

**State and Local Government Expenditures
in California**

A Comparison of Fiscal Year 1977-78 and Fiscal Year
1994-95 Expenditures

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With assistance from
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Preface

This report is one in a series of reports about local government in California produced by the Rose Institute of State and Local Government. This report focuses on the expenditures of the state government and all local governments in California. Other reports to date have examined the finances of Los Angeles County, Orange County, Monterey County, Riverside County, and the 43 public school districts in San Diego County.

We thank the students, faculty and staff of the Rose Institute. Particular thanks go to Christiana Dominguez, Larry Kim, Brent Rossum, Vadim Alden-Alaverdov, and Helen Chen. Dr. Alan Heslop, Director, Dr. Florence Adams, Deputy Director, and Ms. Marionette S. Kusnier, Executive Assistant were supportive, as always.

The authors wish to acknowledge the generous support of the Howard Jarvis Taxpayers Educational Foundation in making this report possible.

The contents of this report are the sole responsibility of the authors.

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Claremont, CA
April 1998

Executive Summary

In California total state and local government spending, as a percentage of total personal income, has increased since Fiscal Year (FY) 1977-78. FY 1977-78 was the fiscal year that preceded the voters enactment of Proposition 13. In FY 1977-78, total state and local government spending was 17.7% of the total personal income of Californians. By FY 1994-95 (the most recent year available for a full set of actual financial data) total state and local government spending increased to 19.1% of the total personal income of Californians.

The changes in the amount of the state government spending and in the amount of local government spending as a percentage of the total personal income of Californians are shown below.

- Net state government expenditures increased from 3.6% of total personal income in FY 1977-78 to 3.7% of personal income in FY 1994-95.
- Total expenditures by cities increased from 3.6% of total personal income in FY 1977-78 to 3.9% of total personal income in FY 1994-95.
- Total expenditures by counties increased from 3.9% of total personal income in FY 1977-78 to 4.5% of total personal income in FY 1994-95.
- Total expenditures of special districts increased from 1.5% of total personal income in FY 1977-78 to 2.3% of total personal income in FY 1994-95.
- Total expenditures by K-12 public school districts decreased from 4.2% of total personal income in FY 77-78 to 3.8% of total personal income FY 1994-95.
- Total expenditures by redevelopment agencies increased from .26% of total personal income in FY 72-78 to .43% of total personal income in FY 1994-95.
- Total expenditures by community colleges decreased from .7% of total personal income in FY 1977-78 to .5% of total personal income in FY 1994-95.

In general terms, government in California became larger since FY 1977-78. The composition of government spending patterns changed somewhat, with the state, cities, counties, special districts and redevelopment agencies spending relatively more, and K-12 public school districts and community college districts spending relatively less.

INTRODUCTION

This study examines the expenditures of the state government and all local governments in California. These expenditures and revenues were analyzed for fiscal years (FY) 1977-78 and 1994-95. These years were chosen primarily because they allowed an examination of the impact of Proposition 13, the property tax limitation initiative. Proposition 13 (which placed certain restrictions on the ability of local governments to raise property taxes) was enacted by the voters in June of 1978. Examination of state and local government revenues and expenditures in FY 1977-78 provides a picture of the composition of these expenditures and revenues prior to the enactment of Proposition 13. Examination of FY 1994-95 expenditures and revenues gives a fuller understanding of how the state and local governments in California have adapted to the provisions of Proposition 13.

METHODOLOGY

This study measures the change in state and local government expenditures and revenues over a 17-year time period (from FY 1977-78 to FY 1994-95). The government expenditures and revenues for each fiscal year examined are compared to the total personal income (TPI) of the citizens of California for the corresponding year. There are 2 compelling reasons for using this methodology. First, it clearly shows the size of government expenditures relative to the ability of citizens to pay for them. Second, it provides a clear, absolute measure of government expenditures and revenues, avoiding the confusion and controversies regarding various dollar value indices that try to adjust for inflation.

The graphs in the body of this report show the percentage of California citizens' total personal income that was spent in the 2 years examined by each level of government (the state, counties, K-12 schools, special districts, cities, etc.) and also the percentage of total personal income that was spent on various functions such as police services, jails, hospitals, etc.

All governments in California were included in this study. The state, cities, counties, special districts, public schools and community colleges are included.

Special districts (such as water and sewer districts) were included for a number of reasons. First, special districts are governments, sanctioned by the state, and they have publicly elected governing boards. Second, special districts often receive property and other tax revenue. Third, they do not (normally) pay property taxes. Fourth, special districts do not (normally) pay corporate taxes. Fifth, special district employees are eligible to participate in the state public employee retirement system.

Similarly, enterprise activities (such as golf courses, municipally owned water systems and county hospitals) operated by governments are also included in this study. These enterprise activities are also exempt from taxes, publicly governed, and their

employees are typically enrolled in the public employee retirement system. Moreover, until the passage of Proposition 218 in 1996, such enterprise activities often were revenue sources for their parent governments' general funds. The voters' approval of Proposition 218 in 1996 should curb this practice, however. Proposition 218 stipulates that only voters may approve certain tax increases. The transfer of enterprise activity money to the general fund may constitute a tax increase, and hence be subject to voter approval. Even with the passage of Proposition 218, there is some question about the prevalence of the practice of charging employee time and "overhead" to such enterprise activities. Note, however, that this study goes up to FY 1994-95. FY 1994-95 is the most recent fiscal year for which a full set of actual government spending data are available. Data sources for this report were California State Controller Reports and the State Statistical Abstract.

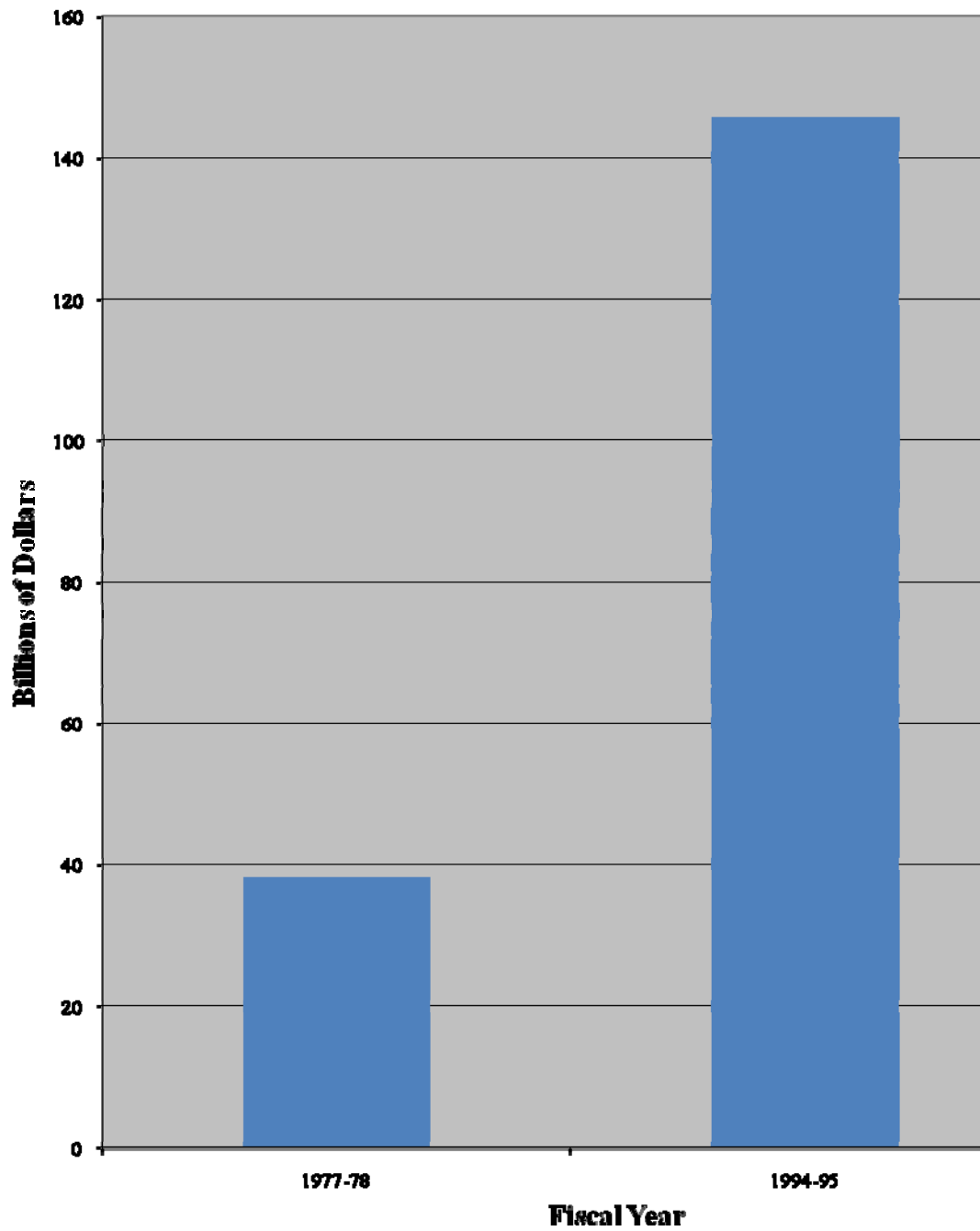
Federal funds that support these state and local expenditures in California are still part of the tax burden borne by California taxpayers, especially because California is a "donor state." That is to say, Californians pay more in federal taxes than they get back from the federal government.

Graph 1 shows total state and local government spending in California for FY 1977-78 and FY 1994-95.

Graph 1

Total State and Local Government Spending in California

Pre-Proposition 13 and Post-Proposition 13

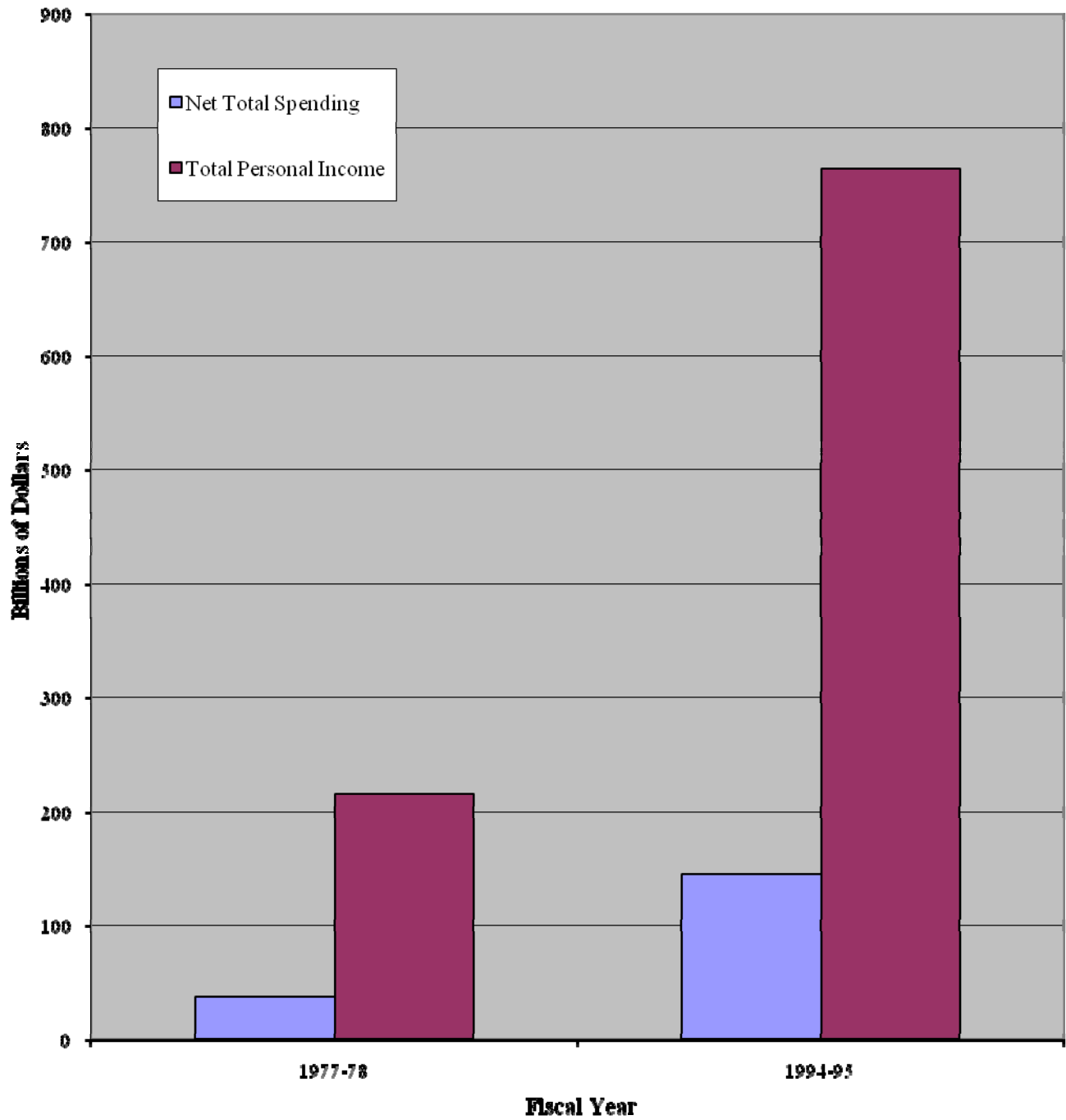


Graph 2 shows total state and local government spending in California alongside total personal income of California residents for FY 1977-78 and FY 1994-95.

Graph 2

Total State and Local Government Spending vs. Total Personal Income

Pre-Proposition 13 and Post-Proposition 13

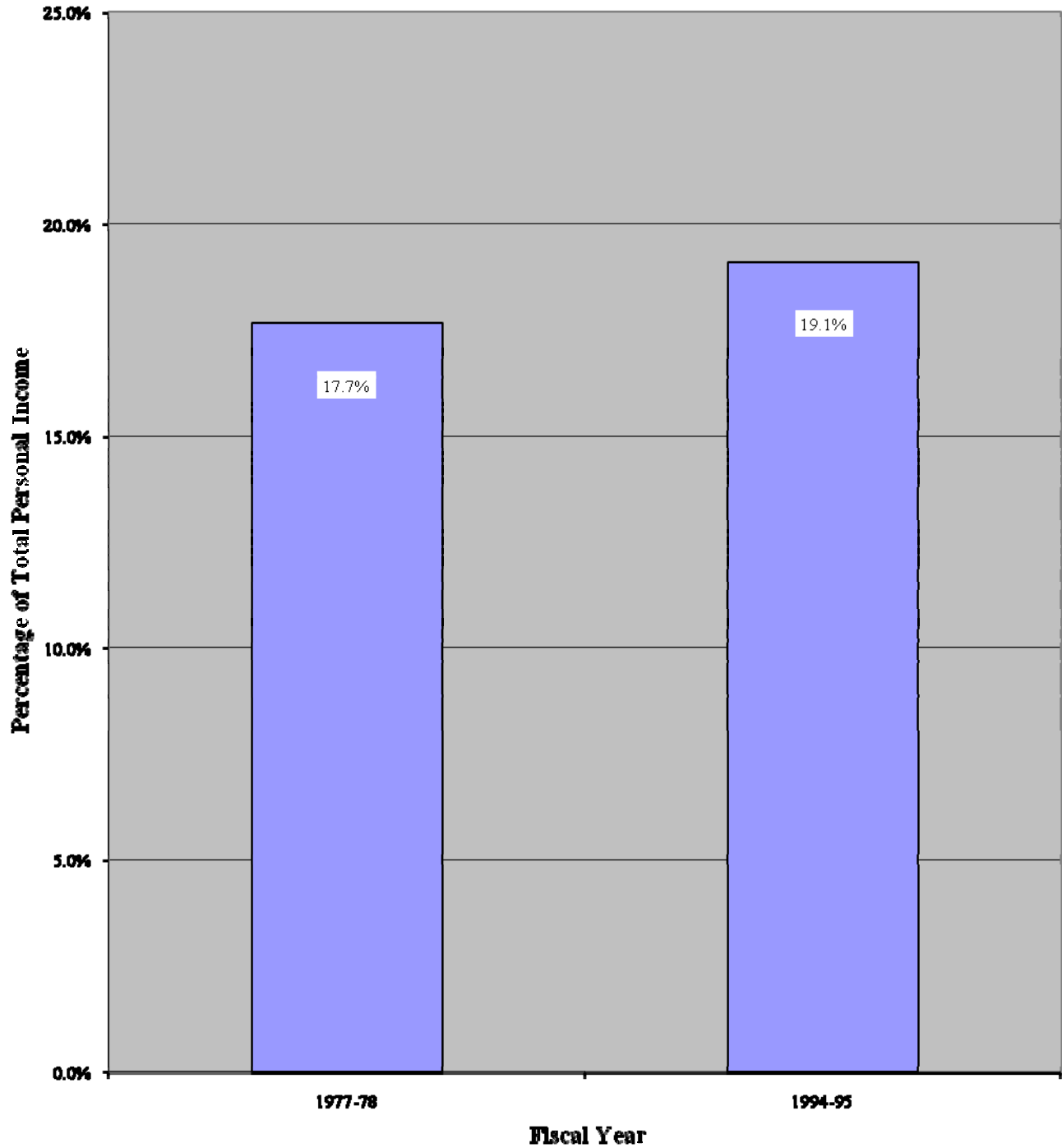


Graph 3 shows that total state and local expenditures increased from 17.7% of California residents' total personal income in FY 1977-78 to 19.1% in FY 1994-95. This represents a 7.9 percent increase in the amount of California total personal income spent by state and local governments. In FY 1977-78 total state and local government spending was \$38.2 billion. In FY 1994-95 total state and local government spending was \$145.9 billion.

Graph 3

**Total State and Local Government Spending as a Percentage of
Total Personal Income**

Pre-Proposition 13 and Post-Proposition 13



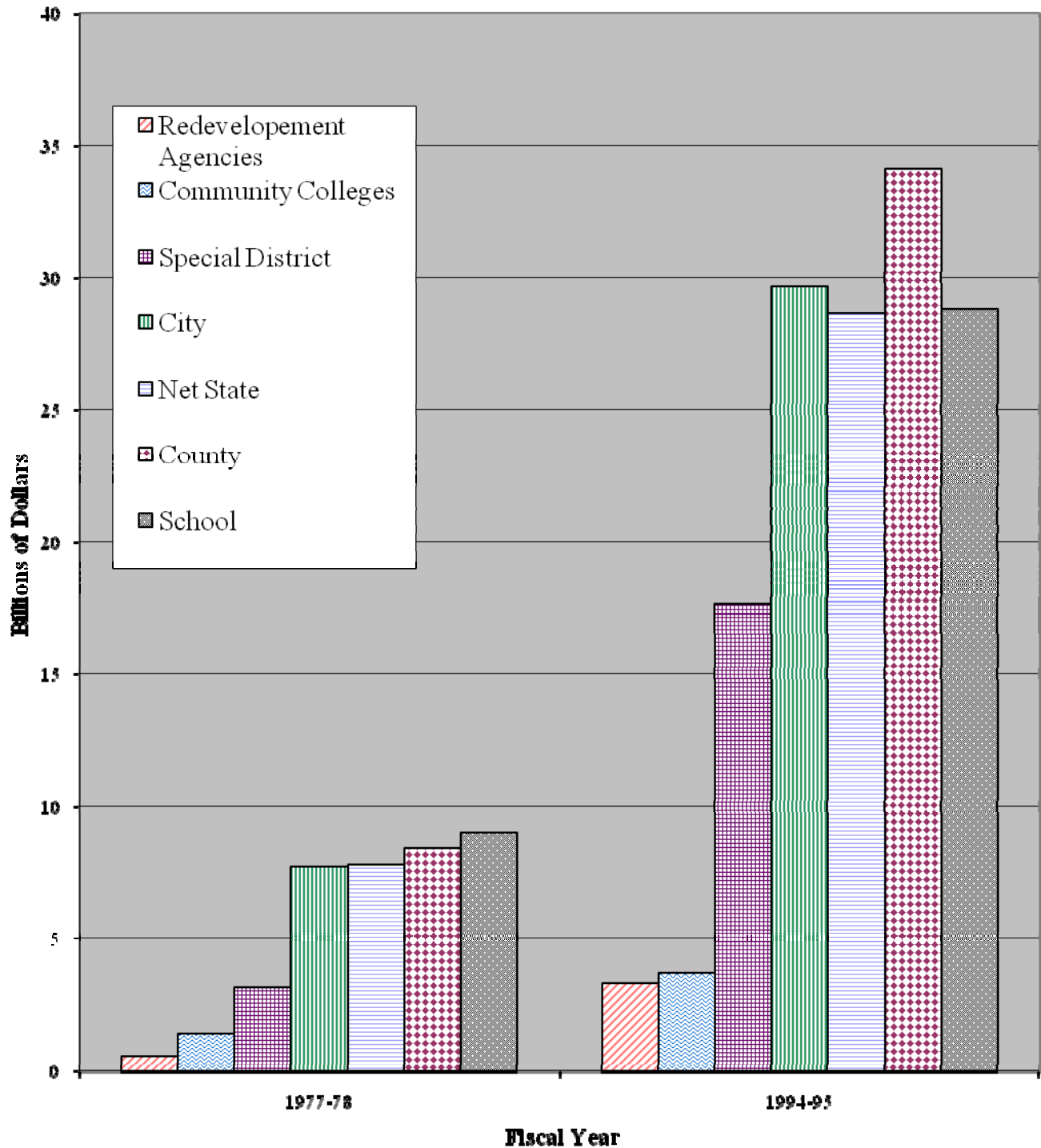
Graph 4 shows the composition and dollar amount of state and local government spending by government type for FY 1977-78 and FY 1994-95. The types of government shown in this graph are redevelopment agencies, community colleges, special districts, the “net” state (that is, state spending after state transfers to the other local governments have been taken out), cities, counties and school districts.

In dollar terms, the spending by each of these government types increased between FY 1977-78 and FY 1994-95. Subsequent graphs will show how this spending compared to the total personal income of Californians in these two fiscal years.

Graph 4

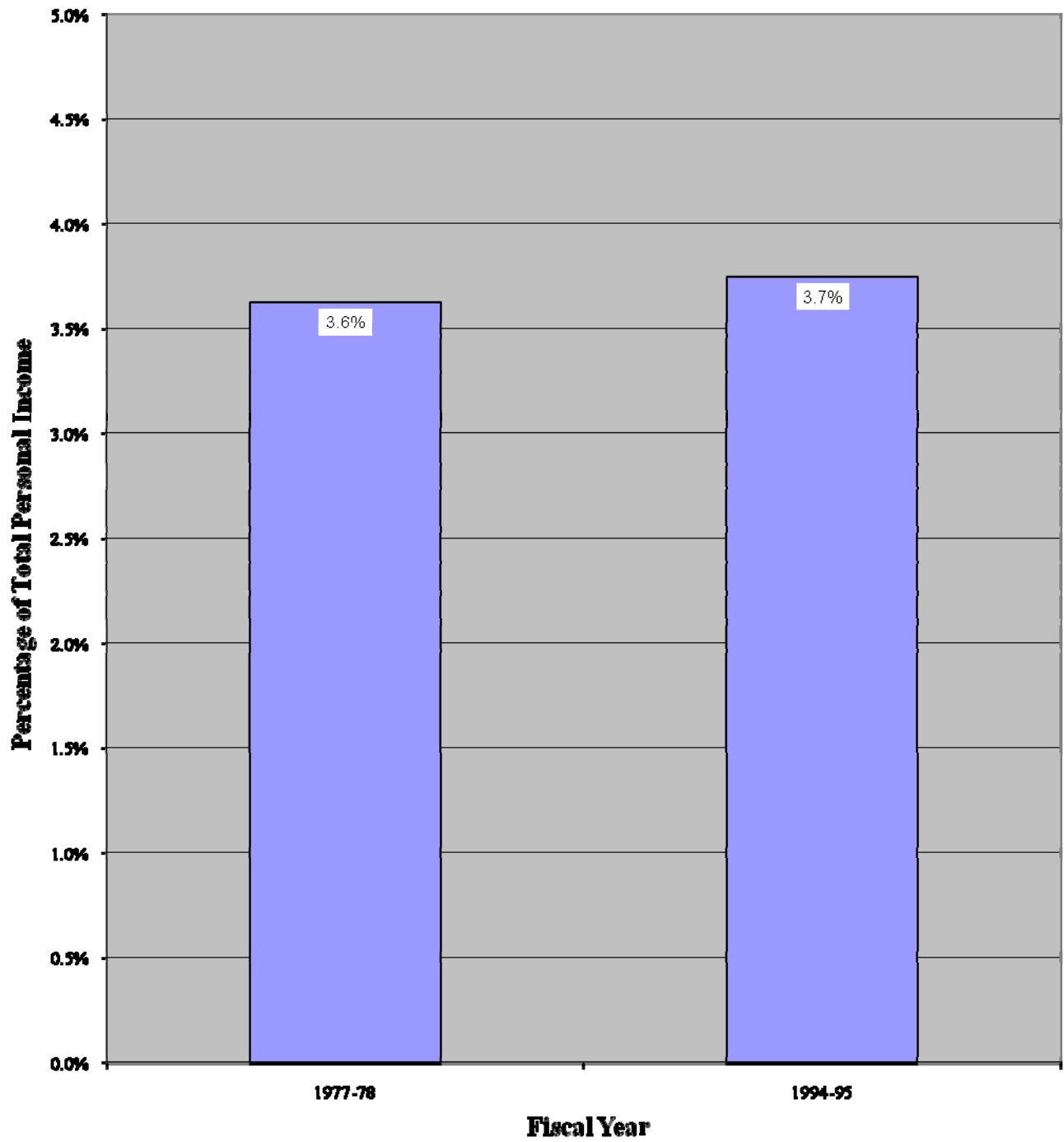
State and Local Spending By Government Type

Pre-Proposition 13 and Post-Proposition 13



Graph 5 shows that net state expenditures increased from 3.6% of California residents' total personal income in FY 1977-78 to 3.7% in FY 1994-95. This represents a 2.8% increase in the amount of California total personal income spent on state operations. In FY 1977-78 net state spending was \$7.8 billion. In FY 1994-95 net state spending was \$28.7 billion.

Graph 5
Net State Expenditures as a Percentage of Total Personal Income
Pre-Proposition 13 and Post Proposition 13

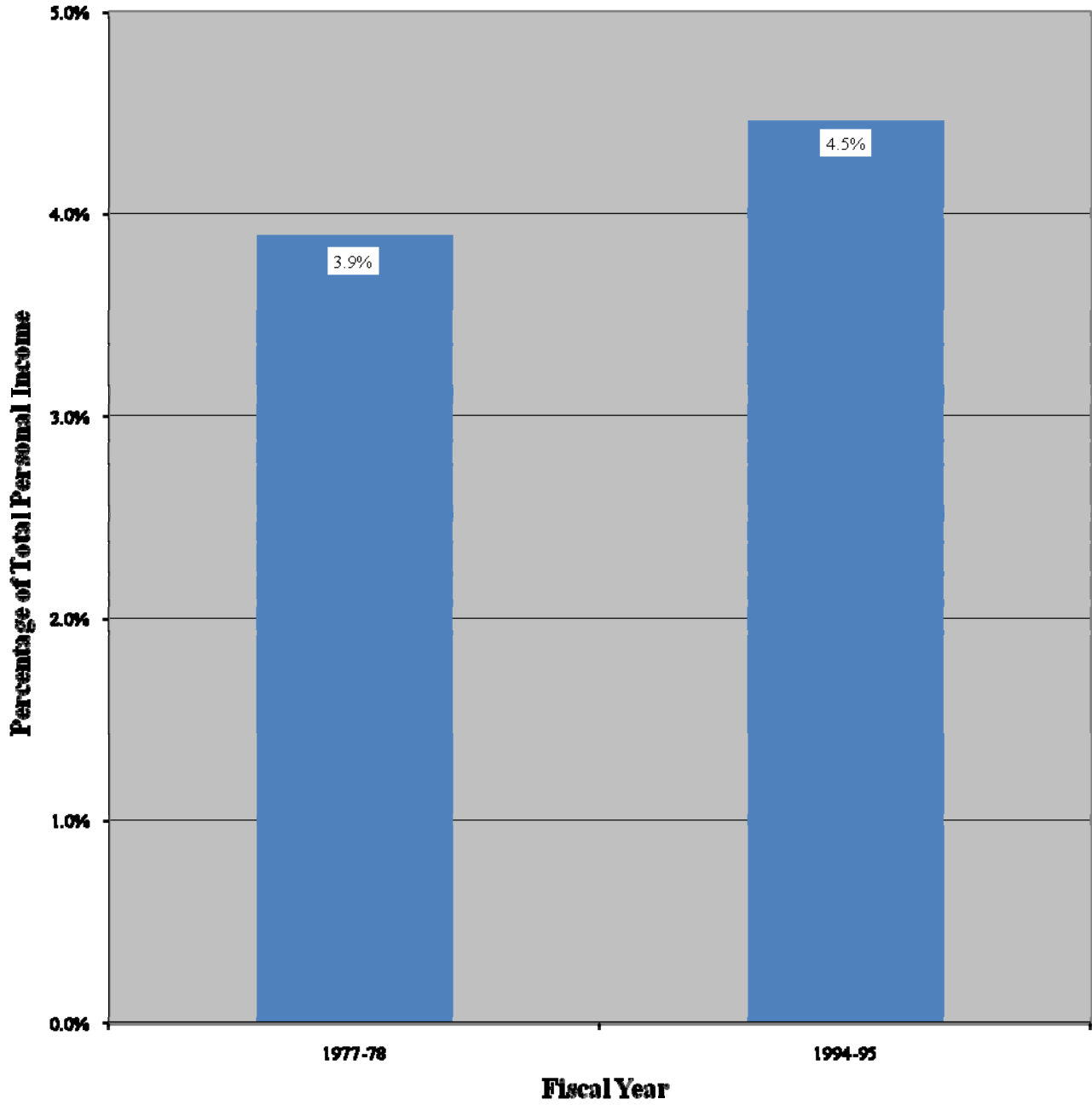


Graph 6 shows that total county expenditures increased from 3.9% of California residents' total personal income in FY 1977-78 to 4.5% in FY 1994-95. This represents an 15.4 percent increase in the amount of California total personal income spent by counties. In FY 1977-78 total county spending was \$8.4 billion. In FY1994-95 total county spending was \$34.1 billion.

Graph 6

Total County Expenditures as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13



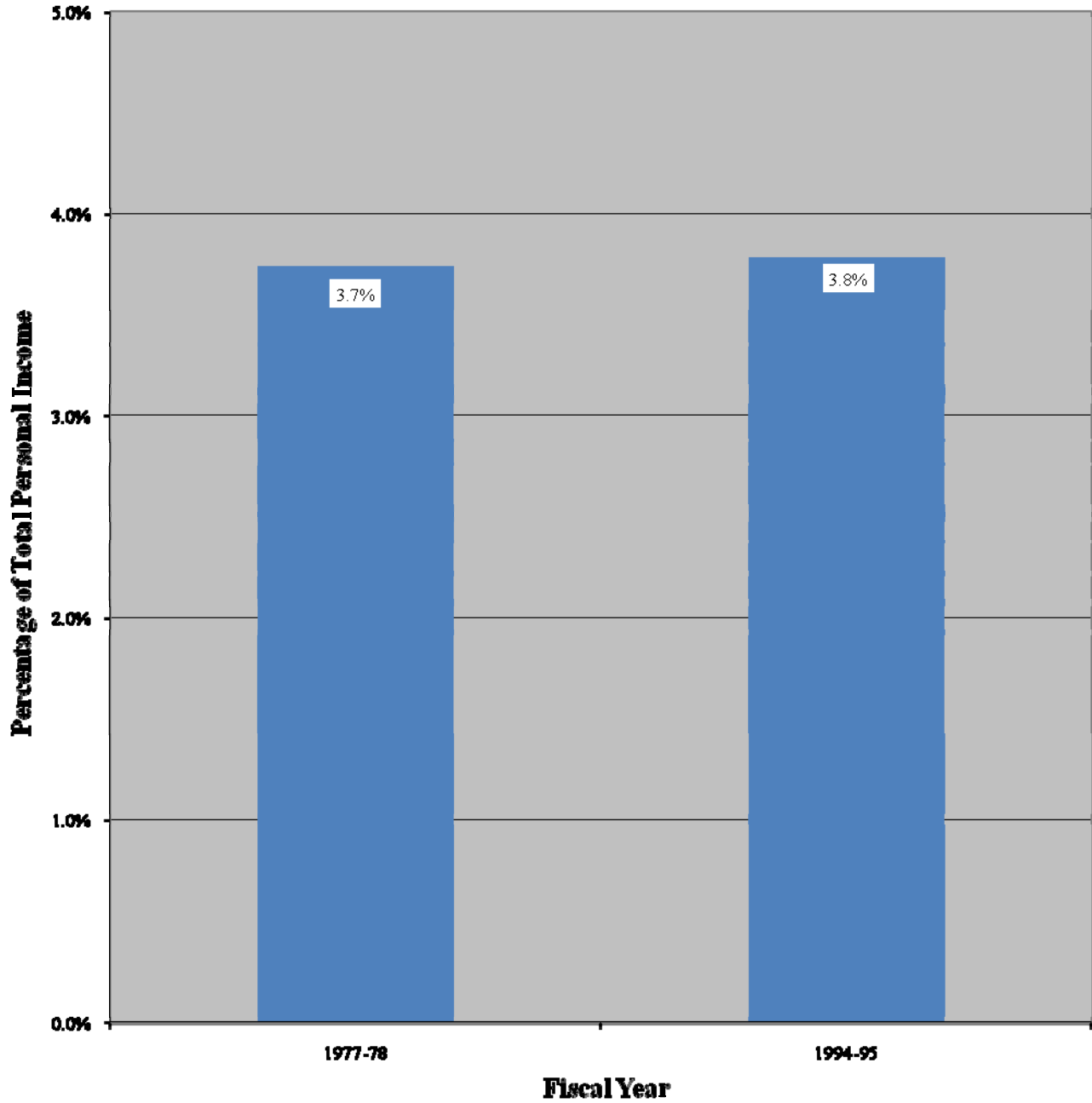
Graph 7 shows that county non-enterprise expenditures increased from 3.7% of California residents' total personal income in FY 1977-78 to 3.8% in FY 1994-95. This represents an 2.7 percent increase in the amount of California total personal income spent by county non-enterprise activities. In FY 1977-78 county non-enterprise spending was \$8.1 billion. In FY 1994-95 county non-enterprise spending was \$28.9 billion.

County non-enterprise expenditures include such things as courts, jails, sheriff, welfare, health, etc.

Graph 7

Total County Non-Enterprise Expenditures as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13



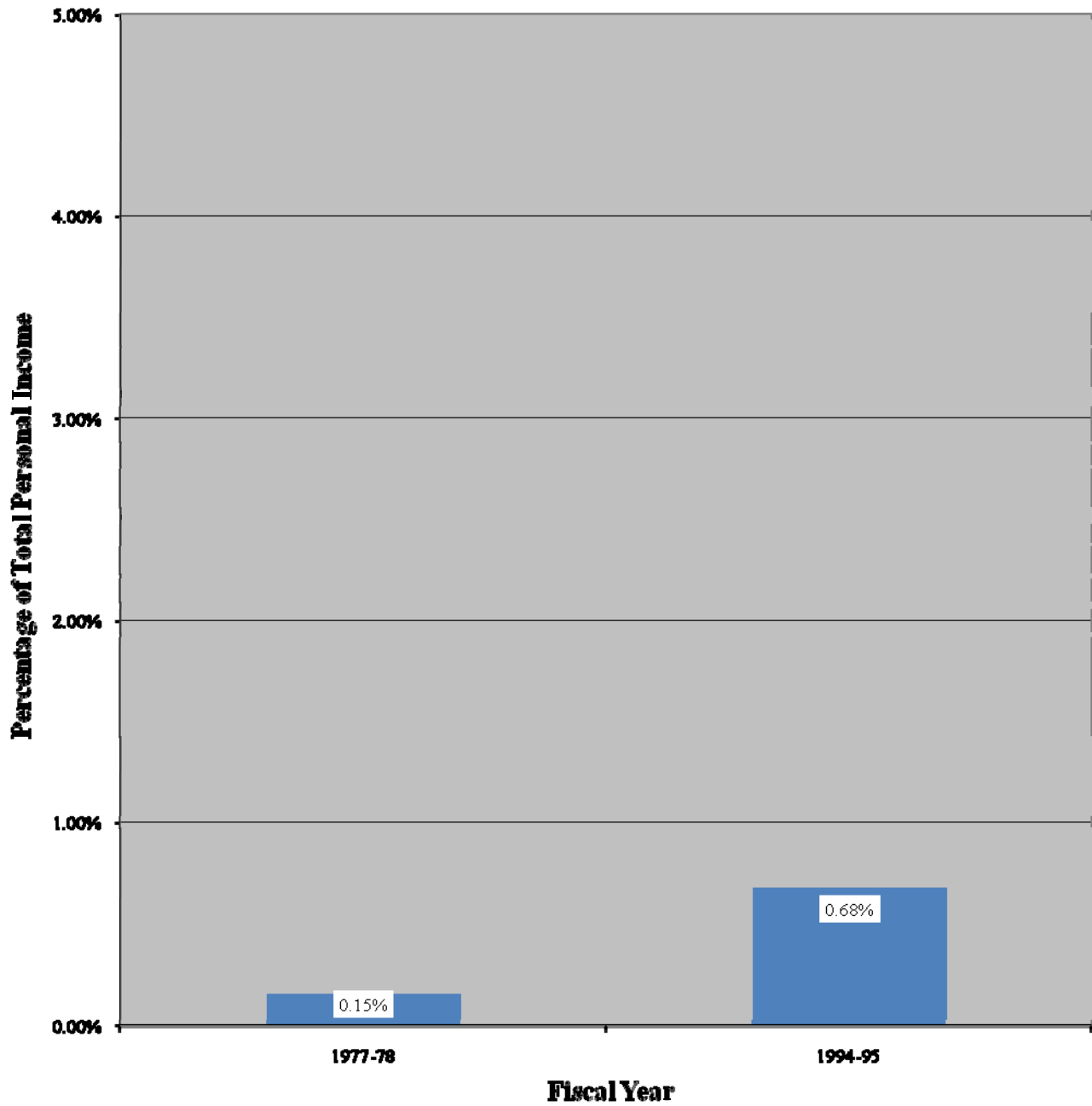
Graph 8 shows that county enterprise expenditures increased from .15% of California residents' total personal income in FY 1977-78 to .68% in FY 1994-95. This represents an 353 percent increase in the amount of California total personal income spent by county enterprise activities. In FY 1977-78 county enterprise spending was \$334 million. In FY 1994-95 county enterprise spending was \$5.2 billion.

County enterprise expenditures are primarily county hospitals, but can also include such activities as landfills. About \$4 billion of these expenditure was for county hospitals; however, Los Angeles county hospitals alone accounted for slightly over \$2 billion of these county hospital expenditures in FY 1994-95.

Graph 8

Total County Enterprise Expenditures as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13

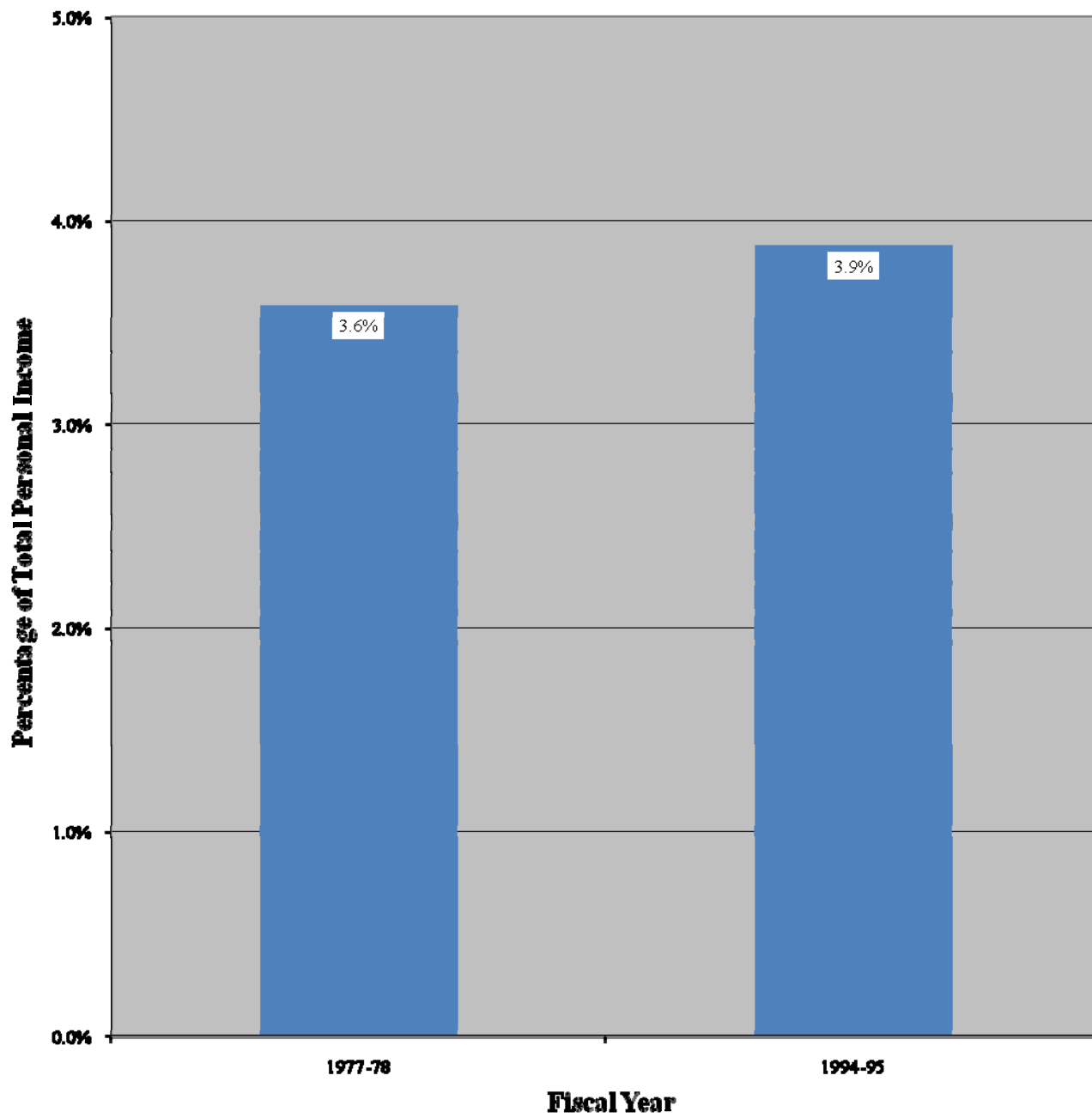


Graph 9 shows that total city expenditures increased from 3.6% of California residents' total personal income in FY 1977-78 to 3.9% in FY 1994-95. This represents an 8.3 percent increase in the amount of California total personal income spent by cities. In FY 1977-78 total city spending was \$7.7 billion. In FY 1994-95 total city spending was \$29.7 billion.

Graph 9

Total City Expenditures as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13



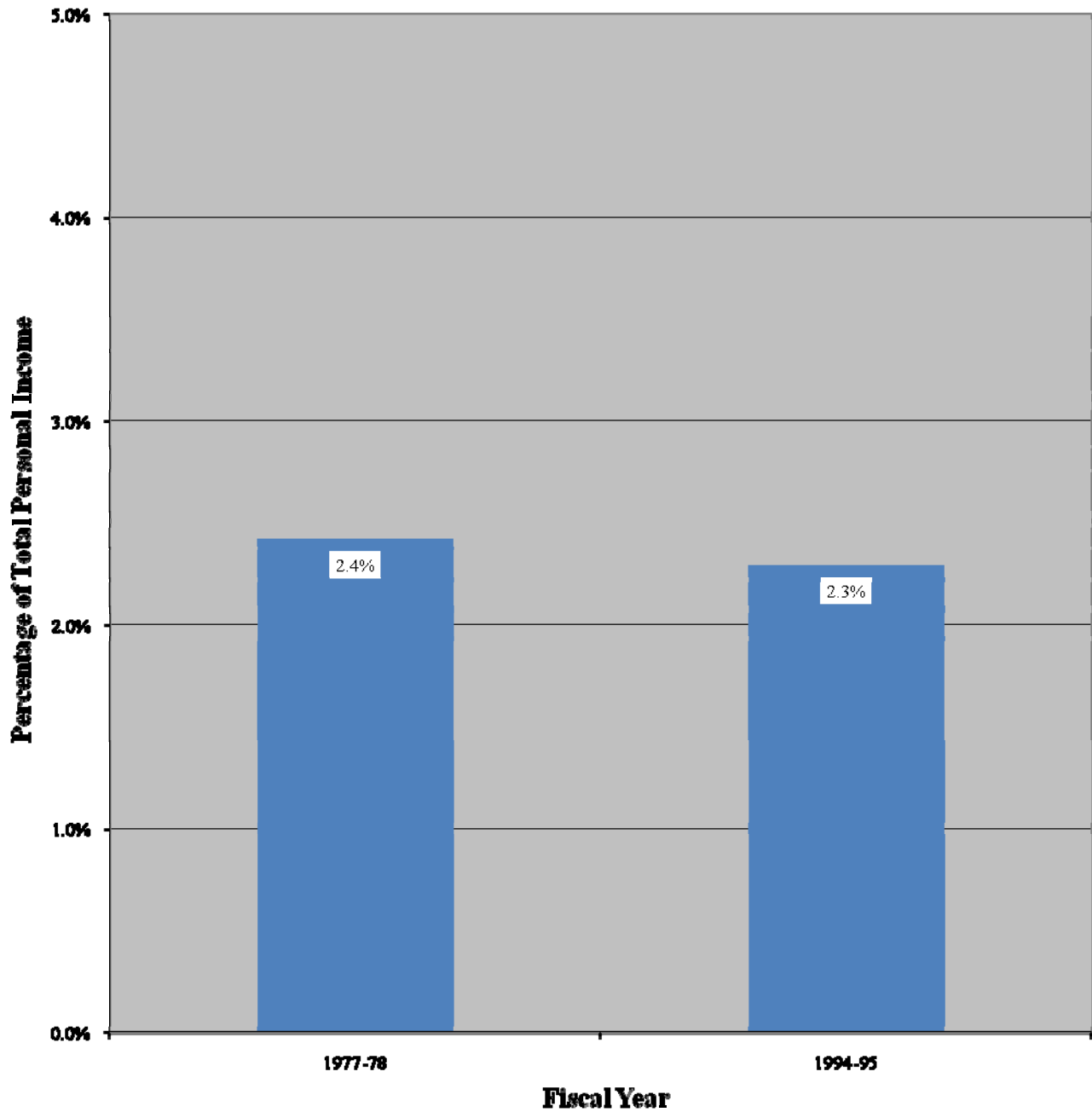
Graph 10 shows that city non-enterprise expenditures decreased from 2.4% of California residents' total personal income in FY 1977-78 to 2.3% in FY 1994-95. This represents an 4.1 percent decrease in the amount of California total personal income spent by city non-enterprise activities. In FY 1977-78 city non-enterprise spending was \$5.2 billion. In FY 1994-95 city non-enterprise spending was \$17.5 billion.

City non-enterprise expenditures include police protection, fire protection, parks and recreation, libraries, streets, etc.

Graph 10

Total City Non-Enterprise Expenditures as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13



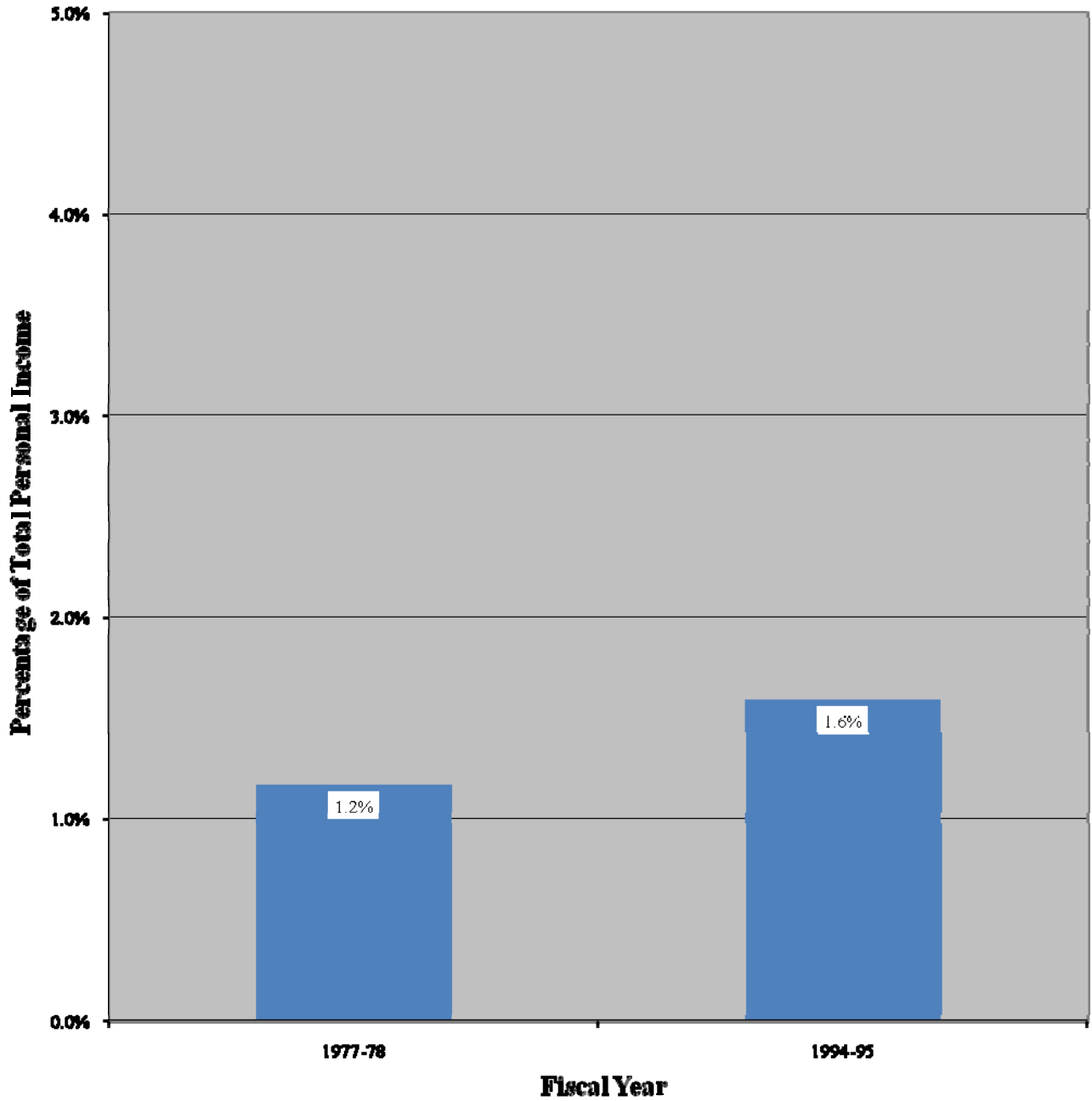
Graph 11 shows that city enterprise expenditures increased from 1.2% of California residents' total personal income in FY 1977-78 to 1.6% in FY 1994-95. This represents an 33.3 percent increase in the amount of California total personal income spent by city enterprises. In FY 1977-78 city enterprise spending was \$2.5 billion. In FY 1994-95 city enterprise spending was \$12.1billion.

City enterprise expenditures are primarily for municipal water, sewer and electrical systems.

Graph 11

Total City Enterprise Expenditures as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13

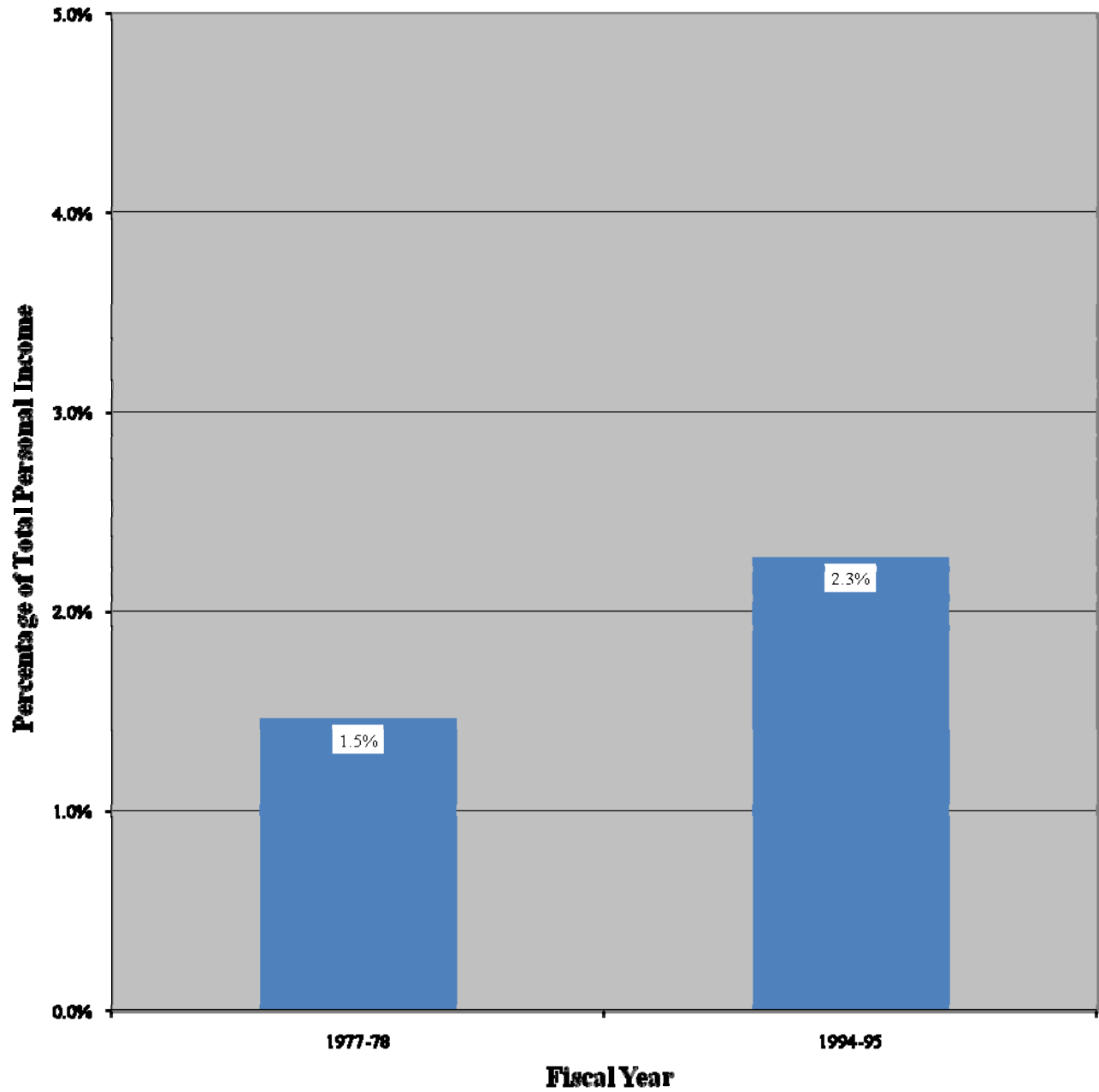


Graph 12 shows that total special district expenditures increased from 1.5% of California residents' total personal income in FY 1977-78 to 2.3% in FY 1994-95. This represents an 53.3% increase in the amount of California total personal income spent by special districts. In FY 1977-78 total special district spending was \$3.2 billion. In FY 1994-95 total special district spending was \$17.4 billion.

Graph 12

Total Special District Expenditures as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13



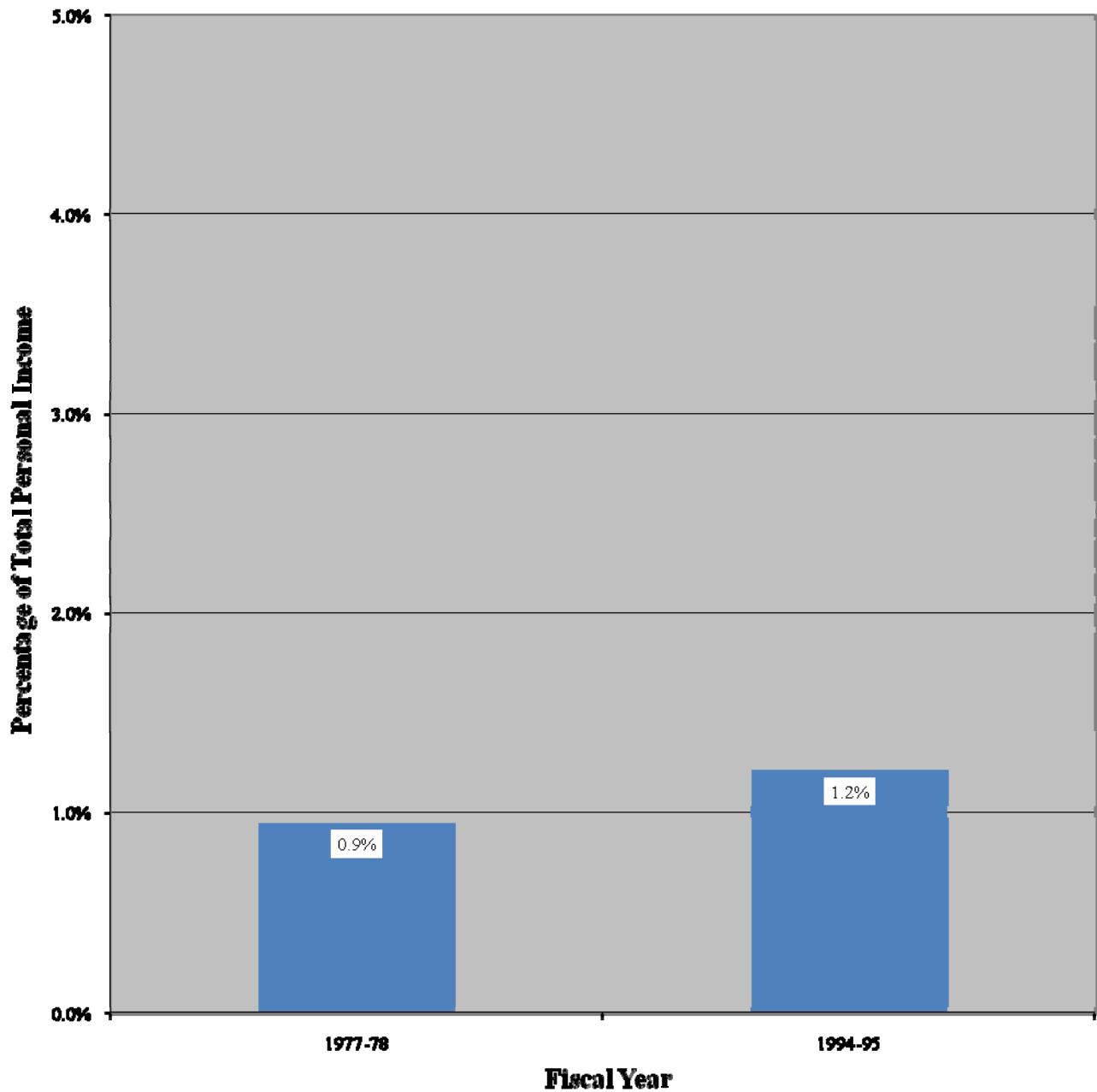
Graph 13 shows that enterprise special districts expenditures increased from .9% of California residents' total personal income in FY 1977-78 to 1.2% in FY 1994-95. This represents an 33.3% increase in the amount of California total personal income spent by enterprise special districts. In FY 1977-78 enterprise special district spending was \$2 billion. In FY 1994-95 enterprise special district spending was \$9.3 billion.

Enterprise special district expenditures include water districts, sewer districts, public utilities districts, transit districts, transportation planning agencies, port districts and certain hospital districts.

Graph 13

Total Special District Enterprise Expenditures as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13



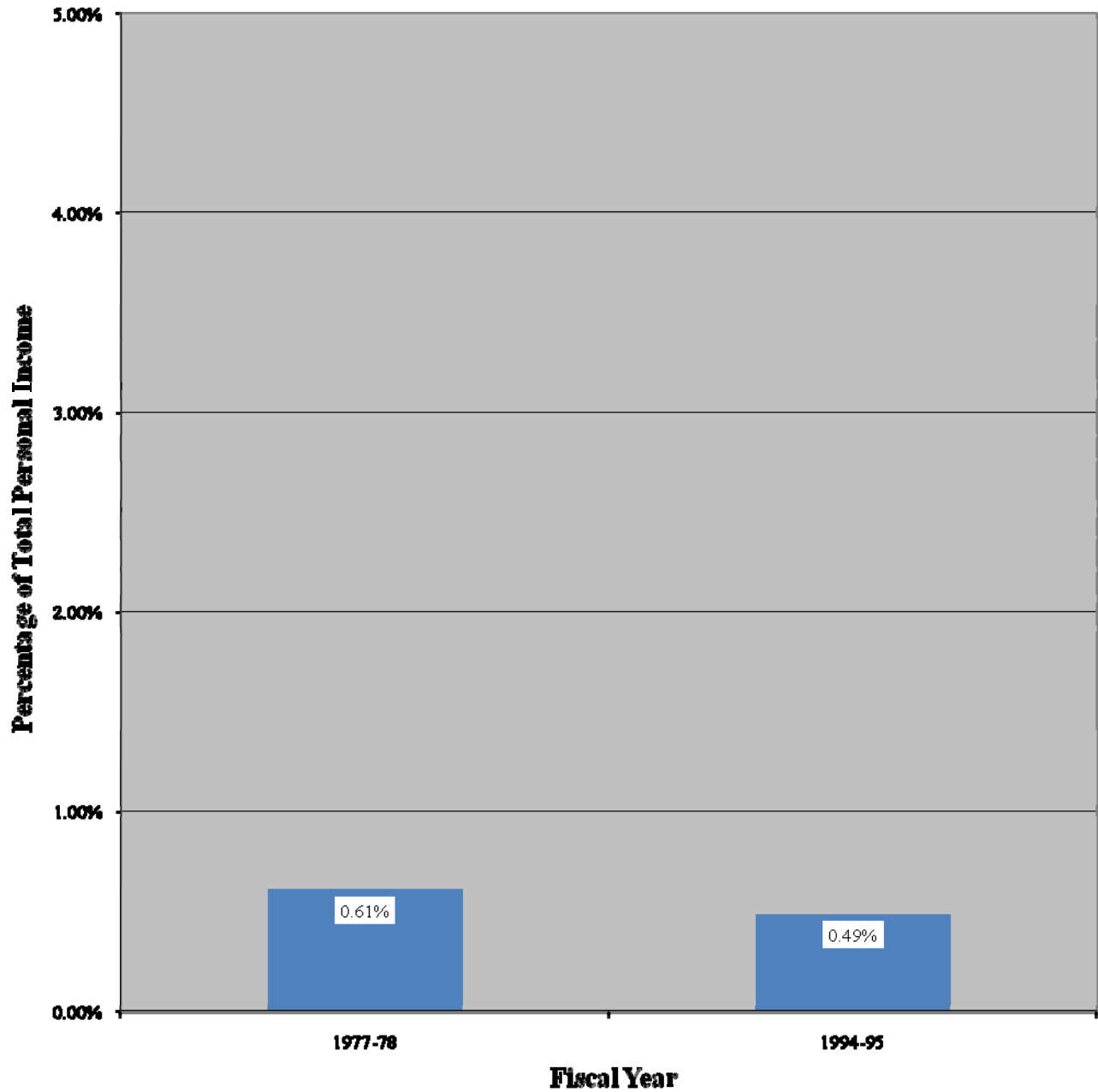
Graph 14 shows that non-enterprise special district expenditures decreased from .61% of California residents' total personal income in FY 1977-78 to .49% in FY 1994-95. This represents an 19.6 percent decrease in the amount of California total personal income spent by non-enterprise special districts. In FY 1977-78 non-enterprise special districts was \$1.3 billion. In FY 1994-95 non-enterprise special districts spending was \$3.7 billion.

Non-enterprise Special districts include flood control districts, fire protection districts, cemetery districts, mosquito control districts, etc.

Graph 14

Total Special District Non-Enterprise Expenditures as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13

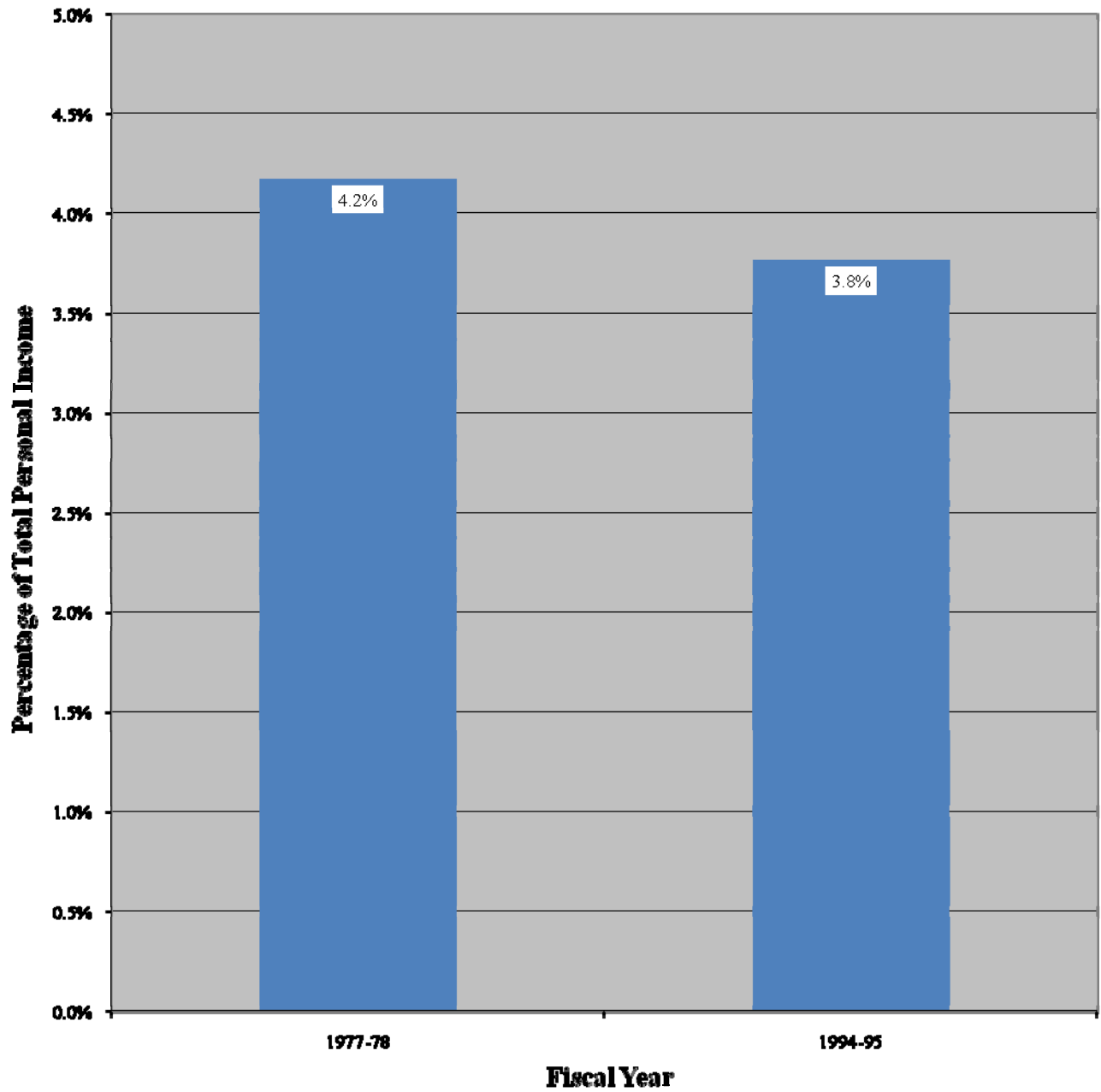


Graph 15 shows that public school district expenditures decreased from 4.2% of California residents' total personal income in FY 1977-78 to 3.8% in FY 1994-95. This represents an 9.5 percent decrease in the amount of California total personal income spent by public school districts. In FY 1977-78 public school district spending was \$9.0billion. In FY 1994-95 public school district spending was \$28.8 billion.

Graph 15

Total K-12 Public School District Expenditures as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13

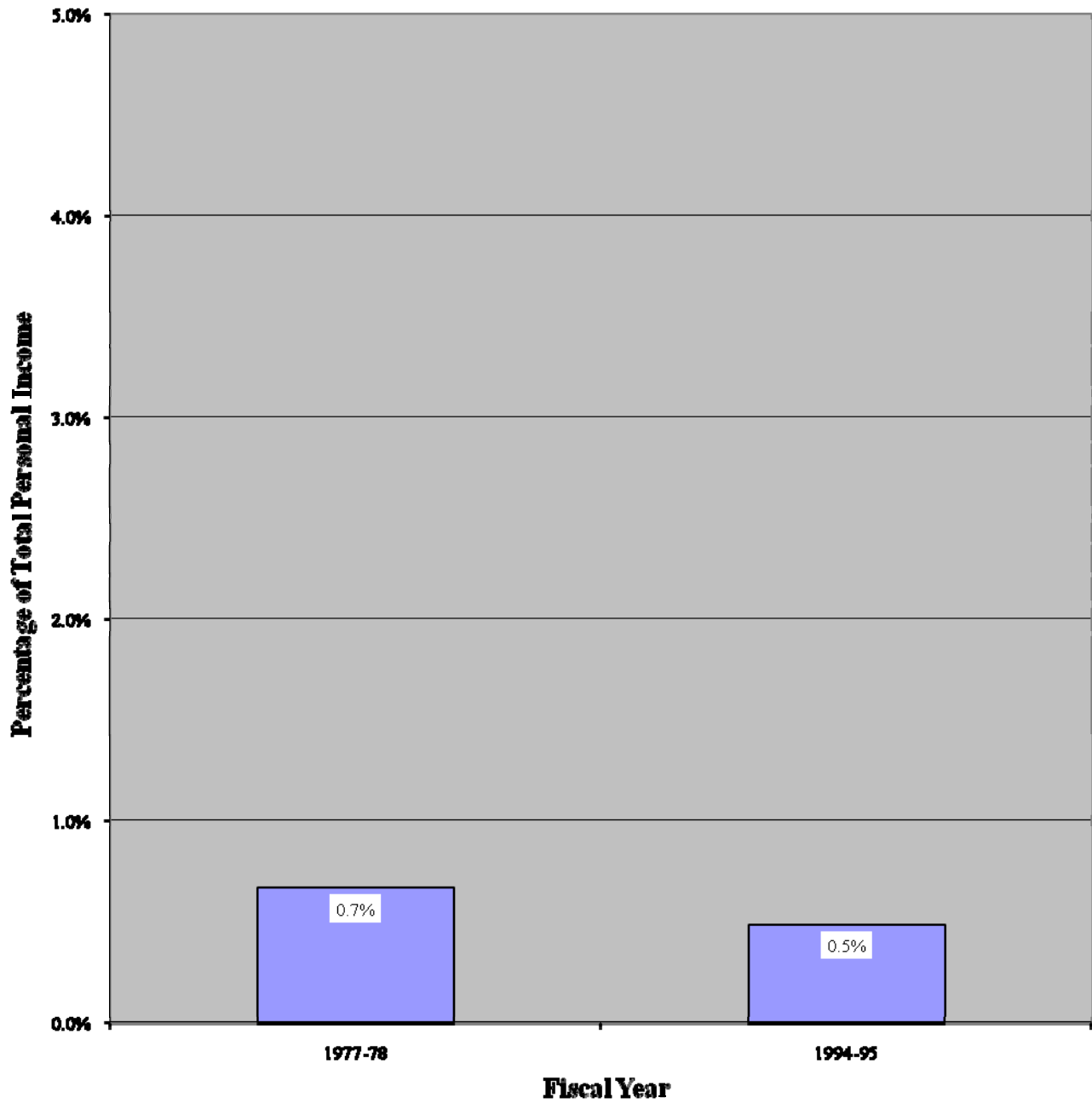


Graph 16 shows that community college expenditures decreased from .7% of California residents' total personal income in FY 1977-78 to .5% in FY 1994-95. This represents an 28.5 percent decrease in the amount of California total personal income spent by community colleges. In FY 1977-78 community college spending was \$1.4 billion. In FY 1994-95 community college spending was \$3.7 billion.

Graph 16

Total Community College Spending as a Percentage of Total Personal Income

Pre-Proposition 13 and Post-Proposition 13

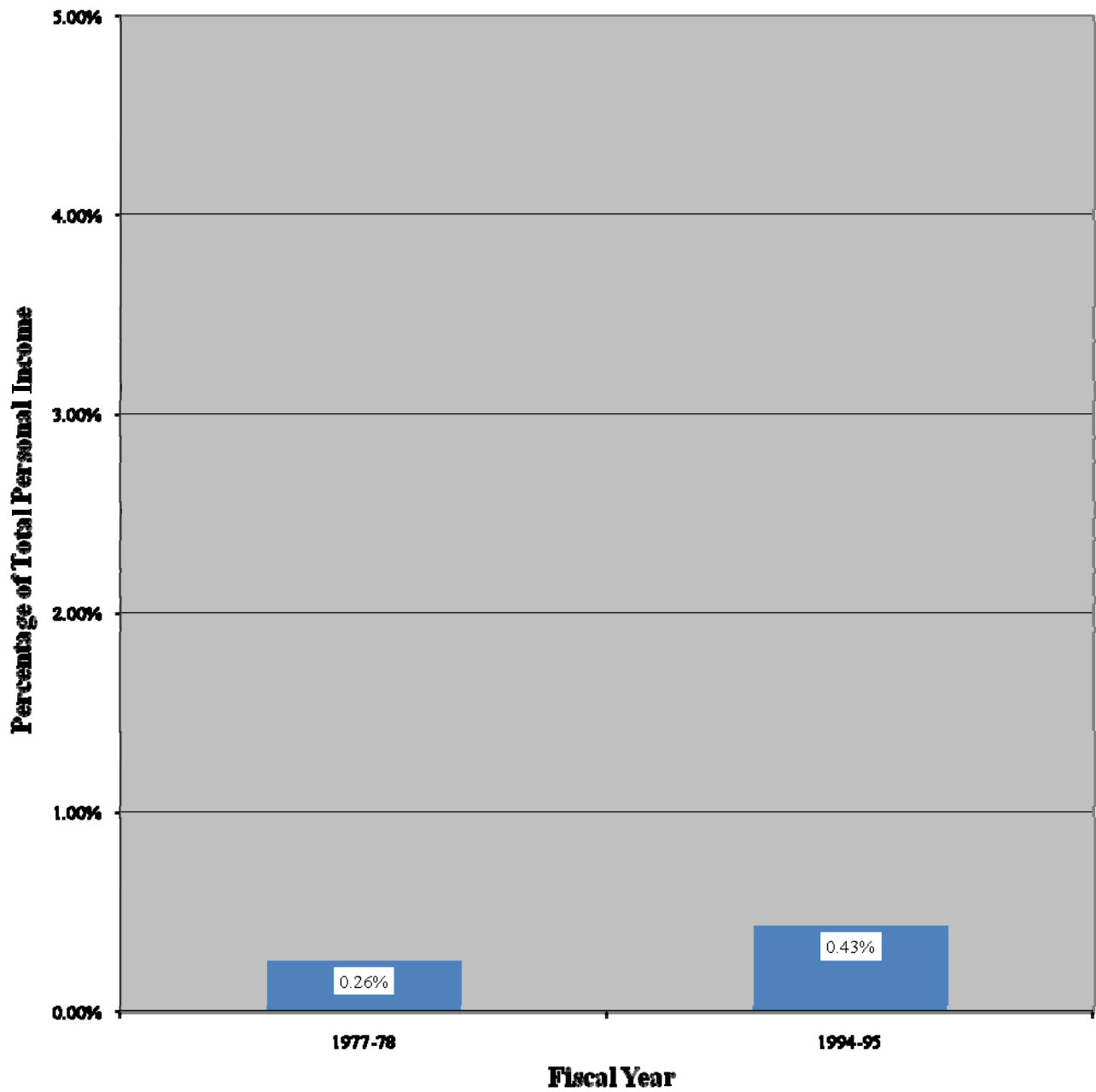


Graph 17 shows that redevelopment agency expenditures increased from .26% of California residents' total personal income in FY 1977-78 to .43% in FY 1994-95. This represents an 65.3 percent increase in the amount of California total personal income spent by redevelopment agencies. In FY 1977-78 redevelopment agency spending was \$559 million. In FY 1994-95 redevelopment spending was \$3.3 billion.

Graph 17

**Total Redevelopment Agency Expenditures as a Percentage of
Total Personal Income**

Pre-Proposition 13 and Post-Proposition 13

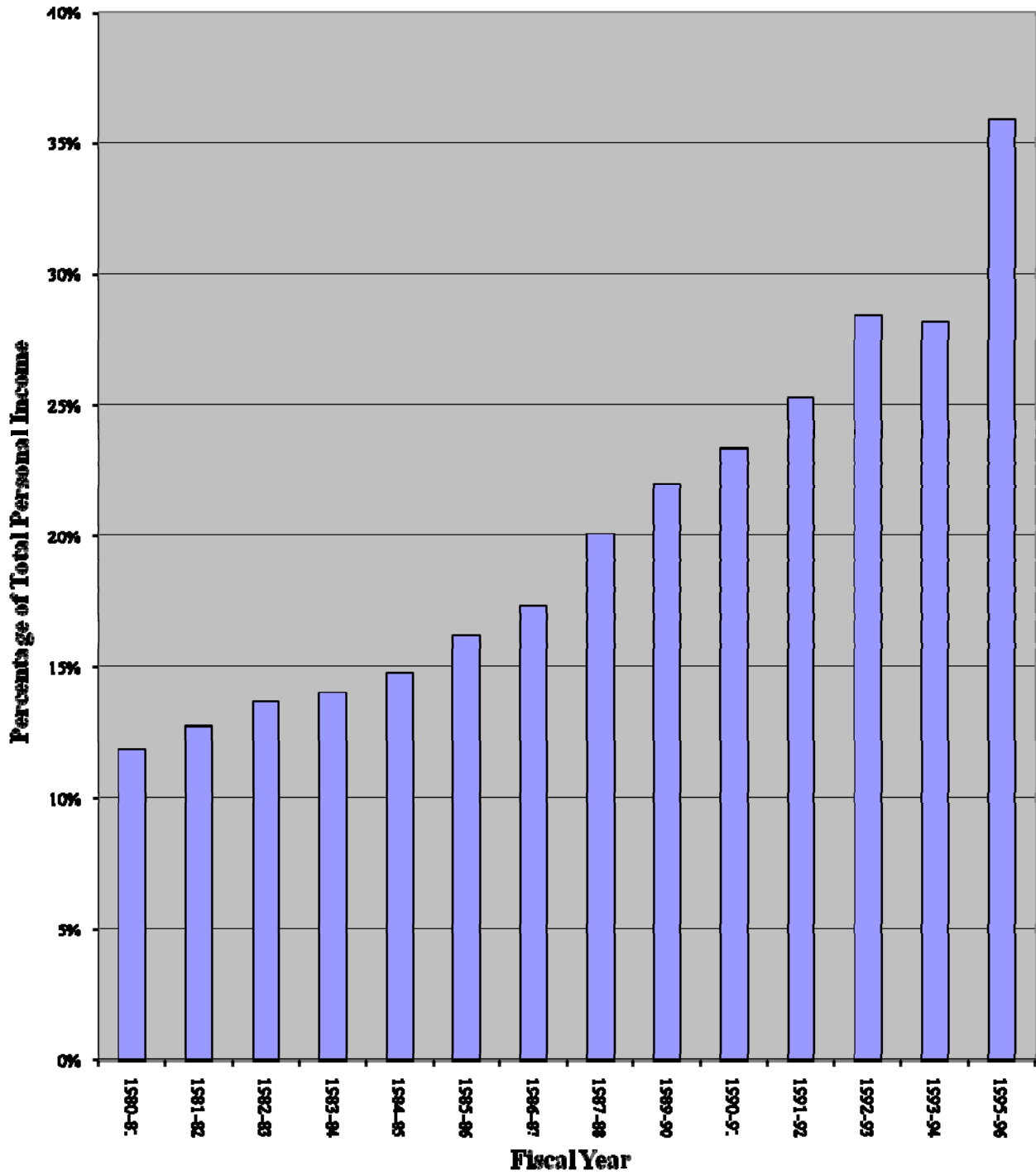


Appendix A

Pensions

Graph A1

Total Public Employee Retirement System Assets as a Percentage of Total Personal Income



Graph A2 shows the public employee retirement systems annual revenues as a percentage of California residents' total personal income for each fiscal year from FY 1980-81 to FY 1994-95. In FY 1980-81 the public employee retirement systems revenues were equal to 2.5% of California residents' total personal income. By FY 1994-95 the annual income of the public employee retirement systems had grown to over 4% of California residents' total personal income, an increase of over 64%.

Graph A2

Total Public Employee Retirement System Annual Revenues as a Percentage of Total Personal Income

