



CALIFORNIA BUDGET PROJECT

January 20, 2010

TO: FRIENDS OF THE CALIFORNIA BUDGET PROJECT

FROM: JEAN ROSS, EXECUTIVE DIRECTOR

SUBJECT: CALIFORNIA'S "BALANCE OF PAYMENTS" WITH THE FEDERAL GOVERNMENT

Since the Governor's State of the State address, we've receive more questions than usual regarding the issue of how much Californians pay in taxes to the federal government and how much the state receives back in services and payments. As I wrote in CalBuzz yesterday, we have never been fans of the argument that California doesn't receive its "fair share" of federal dollars. Most fundamentally, it ignores the fact that we are part of a federal system, that we receive many benefits from being part of the United States that can't be mechanically allocated out to states, and that the federal government does have a role to play in redistributing funds between richer and poorer parts of the country, just as our system in California shifts funds from the wealthier parts of the state to less affluent communities.

With that disclaimer, we were asked to review data originally released by Senator Boxer's office, as well as the figure used by the Governor in the State of the State. We would offer the following conclusions based on a careful review of the data:

- The Governor's figure has two major flaws. First, it relies on a study by the Tax Foundation that assumes that all expenditures in a given year were paid for in a given year, even if the federal budget ran a deficit that year. This has the impact of inflating the amount paid in taxes – the Tax Foundation allocates the "unfunded spending" based on the percentage of taxes paid by residents of a given state, even though that amount was not actually paid. Second, the Governor's figure is from 2005 and ignores the significant infusion of funds to California, as well as to all other states, from the American Recovery and Reinvestment Act (ARRA) of 2009.
- Using 2009 data, we estimate that California received approximately \$1.50 in services and benefits for each dollar in taxes paid. This is a slightly higher figure than that released by Senator Boxer's office. The primary difference is that we included spending for the Troubled Asset Relief Program (TARP), which was excluded in the Senator's analysis. Our analysis does not reflect a "balanced budget constraint." In other words, it reflects the fact that, largely due to the ARRA, states received more federal funds than their taxpayers paid in taxes in 2009, resulting in a sizeable federal budget deficit. This also reflects the critical role of the federal government to use counter-cyclical spending to address the economic downturn.

We'd be happy to discuss our data sources or methodology if you have any additional questions.

1107 9th Street, Suite 310
Sacramento, California 95814
P: (916) 444-0500
F: (916) 444-0172
cbp@cbp.org
www.cbp.org