

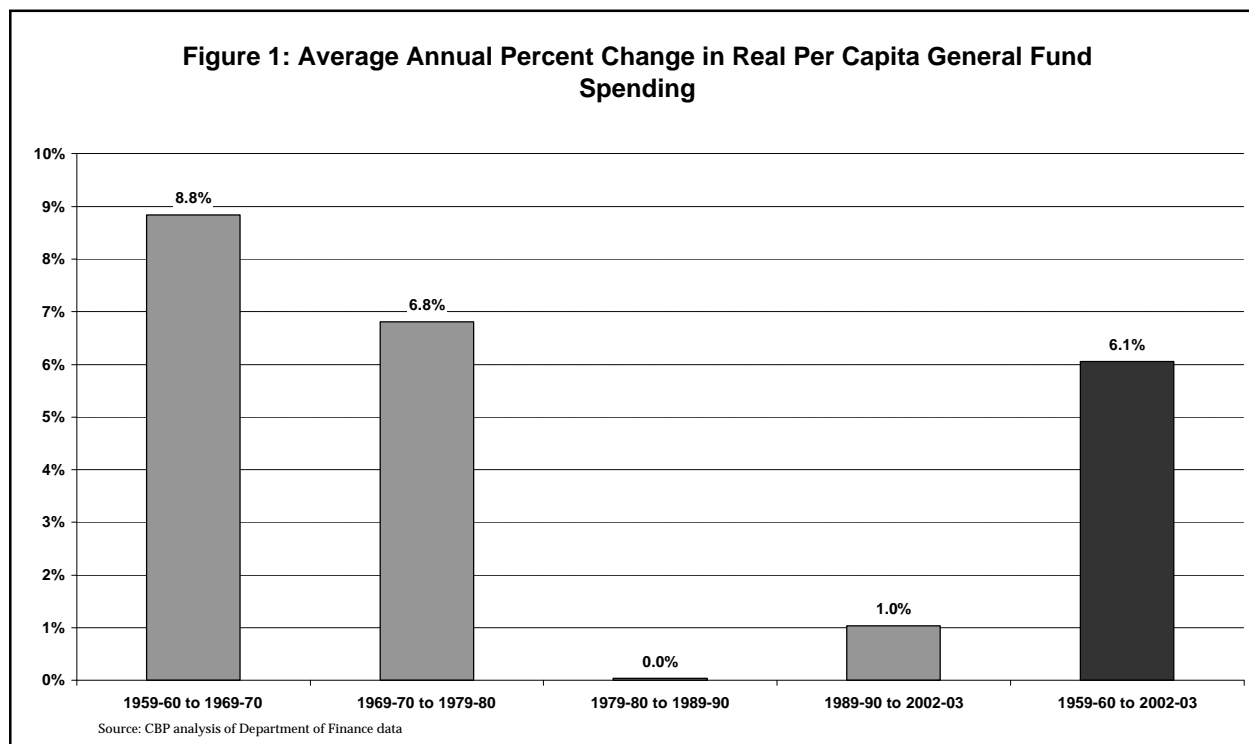
## DID CALIFORNIA SPEND ITS WAY INTO THE CURRENT FISCAL CRISIS?

Many analysts and journalists have attributed the unprecedented budget gap – estimated at \$38.2 billion – to out-of-control spending during the late 1990s. However, a closer examination of the data indicates that spending since 1989-90 grew more slowly than in previous decades. In fact, much of the spending growth that occurred in the late 1990s represented a restoration of cuts made during the budget crises of the early 1990s.

### RECENT STATE SPENDING HAS GROWN SLOWER THAN HISTORICAL RATES

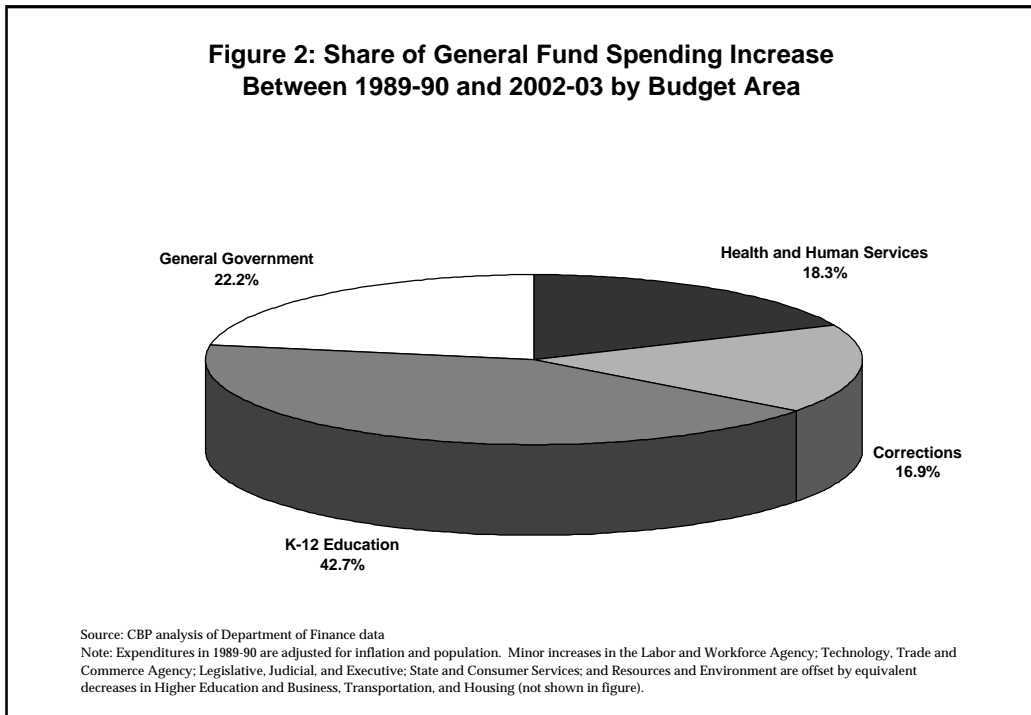
General Fund spending per resident increased by an annual average of 1.0 percent between 1989-90 and 2002-03, after adjusting for inflation (Figure 1). Per capita spending was \$2,211 in 2002-03, as compared to \$1,950 in 1989-90 (in 2002-03 dollars). State spending peaked in 1989-90, corresponding to the last economic peak prior to 2001, before falling during the recession of the early 1990s. Spending reached its next peak of \$2,425 in 2000-01, before falling in both 2001-02 and 2002-03.

Spending grew much faster in prior decades. Per capita General Fund spending since 1959-60 has increased at an annual rate of 6.1 percent, six times the rate since 1989-90. Per capita spending increased at an annual rate of 8.8 percent between 1959-60 and 1969-70 and 6.8 percent between 1969-70 and 1979-80. Spending remained essentially flat between 1979-80 and 1989-90.



## WHERE HAS SPENDING GROWN SINCE 1989-90?

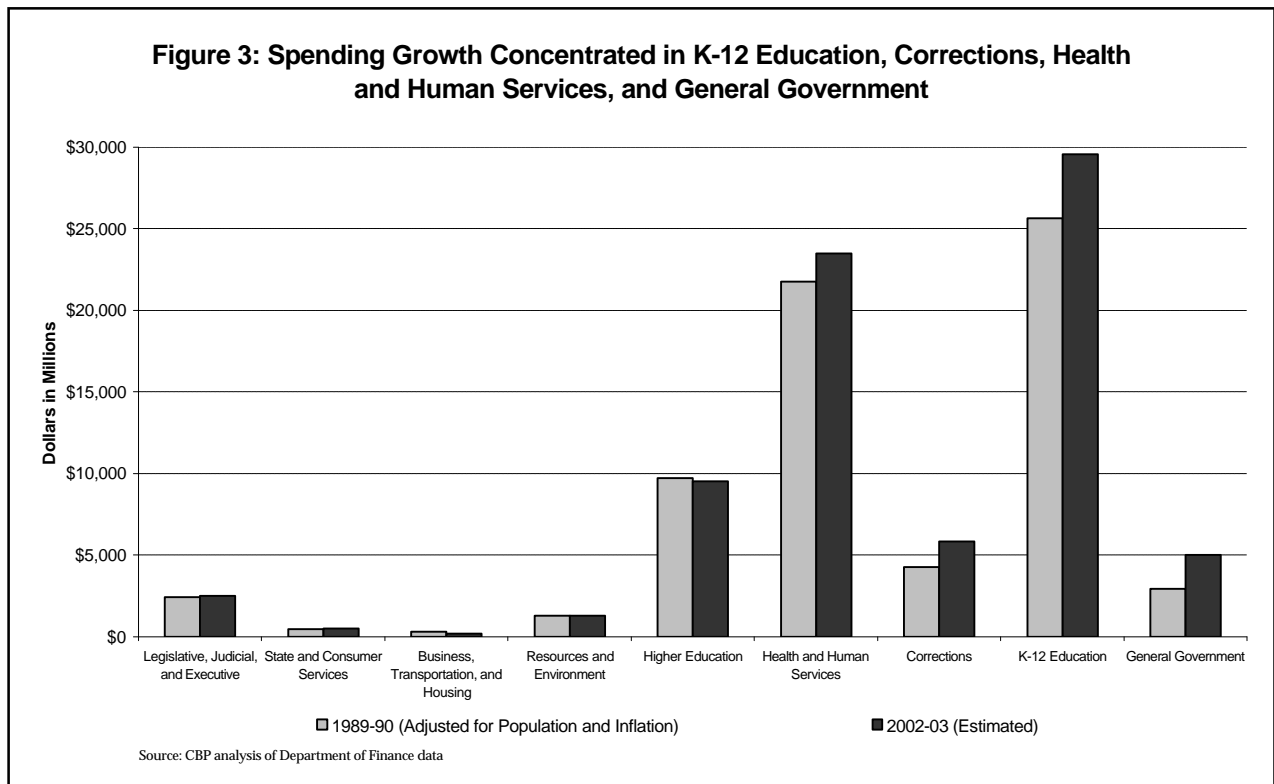
Four areas of the budget account for the entirety of increased General Fund spending since 1989-90: K-12 education, health and human services, corrections, and tax relief (included as expenditures in General Government), after adjusting for inflation and population growth (Figure 2). Spending in other major areas of the budget remained flat or declined (Figure 3).



**K-12 Education** accounts for the largest portion (42.7 percent) of increased spending between 1989-90 and 2002-03. K-12 spending has increased due to the student population growing faster than the population as a whole and policy changes to improve school quality, such as reducing class sizes. Spending in K-12 schools and community colleges is largely driven by a constitutional formula enacted by Proposition 98.

**Health care** expansions and the growing elderly population drove up health and human services spending (18.3 percent of total spending growth). California's efforts to cover uninsured children through the Healthy Families Program and expansions in Medi-Cal eligibility, coupled with rising health care costs, increased health spending. The aging of the population also increased spending for In-Home Supportive Services, which provides in-home assistance for low-income aged and disabled Californians, and Supplemental Security Income/Supplementary State Payment cash grants.

**General Government** spending accounts for 22.2 percent of increased expenditures. This increase is due to tax reductions in the 1990s that are included as expenditures in this category (which also includes several small departments). When the state lowered the Vehicle License Fee (VLF), it "backfilled" lost



revenues to local governments (VLF revenues flow to local governments). The state spent \$3.9 billion to reimburse local governments for VLF losses in 2002-03, but had no such costs in 1989-90, which was prior to the rate reduction. Discounting VLF backfill costs, General Government spending declined between 1989-90 and 2002-03.

**Corrections** accounts for 16.9 percent of increased spending, reflecting growth in California’s prison population. The Youth and Adult Corrections Agency is one component of “state operations,” often referred to as state bureaucracy.

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*David Carroll prepared this report. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP’s web site at [www.cbp.org](http://www.cbp.org).*

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