

State of California

A blue-tinted photograph of the California State Capitol building in Sacramento, California. The image shows the grand neoclassical architecture, including the prominent dome and the portico with columns. The building is set against a clear sky, and a flagpole with the California state flag is visible to the left of the dome.

Popular Annual Financial Report

For the Year Ended
June 30, 2003

Steve Westly
California State Controller

A Message From

STEVE WESTLY

California State Controller

June 4, 2004

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 non-technical format, is intended to provide financial data that is relevant to the citizens of the State.

The State's economy is slowly recovering from the recession that hit in the 2001-02 fiscal year. However, because of the structural mismatch between revenues and expenditures in the last couple of years, it is estimated that the General Fund will end with a budgetary deficit of \$12.3 billion through June 30, 2004. This estimate is \$2.6 billion lower than previously identified, due to revenue growth and expenditure reductions thus far during the 2003-04 fiscal year. Following are some of the fiscal highlights.

- Total revenues increased to \$124.8 billion in the 2002-03 fiscal year, up from \$117.7 billion in the 2001-02 fiscal year. Personal income tax revenues declined slightly, from \$32.9 billion in the 2001-02 fiscal year to \$32.7 billion in the 2002-03 fiscal year.
- Total spending increased from \$133.1 billion in the 2001-02 fiscal year to \$144.8 billion in the 2002-03 fiscal year. Most of the additional spending came from increases of \$5.9 billion for health and human services and \$5.4 billion for education.
- The value of net assets for governmental activities declined by \$18.4 billion between the 2001-02 and 2002-03 fiscal years. Net assets for governmental activities (not including the State's highway infrastructure) totaled a negative \$24.5 billion at the end of the 2002-03 fiscal year.
- Between 2001 and 2002, California's per capita personal income grew by only 0.9%, from \$32,702 to \$32,996, compared to a national average increase of 1.5%. However, California's nationwide ranking remained the same, as the state with the 10th highest per capita personal income, higher than the national average of \$30,941.
- While the number of employed Californians remained at 16.2 million from 2000 to 2002, the rate of unemployment rose from 4.9% to 6.7% during the same period.



The unprecedented gubernatorial recall has served as a call for renewed public scrutiny of government spending and accountability. On March 2, 2004, voters overwhelmingly approved Proposition 57, which authorizes the State to sell \$15.0 billion in general obligation bonds. The proceeds of these bonds will allow California to pay off short-term loans and retire the accumulated deficit. Voters also passed Proposition 58, which prohibits future deficit borrowings. These bonds provide the Legislature and the Governor with time to take decisive actions and enact a balanced budget. Tough decisions on spending and possible revenue increases must be considered to prevent new budget deficits and improve California's fiscal health.

STEVE WESTLY

California State Controller

Government-Wide Financial Statements

Governmental Activities

Government-wide financial statements are designed to provide readers with a broad overview of California's finances as a single unified entity, similar to a private-sector business. The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities. These 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 and short-term information, 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 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 the state's 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 298.0%, or \$18.4 billion, during the 2002-03 fiscal year, primarily because of lower-than-expected general revenues and increased expenses. Of the total revenues supporting California's governmental expenses, 57.6%, or \$71.7 billion, was in the form of general revenues (mainly taxes) and 42.4%, or \$52.8 billion, was in the form of program revenues.

Table 1

Statement of Governmental Activities

Year Ended June 30, 2003

(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	\$ 8.6	\$ 1.1	\$ 1.1	\$ (6.4)
Education	51.5	2.7	5.0	(43.8)
Health and human services	59.1	4.9	30.2	(24.0)
Resources	3.4	1.2	0.3	(1.9)
State and consumer services	0.4	0.4	—	—
Business and transportation	7.5	2.8	3.0	(1.7)
Correctional programs	6.7	—	0.1	(6.6)
Tax relief	3.9	—	—	(3.9)
Interest on long-term debt	1.8	—	—	(1.8)
Total governmental activities	\$ 142.9	\$ 13.1	\$ 39.7	(90.1)
General revenues:				
Taxes				70.7
Investment and interest				0.4
Miscellaneous				0.6
Total general revenues				71.7
Change in net assets				(18.4)
Net assets, July 1, 2002 (restated)				(6.1)
Net assets, June 30, 2003				\$ (24.5)

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 \$13.9 billion, from a positive \$3.2 billion for the 1998-99 fiscal year to a negative \$10.7 billion for the 2002-03 fiscal year. This decrease is a direct result of lower tax revenues due to the economic recession from 2001 to 2002 and the sluggish economy of 2003.

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 \$10.8 billion as of June 30, 1999, to a high of \$23.8 billion as of June 30, 2001. However, between June 30, 2001 and June 30, 2003, the total fund balance declined by \$25.9 billion, to a negative \$2.1 billion (Chart 2).
- As of June 30, 2001, the unreserved fund balance had increased to a high of \$7.0 billion; but, by June 30, 2003, it had dropped by 374.3%, to a negative \$19.2 billion balance (Chart 3).

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

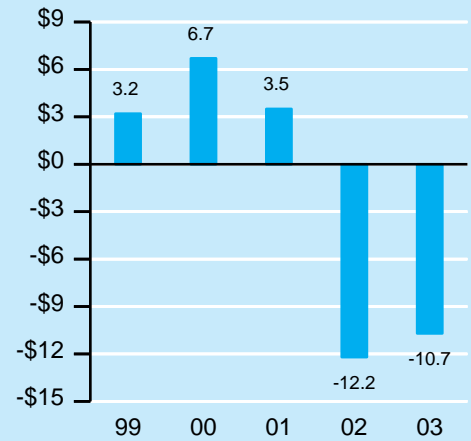


Chart 2
Governmental Funds Fund Balances
 June 30
 (Amounts in billions)

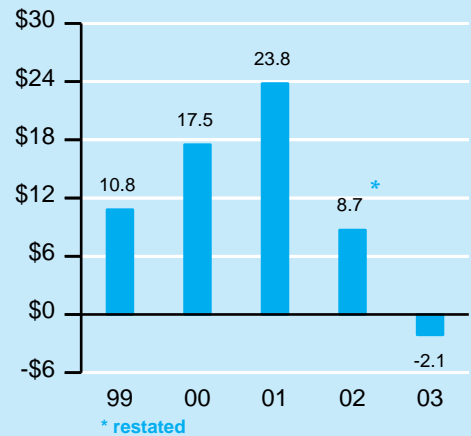
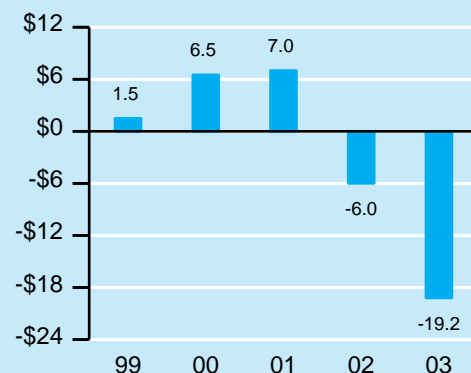


Chart 3
Governmental Funds Unreserved Fund Balances
 June 30
 (Amounts in billions)



General Fund Cash Management

The General Fund ended the 2002-03 fiscal year with a cash deficit before loans of \$10.5 billion, which is \$19.0 billion less than the \$8.5 billion positive cash balance on July 1, 2000 (Chart 4). The primary causes of the deficit were an unexpected decline of \$5.1 billion in personal income tax revenues and the suspension of a \$2.0 billion tobacco securitization bond sale.

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. 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 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. RAWs of \$1.5 billion and \$6.0 billion were repaid on October 25, 2002, and November 27, 2002, respectively.

On October 16 and November 6, 2002, the State issued RANs of \$9.0 billion and \$3.5 billion, respectively, to meet the cash flow needs for the balance of the 2002-03 fiscal year.

On June 18, 2003, the State Controller's Office issued \$11.0 billion in RAWs to repay the \$12.5 billion in RANs due in June 2003 and to assist in meeting cash flow needs for the 2003-04 fiscal year; these RAWs will mature on June 16, 2004. At June 30, 2003, the General Fund had \$11.0 billion in external loans.



Half Dome, Yosemite National Park

Chart 4
Ending General Fund Cash Balance Before Loans

June 30
(Amounts in billions)

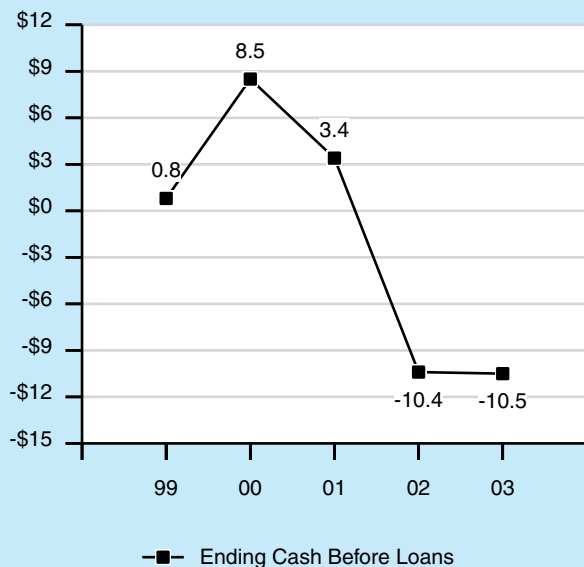
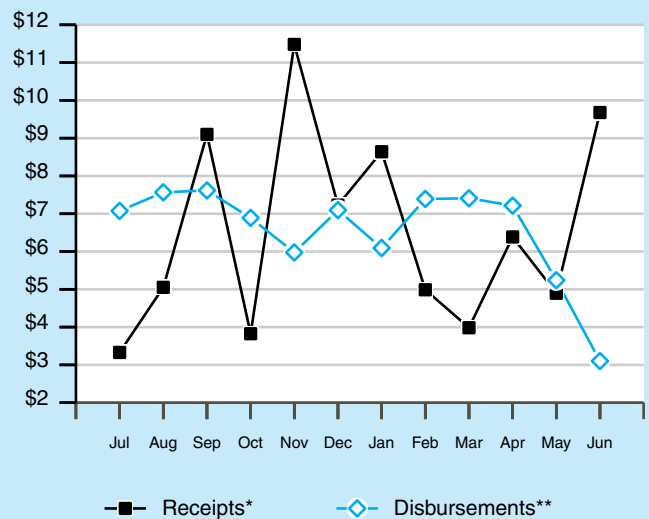


Chart 5
Monthly General Fund Cash Receipts and Disbursements

Year Ended June 30, 2003
(Amounts in billions)



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

California's Budget

Since 2001, California has experienced budget difficulties. An economic recession from 2001 to 2002 resulted in a substantial deterioration of state tax revenues. Personal income taxes, which account for 45.9% of tax revenues, have decreased 26.8% over the last two fiscal years. The drop in personal income taxes is mainly a result of the severe decline in capital gains and stock option income that occurred in 2002. Personal income tax receipts have improved from three years ago, but they were basically unchanged over the past year because of a stagnant economy.

The main budget problem currently facing the State involves an ongoing projected structural imbalance between current-law expenditures and revenues of about \$15.0 billion annually. The Governor's proposed 2004-05 budget seeks to narrow this gap through a combination of major and wide-ranging spending reductions, additional borrowing, and a diversion of local property taxes for the benefit of the State.

The budget proposal addresses the shortfall through \$16.2 billion in budgetary solutions. Table 2 identifies the major budget solutions proposed. Of the total solutions, 45% is related to program reductions, while 55% is related to the use of proposed economic recovery bonds, other loans and borrowing, a cost shift to local governments, and a variety of other revenues, transfers, and funding shifts. An estimated savings of \$14.3 billion is projected in 2004-05. The Legislative Analyst's Office, California's nonpartisan fiscal and policy advisor, estimates that about \$5.3 billion, or 37%, is considered one-time cost savings. The remaining \$9.0 billion, or 63%, is ongoing and should benefit future budgets.

In a significantly positive development, the 2002-03 budget's condition has improved by about \$2.2 billion since the 2003-04 budget was enacted. This means that the State needs about \$2.0 billion less in savings or other budgetary solutions in 2004-05.

The Legislative Analyst's Office believes that the Governor's proposed budget has several positive attributes, including realistic revenue and caseload assumptions, backed by real and ongoing solutions from most areas of the budget, thus providing a solid starting point for budget deliberations. Proposed reductions will have far-reaching consequences for the scope of state services and raise various policy issues. The Legislature will need to look ahead and consider additional savings proposals and possible revenue increases to fully address the State's budget structural imbalance.

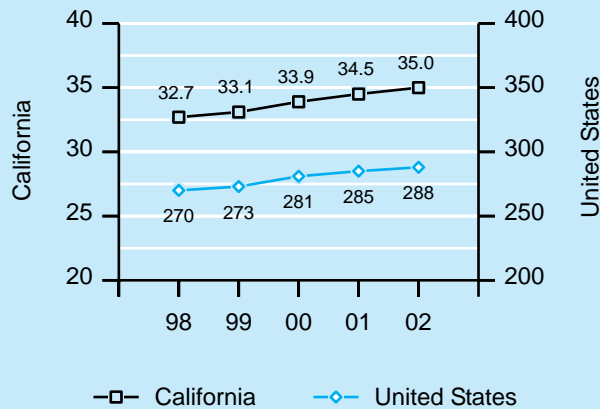


Old and New Skyline, Sacramento

Table 2
Governor's Proposed Budget Solutions
(Amounts in billions)

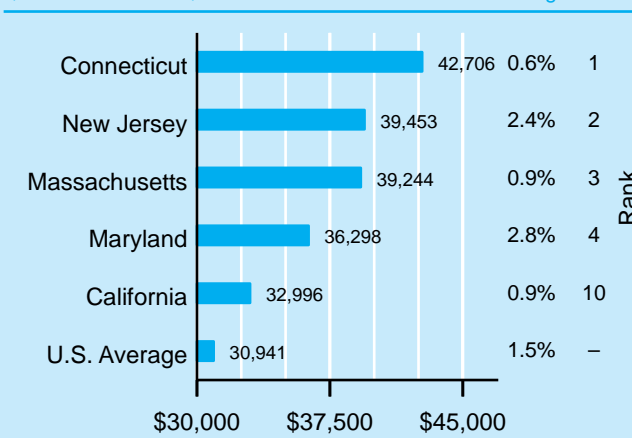
Proposed Solutions	Fiscal Period		
	2003-04 And Prior	2004-05	Total
Program cost savings	\$ 0.8	\$ 6.5	\$ 7.3
Economic Recovery Bond:			
Proceed amounts	-1.4	3.0	1.6
Reduced debt service	—	1.3	1.3
Other - loans/borrowing	1.6	1.0	2.6
Local government-related	—	1.8	1.8
Transfers/other revenues and fund shifts	0.9	0.7	1.6
Total	\$ 1.9	\$ 14.3	\$ 16.2

Chart 6
Population
As of July 1
(Amounts in millions)



Evening Riverfront, Sacramento

Chart 7
Per Capita Personal Income Ranked by State and Percent Change From Previous Year
Fiscal Year Ended 2002
(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, influence the state's programs and identify areas where future needs may arise.

Population Trends

- Between 1987 and 2002, the state's population increased by 29.2%, while the U.S. population as a whole increased by 19.0%. This means that, over the 15-year period, California's population growth has outpaced the nation's by 53.2%.
- California's population has grown by 2.3 million people, a 7.0% increase, between 1998 and 2002. Overall, the U.S. population increased by 6.7% during this same period (Chart 6).
- Between July 1, 1998, and June 30, 2003, California was the destination for 1,465,723 international immigrants, more than twice as many as New York, the state with the next highest number. During this same period, 465,411 California residents moved to other states, second only to New York, where 947,364 residents moved to other states.

Personal Income

- California's per capita personal income increased by 0.9% between 2001 and 2002, which is lower than the U.S. per capita personal income increase of 1.5% (Chart 7).
- In 2000-01, California's per capita personal income was 7.3% greater than the national average of \$30,472. In 2001-02, California's per capita personal income decreased, to 6.6% greater than the national average.
- In 2002, California retained its ranking as having the 10th highest per capita personal income (Chart 7). California's per capita personal income was 24.6% less than first-ranked Connecticut. With California's economy stabilizing, the growth in per capita personal income is expected to make modest gains in 2003.

Employment Trends

- California's unemployment rate dropped by 16.9% between 1998 and 2000, to 4.9%, while jobs grew by 1.3 million. The national unemployment rate fell by 11.1% during the same period. However, between 2000 and 2002, unemployment in California jumped by 36.7%, to 6.7%, while the national unemployment rate increased by 45.0%, to 5.8% (Chart 8).
- The number of employed Californians increased by 5.2% between 1998 and 2002. During the same period, employment in the U.S. increased by 3.8%.
- In 2002, California employed approximately 16.2 million people, or 11.9% of the entire national work force, while the nation as a whole employed 136.5 million people (Chart 9).



Empire Mine State Historic Park, Grass Valley

Poverty Levels

- Between 1998 and 2002, the percent of Californians living below the poverty level decreased by 15.6%, from 15.4% to 13.0% of the population. Nationally, the percent of persons living below the poverty level declined by 2.4%, from 12.7% to 12.4% (Chart 10).
- In 2002, 13.0% of California's population lived below the poverty level, which ranked 18th among the states. Mississippi had the highest level, with 19.9%, and New Hampshire had the lowest level, with 6.4%. Texas was ranked 6th, with 15.6%, and New York was ranked 17th, with 13.1%.

Chart 8
Unemployment Rate

Annual Average
(Amounts in percent)

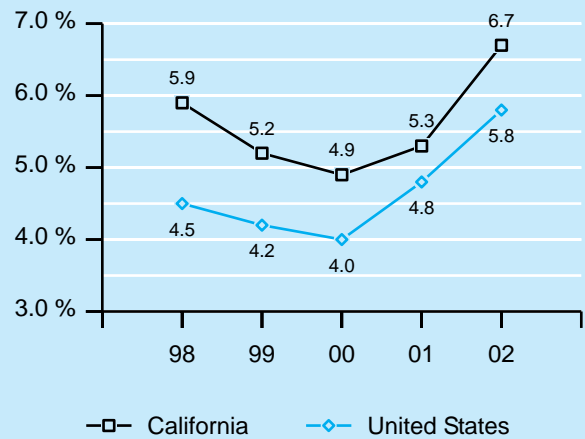


Chart 9
Employment

Annual Average
(Amounts in millions)

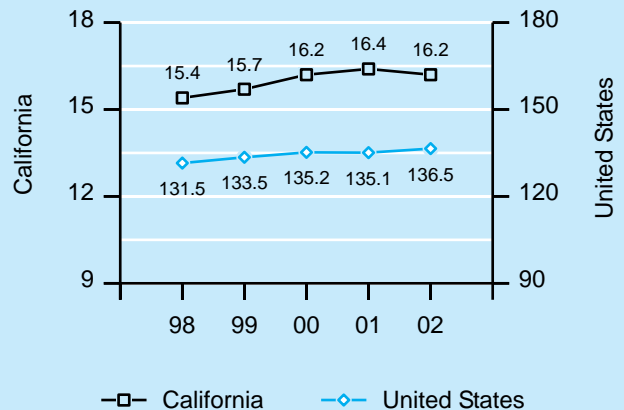


Chart 10
Population Below the Poverty Level

(Amounts in percent)

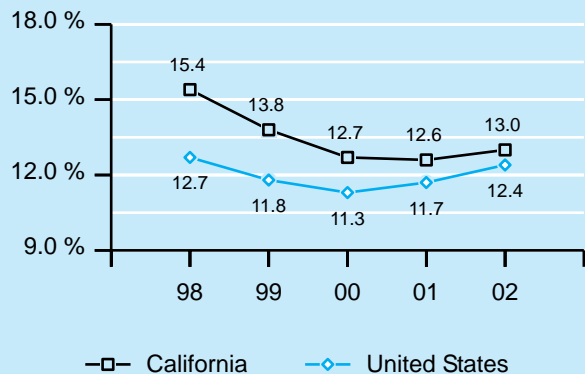


Chart 11
Revenues
Year Ended June 30
(Amounts in billions)

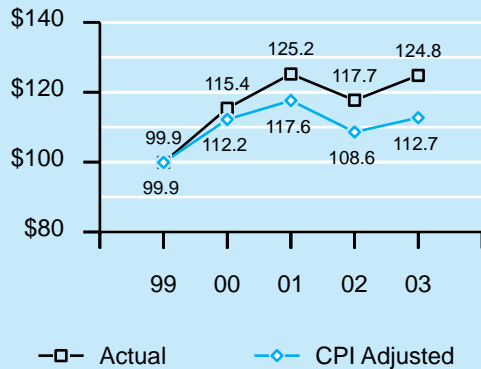


Chart 12
Revenues by Source
Year Ended June 30, 2003
(As a percent)

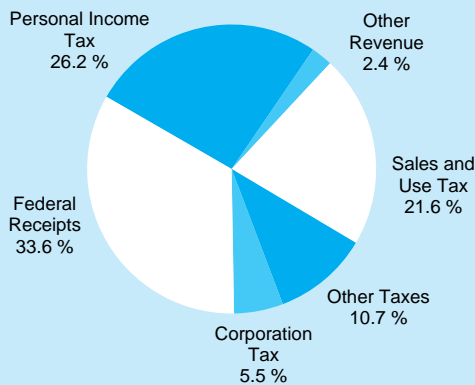
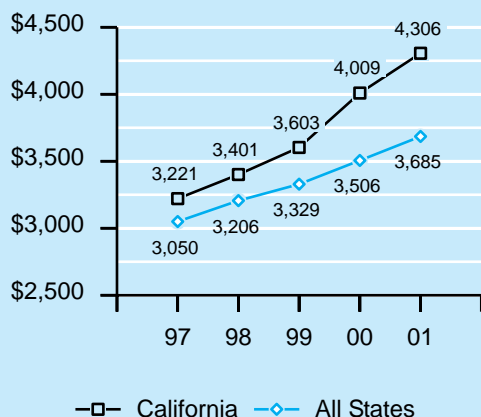


Chart 13
Per Capita Revenues
Fiscal Year Ended
(Amounts in dollars)



Casa Del Mundo, Old Town San Diego

Revenues

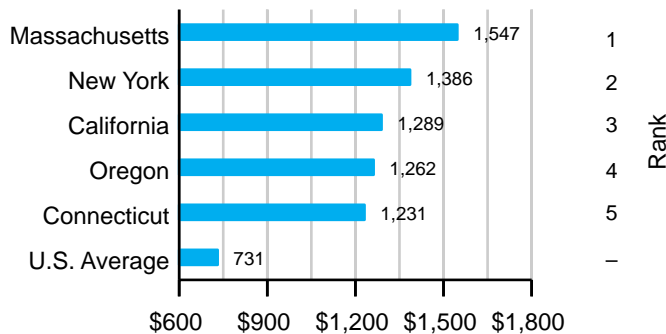
California enjoyed a period of robust economic growth from 1997 through the early part of 2001. Since the spring of 2001, however, sharply lower capital gains from stock market sales, limited wage and salary growth due to moderate labor market growth, and moderate corporate income, both nationally and in California, have caused state revenues to stagnate.

- Over the last five years, the State's governmental revenues have increased by 24.9%, from \$99.9 billion in the 1998-99 fiscal year to \$124.8 billion in the 2002-03 fiscal year.
- Almost half of California's 2002-03 revenue came from its citizens, as personal income tax (26.2%) and sales and use tax (21.6%), as illustrated in Chart 12.
- Per capita revenues rise during periods of economic growth, as evidenced from 1997 through 2001 (Chart 13). Based on actual revenues collected (Chart 11), California's per capita revenues are expected to drop slightly in 2002 and then show a modest increase in 2003.
- In 2001, California ranked 13th among the states in per capita revenue collection, at \$4,306. Alaska ranked first, with \$9,532, and Florida ranked last, with \$2,699.

Personal Income Tax

- From the 1998-99 fiscal year to the 2000-01 fiscal year, personal income tax revenue increased by 44.3%, from \$30.9 billion to \$44.6 billion. However, since the 2000-01 fiscal year, this revenue has decreased by 26.7%, to \$32.7 billion in the 2002-03 fiscal year, mainly due to a severe drop in capital gains and stock options (Chart 14).
- In 2001, California's \$1,289 per capita personal income tax collection was ranked 3rd when compared to other states (Chart 15). Massachusetts had the highest per capita personal income tax collection, with \$1,547. The states of Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming do not collect personal income tax.

Chart 15
Per Capita Personal Income Tax Ranked by State
 Fiscal Year Ended 2001
 (Amounts in dollars)



Sales and Use Tax

- From the 1998-99 fiscal year to the 2002-03 fiscal year, sales and use tax revenue increased by 17.5%, from \$22.9 billion to \$26.9 billion. 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. Most of that decline occurred between June 30, 2001, and June 30, 2002. During the 2002-03 fiscal year, sales and use tax revenue actually increased, by 3.9% (Chart 16).
- In 2001, California ranked 13th among the states in per capita sales and use tax collection, at \$702 (Chart 17). This compares to a national average of \$630.

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

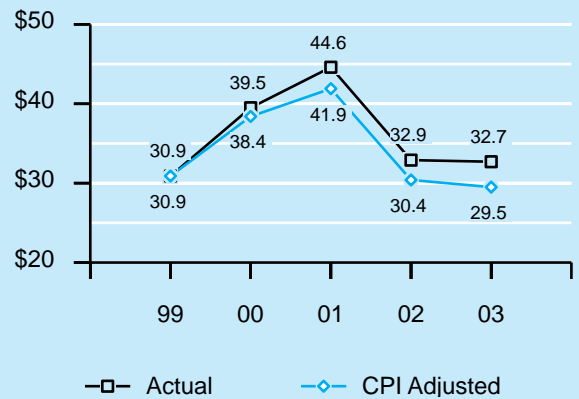


Chart 16
Sales and Use Tax
 Year Ended June 30
 (Amounts in billions)

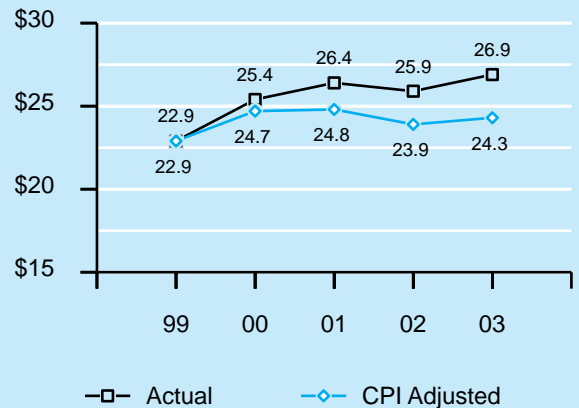


Chart 17
Per Capita Sales and Use Tax Ranked by State
 Fiscal Year Ended 2001
 (Amounts in dollars)

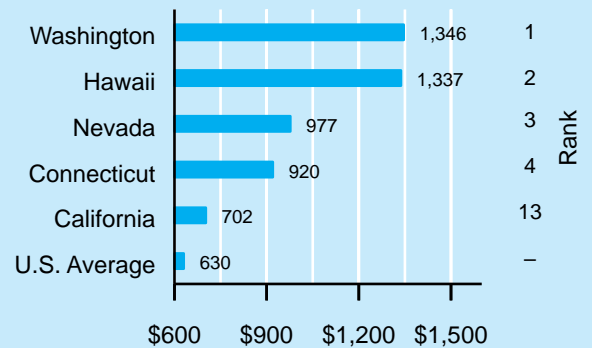


Chart 18
Corporation Tax

Year Ended June 30
(Amounts in billions)

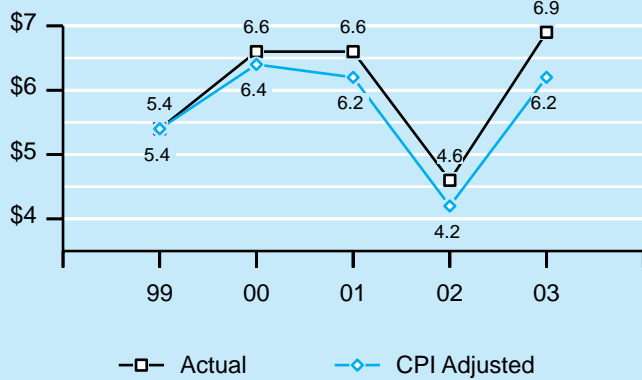


Chart 19
Federal Receipts

Year Ended June 30
(Amounts in billions)

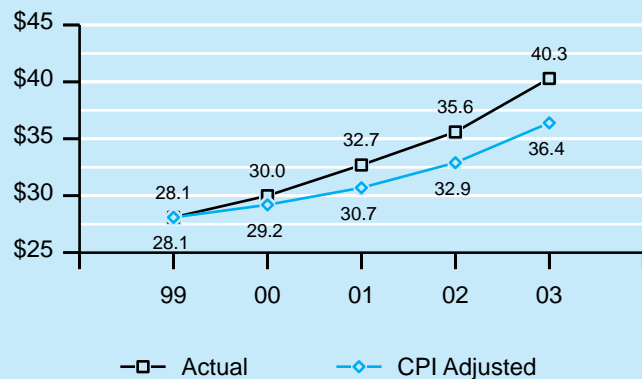
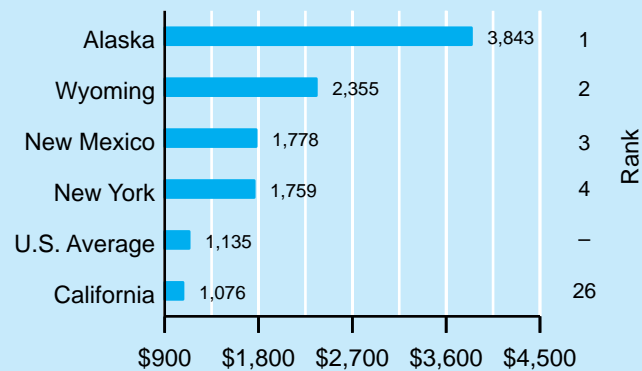


Chart 20
Per Capita Federal Receipts Ranked by State

Fiscal Year Ended 2001
(Amounts in dollars)



Corporation Tax

- From the 1998-99 fiscal year to the 2002-03 fiscal year, corporation tax revenue increased by 27.8%, from \$5.4 billion to \$6.9 billion. After falling 30.3% in the 2001-02 fiscal year, corporation taxes rebounded by 50.0% in the 2002-03 fiscal year as a result of changes in the tax law (Chart 18).
- In 2001, California ranked 4th among the states in per capita corporation tax collection, at \$199. The U.S. average was \$111.



Main Street, Sutter Creek

Federal Receipts

- Between the 1998-99 fiscal year and the 2002-03 fiscal year, the State's share of federal receipts increased by 43.4%. However, after being adjusted for inflation, the increase was only 29.5% (Chart 19).
- In 2001, California's \$1,076 per capita federal aid was 72.0% less than that of first-ranked Alaska, at \$3,843 (Chart 20). Nevada was the lowest of all the states, with \$674.
- In the 2002-03 fiscal year, the State allocated \$28.3 billion of federal receipts to health and human services programs, \$5.8 billion to education, and \$4.4 billion to various other programs.



Lake Merritt, Oakland

Spending

An analysis of spending on governmental activities 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 on-going programs.

40.8% of State Expenditures was for Health and Human Services and 35.1% was for Education.

- Between the 1998-99 and 2002-03 fiscal years, state spending increased by 51.6%. However, after adjusting for inflation, spending increased by 37.0% (Chart 21).
- From 1997 to 2001, California's per capita spending increased by 31.7%, from \$3,196 to \$4,208. During the same period, per capita spending for all states increased by 24.2% (Chart 22).
- In 2001, California ranked 13th among the states in per capita spending, at \$4,208. Alaska was ranked first, with \$13,232, and Texas was the lowest of all states, with \$2,723.
- For the 2002-03 fiscal year, 40.8% of state expenditures was for health and human services and 35.1% was for education (Chart 23).

Chart 21
Spending

Year Ended June 30
(Amounts in billions)

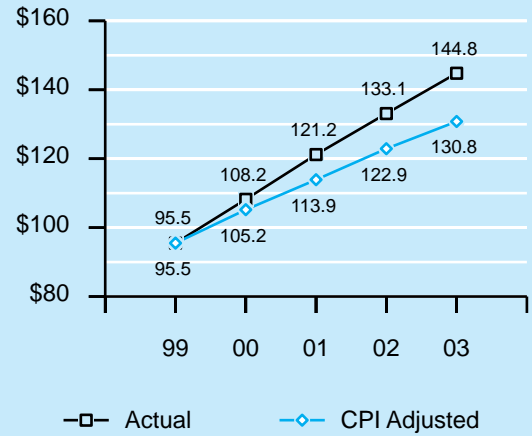


Chart 22
Per Capita Spending

Fiscal Year Ended
(Amounts in dollars)

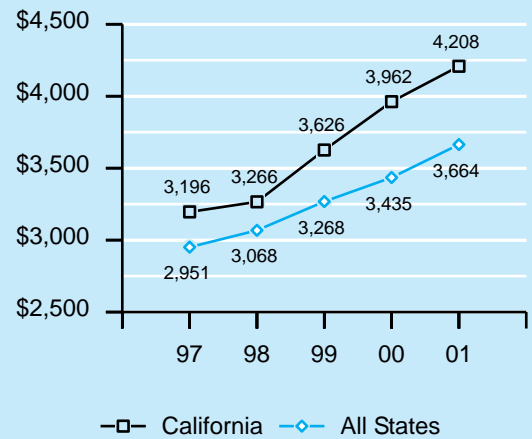


Chart 23
Spending by Program

Year ended June 30, 2003
(As a percent)

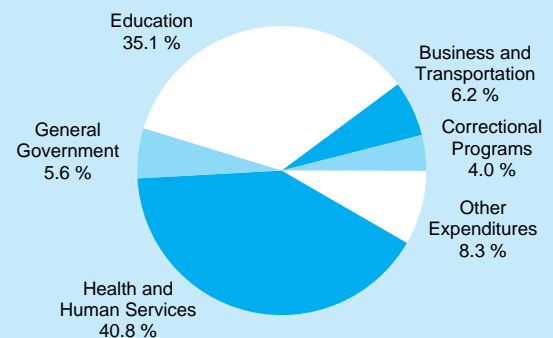


Chart 24
Health and Human Services Spending

Year Ended June 30
(Amounts in billions)

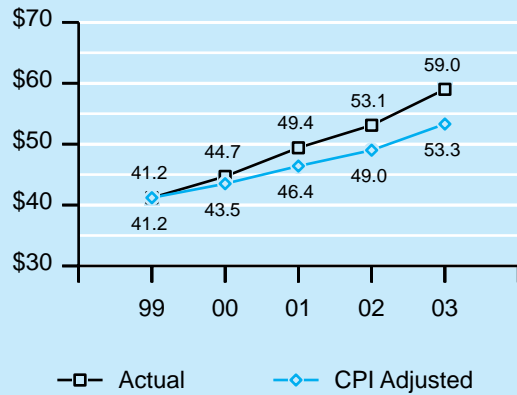


Chart 25
Per Capita Health and Human Services Spending

Fiscal Year Ended
(Amounts in dollars)

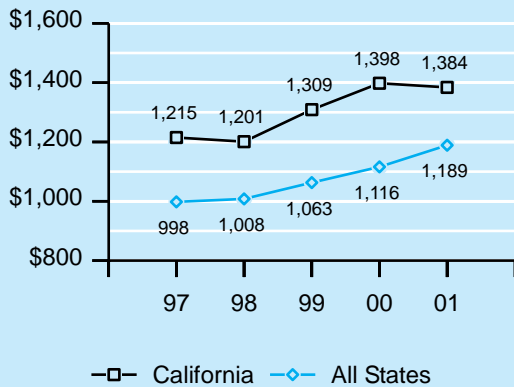
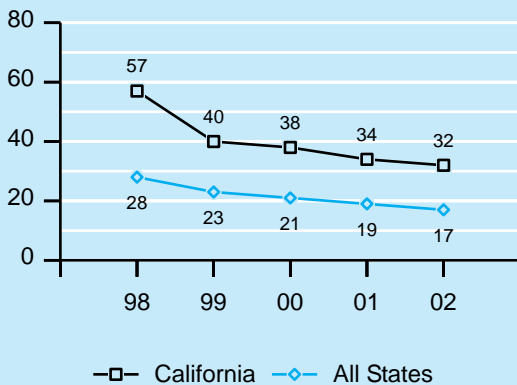


Chart 26
Social Services Recipients

(Per thousand population)



State Spending on Health and Human Services Increased by 43.2% Between the 1998-99 and 2002-03 Fiscal years.

Health and Human Services

Health and human services programs provide medical, mental health, and social services to California's neediest people. 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.

- Between the 1998-99 and 2002-03 fiscal years, state spending on health and human services increased by 43.2%. After adjusting for inflation, spending increased by 29.4% (Chart 24).
- Between 1997 and 2001, California's per capita health and human services spending increased by 13.9%. During this same period, per capita health and human services spending for all states increased by 19.1% (Chart 25).
- California has more social services recipients per thousand population than the national average. In 1998, there were 103.6% more recipients in California per thousand population than the national average. By 2002, that number had decreased to 88.2% more than the national average (Chart 26).
- Nationally, the number of social services recipients per thousand population declined by 39.3% between 1998 and 2002. In California, the number of recipients per thousand population decreased by 43.9% during the same period.



Marina, Newport Beach

Education

With 6.3 million students in kindergarten through 12th grade (K-12), California is home to the largest number of students in the nation. California schools educate 13.2% of the nation's students in K-12.

- Between the 1998-99 and 2002-03 fiscal years, the State's actual education spending increased by 63.5%. Adjusted for inflation, spending increased by 47.7% (Chart 27).
- California's 2002 average yearly expenditure of \$7,324 per pupil is below the national average of \$8,087. However, from 2001 to 2002, California's spending per pupil improved from \$803 below the national average to \$763 below the national average (Chart 28). Compared to other states, California was ranked 35th in K-12 per-pupil spending in 2002.
- In 2002, California schools had more students per teacher than all other states except for Utah and Arizona. The ratio in California was 21:1 of students to teachers, compared to the national average of 16:1. Vermont had the lowest 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). In 2002-03, the median score for elementary schools statewide increased by 30 points over the previous year. The median score for middle and high schools grew by 18 points and 25 points, respectively.
- From 1999 to 2003, California's total verbal and math Scholastic Aptitude Test (SAT) scores improved by 0.7%, from 1,011 to 1,018. The national scores increased by 1.0%, from 1,016 in 1999 to 1,026 in 2003. During the same period, Florida's scores decreased by 0.1%, to 996, while New York's scores increased by 0.9%, to 1,006 (Chart 29).
- Charter schools in California continue to gain in popularity. Since the 1998-99 to the 2002-03 school year, enrollment in charter schools has increased by 77.4%, from 88,334 to 156,696 students. During the same period, the number of charter schools increased by 130.5%, from 177 to 408.

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

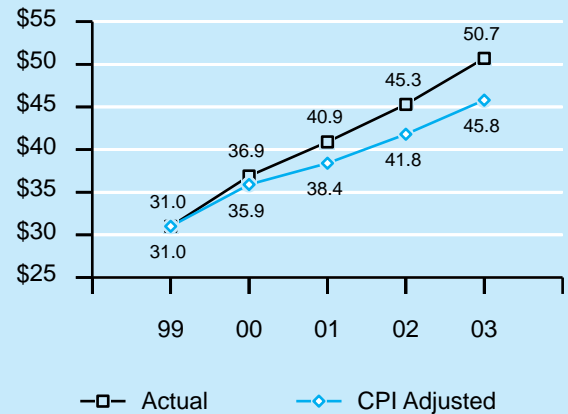


Chart 28
Per Pupil K-12 Spending
 School Year Ended in June
 (Amounts in dollars)

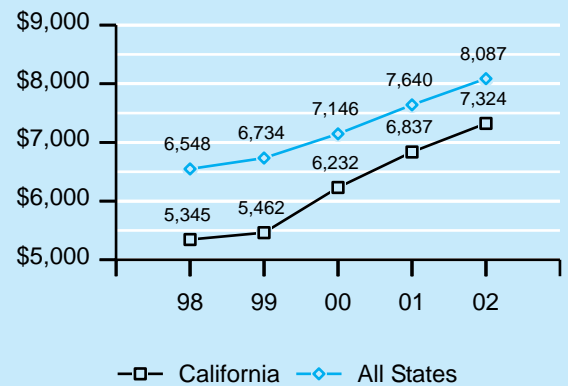


Chart 29
Scholastic Aptitude Test Scores
 School Year Ending in June

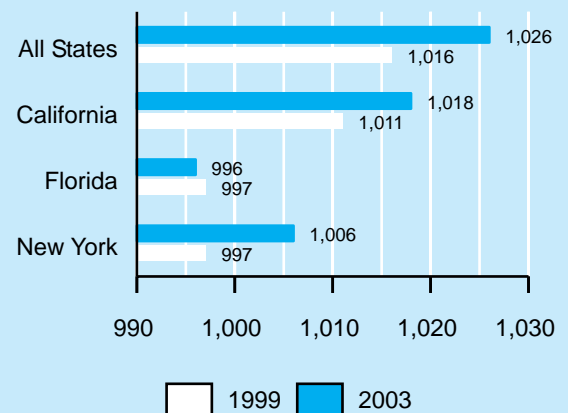


Chart 30
Transportation Spending
 Year Ended June 30
 (Amounts in billions)

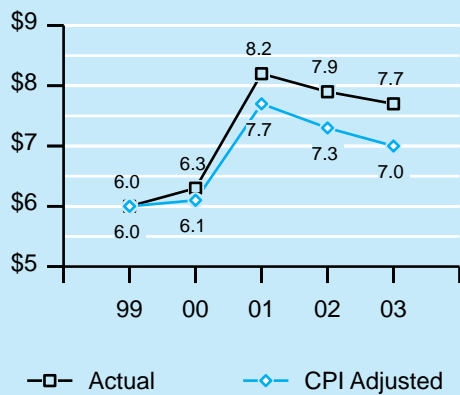
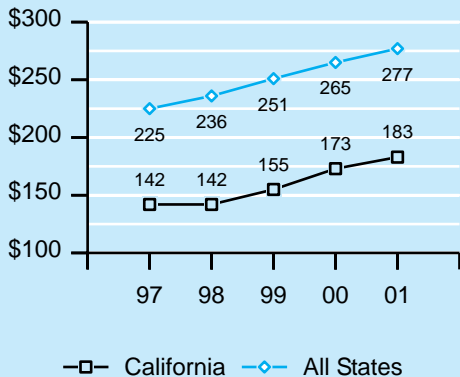


Chart 31
Per Capita Highway Spending
 Fiscal Year Ended
 (Amounts in dollars)



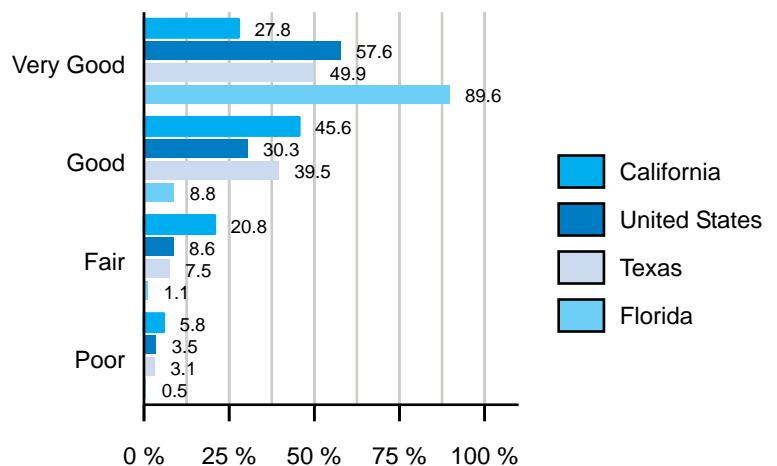
Cable Car, San Francisco

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 2002-03 fiscal year, 30.9 million vehicles were driven on California's roadways, an increase of 25.5% 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. In March 2002, voters passed Proposition 42, which provides that the sales tax on gasoline be dedicated to transportation purposes. However, the Proposition 42 sales tax transfer has been suspended due to the General Fund's inability to support the full transfer.

- Between the 1998-99 and 2002-03 fiscal years, total transportation spending by California increased by 28.3%. Adjusted for inflation, total spending increased by 16.7%. A reduction in federal funding for transportation purposes resulted in a corresponding reduction in California's transportation-related expenditures, from \$7.9 billion in 2002 to \$7.7 billion in 2003 (Chart 30).
- California's per capita spending for highways was 33.9% below the national average in 2001. From 1997 to 2001, California's per capita spending increased by 28.9%, while per capita transportation spending for all states increased by 23.1% (Chart 31).
- As measured by the International Roughness Index, California has a smaller percentage of "very good" highway miles than the national average, 27.8% and 57.6%, respectively. California has a higher percentage of "fair" and "poor" highway miles than the national average, 26.6% and 12.1%, respectively (Chart 32).

Chart 32
2002 National Highway System Condition
 Percent of Miles Measured by Pavement Roughness



Corrections

California is committed to providing safe and secure detention facilities for convicted felons and to supervision of felons after their release on parole. In 2002, California's average inmate population was 162,317.

- From the 1998-99 fiscal year to the 2002-03 fiscal year, actual corrections spending increased by 31.8%, from \$4.4 billion to \$5.8 billion. After adjusting for inflation, spending increased by 18.2% (Chart 33).
- California has 33 state prisons and 10 youth authority institutions. In comparison, Texas has 51 state prisons and 29 youth authority institutions.
- In 2001, California ranked 12th among the states in per capita corrections spending at \$154 (Chart 34). Delaware ranked first, with \$311, and North Dakota ranked last, with \$59.
- In 2001, California spent an average of \$31,442 on each inmate. The national average was \$30,866.
- Between 1998 and 2002, California's prison population per 100,000 residents decreased by 4.5%, while that of the nation as a whole increased by 3.3%. In 2002, after declining for two consecutive years, the prison population per 100,000 residents increased both nationally and within the state (Chart 35).
- California's inmate population per 100,000 residents remains above the national average. In 1998, California had 13.3% more prisoners per 100,000 residents than the national average. By 2002, California's inmate population per 100,000 residents had declined to only 4.7% more than the national average (Chart 35).



Mission San Diego De Alcalá

Chart 33
Corrections Spending

Year Ended June 30
(Amounts in billions)

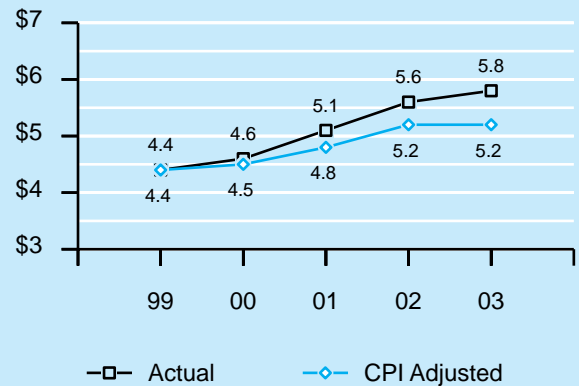


Chart 34
Per Capita Corrections Spending Ranked by State

Fiscal Year Ended 2001
(Amounts in dollars)

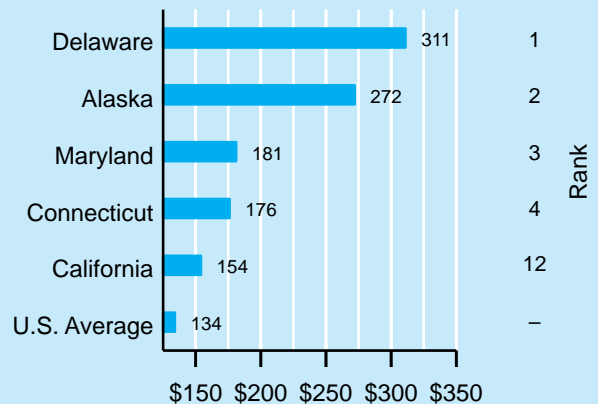
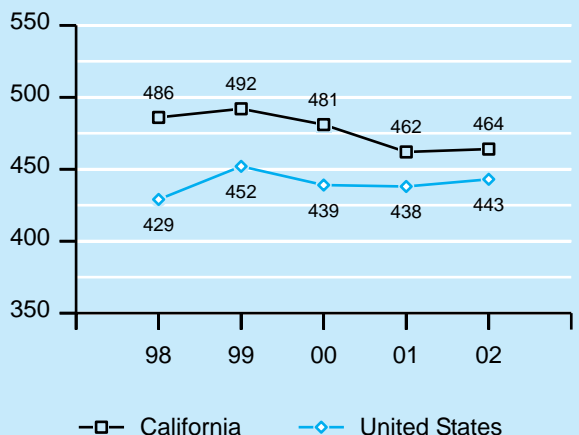


Chart 35
Prison Inmate Population

(Per 100,000 Residents)



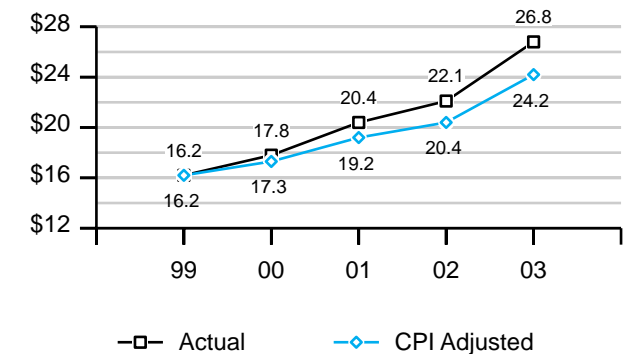
Bonded Debt

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.

- As of June 30, 2003, California’s total general long-term obligation bonded debt for governmental activities was \$26.8 billion (Chart 36).
- Between June 30, 1999, and June 30, 2003, California’s general long-term obligation bonded debt for governmental activities increased by 65.4%. Adjusted for inflation, the debt increased by 49.4% during the period.
- In 2001, compared to other states, California ranked 27th in total per capita debt service, \$1,801. Alaska spent the most on debt service, \$7,109, and Tennessee spent the least, \$589.

In December 2003, Moody’s lowered the State’s bond rating to “Baa1” with a negative outlook. In January 2004, Standard and Poor’s issued a bond rating of “BBB” with a stable outlook. In March 2004, Moody’s modified its rating outlook to stable following California voters’ approval of \$15 billion in deficit funding bonds.

Chart 36
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 2001 and 2002 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.

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).

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PRESENTED TO

STATE OF CALIFORNIA

For the fiscal year ending
June 30, 2002



Handwritten signature of Edward Hernandez in cursive.

President

Handwritten signature of Jeffrey L. Esser in cursive.

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 report of the State's financial information 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.