rim and its shared border with Mexico link its economic health to the global marketplace. These factors, coupled with trends related to the state's population, ethnic makeup, and earning abilities, highlight the success of state programs and identify areas where future needs may arise.

## Population Trends

- Between 1986 and 2001, the state's population increased by 27.3%, while the U.S. population as a whole increased by 18.8%. That means that, over the 15-year period, California's population growth has outpaced the nation's by 45.2%.
- California's population has grown by 2.3 million people, a 7.1% increase, between 1997 and 2001. Overall, the U.S. population increased by 6.3% during this same period (Chart 6).
- Between July 1, 1997, and July 1, 2001, California was the destination for 851,000 international immigrants, more than twice as many as New York, the state with the next highest number. During this same period, 291,000 California residents moved to other states, second only to New York, where 606,000 residents moved to other states.

## Personal Income

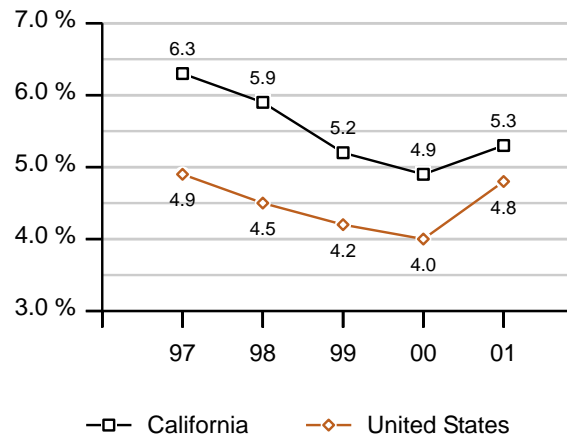
- California's per capita personal income increased by 1.1% between 2000 and 2001, which is lower than the U.S. per capita personal income increase of 2.4% (Chart 7).
- In 2000, California's per capita personal income was 8.6% greater than the national average of \$29,770. In 2001, California's per capita personal income dropped, to 7.3% greater than the national average.
- In 2001, California's ranking declined, from the state with the 8th highest per capita personal income to the 10th (Chart 7). California's per capita personal income was 22.9% less than first-ranked Connecticut. With California's economy continuing to decline, the growth in per capita personal income is expected to continue to be slower than the U.S. average in 2002.



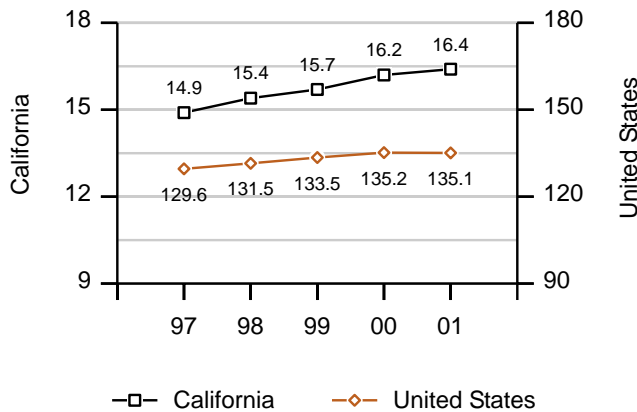
## Employment Trends

- California's unemployment rate dropped by 22.2% between 1997 and 2000, to 4.9%, while jobs grew by 1.3 million. The national unemployment rate fell by 18.4% during the same period. However, between 2000 and 2001, unemployment in California jumped by 8.2%, to 5.3%. The national unemployment rate increased by 20.0%, to 4.8% for the same period (Chart 8).
- The number of employed Californians increased by 10.1% between 1997 and 2001. During the same period, employment in the U.S. increased by 4.2%.
- In 2001, California employed approximately 16.4 million people, or 12.1% of the entire national work force, while the nation as a whole employed 135.1 million (Chart 9).

**Chart 8**  
**Unemployment Rate**  
Annual Average  
(Amounts in percent)

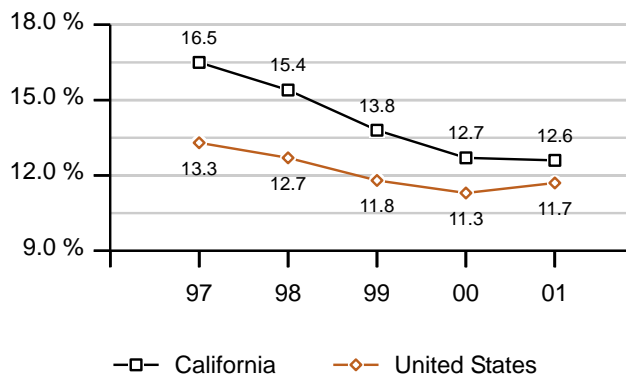


**Chart 9**  
**Employment**  
Annual Average  
(Amounts in millions)



Bonacich Apricot Orchard, Patterson

**Chart 10**  
**Population Below the Poverty Level**  
(Amounts in percent)

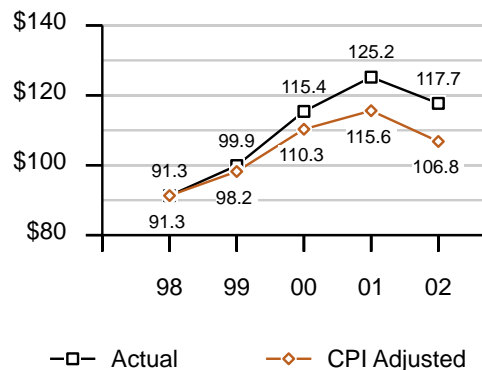


## Poverty Levels

- Between 1997 and 2001, the percent of Californians living below the poverty level decreased by 23.6%, from 16.5% to 12.6% of the population. Nationally, the percent of persons living below the poverty level declined by 12.0%, from 13.3% to 11.7% (Chart 10).
- In 2001, with 12.6%, California ranked 18th in percentage of population living below the poverty level. Mississippi had the highest level with 19.3%. New Hampshire's percentage was the lowest with 6.5%, and Texas and New York were ranked 9th with 14.9% and 11th with 14.2%, respectively.

**Chart 11**  
**Revenues**

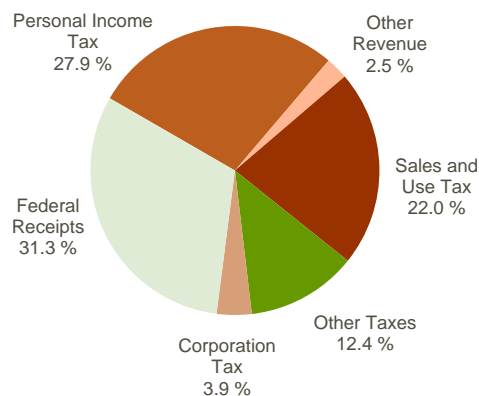
Year Ended June 30  
(Amounts in billions)



Grape Leaves, Alexander Valley

**Chart 12**  
**Revenues by Source**

Year Ended June 30, 2002  
(As a percent)



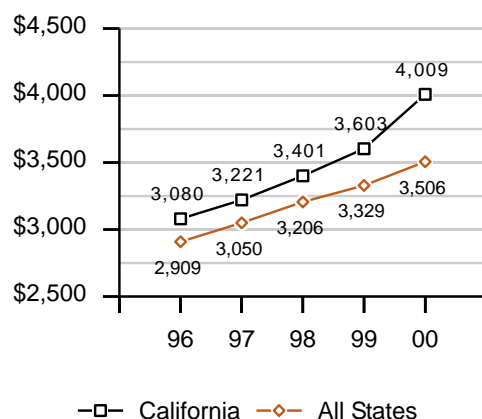
# Revenues

California enjoyed a period of robust economic growth from 1996 through the early part of 2001. Since the spring of 2001, however, sharply lower capital gains from stock market sales, limited wage and salary growth due to moderate labor market growth, and corporate income weakened by the softening U.S. and state economies has caused state revenue to suffer.

- The State's governmental revenues increased by 37.1%, from \$91.3 billion in the 1997-98 fiscal year to \$125.2 billion in the 2000-01 fiscal year. However, in the 2001-02 fiscal year, this revenue decreased by 6.0%, to \$117.7 billion, mainly due to a severe drop in personal income tax and corporation tax revenues (Chart 11).
- Almost half of California's revenue comes from its citizens, via the personal income tax (27.9%) and the sales and use tax (22.0%), as illustrated in Chart 12.
- When the economy is doing well, California's per capita revenues rise (Chart 13). However, since 2000, per capita revenues have declined significantly because of the economic downturn in 2001 and 2002.
- In 2000, California's \$4,009 per capita revenue collection was ranked 14th when compared to other states. Alaska ranked first, with \$11,691, and Florida ranked last, with \$2,607. California's ranking is expected to fall in 2001 and 2002.

**Chart 13**  
**Per Capita Revenues**

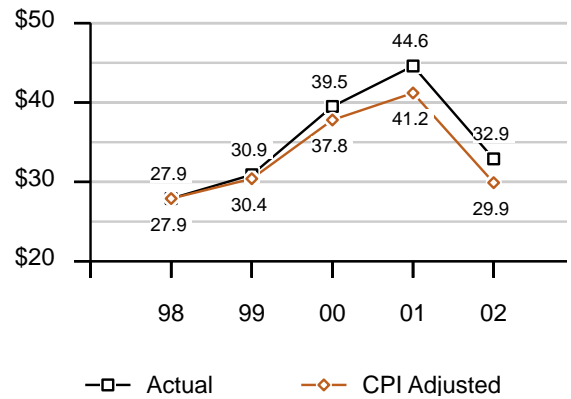
Fiscal Year Ended  
(Amounts in dollars)



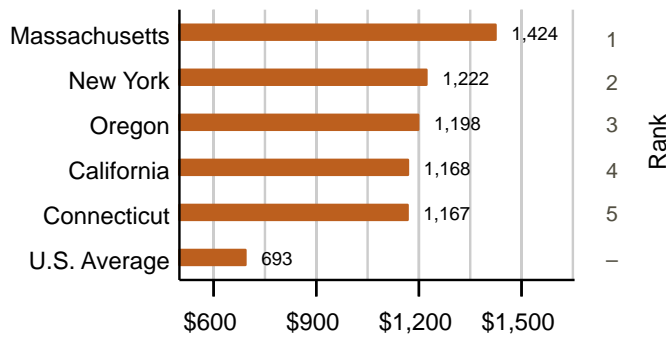
## Personal Income Tax

- Personal income tax revenue increased by 59.9%, from \$27.9 billion in the 1997-98 fiscal year to \$44.6 billion in the 2000-01 fiscal year. However, in the 2001-02 fiscal year, this revenue decreased by 26.2%, to \$32.9 billion, mainly due to a severe drop in capital gains and stock options (Chart 14).
- In 2000, California's \$1,168 per capita personal income tax collection was ranked 4th when compared to other states (Chart 15). However, California's ranking is expected to drop substantially, because of the lowered collections in 2001 and 2002.

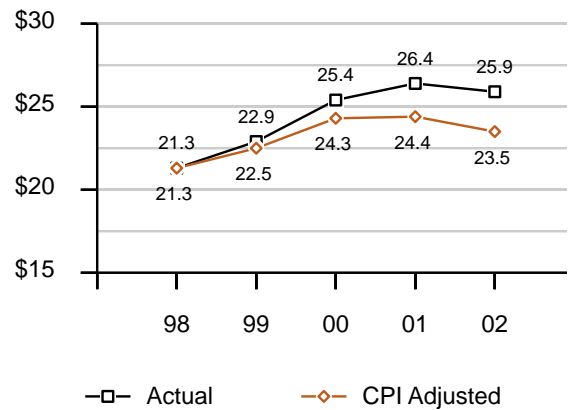
**Chart 14**  
**Personal Income Tax**  
 Year Ended June 30  
 (Amounts in billions)



**Chart 15**  
**Per Capita Personal Income Tax Ranked by State**  
 Fiscal Year Ended 2000  
 (Amounts in dollars)



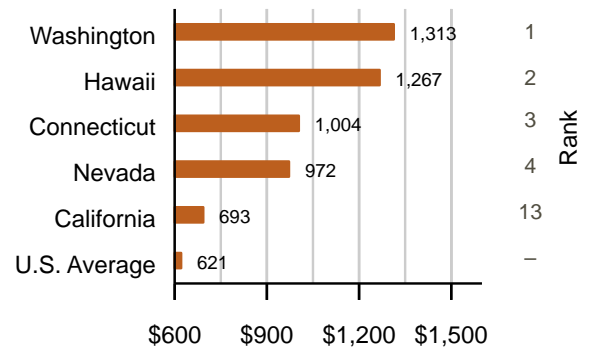
**Chart 16**  
**Sales and Use Tax**  
 Year Ended June 30  
 (Amounts in billions)



## Sales and Use Tax

- Sales and use tax revenue increased by 23.9%, from \$21.3 billion in the 1997-98 fiscal year to \$26.4 billion in the 2000-01 fiscal year. However, in the 2001-02 fiscal year, sales and use tax revenue decreased by 1.9%, to \$25.9 billion, due to a decline in retail sales (Chart 16).
- In 2000, California's \$693 per capita sales and use tax collection was ranked 13th when compared to other states (Chart 17). However, California's ranking is expected to drop, because of the lowered collections in 2001 and 2002.

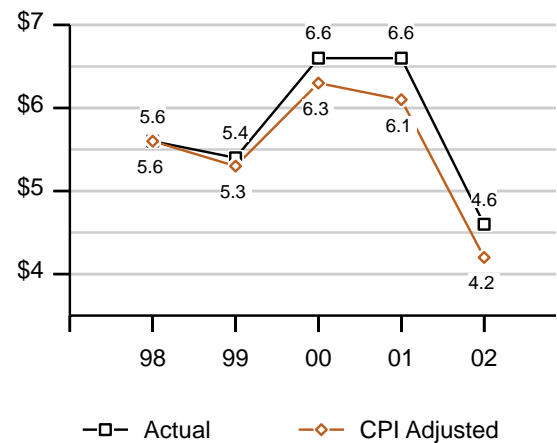
**Chart 17**  
**Per Capita Sales and Use Tax Ranked by State**  
 Fiscal Year Ended 2000  
 (Amounts in dollars)



## Corporation Tax

- Corporation tax revenue increased by 17.8%, from \$5.6 billion in the 1997-98 fiscal year to \$6.6 billion in the 2000-01 fiscal year. However, in the 2001-02 fiscal year, this revenue decreased by 30.3% to \$4.6 billion (Chart 18).
- In 2000, California's \$196 per capita corporation tax collection was ranked 6th when compared to other states. However, California's ranking is expected to drop, because of the lowered collections in 2001 and 2002.

**Chart 18**  
**Corporation Tax**  
Year Ended June 30  
(Amounts in billions)



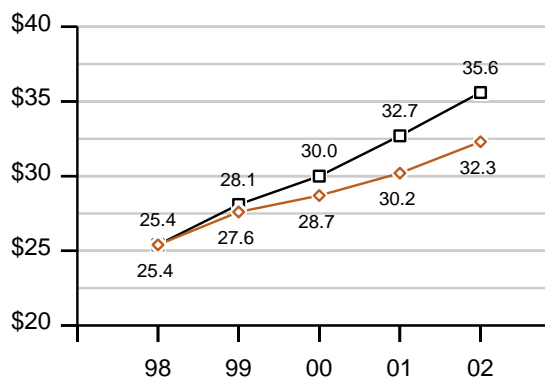
## Federal Receipts

- The State's share of federal receipts increased by 40.2% between the 1997-98 fiscal year and the 2001-02 fiscal year. However, after being adjusted for inflation, the increase was only by 27.2% (Chart 19).
- In 2000, California's \$975 per capita federal aid was 72.9% less than first-ranked Alaska's \$3,600 (Chart 20). Nevada was the lowest of all the states, with \$616.

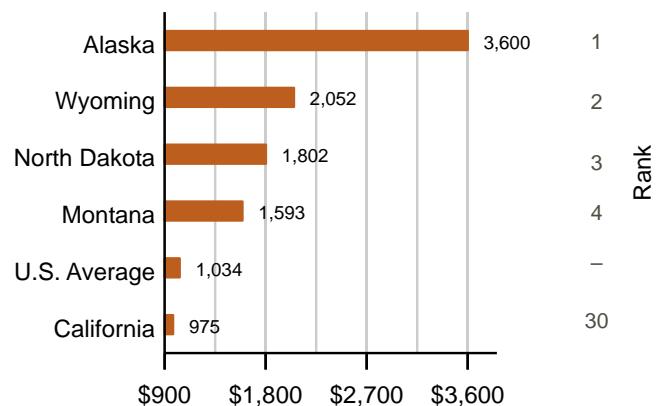


*House of Happy Walls,  
Jack London State Historic Park, Glen Ellen*

**Chart 19**  
**Federal Receipts**  
Year Ended June 30  
(Amounts in billions)



**Chart 20**  
**Per Capita Federal Receipts Ranked by State**  
Fiscal Year Ended 2000  
(Amounts in dollars)





Pumpkin Festival, Half Moon Bay

## Spending

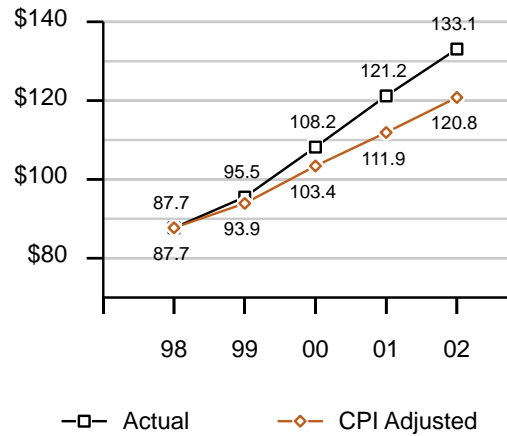
An analysis of spending data provides a view into the use of California tax dollars.

Spending data can also be used to evaluate the State's program priorities and, when compared to revenue data, to measure the State's ability to support continuing programs.

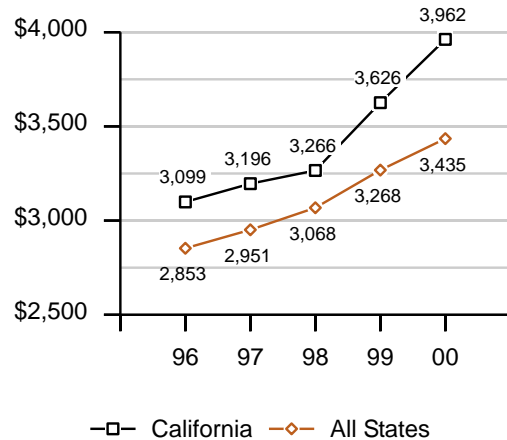
### 74.0% of State Spending is for Health and Human Services and Education.

- State spending increased by 51.8% between the 1997-98 and 2000-01 fiscal years. However, after adjusting for inflation, spending increased by 37.7% (Chart 21).
- California's per capita spending increased by 27.8%, from \$3,099 in 1996 to \$3,962 in 2000. During the same period, per capita spending for all states increased by 20.4% (Chart 22).
- Compared with other states in 2000, California's \$3,962 per capita spending ranked 12th. Alaska was ranked first, with \$9,525, and Texas was the lowest of all states, with \$2,611.
- Health and human services (39.9%) and education (34.1%) represent 74.0% of state spending (Chart 23).

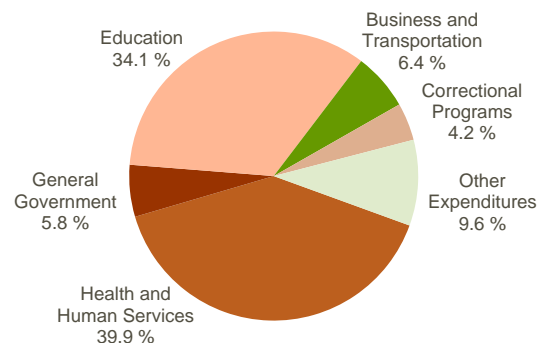
**Chart 21**  
**Spending**  
Year Ended June 30  
(Amounts in billions)



**Chart 22**  
**Per Capita Spending**  
Fiscal Year Ended  
(Amounts in dollars)



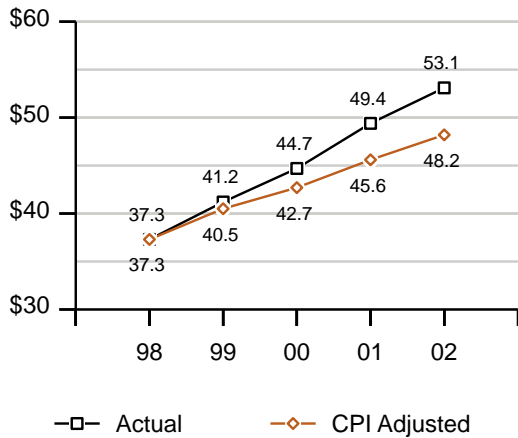
**Chart 23**  
**Spending by Program**  
Year ended June 30, 2002  
(As a percent)



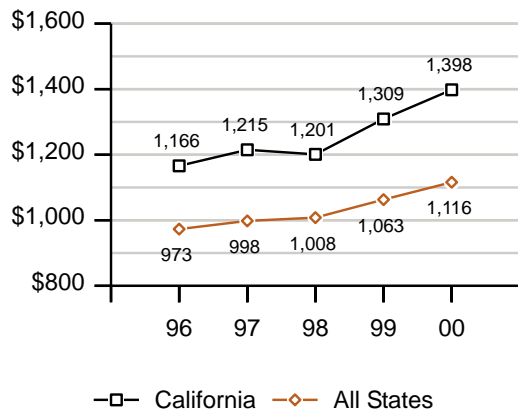


Pacific Grove Bike Trail, Monterey Peninsula

**Chart 24**  
**Health and Human Services Spending**  
 Year Ended June 30  
 (Amounts in billions)



**Chart 25**  
**Per Capita Health and Human Services Spending**  
 Fiscal Year Ended  
 (Amounts in dollars)



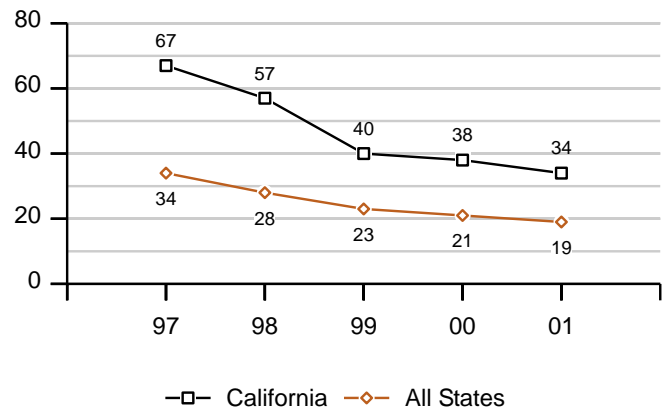
**The Number of Social Services Recipients per Thousand Decreased by 49.3% in California Between 1997 and 2001.**

**Health and Human Services**

Health and human services programs provide medical, mental health, and social services to California's neediest population. Beginning in January 1998, CalWORKs became California's version of the federal Temporary Assistance for Needy Families program as a result of the Federal Welfare Reform Act.

- State spending on health and human services increased by 42.4% between the 1997-98 and 2001-02 fiscal years. After adjusting for inflation, spending increased by 29.2% (Chart 24).
- California's per capita health and human services spending increased by 19.9% between 1996 and 2000. During this same period, per capita health and human services spending for all states increased by 14.7% (Chart 25).
- California has more social services recipients per thousand population than the national average. In 1997, there were 97.1% more recipients in California per thousand population than the national average. By 2001, that number had decreased to 78.9% more than the national average (Chart 26).
- Nationally, the number of social services recipients per thousand population decreased by 44.1% between 1997 and 2001. In California, the number of recipients per thousand population decreased by 49.3% during the same period (Chart 26).

**Chart 26**  
**Social Services Recipients**  
 (Per thousand population)

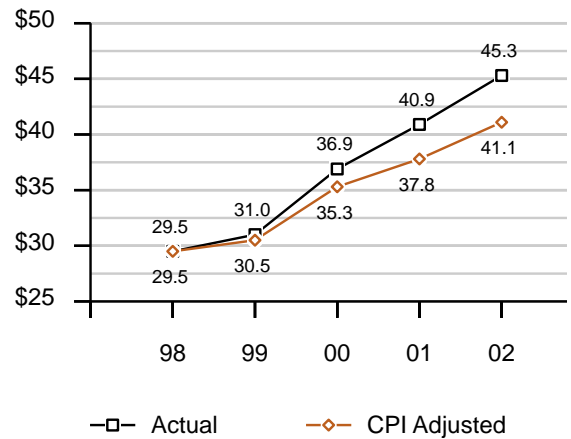


## Education

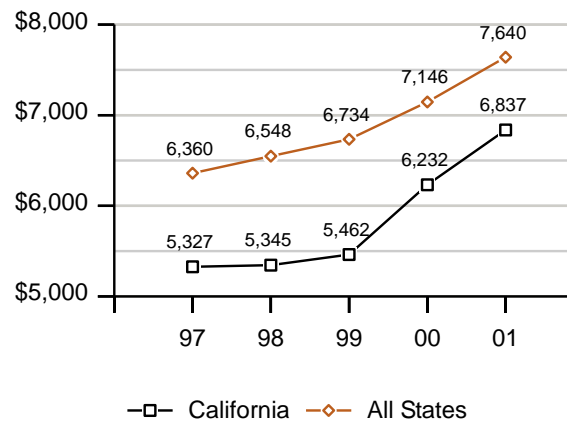
With 6.0 million students in kindergarten through 12th grade (K-12), California is home to the largest number of students in the nation. California schools educate 12.9% of the nation's students in K-12.

- Actual education spending by California state government increased by 53.6% between the 1997-98 and 2001-02 fiscal years. Adjusted for inflation, spending increased by 39.3% (Chart 27).
- California's 2001 average yearly spending of \$6,837 per pupil is below the national average of \$7,640. However, California's spending per pupil improved from \$914 below the national average in 2000, to \$803 below the national average in 2001 (Chart 28). Compared to other states, California was ranked 33rd in K-12 per-pupil spending in 2001.
- In 2001, California schools had more students per teacher than all other states except Utah. The ratio in California was 21:1 of students to teachers, in contrast to the United States average of 16:1. Vermont had the smallest ratio, at 12:1.
- California is continuing to report growth in student performance, as shown by the results of the state's Academic Performance Index (API). The median score for elementary schools statewide in 2001-02 grew by 16 points over the previous year. The median score for middle and high schools grew by 13 points and 12 points, respectively.
- California's total verbal and math Scholastic Aptitude Test (SAT) scores remained unchanged from 1998 to 2002, at 1,013. The national scores increased by 0.3%, from 1,017 in 1998, to 1,020 in 2002. During the same period, Texas' scores decreased by 0.4%, to 991, and Florida's scores decreased by 0.6%, to 995 (Chart 29).
- The growth in student performance on the API, provides a strong indication that the verbal and math SAT scores will also improve.

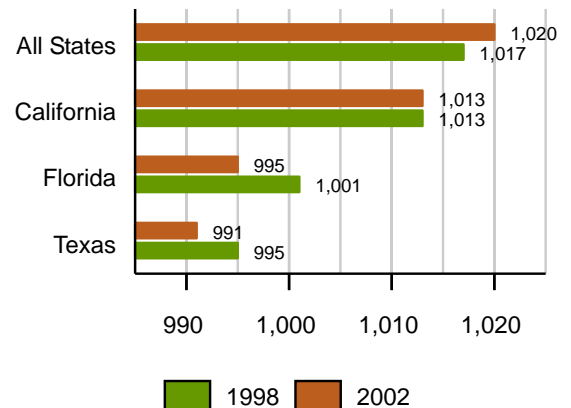
**Chart 27**  
**Education Spending**  
Year Ended June 30  
(Amounts in billions)



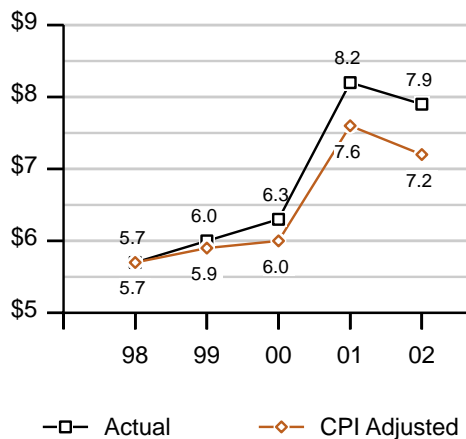
**Chart 28**  
**Per Pupil K-12 Spending**  
School Year Ended in June  
(Amounts in dollars)



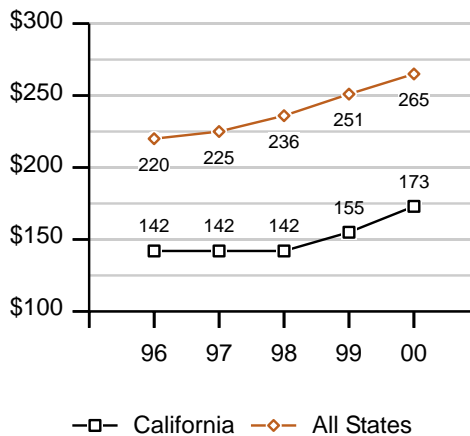
**Chart 29**  
**Scholastic Aptitude Test Scores**  
School Year Ending in June



**Chart 30**  
**Transportation Spending**  
 Year Ended June 30  
 (Amounts in billions)



**Chart 31**  
**Per Capita Highways Spending**  
 Fiscal Year Ended  
 (Amounts in dollars)

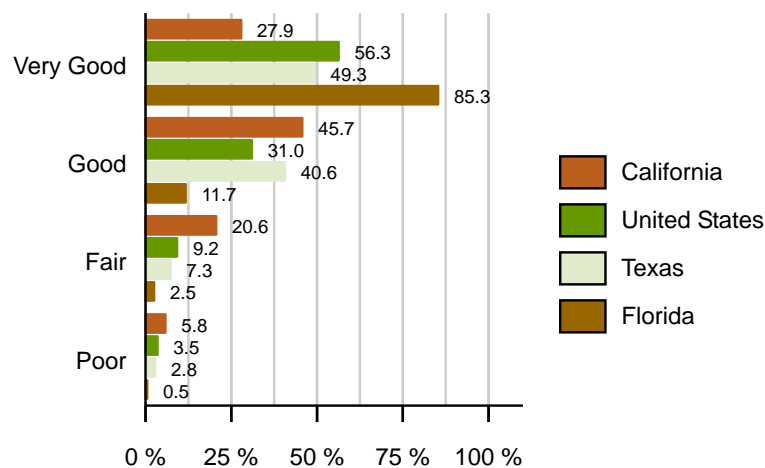


## Transportation

The state constructs, operates, and maintains a comprehensive transportation system of nine toll bridges and more than 50,000 lane miles of highways and freeways. In the 2001-02 fiscal year, 24.6 million vehicles were driven on California's roadways, an increase of 3.0% from the prior year. Highway use is expected to continue to increase, from 164 billion annual vehicle miles traveled in 2000 to an estimated 206 billion vehicle miles traveled in 2010. To meet this estimated increase in demand on the transportation system, California voters approved an amendment to the State Constitution in March 2002, that designates over \$1.0 billion in additional funding annually to transportation spending, beginning in July 2003.

- Total transportation spending by California increased by 43.9% between the 1997-98 and 2000-01 fiscal years. Adjusted for inflation, total spending increased by 33.3%. A reduction in federal receipts for transportation purposes resulted in a corresponding reduction in California's transportation related expenditures, from \$8.2 billion in 2001 to \$7.9 billion in 2002 (Chart 30).
- California's per capita spending for highways was 34.7% below the national average in 2000. From 1996 to 2000, California's per capita spending increased by 21.8%. During the same period, per capita transportation spending for all states increased by 20.5% (Chart 31).
- California has a smaller percentage, 27.9%, of "very good" highway miles than the national average of 56.3%. California has a higher percentage, 26.4%, of "fair" and "poor" highway miles than the national average, 12.7%, as measured by the International Roughness Index (Chart 32).

**Chart 32**  
**2001 National Highway System Condition**  
 Percent of Miles Measured by Pavement Roughness



Coastal Highway



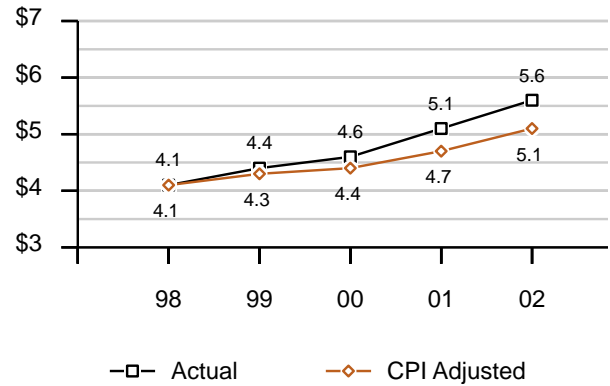
## Corrections

California is committed to providing safe and secure detention facilities for convicted felons and for the supervision of these felons after their release on parole. California's average inmate population in 2001 was 159,444.

- Actual corrections spending increased by 36.6%, from \$4.1 billion in the 1997-98 fiscal year to \$5.6 billion in the 2001-02 fiscal year. After adjusting for inflation, spending increased by 24.4% (Chart 32).
- California has 33 state prisons and 11 youth authority institutions.
- In 2000, California's \$125 per capita corrections spending was ranked 20th when compared to other states (Chart 33). Delaware ranked first, with \$291, and North Dakota ranked last, with \$48.
- In 2000, California spent an average of \$28,228 on each inmate per year. The U.S. average was \$28,411.
- Between 1997 and 2001, California's prison population per 100,000 residents decreased by 2.9%, while the nation as a whole increased by 5.8%. Since 1999, the prison population per 100,000 residents has declined both nationally and within the state (Chart 34).
- California's inmate population per 100,000 residents remains above the national average. In 1997, California had 15.0% more state prisoners per 100,000 residents than the national average. By 2001, California had reduced its inmate population per 100,000 residents to 5.5% more than the national average (Chart 34).

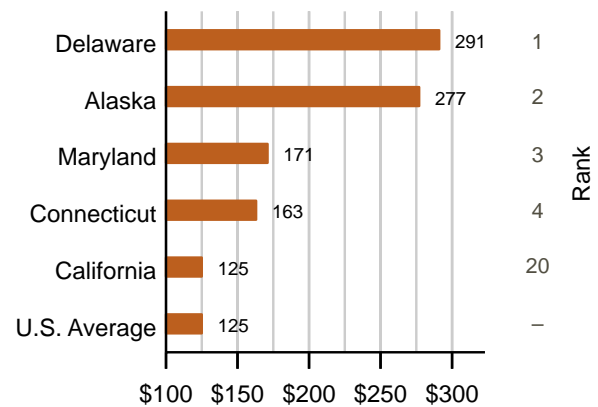
**Chart 32**  
**Corrections Spending**

Year Ended June 30  
(Amounts in billions)



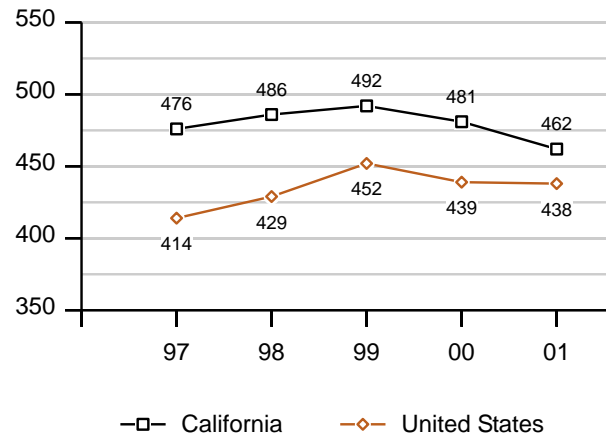
**Chart 33**  
**Per Capita Corrections Spending Ranked by State**

Fiscal Year Ended 2000  
(Amounts in dollars)



**Chart 34**  
**State Prison Inmate Population**

(Per 100,000 Residents)



## Bonded Debt

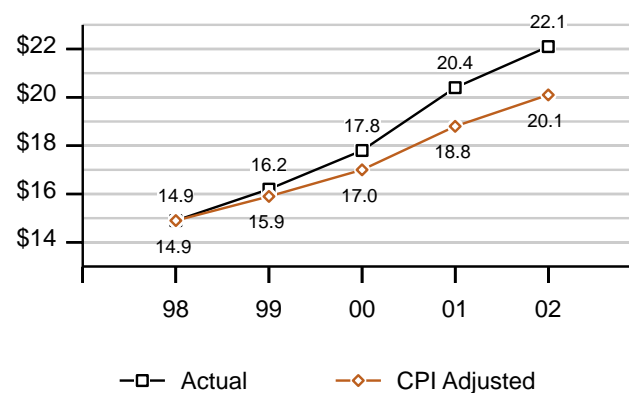
California's constitution permits the State to issue general long-term obligation bonds for the construction of water projects, correctional facilities, housing, educational facilities, and other major projects. Such bonds are basically long-term loans that are backed by the full faith and credit of the State. Bonds must be approved by a two-thirds majority of voters in a general or direct primary election.

- California's total general long-term obligation bonded debt for governmental activities as of June 30, 2002, was \$22.1 billion (Chart 35).
- California's general long-term obligation bonded debt for governmental activities increased by 48.3% between June 30, 1998, and June 30, 2002. Adjusted for inflation, the debt increased by 34.9% during the period.
- Compared to other states, California ranked 31st in spending on total per capita debt service, with \$1,688. Alaska had the highest, with \$6,620. Tennessee spent the least on debt service, with \$579.

In December 2002, Standard and Poor's lowered California's general long-term obligation bond rating from "A+" to "A," citing concerns about the State's increasing projected budget gap. In February 2003, Moody's lowered the State's bond rating from "A1" to "A2," citing similar concerns.

**Chart 35**  
**State General Long-Term Obligation Bonds**  
**for Governmental Activities**

June 30  
(Amounts in billions)



### Sources

The following sources were used to compile this report:

California state departments and offices	U.S. Census Bureau
Education Data Partnership	U.S. Department of Health and Human Services
National Center for Education Statistics	U.S. Department of Justice
California Travel and Tourism Commission	U.S. Bureau of Labor Statistics
The College Board	U.S. Department of Transportation

This publication presents financial information using accounting principles generally accepted in the United States of America (GAAP). GAAP financial information is presented in a standardized manner that is comparable to other governmental entities.

The information on page 5, California's Budget, presents estimates using California's budgetary basis of accounting. Also, in order to provide comparisons with other states, the per capita receipt, spending, and debt information uses 2000 and 2001 data, the most current available from the U.S. Census Bureau.

The U.S. Department of Transportation uses a worldwide standard for measuring pavement roughness called the International Roughness Index. The lower the index number, the smoother the ride. We have categorized the index numbers as very good, good, fair, and poor. These labels correspond to index readings of less than 94, 95 to 144, 145 to 194, and greater than 195, respectively.

This report is not intended to replace the more detailed reports prepared by the State Controller's Office. A more detailed and complete presentation of the State's GAAP financial information is presented in the *Comprehensive Annual Financial Report*, which is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250. This and other publications of the State Controller's Office are also available at [www.sco.ca.gov](http://www.sco.ca.gov).

Photographs by Robert Holmes/CalTour, Tom Myers, Long Beach Area Convention & Visitors Bureau, and the University of California Los Angeles (excluding the photograph of Steve Westly).