Where Does All the Money Go?

A Comparative Analysis of State Finance, Educational Spending, and Outcomes[1]

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Abstract

This paper examines California's state and local governments' combined budget and compares it across time and with other states to answer a number of questions including the relative tax rates and revenue of California compared to that of other states, relative expenditure across broad programmatic categories, and the effects of the "dot com" stock market bubble on California's budget. Finally, a series of charts walks through the history of higher education funding nationally. A brief comparison of higher education outcomes reviews California's Baccalaureate production with other states as a way of looking at one of the effects of the level of spending on higher education by comparing output the same way financial inputs were discussed earlier in the paper.

California is shown to have tax rates and revenue streams in the upper quartile of states and to have a reasonably balanced tax base compared to the nation as a whole, three large states (New York, Texas, Michigan) and a variety of other states. The expenditure analysis shows that California spends considerably less on education than other states even before taking into account its above average revenue stream. The money not spent on education appears to be spent on public safety, the environment and housing, and health. There appears to be strong evidence that the education money, as is popularly thought, did, in fact, go to prisons and other parts of the criminal justice system.

The final series of charts illustrate the decline in the relative share of state support for higher education nationally, the rise in spending on criminal justice and Medicaid.

Introduction

Discussions about California's budget politics have often included discussions on two different levels. One is the debate about whether California is a high or low tax state, or in other words, whether the state's total revenue is large or small compared to other states given the personal and corporate income generated in the state. Or, to rephrase the question, is the problem a lack of resources, or a problem of governmental spending priorities?

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The other level is a question of the allocation of resources. The debate here typically is around the question of why (especially if one thinks California is on the higher side of comparative levels of taxation) California seems to rate badly compared to other states, especially in education and transportation. If California spends less on these two items in particular, where does the money go instead?

The catastrophic budget crisis now facing California, following a multi-year long major increase in spending, leads to a second round of questions about where the big increase in spending went during the late 1990's and early 2000's and what it would mean to roll back that expenditure growth.

To get an answer, this paper will take a quick walk through what happened during the recent stock market bubble and the bubble's effect on California's revenues and expenditures, and then examine several questions about the California budget in general.

First: what happened during the stock market bubble to get California in such a fiscal mess?

Second: where does the state's money come from? Is this different from other states? Are California's taxes, high, low, or average? Is the mix of taxes (income, sales, property, and fees) similar to other states? Is Proposition 13 really to blame for poor schools, high crime, and halitosis?

Third: where does it go? Across broad categories, does California spend more or less money than other states on education, health and welfare, roads, and so on.

Fourth: at least as higher education is concerned, how do we compare with other states, both in terms of dollars spent and in terms of Associate and Baccalaureate degrees produced? Is this a problem?

The Roaring '90's

To understand why California is in such a deep and apparently sudden crisis, a quick overview of where California's economy is compared to the rest of the country and what happened with the stock market bubble is useful.

Both California and the rest of the nation had a very significant period of economic growth in the mid to late 1990's with a period of very high tax revenue at the end of the decade. This was followed by a stall in the economy generally and a steep decline, particularly in Northern California, due to the rise and fall of the stock valuations of companies in Silicon Valley. Tax revenues rose and fell very steeply in this period throughout the country, but even more so in California due to the large number of

Californians who benefited directly from stock options in California based high technology companies. Both the rise and fall of tax revenues were exaggerated compared to the performance of the economy because most of the income growth was taxed at the highest state tax brackets. When the stock option boom ended, it reduced tax revenue much faster than the general stall and decline in the economy for the same reason.

Because the increase in tax revenue was so steep, state spending lagged state tax revenue for the first couple of years, but spending continued to grow after the boom was over, as austerity lagged revenue decline. It was this sudden imbalance in tax revenue that precipitated the current crisis, and understanding what happened leads to conclusions about what it would take to get out from under the State's fiscal predicament.

Specifically, the revenue spike from the stock market "dot com" bubble is the proximate cause of California's current fiscal crisis. Revenue from capital gains and stock option taxes rose from a fairly consistent level of between three and four billion dollars a year in the mid 1990's to $7.5 billion in 1998, $14.7 billion in 1999 and $17.9 billion in 2000, falling to $6.1 billion in 2001 and $5.0 billion in 2002 recovering to $5.3 billion in 2002. If we assume a base of $5 billion per year for capital gains revenue (without a bubble) and subtract that base from the actual capital gains tax revenue for the period we can estimate the amount of money generated by the stock market bubble.

The "bubble bonus" came to about $26 billion from 1998 to 2001 ($23.5 billion from 1999 to 2001). The fiscal problem primarily resulted from a growth in spending in 1999, 2000, 2001, and 2002 as though the income growth was going to continue at the 1999 and 2000 rate indefinitely, which it started to fail to do in 2001. The lag in state budgeting verses revenue was part of the problem, but the unwillingness of the state to immediately reduce spending to a pre-bubble level or even in 2001 to slow budget growth for the 2002 budget made the problem worse.[2]

Where did the Bubble Money Go?

From 1999 to 2001 a total of $19.3 billion in increased state appropriations went to six general areas: K-12 Education spending rose $5.6 billion, health care $2.5 billion, higher education $1.8 billion, criminal justice $1.3 billion, general government $4.8 billion, and transportation and other expenditures rose $3.3 billion. There was also about $5.5 billion in reduced revenue between 1998 and 2001 from reductions in the vehicle license fee. This reduction shows up as an expenditure on the state budget since it has to be paid back to the counties who would have otherwise received the income from the fee.

[2] Riches, Erin, and Ross, Jean, with Galpern, Dan, and Wielinski, Kim,"Winners and Losers: Where Has the Money Gone?", The California Budget Project, January 2001 (www.cbp.org)

Revenue from other taxes rose slowly during the recession and economic stall in 2001 and 2002, but spending continued to increase by 13 percent in 2001, creating a $2.4 billion dollar deficit in that year. As the bubble revenue continued to decline and spending not only continued at its high level, but continued to rise, the result was a cumulative deficit of about $30 billion by 2003.[3]

In summary, there was a surge in revenue and a bigger surge in expenditures even after the revenue growth reversed. Most of the "bubble" money went to K-12 Education, Health and Human Services (Medi-Cal), and tax cuts.

If Spending Is So High, Why Are The Schools Still Poor

Given that spending rose 37.6 percent from 1998-99 to 2000-01, why do the schools still seem under funded, with students who do not have books, the roads still are crowded, bumpy, government services are still slow? Explanations for this are unfocused, with the blame accruing to low taxes, high taxes, graft, waste, prison guards, too much state government, not enough state government etc. Given the level of political discourse on the subject, this appears to be a classic environment where there are lies, damn lies, and statistics. The next section goes through the numbers as compared to the national as a whole, and a selection of states with the goal of at least elucidating the comparative state of the state's finances.

Is California a High or Low Tax State?

There has been much discussion about California being a highly taxed or lightly taxed state. The truth, not surprisingly is somewhere in between. As a percentage of personal income, the overall amount of state and local taxes collected in California is 10.6 percent, the 8th highest in the country (behind Maine 12.2%, New York 12.0%, Minnesota 11.0%, Rhode Island 11.0%, Connecticut 10.9%, Hawaii 10.7%, and Wisconsin 10.7%).[4] The national average is 9.7 percent. In per capita terms, California collected $5,089 in total revenue compared to a national average of $4,145 in 2001. (In 1996 – before the bubble – the figures were $3,869 for California and $3,650 for the national average).

On a per capita basis in 2001 California ranked 6th in total revenue (8th in terms of percentage of personal income collected in taxes). So from a revenue perspective, it is difficult to claim that California is failing to generate a reasonable amount of revenue.

[3] Ibid.

[4] This percentage has been consistently about 10.5 percent since 1999. Before 1999 it was closer to the national average of about 10 - 10.1 percent from 1995-1999 when the national percentage started to fall by 0.1 percent per year. Tax Foundation, The Facts on California's Tax Climate. www.taxfoundation.org.

There is a little bit of tax capacity left, mostly in fuel taxes and possibly in property taxes, but raising very much more money would push taxes well beyond what neighboring states collect (Nevada 8.9% 41st, Colorado, 9.3%, 32nd, Oregon, 9.0%, 39th, New Mexico, 9.7%, 21st).[5]

In terms of rank order in tax rates, California ranks 37th for its lowest personal income tax bracket (1%) and 5th for its highest personal income tax bracket (9.3% above $38,291 for singles, $76,582 joint) and 7th and 12th respectively for corporate income tax rates (8.84%).[6]

Even with Proposition 13, California's property tax rate of 1.04 per cent of assessed value ranked 37th per $100 assessed value and 31st in per capita terms for property tax income raised. Sales taxes were ranked between 13th and 10th on (depending on local variations). Gasoline taxes were fairly low ranked 36.th Wine taxes were fairly high and Cigarette taxes were near the bottom. See Table 2 for a comparison with all states.[7]

Neighboring states had no income tax (Nevada – with lower sales and property tax rates and Washington - similar sales and property tax rates), or no sales tax (Oregon – which had similar income tax rates but a much steeper set of brackets). California thus had relatively high tax rates in all three major categories while neighboring states had similarly high rates on two of the three tax types and a rate of zero on the third type of tax. The combined tax rate for all three major tax groups means that there is not a lot of room to increase the overall amount of tax imposed on individuals or corporations if one is concerned about them leaving for neighboring states.

In particular there has been discussion about raising the marginal rate on income tax. However, one important issue with the way income tax is structured, is since the tax structure is highly progressive, a relatively few people are paying almost all of the tax. This is illustrated in Table 1. In 1999, one percent of the taxpayers paid almost half of the income taxes. Almost one third of the income tax revenue (31.5%) was collected from 32,417 tax payers. In 2000 the share paid by the top one percent had risen to 49.3% of income tax revenue.

In 2002 when those tax payers had a bad year, or rather a less grand year than the previous three, tax receipts fell precipitously. By comparison, in 1995 the top one percent paid only about 18 percent of California's income tax. In terms of volatility, suggestions that the state add an additional top bracket would only serve to make the state even more dependant on a few individuals' fortunes (and continued California residency) for a large fraction of the tax revenue. The revenue figures were of course inflated for 2000

[5] Tax Facts, The Tax Policy Center, (http://www.taxpolicycenter.org/taxfacts/state/revenue.cfm)
[6] The Tax Foundation. (http://www.taxfoundation.org/ff/factsonCA.html). US Census, State Government Finance Data. (http://www.census.gov/govs/www/state96.html).
[7] Ibid.

and 2001 due to the internet stock boom which vastly increased the number of people earning over $1 million (from 11,585 in 1995 to 43,779 in 2000). This number started to fall in 2001 back toward 1998 levels.

Table 1

2000 Tax Returns and Personal Income Tax Liability by Adjusted Gross Income						
	Tax Returns			Tax Liability (taxes paid)		
Total	13,440,952			40,174,011		
	N	% of Total	Cumulative %	$	% of Total	Cumulative %
$1 mill +	43,779	0.33%	0.33%	15,174,011	37.8%	37.8%
$500-999	59,770	0.44%	0.77%	3,374,315	8.4%	46.2%
$400-499	36,750	0.27%	**1.04%**	1,271,801	3.2%	**49.3%**
$300-399	74,772	0.56%	1.60%	1,897,122	4.7%	54.1%
$200-299	199,675	1.49%	3.09%	3,173,822	7.9%	62.0%
$150-199	285,515	2.12%	5.21%	2,844,060	7.1%	69.0%
$100-149	774,206	5.76%	**10.97%**	4,372,056	10.9%	**79.9%**
$90-99	307,401	2.29%	13.26%	1,133,163	2.8%	82.7%
$80-89,000	407,013	3.03%	**16.29%**	1,203,627	3.0%	**85.7%**
Tax Rate at 9.3% = $76,000 + Couple filing jointly. Individual top rate starts at $38,291						

Source: Department of Finance

To reduce volatility in income tax revenue, it would be necessary to raise taxes on those earning below the top rate, a politically very unpopular move. The less unpopular strategy of raising taxes on the rich will only increase the instability of personal income tax revenue.

Comparison With Other Large or Nearby States

To see if California has a reasonable revenue structure, one should look at a year before the distortions of the stock market bubble disrupted the normal revenue patterns. I chose to look at 1996, a recent year before the distortions to give a better picture of what California's revenue and expenditure picture looked like before the stock market run-up, and what it is more likely to look like after the budget cuts. The most recent data available is only from 2001, which was in the middle of the bubble. The highlighted cells show particularly low rates of tax. The percentages show the fraction of total revenue (from all sources) that come from each specific revenue source. Naturally, if there is no revenue from a category, i.e., no sales tax, other taxes and fees with have a higher share of total revenue. One should think of this as a way of looking at how the sources of revenue are distributed.

Table 2 – Selected States State and Local Tax Revenue by Percentage of Total Revenue

State and Local Tax Revenues 1996-1997 By Fund Source	United States	California	New York	Texas	Oregon	Colorado	Michigan	Indiana
Personal Income	$ 24,654	$ 25,578	$ 29,269	$ 22,525	$ 23,650	$ 26,222	$ 24,460	$ 22,806
Total Revenue Per Capita	$ 6,089	$ 6,601	$ 8,823	$ 5,460	$ 6,921	$ 5,910	$ 6,344	$ 4,847
Percent of Personal Income	25%	26%	30%	24%	29%	23%	26%	21%
Intergovernmental revenue[1]	15.1%	15.0%	17.2%	14.3%	18.8%	13.0%	14.0%	14.1%
Taxes	45.1%	43.2%	47.2%	41.9%	36.5%	44.8%	43.1%	52.1%
Property	13.6%	11.1%	15.1%	15.7%	11.5%	13.2%	12.5%	18.0%
Sales	16.2%	15.3%	12.5%	21.0%	3.8%	17.0%	14.5%	14.8%
Individual Income	9.9%	11.1%	13.7%	0.0%	14.8%	11.4%	10.4%	14.8%
Corporate Income	2.1%	2.8%	3.7%	0.0%	1.7%	1.0%	3.6%	3.2%
Motor Vehicle License	0.9%	0.7%	0.5%	1.0%	1.6%	0.7%	1.1%	0.4%
Other Taxes	2.5%	2.3%	1.6%	4.2%	3.2%	1.5%	1.1%	0.9%
Current Charges	11.8%	11.8%	9.9%	11.1%	13.2%	14.8%	11.8%	15.4%
Education	3.3%	2.3%	1.3%	3.5%	3.7%	5.3%	4.5%	6.3%
Higher Ed Fees	2.7%	2.0%	1.1%	2.9%	3.0%	4.6%	4.1%	5.4%
School Lunch	0.3%	0.2%	0.1%	0.4%	0.2%	0.3%	0.3%	0.5%
Misc. Gen Revenue	7.8%	7.1%	7.0%	8.4%	11.0%	8.6%	7.1%	8.5%
Utilities	4.6%	5.8%	3.7%	5.6%	3.7%	5.5%	2.1%	4.2%
Liquor Stores	0.2%	-	-	-	0.9%	-	0.8%	-
Trust Revenue	15.3%	17.1%	15.2%	18.7%	16.0%	13.2%	21.0%	5.7%
(unemployment, ret.)								

[1] Duplicative intergovernmental transactions are excluded.

Source: US Census

From an overall perspective, the sources and amounts of California's state revenue do not look wildly different from other states. As a percentage of personal income, total revenue is near the national average for most of the revenue sources are close to the national average. Other states differ from the national average largely to the extent that they lack one of the major tax groups (e.g., sales or income tax). Property tax revenue is a bit lower than the national average, but is offset by higher sales taxes. Largely this chart is remarkable in that there is nothing very remarkable about it. Despite having fairly high rates for many taxes, overall revenue distribution is not very different from the rest of the country.

Table 3 – Selected States Tax Rates

	State Ind. Income Tax						Corporate Inc. Tax Rates		Sales Tax		
	Rates			Ind. Inc Brackets							
	Low	**High**	*Diff*	Low Single	High Single	High Joint	Low	High	State	Max St. + Local	Exemptns. Food - F Drug - D
California	1.00	**9.30**	*8.30*	5,834	38,291	76,582	8.84	8.84	6.00	8.50	F&D
New York	4.00	**6.85**	*2.85*	8,000	20,000	40,000	7.50	7.50	4.00	8.50	F&D
Texas	-	**-**	-	-	-	-	-	-	6.25	8.25	F&D
Oregon	5.00	**9.00**	*4.00*	2,500	6,250	12,500	6.60	6.60	-	-	
Colorado	4.63	**4.63**	-	Flat Rate	Flat Rate	Flat Rate	4.63	4.63	2.90	7.90	F&D
Michigan	4.00	**4.00**	-	Flat Rate	Flat Rate	Flat Rate	1.90	1.90	6.00	6.00	F&D
Indiana	3.40	**3.40**	-	Flat Rate	Flat Rate	Flat Rate	7.90	7.90	6.00	6.00	F&D
Nevada	-	**-**	-	-	-	-	-	-	6.50	7.25	F&D

Source: US Census

New York generates more money from its personal income tax with lower top rates. It has rate bands that start at 4 percent (rather than 1 percent) and top rate of 6.85 percent that is reached much sooner than California's (the top rate starts on income above $20,000 verses $38,291 for California's top rate). It may also have a more stable income tax structure since more of the money will be generated from more stable middle-income tax payers rather than from volatile high income tax payers. New York also has very high property tax revenue, though its rate per $100 of assess property is lower than California's .78 vs. 1.04, but the value of property in New York gets reassessed more often.

In 1999-2000 the revenue picture changed slightly with total revenue increasing to 116% of the US average. Later years will likely show rapid growth in the percentage of revenue from individual income (but the data for those years are not yet available).

Table 4 – Revenue for United States Average and California, Dollars Per Capita
State and Local Government Finances by Level of Government and by State: 1999 - 2000

(Dollar amounts are in thousands. Coefficients of variation (CV) are expressed as percents. For meaning of abbreviations and symbols, see note below table.)

Description	United States		California		Difference	
	State & local government Per Capita	State & local government percentage	State & local government Per Capita	State & local government percentage	State & local government percentage	State & local government percentage
					CA - US	CA - US
Population (April 1, 2000, in thousands)	281,422		33,872			
Revenue[1]	6,902	100.0%	7,982	100.0%	1,081	116%
General revenue[1]	5,477	79.4%	6,152	77.1%	675	112%
Intergovernmental revenue[1]	1,037	15.0%	1,136	14.2%	-99	109%
From Federal Government	1,037	15.0%	1,136	14.2%	99	109%
General revenue from own sources	4,439	64.3%	5,016	62.8%	-576	113%
Taxes	3,100	44.9%	3,545	44.4%	445	114%
Property	885	12.8%	775	9.7%	(111)	87%
Sales and gross receipts	1,099	15.9%	1,172	14.7%	73	107%
General sales	764	11.1%	899	11.3%	134	118%
Selective sales	335	4.8%	273	3.4%	(61)	82%
Motor fuel	110	1.6%	90	1.1%	(20)	82%
Alcoholic beverage	16	0.2%	8	0.1%	(7)	53%
Tobacco products	31	0.4%	36	0.4%	5	118%
Public utilities	63	0.9%	64	0.8%	1	102%
Other selective sales	115	1.7%	75	0.9%	(40)	65%
Individual income	752	10.9%	1,168	14.6%	416	155%
Corporate income	128	1.9%	196	2.5%	68	153%
Motor vehicle license	58	0.8%	52	0.7%	(6)	89%
Other taxes	177	2.6%	182	2.3%	5	103%

[1] Duplicative intergovernmental transactions are excluded.

Source: US Census

So in summary, California's revenue picture is fairly typical of other states, both in terms of the revenue mix and the total amount of revenue collected before the internet bubble. Several other large states have somewhat higher revenue streams, but neighboring states have lower tax rates and revenues. During the internet stock bubble, the percentage of the state's revenue derived from personal income tax rose sharply, as, of course, did the per capita revenue.

Expenditures

The other half of the equation is expenditures. Unlike the revenue side, there is some significant variation between both the national average and other states. There are two ways of looking at expenditures. One way is by broad general objects across function, the other way is by specific function.

Looking first at broad objects, California spends more per capita on the following broad areas as compared to the national average: Intergovernmental Expenditures, Assistance and Subsidies, and Insurance Benefits. It spends noticeably less on current operations, capital outlay, and salaries and wages. At least the lower spending on salaries and wages is slightly surprising given the generally higher salary levels in California. Overall, California state and local governments spent $664 per person more than the national average in 1996, so one would expect higher levels of spending than the national average across most areas.

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Areas where California spent more per capita than the national average included:
public welfare, hospitals, health, police, fire protection, corrections and protective inspections, environment and housing, utilities and insurance trust (unemployment compensation, employee retirement, workers' compensation, other insurance trust revenue). Utilities and insurance trust had their own revenue sources which more than covered the expense in these categories.

Areas where California spent significantly less per capita (in 1996) than that national average included: capital outlay, education (both higher education and elementary and secondary education), transportation and interest on debt.

Table 5 shows California's expenditures compared to the average expenditures of all the states. The last column adjusts for the fact that California has revenue and expenditures about 12 percent higher than the nation as a whole and subtracts out the extra amount to aid in making the comparison. In most cases, after you adjust for the higher overall spending, California spends even less than the national average on most areas except public safety, health, and the environment and housing. Public Safety received $89 per person more (about 1.6% of the budget), health received $42 more, and environment and housing received $86. In contrast, education received $267 less after adjustments.

Table 5 - State and Local Tax Expenditures United States and California Compared

State and Local Tax Expenditures 1996-1997 By Character and Function dollars per capita	United States	California	California compared to US CA - US	Difference Adj. For Higher CA Spending	What if CA Spent at US Rate per capita	What if US Spent at CA Rate total
					(CA*89%)	(US * 112%)
Personal Income	$ 24,654	$ 25,578	$ 923			
Total Expenditure Per Capita	$ 5,508	$ 6,172	$ 664	$ 0	$ 5,509	$ 6,172
Percent of Personal Income	22.34%	24.13%				
By Object						
Intergovernmental expenditure	$ 15	$ 64	$ 50	$ 43	$ 57	$ 16
Direct expenditures	$ 5,494	$ 6,108	$ 614	$ (43)	$ 5,451	$ 6,153
Current Operation	$ 4,027	$ 4,374	$ 347	$ (123)	$ 3,904	$ 4,511
Capital Outlay	$ 652	$ 660	$ 8	$ (63)	$ 589	$ 731
Assistance and Subsidies	$ 126	$ 240	$ 114	$ 88	$ 215	$ 141
Interest on debt	$ 272	$ 277	$ 6	$ (24)	$ 248	$ 304
Insurance benefits	$ 416	$ 555	$ 139	$ 79	$ 496	$ 466
Salaries and wages	$ 1,767	$ 1,942	$ 174	$ (34)	$ 1,733	$ 1,980
By Function						
Direct general expenditures	$ 4,704	$ 5,000	$ 296	$ (241)	$ 4,463	$ 5,268
Capital Outlay	$ 577	$ 519	$ (57)	$ (113)	$ 464	$ 646
Education	$ 1,580	$ 1,471	$ (109)	$ (267)	$ 1,313	$ 1,770
Higher education	$ 400	$ 389	$ (11)	$ (53)	$ 347	$ 448
Elem. & Secon. education	$ 1,111	$ 1,017	$ (94)	$ (203)	$ 908	$ 1,244
Other education	$ 69	$ 65	$ (4)	$ (11)	$ 58	$ 78
Public Welfare	$ 754	$ 790	$ 36	$ (49)	$ 705	$ 845
Hospitals	$ 257	$ 271	$ 14	$ (15)	$ 242	$ 288
Health	$ 159	$ 225	$ 66	$ 42	$ 201	$ 178
Social insurance admin.	$ 15	$ 13	$ (2)	$ (4)	$ 11	$ 17
Veterans' services	$ 1	$ 1	$ (0)	$ (0)	$ 1	$ 1
Transportation	$ 363	$ 281	$ (82)	$ (112)	$ 251	$ 406
Public safety:	$ 432	$ 601	$ 169	$ 104	$ 536	$ 484
Police protection	$ 180	$ 243	$ 63	$ 37	$ 217	$ 201
Fire protection	$ 73	$ 100	$ 27	$ 16	$ 89	$ 82
Correction	$ 151	$ 195	$ 45	$ 24	$ 174	$ 169
Protective inspection & reg.	$ 29	$ 62	$ 33	$ 27	$ 56	$ 32
Environment and Housing	$ 385	$ 528	$ 143	$ 86	$ 471	$ 431
Government Administration	$ 487	$ 534	$ 48	$ (10)	$ 477	$ 545
Interest on debt	$ 235	$ 232	$ (3)	$ (28)	$ 207	$ 264
General expenditure	$ 247	$ 262	$ 15	$ (14)	$ 234	$ 277
Utilities	$ 361	$ 552	$ 191	$ 132	$ 493	$ 405
Insurance trust	$ 416	$ 555	$ 139	$ 79	$ 496	$ 466
Utilities net of utilities income	$ (81)	$ (169)	$ (88)	$ (70)	$ (151)	$ (91)
Insurance trust net of insur. Inc	$ (401)	$ (555)	$ (154)	$ (94)	$ (496)	$ (450)

Source: US Census

Without making the adjustment areas where California spends more per person are as follows ($ per person more than national average):

Public Welfare ($36), Hospitals ($14), Health ($66), Police ($63), Fire protection ($27), Correction ($45), Protective inspection ($33) Environment and Housing $143), Government Administration ($48), and General Expenditures ($15).

Intergovernmental Expenditure was a wash, $40 per person extra in, $43 out. Utilities and Insurance trust also were basically a wash, with higher expenditures mostly be compensated with higher revenues although the surplus on Utilities was about half of the expected amount.

The major areas where California spent less than the national average were capital outlay ($57) Education ($109) [Higher education was $11 of this], Transportation ($82).

If California had spent its budget the same way as the United States average in 1996, it would have spent about $9.5 billion per year more on education, ($1.8 billion per year more on higher education) and $3.7 and $3 billion less per year on public safety and environment and housing respectively.

Table 6 – State and Local Tax Expenditures 1996-1997 Selected States

State and Local Tax Expenditures 1996-1997 By Character and Function dollars per capita								source: US Census	
	United States	California	New York	Texas	Oregon	Colorado	Michigan	Indiana
Personal Income	$ 24,654	$ 25,578	$ 29,269	$ 22,525	$ 23,650	$ 26,222	$ 24,460	$ 22,806
Total Expenditure Per Capita	$5,508	$6,172	$8,285	$4,633	$6,228	$5,406	$5,328	$4,400
Percent of Personal Income	22%	24%	28%	21%	26%	21%	22%	19%
By Object								
Intergovernmental expenditure	$ 15	$ 64	$ 53	$ -	$ -	$ 2	$ 6	$ 4
Direct expenditures	$ 5,494	$ 6,108	$ 8,233	$ 4,633	$ 6,228	$ 5,404	$ 5,322	$ 4,396
Current Operation	$ 4,027	$ 4,374	$ 5,790	$ 3,472	$ 4,389	$ 3,824	$ 4,084	$ 3,480
Capital Outlay	$ 652	$ 660	$ 925	$ 560	$ 862	$ 779	$ 518	$ 531
Assistance and Subsidies	$ 126	$ 240	$ 240	$ 81	$ 133	$ 67	$ 106	$ 48
Interest on debt	$ 272	$ 277	$ 515	$ 250	$ 232	$ 330	$ 205	$ 155
Insurance benefits	$ 416	$ 555	$ 762	$ 270	$ 611	$ 404	$ 410	$ 182
Salaries and wages	$ 1,767	$ 1,942	$ 2,488	$ 1,586	$ 1,852	$ 1,803	$ 1,740	$ 1,562
By Function								
Direct general expenditures	$ 4,704	$ 5,000	$ 6,909	$ 4,016	$ 5,176	$ 4,579	$ 4,708	$ 4,008
Capital Outlay	$ 577	$ 519	$ 806	$ 482	$ 718	$ 674	$ 494	$ 514
Education	$ 1,580	$ 1,471	$ 1,875	$ 1,596	$ 1,734	$ 1,693	$ 1,871	$ 1,645
Higher education	$ 400	$ 389	$ 308	$ 408	$ 521	$ 559	$ 536	$ 507
Elem. & Secon. education	$ 1,111	$ 1,017	$ 1,494	$ 1,151	$ 1,145	$ 1,087	$ 1,283	$ 1,072
Other education	$ 69	$ 65	$ 72	$ 37	$ 67	$ 47	$ 52	$ 66
Public Welfare	$ 754	$ 790	$ 1,429	$ 585	$ 749	$ 602	$ 731	$ 584
Hospitals	$ 257	$ 271	$ 421	$ 268	$ 222	$ 193	$ 207	$ 306
Health	$ 159	$ 225	$ 151	$ 105	$ 184	$ 93	$ 224	$ 79
Social insurance admin.	$ 15	$ 13	$ 22	$ 12	$ 13	$ 11	$ 17	$ 16
Veterans' services	$ 1	$ 1	$ 0	$ 1	$ 3	$ -	$ -	$ 0
Transportation	$ 363	$ 281	$ 412	$ 290	$ 443	$ 436	$ 279	$ 300
Public safety:	$ 432	$ 601	$ 643	$ 381	$ 497	$ 428	$ 397	$ 279
Police protection	$ 180	$ 243	$ 283	$ 145	$ 182	$ 170	$ 161	$ 111
Fire protection	$ 73	$ 100	$ 113	$ 57	$ 93	$ 74	$ 55	$ 56
Correction	$ 151	$ 195	$ 215	$ 164	$ 181	$ 157	$ 161	$ 101
Protective inspection & reg.	$ 29	$ 62	$ 31	$ 16	$ 41	$ 27	$ 20	$ 11
Environment and Housing	$ 385	$ 528	$ 526	$ 247	$ 490	$ 375	$ 302	$ 259
Government Administration	$ 487	$ 534	$ 788	$ 373	$ 601	$ 540	$ 416	$ 337
Interest on debt	$ 235	$ 232	$ 453	$ 196	$ 210	$ 285	$ 191	$ 144
General expenditure	$ 247	$ 262	$ 604	$ 144	$ 208	$ 176	$ 239	$ 169
Utilities	$ 361	$ 552	$ 562	$ 348	$ 405	$ 421	$ 166	$ 206
Insurance trust	$ 416	$ 555	$ 762	$ 270	$ 611	$ 404	$ 410	$ 182

Looking at a number of other states, New York collected considerably more money, but spent less on higher education than California both absolutely and as a percentage of total expenditures.

Since there have been a lot of changes since the base year of 1996-1997 Tables 7 and 8 show the revenue and expenditures for California and the average of the states for 1999-2000, the latest year available in detail from the US Census.

Table 7. State and Local Government Finances by Level of Government and by State: 1999 - 2000

(Dollar amounts are in thousands. Coefficients of variation (CV) are expressed as
of abbreviations and symbols, see note below table.) source: US Census

Description	United States		California		Difference	
	State & local government Per Capita	State & local government percentage	State & local government Per Capita	State & local government percentage	State & local government percentage	State & local government percentage
					CA - US	CA - US
Population (April 1, 2000, in thousands)	281,422		33,872			
Revenue[1]	6,902	100.0%	7,982	100.0%	1,081	116%
General revenue[1]	5,477	79.4%	6,152	77.1%	675	112%
Intergovernmental revenue[1]	1,037	15.0%	1,136	14.2%	99	109%
From Federal Government	1,037	15.0%	1,136	14.2%	99	109%
General revenue from own sources	4,439	64.3%	5,016	62.8%	576	113%
Taxes	3,100	44.9%	3,545	44.4%	445	114%
Property	885	12.8%	775	9.7%	(111)	87%
Sales and gross receipts	1,099	15.9%	1,172	14.7%	73	107%
General sales	764	11.1%	899	11.3%	134	118%
Selective sales	335	4.8%	273	3.4%	(61)	82%
Motor fuel	110	1.6%	90	1.1%	(20)	82%
Alcoholic beverage	16	0.2%	8	0.1%	(7)	53%
Tobacco products	31	0.4%	36	0.4%	5	118%
Public utilities	63	0.9%	64	0.8%	1	102%
Other selective sales	115	1.7%	75	0.9%	(40)	65%
Individual income	752	10.9%	1,168	14.6%	416	155%
Corporate income	128	1.9%	196	2.5%	68	153%
Motor vehicle license	58	0.8%	52	0.7%	(6)	89%
Other taxes	177	2.6%	182	2.3%	5	103%
Charges and miscellaneous general revenue	1,340	19.4%	1,471	18.4%	131	110%
Current charges	794	11.5%	912	11.4%	118	115%
Education	233	3.4%	202	2.5%	(31)	87%
Institutions of higher education	196	2.8%	182	2.3%	(14)	93%
School lunch sales (gross)	19	0.3%	14	0.2%	(5)	72%
Hospitals	194	2.8%	189	2.4%	(5)	97%
Highways	26	0.4%	14	0.2%	(12)	53%
Air transportation (airports)	39	0.6%	43	0.5%	4	110%
Parking facilities	5	0.1%	7	0.1%	2	138%
Sea and inland port facilities	9	0.1%	23	0.3%	14	255%
Natural resources	11	0.2%	33	0.4%	22	311%
Parks and recreation	22	0.3%	28	0.4%	6	126%
Housing and community development	15	0.2%	20	0.3%	5	134%
Sewerage	86	1.3%	93	1.2%	6	107%
Solid waste management	36	0.5%	49	0.6%	12	134%
Other charges	117	1.7%	211	2.6%	94	180%
Miscellaneous general revenue	546	7.9%	559	7.0%	13	102%
Interest earnings	250	3.6%	258	3.2%	8	103%
Special assessments	14	0.2%	29	0.4%	15	211%
Sale of property	7	0.1%	8	0.1%	1	107%
Other general revenue	274	4.0%	265	3.3%	(10)	96%
Utility revenue	302	4.4%	409	5.1%	107	135%
Water supply	108	1.6%	186	2.3%	78	172%
Electric power	151	2.2%	186	2.3%	36	124%
Gas supply	14	0.2%	3	0.0%	(11)	19%
Transit	29	0.4%	33	0.4%	5	117%
	-	0.0%	-	0.0%	-	
Liquor store revenue	16	0.2%	-	0.0%	(16)	
	-		-		-	
Insurance trust revenue	1,107	16.0%	1,422	17.8%	315	128%
Unemployment compensation	83	1.2%	93	1.2%	10	112%
Employee retirement	973	14.1%	1,231	15.4%	258	126%
Workers' compensation	42	0.6%	51	0.6%	9	121%
Other insurance trust revenue	8	0.1%	47	0.6%	39	564%

Table 8. State and Local Government Finances by Level of Government and by State: 1999 - 2000

(Dollar amounts are in thousands. Coefficients of variation (CV) are expressed as percents. For meaning of abbreviations and symbols, see note below table.)

Description	United States		California		Difference	
	State & local government Per Capita	State & local government percentage	State & local government Per Capita	State & local government percentage	State & local government percentage CA - US	State & local government percentage CA - US
Expenditure[1]	6,208	100%	6,986	100%	779	113%
					-	
By character and object:					-	
Intergovernmental expenditure[1]	14	0%	75	1%	60	522%
Direct expenditure	6,193	100%	6,912	99%	719	112%
Current operations	4,579	74%	5,136	74%	557	112%
Capital outlay	771	12%	738	11%	(33)	96%
Assistance and subsidies	111	2%	189	3%	78	170%
Interest on debt	286	5%	271	4%	(15)	95%
Insurance benefits and repayments	445	7%	577	8%	132	130%
Exhibit: Salaries and wages	1,950	31%	2,116	30%	166	108%
Direct expenditure by function	6,193	100%	6,912	99%	719	112%
Direct general expenditure	5,340	86%	5,780	83%	440	108%
Education services:	**1,879**	**30%**	**1,901**	**27%**	**22**	**101%**
Education	1,853	30%	1,876	27%	23	101%
Higher education	477	8%	532	8%	54	111%
Elementary & secondary	1,298	21%	1,273	18%	(24)	98%
Other education	78	1%	71	1%	(7)	91%
Libraries	25	0%	24	0%	(1)	95%
Social services and income maintenance:						
Public welfare	829	13%	862	12%	33	104%
Hospitals	270	4%	270	4%	0	100%
Health	183	3%	263	4%	80	144%
Social insurance administration	15	0%	11	0%	(4)	75%
Veterans' services	1	0%	1	0%	(1)	55%
Transportation:						
Highways	360	6%	254	4%	(106)	71%
Capital outlay	201	3%	95	1%	(105)	48%
Air transportation (airports)	47	1%	63	1%	16	135%
Public safety:	**490**	**8%**	**645**	**9%**	**155**	**132%**
Police protection	202	3%	257	4%	55	127%
Fire protection	82	1%	106	2%	24	129%
Correction	173	3%	212	3%	38	122%
Protective inspection and regulation	32	1%	70	1%	38	217%
Environment and housing:						
Natural resources	72	1%	104	1%	32	145%
Parks and recreation	89	1%	91	1%	2	103%
Housing and community development	94	2%	134	2%	40	142%
Sewerage	100	2%	110	2%	11	111%
Solid waste management	61	1%	70	1%	9	114%
Governmental administration:						
Financial administration	104	2%	137	2%	33	131%
Judicial and legal	96	2%	185	3%	89	192%
General public buildings	33	1%	16	0%	(18)	47%
Other governmental administration	57	1%	61	1%	4	106%
Interest on general debt	248	4%	223	3%	(25)	90%
		0%				
General expenditure, n.e.c.		0%				
Miscellaneous commercial activities	1	0%	0	0%	(1)	
Other and unallocable	295	5%	343	5%	48	116%
				0%	-	
Utility expenditure	395	6%	555	8%	160	141%
Liquor store expenditure	14	0%	na	na	na	na
Insurance trust expenditure	445	7%	577	8%	132	130%
Unemployment compensation	66	1%	71	1%	5	107%
Employee retirement	340	5%	420	6%	80	124%
Workers' compensation	30	0%	30	0%	0	101%
Other insurance trust	9	0%	56	1%	47	608%

Looking back at what happened during the bubble, the growth in spending did not bring California up to the national average in K-12 Education either in absolute dollars per capita or relative to the total revenue collected per capita. Spending rose $5.6 billion, over three years ($1.9 billion per year on average), which was 98 percent of the national average in 1999-2000 despite overall revenue that was 113 percent of the national average.

Higher education did better, gaining $1.8 billion (averaging $600 million per year), which put it at 111 percent of the national average in per capita spending, very near the "expected" value of 113 percent of the national average.

Transportation and other expenditures rose $3.3 billion ($1.1 billion per year)., but transportation expense was still only 71 percent of the national average.

Areas that were already above the national average also received considerable increases, health care $2.5 billion, to 144 percent of the national average, criminal justice $1.3 billion, (122 percent) all over three years.[8]

[8] US Census. General government spending also rose $4.8 billion over the three year period, but could not be mapped into the Census data easily.

Conclusion for California

A stock market bubble combined with a highly progressive income tax rate with a fairly high marginal tax rate generated a rapid growth in tax revenues, which then became an even more rapid growth in state and local spending. The surge in revenue was just sufficient to bring California's spending on education up to the national average, but it is still behind what one might expect it to be given that California raised 113 percent of the national average in revenue.

California (in normal times) has a fairly good mix of revenue streams which is similar to many large states and is more in balance than some states which lack one of the three main revenue sources (property tax, sales tax, and income tax). California's tax rates tend to be high, particularly at the margin, compared to other states and a number of specialty taxes (gasoline, cigarettes) are considerable lower than other states. The overall level of taxes puts California near the top of total revenue collected and well ahead of most neighboring states. In 2000, California ranked 8th in terms of total per capita revenue and near the top in terms of personal income, sales, and corporate tax rates. Property tax rates were at the top of the bottom third, but revenue was closer to the middle due to much higher property values than the national average.

Proposition 13 is not really to blame, the tax revenue is there to at least fund education at the national average and still have money left over (12-16 percent) to fund other projects and the state has chosen not to do so. On the other hand, if California wants to be more like New York, which is the highest taxed state, property taxes are clearly an area that could be increased. However, it does not follow from this that education spending will go up, as New York, despite significantly higher property taxes, spends only marginally more than California. It should also be noted that for higher education, total spending includes revenue from student fees, so higher levels of spending do not necessarily imply higher levels of subsidy.

As the rough conventional wisdom has indicated in the past, the answer to the question of "where did it go" when wondering about the state of the schools and the roads, is, in fact "prisons" and the rest of the public safety system. To a slightly lesser extent health care, public welfare, and housing and the environment are also getting the money. Roads and education are not getting even the national average in spending. The dot com boom generated a lot of revenue, which closed the gap somewhat but also allowed even more spending on corrections and other public safety. Higher education as a whole exceeded the national average and got close to the expected value of 113 percent of the average by 1999-2000. Subsequent cuts have probably already eroded it back to the national average.

This leaves us with perhaps a better understanding of where California was prior to the internet bubble and where the state is now. It is also fairly clear that there is not a simple solution in that the overall revenue picture is not one where California's revenue picture is that different from other states, nor is it clear that the problem is simply that Californian's are under taxed given that the tax rates are all fairly high and the total revenue is near the top nationally.

Revenue instability is generally caused by the high progressively of the income tax structure and the current crisis was caused by rare event (a stock market bubble) that happened largely in California and was magnified by both the tax structure and the concentration of an international financial bubble in Northern California which caused California to get more of the swing in revenue that other states. While the bubble is unlikely to resurface, fixing the general instability will require a reduction in tax progressively, either by flattening the income tax, or by increasing the sales or property tax. This is unlikely to be popular with either political party.

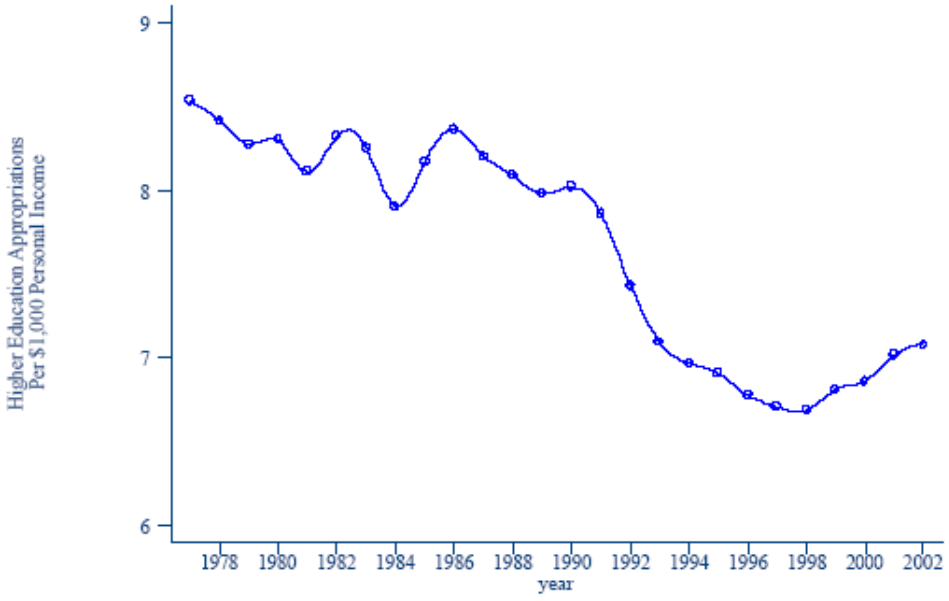
It does appear that California's spending priorities are significantly different from other states and this has been the case for a considerable period of time which explains why some high profile services (education and transportation) appear to be badly under funded even thought the overall levels of revenue seem adequate.

However, changes in the relative funding structure for higher education are not only a Californian phenomenon, but are seen nationwide over the last decade. The next section of the paper borrows heavily from a paper by Kane, Orszag, and Gunter to provide a broader context, both nationally and longitudinally when considering policy options.

The National Picture: Charts and Graphs Illustrating Historical Trends and Outcomes in The United States

Next are some charts and tables gleaned from "State Fiscal Constraints and Higher Education Spending: The Role of Medicaid and the Business Cycle,"[9] that illustrate trends in higher education finance. In depth analysis goes beyond the scope of this paper, but the charts illustrate trends that led states to arrive at the position illustrated earlier in the paper. The overall message to be gleaned from this series of charts is that the current problems with higher education funding in California are not a recent or local phenomenon, but ones that are national in scope, and have been part of the landscape for a number of years. None of the trends seems promising, except to the extent that some of the downward trends appear to be reaching a plateau. For more a more in-depth analysis please read the full paper by Kane and Orszag. The figure and chart numbers will be out of order as the represent the order in the original paper which seeks to make a different set of points.

Figure 1: State appropriations for higher education per $1,000 of personal income



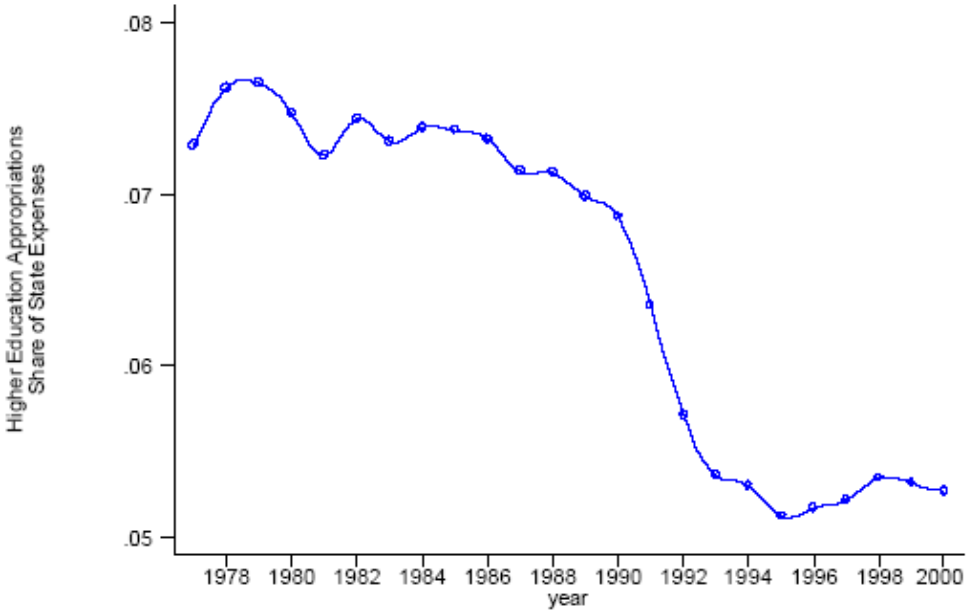
Source: Authors' calculations based on data from Center for Higher Education and Educational Finance and Bureau of Economic Analysis, Department of Commerce.

[9] Thomas J. Kane, Peter Orszag, David L. Gunter, "State Fiscal Constraints and Higher Education Spending: The Role of Medicaid and the Business Cycle," The Urban Institute, 2003 http://www.urban.org/url.cfm?ID=310787 The "Author's" noted in the charts are Kane, Orszag and Gunter.

Figure 2 shows the decline from a little over 7 percent of state budgets going to higher education in the 1980s to a little over 5 percent in less than decade. The budget and economic crisis of the late 1980's and early 1990's caused an apparent permanent change in the share of the state budget going to higher education. The percentage did not recover much during the boom of the late 1990's.

These two charts illustrate that the relative share of higher education in state budgets declined dramatically in the early 1990's and did not substantially recover at the end of the decade. This means that nationwide there has been a substantial shift in the relative importance of higher education to other priorities in the state budgets relative the position held in the 1970s and 1980's.

Figure 2: State appropriations for higher education as share of state expenditures



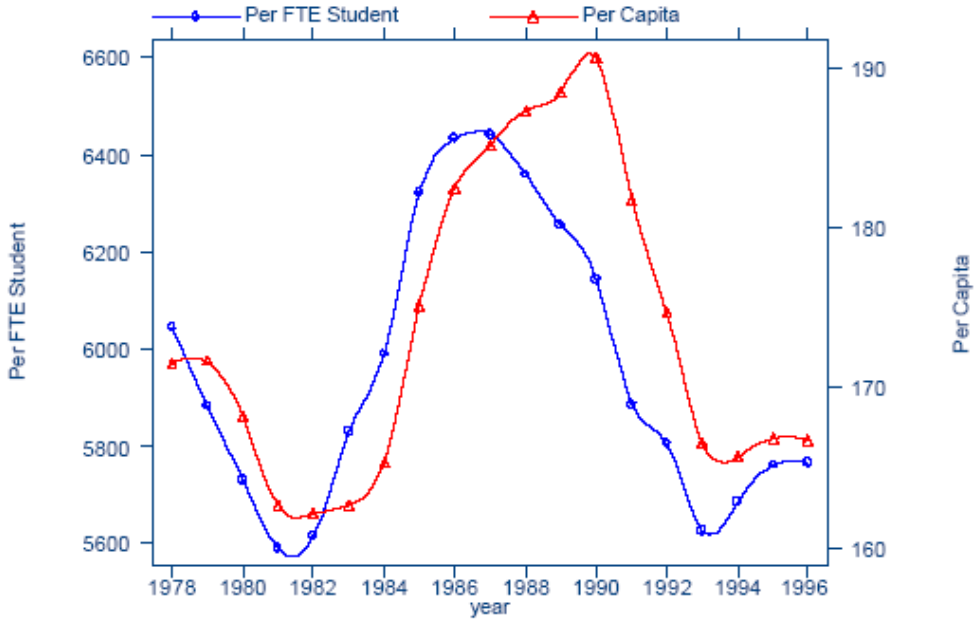
Source: Authors' calculations based on data from Center for Higher Education and Educational Finance; Bureau of the Census, Department of Commerce.

Chart: Kane, Orszag, and Gunter, 2003

Potentially the percentage change could have been a function of the size of the student body, but Figure 3 shows that both per FTE[10] student and per state resident numbers declined sharply during the 1990's. However note that per student and per capita figures were just as low in the early 1980's when state appropriations were much higher as a percent of the budget and per $1,000 of personal income.

Clearly the picture is somewhat more complicated that just a story of declining appropriations. Unfortunately the data does extend past 1996 into the good economic years.

Figure 3: State appropriations for higher education per capita and per student



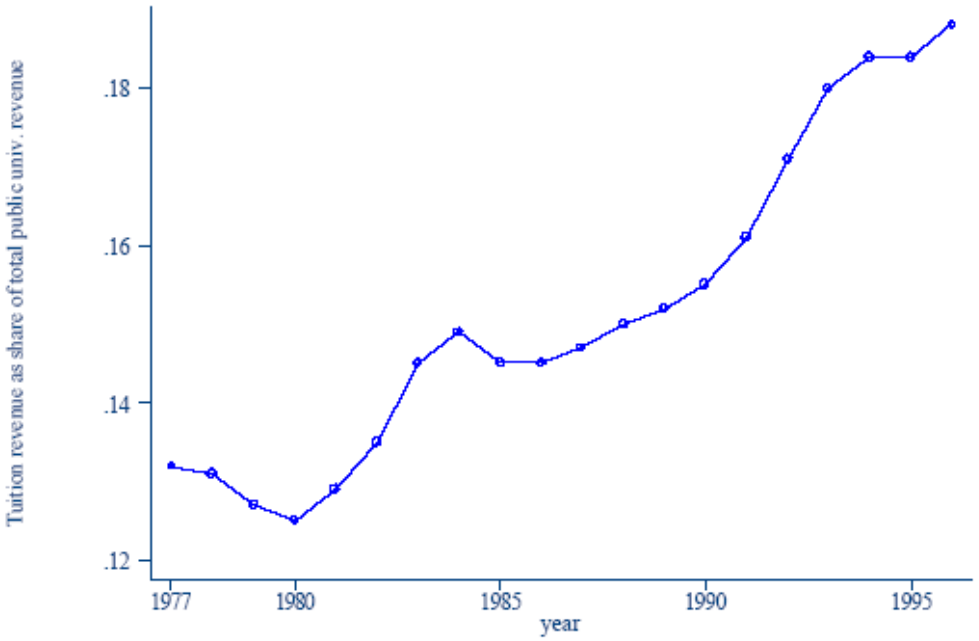
Source: Authors' calculations based on data from Center for Higher Education and Educational Finance; Bureau of the Census, Department of Commerce; and Department of Education, Integrated Post-Secondary Education Data System (IPEDS).

Chart: Kane, Orszag, and Gunter, 2003

[10] Full Time Equivalent Student

Figure 5 shows the gradual replacement of state funds with tuition revenue as a percentage of total public university revenue. The trend is very clear staring in 1990.

Figure 5: Tuition as share of public university revenue

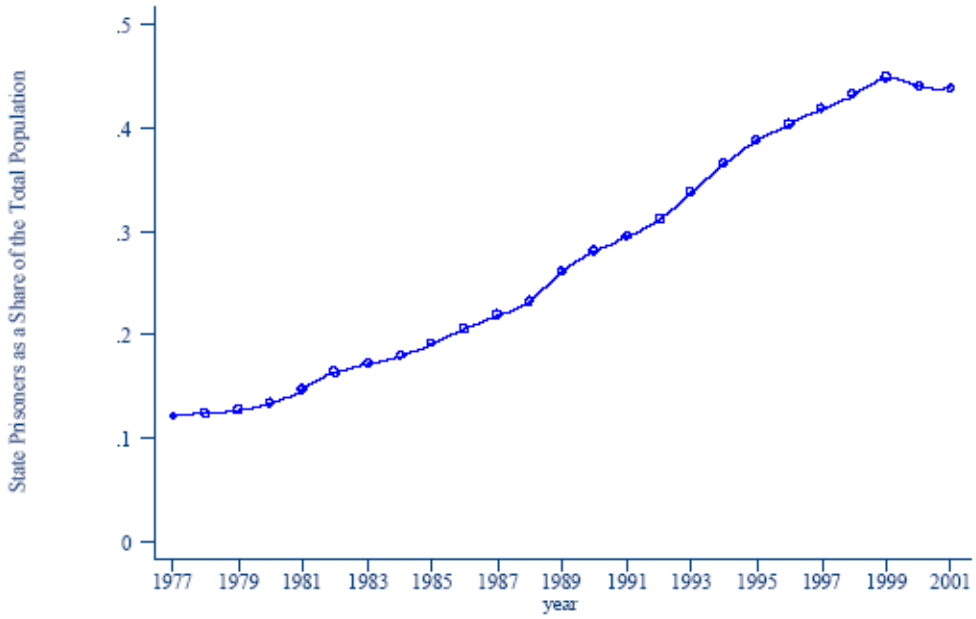


Source: Authors' calculations based on data from Department of Education, National Center for Education Statistics.

Chart: Kane, Orszag, and Gunter, 2003

The next set of figures (9 and 10 and chart 2) show the strong relationship between the growth in corrections and the criminal justice system and the decline in spending in higher education. Causation is only inferred, there is no direct evidence presented that a dollar spend on corrections comes directly out of higher education, but the relationship is none the less striking and suggestive. Kane, Orszag, and Gunter make a strong argument that Medicaid is the primary driver behind the change.

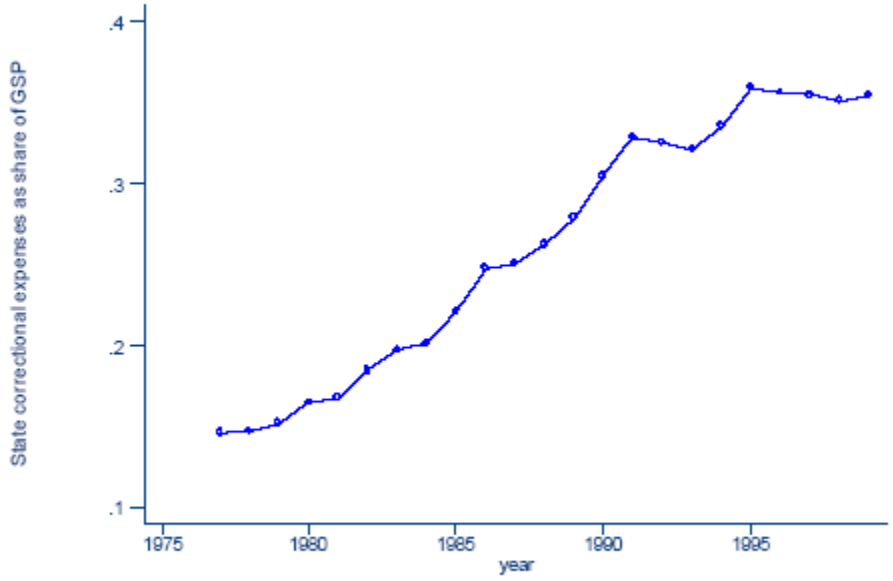
Figure 9: State prisoners as percent of population



Source: Authors' calculations based on U.S. Census Bureau and U.S. Department of Justice, Bureau of Justice Statistics: Prisoners under State or Federal Jurisdiction.

The growth of the corrections system nationwide in numbers of prisoners and cost. (Charts: Kane, Orszag, Gunter, 2003)

Figure 10: State correctional expenses as percent of GSP



Source: Authors' calculations based on data from Bureau of the Census, Department of Commerce.

Table 2 shows changes in state's allocation of their budgets for six areas of expenditure. The chart shows that means-tested benefits and corrections and law have been getting an increasing share of the budget between 1985 and 2000 with higher education being one of the losing categories. Medicaid is the major sector of growth.

Table 2: Shares of state budgets

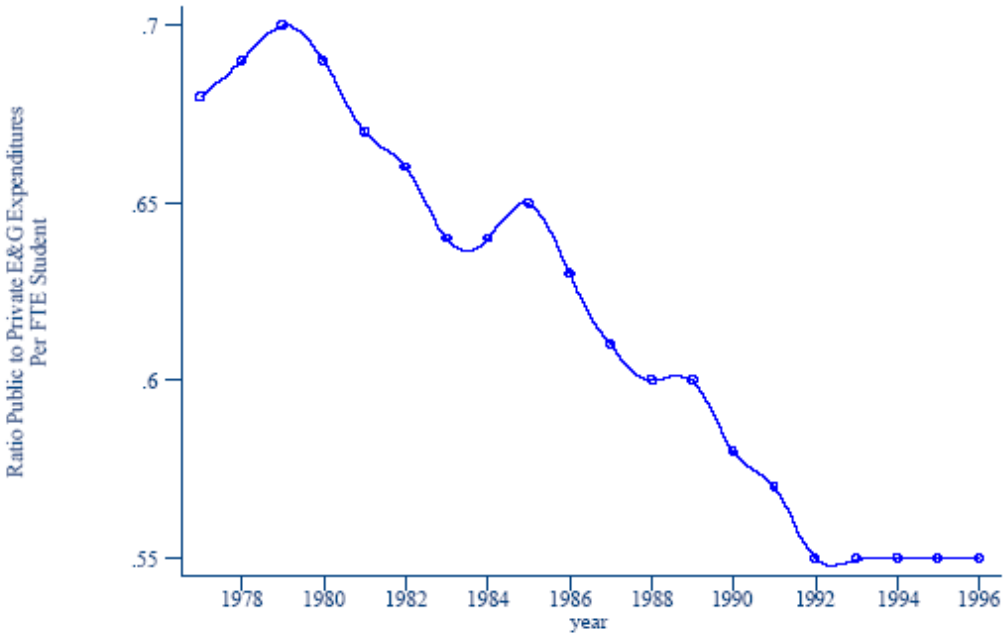
	1985	2000	Change
Mean-tested benefits (including Medicaid)	17.2%	22.0%	4.8%
Higher education	12.2%	11.1%	-1.1%
Primary and secondary education	20.7%	20.8%	0.1%
Correctional and law	4.2%	5.4%	1.2%
Highways	8.5%	6.8%	-1.7%
Other	37.2%	33.8%	-3.4%
TOTAL	100.0%	100.0%	

Source: Authors' calculations based on data from Bureau of the Census, Department of Commerce.

Table: Kane, Orszag, and Gunter, 2003

On the next page, figure 22 illustrates the increasing divide between public and private institutions. Apparently this stabilized in 1992 for reasons that are not clear. It is believed, but the data have not yet been published, that the divide has started to increase again with the recent reductions in state funding and the recovery of the stock market and private institutions endowment revenue. The depth of the divide may once again accelerate when as revenue sources for private institutions improve and public institutions see a decline in their revenue stream.

Figure 22: The ratio of expenditures per student at public and private institutions



Source: Authors' calculations based on data from Department of Education, National Center for Education Statistics.

Chart: Kane, Orszag, and Gunter, 2003

Higher Education Outcomes

The last section of the paper will look narrowly at one outcome measure, baccalaureate production, to see how this one measure illustrates the result of the finances discussed earlier, and to inform policy decision making in the face of the fiscal crisis.

While it may seem that the relative production of baccalaureate degrees is a separate issue from that of higher education finance and the immediate fiscal crisis that is the main focus of the paper, an examination of one of the important final products of at least four year higher education provides at least some insight as to the consequences of various funding levels of higher education.

In terms of the current budget crisis, given its magnitude and the multi-year nature of any reasonable solution set, it will be important to keep in mind the state of relative degree production when looking at various policy options. Solutions that involve changing the rate baccalaureate production relative the number of high school graduates need to be considered in the context of the states standing relative to other states.

Measures of degree completion among the existing population, or overall college going rate (not shown here, but generally showing California to be well placed) are not the correct measures to think about when considering providing opportunities for current residents.

The charts that follow should be used as a way to start thinking about the problem. There are considerable methodological issues with each chart, but all indicate that California's production of baccalaureate degrees is, perhaps, not all it could be.

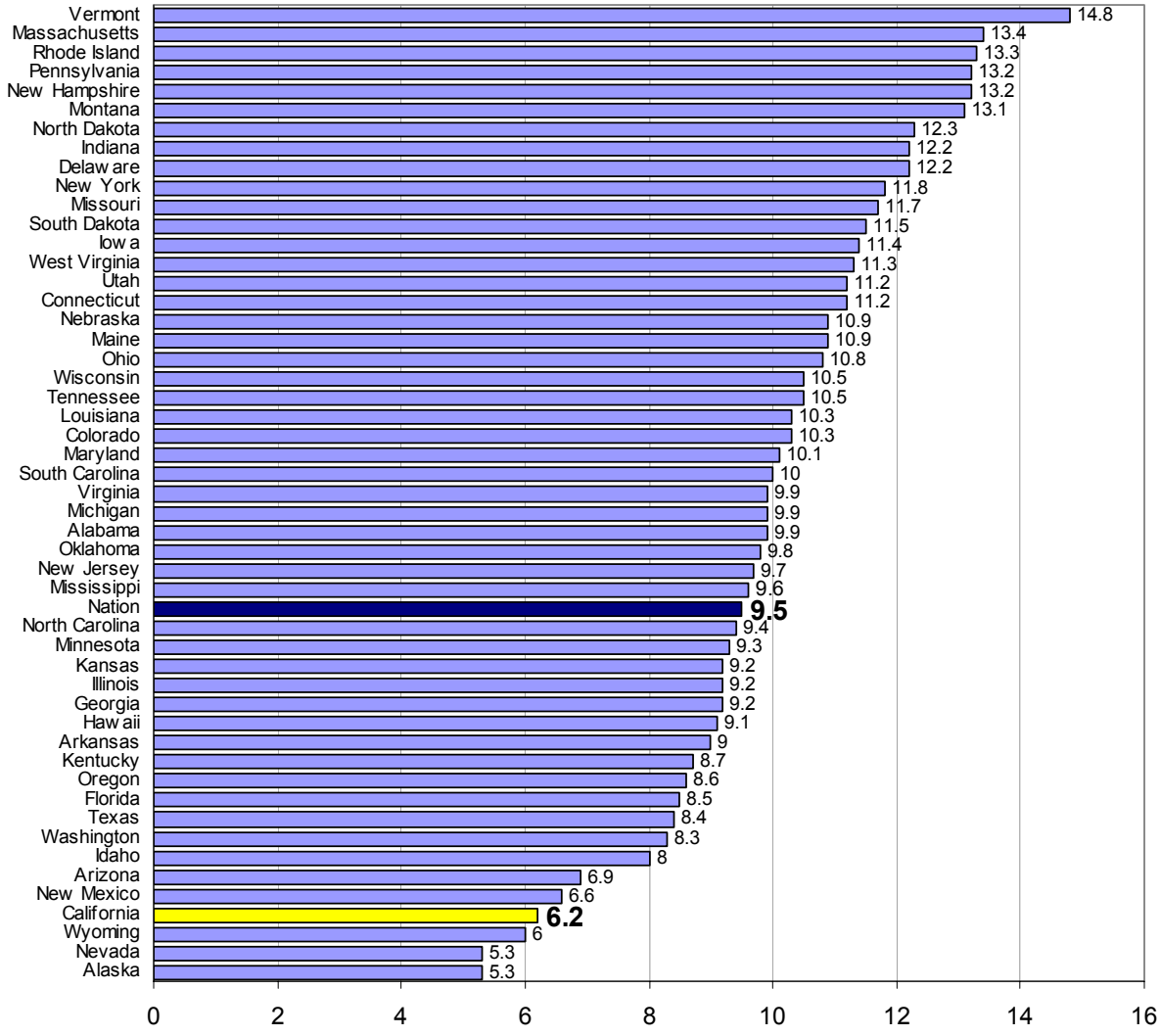
How is California Doing in terms of Baccalaureate production?

Chart 1, on the next page, shows the least favorable way of looking at BA production in California since it includes a large number of Community College students who do not intend to get a BA. On the other hand, people often cite figures showing total college enrollment where California does quite well.

Chart 1

Bachelor's Degrees Awarded Per 100 Undergraduates
(Includes Community College Undergraduates)

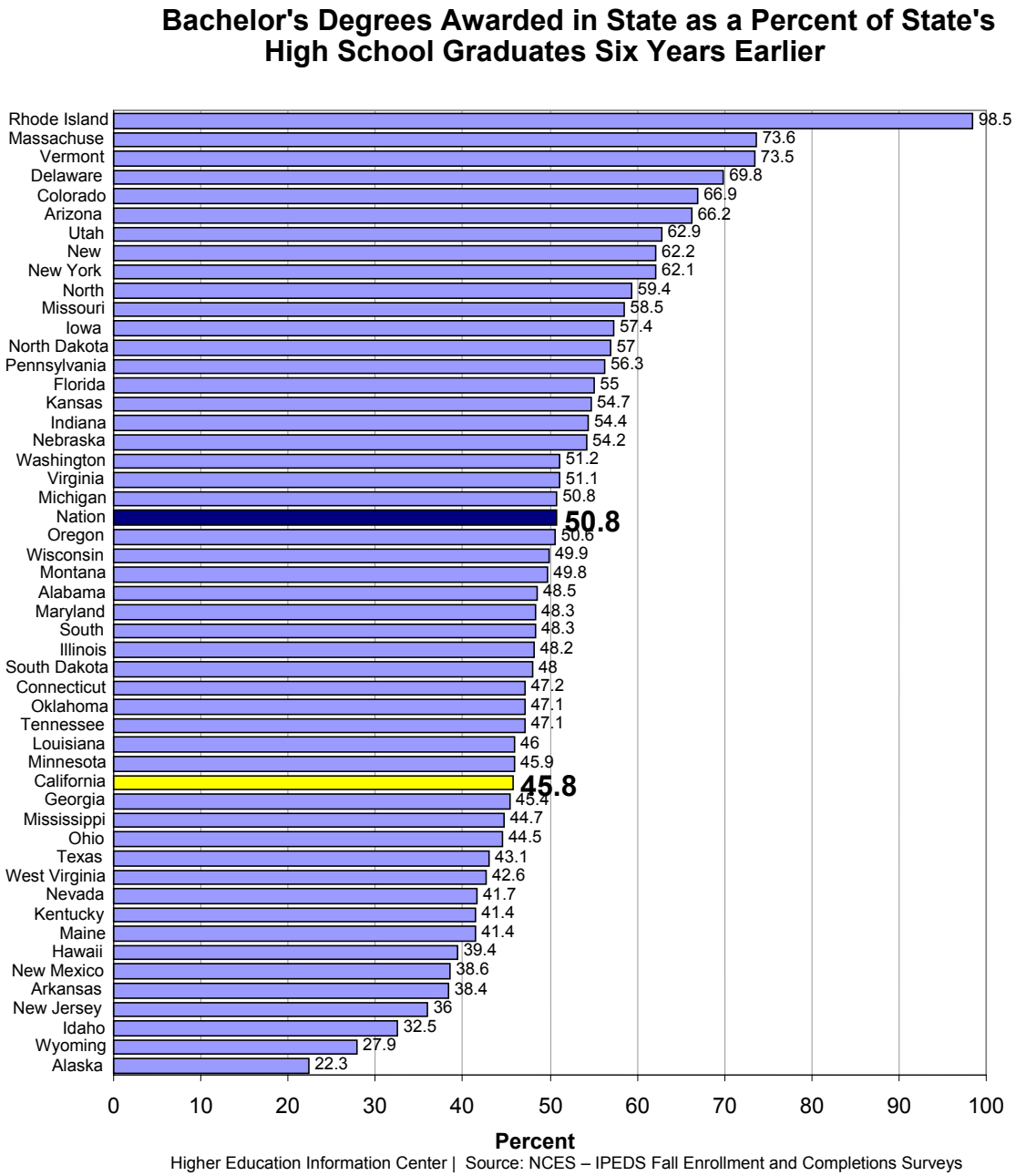
The number of bachelor's degrees awarded at 4-year degree-granting institutions/Total undergraduate fall enrollment at degree-granting institutions.



Higher Education Information Center | Source: NCES – IPEDS Fall Enrollment and Completions Surveys

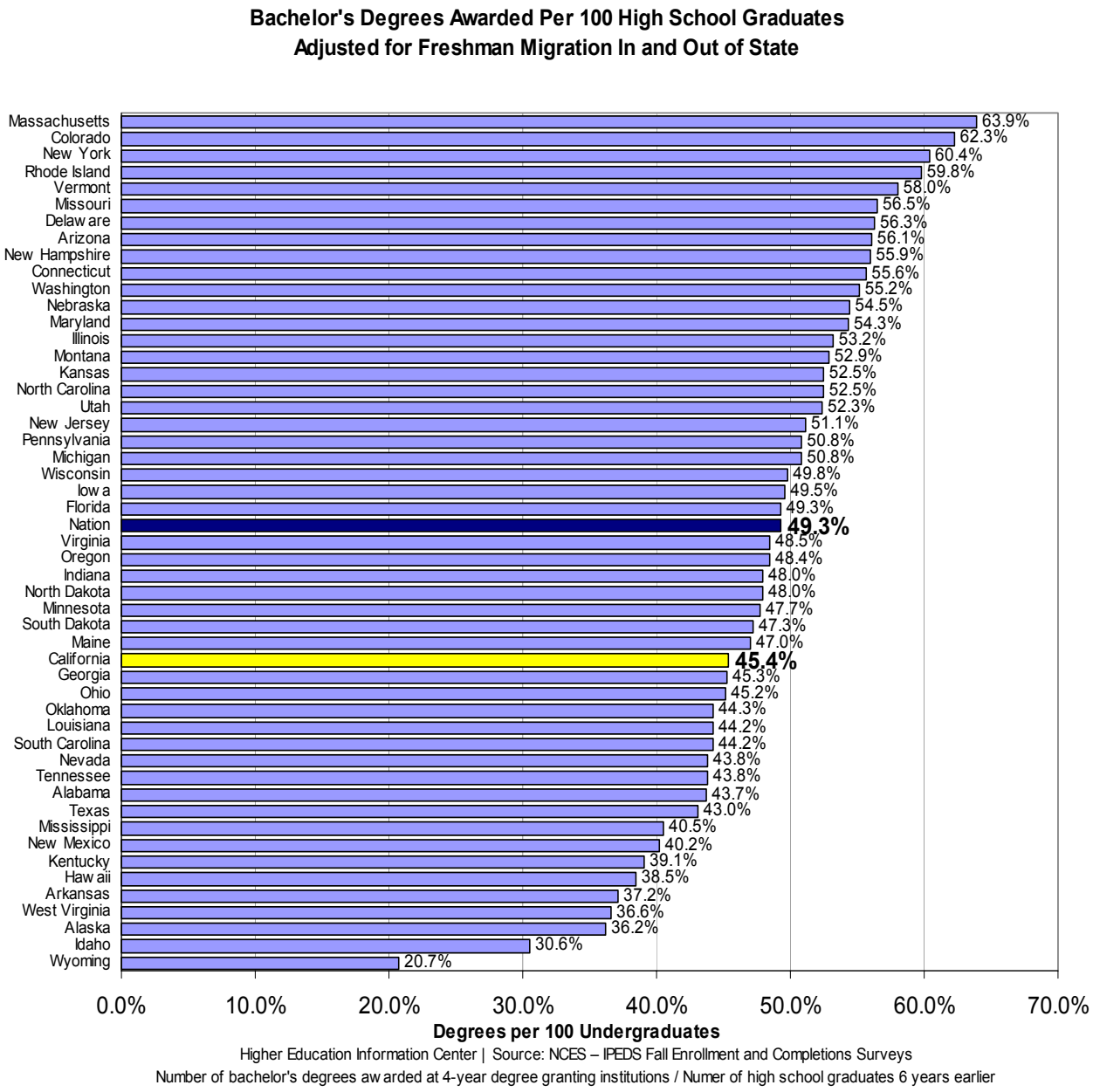
This is a more reasonable measure of BA production using a six year lagged percentage of the state's high school graduates. States that import large numbers of high school graduates will have their results overstated. Also states which are growing or shrinking quickly will have distorted numbers.

Chart 2



This is an even better measure as it adjusts for the net migration of college students in and out of a state. Since California neither imports nor exports many students this is the best way to compare how California is doing. It seems that California residents have a significantly lower chance of earning a BA than do residents of northeastern states. There are many possible reasons for this, and clearly another paper is indicated.

Chart 3



Appendix

On the next page is a chart of some details on tax rates for all fifty states. It is a nice summary from the US Census.

Resources

Some useful websites if you want to get more information:

California Department of Finance
www.dof.ca.gov
http://www.dof.ca.gov/html/fs_data/stat-abs/sec_P.htm
http://www.dof.ca.gov/html/fs_data/stat-abs/toc.htm

The US Census
http://www.census.gov
http://www.census.gov/govs/www/index.html
http://www.census.gov/govs/www/estimate.html

The Urban Institute
http://www.urban.org/
http://www.taxpolicycenter.org/TaxFacts/state/main.cfm

The Tax Foundation
http://www.taxfoundation.org
http://www.taxfoundation.org/individualincometaxrates.html

	State Ind. Income Tax						Corporate Inc.		Sales Tax			Res.	Gasoline Tax		Wine	Cigarettes
	Rates			Ind. Inc Brackets			Tax Rates			Max	Exemptns.	Property	in Cents / Gallon		Excise Tx	Tax
	Low	High	Diff	Low Single	High Single	High Joint	Low	High	State	St. + Local	Food - F Drug - D	Rate per $100	State	St.+ Max Local	$/Gallon	in cents
Alabama	2.00	**5.00**	*3.00*	500	3,000	6,000	5.00	5.00	4.00	11.00	D	0.51	18.00	21.00	1.70	16.5
Alaska	-	**-**	-				1.00	9.40	-	7.00		1.76	8.00	8.00	2.50	100.0
Arizona	2.87	**5.04**	*2.17*	10,000	150,000	300,000	6.80	6.80	5.60	8.60	F&D	1.03	18.00	26.00	0.84	58.0
Arkansas	1.00	**6.50**	*5.50*	2,999	25,000	25,000	1.00	6.50	5.13	9.88	D	1.17	21.50	21.50	0.75	31.5
California	1.00	**9.30**	*8.30*	5,834	38,291	76,582	8.84	8.84	6.00	8.50	F&D	1.04	18.00	18.00	0.20	87.0
Colorado	4.63	**4.63**	-	Flat Rate	Flat Rate	Flat Rate	4.63	4.63	2.90	7.90	F&D	0.72	22.00	22.00	0.32	20.0
Connecticut	3.00	**4.50**	*1.50*	10,000	10,000	20,000	7.50	7.50	6.00	6.00	F&D	1.83	25.00	25.00	0.60	50.0
Delaware	2.20	**5.95**	*3.75*	5,000	60,000	60,000	8.70	8.70	-	-		1.13	23.00	23.00	0.97	24.0
Florida	-	**-**	-	-	-	-	5.50	5.50	6.00	7.50	F&D	2.41	14.10	21.10	2.25	33.9
Georgia	1.00	**6.00**	*5.00*	750	7,000	10,000	6.00	6.00	4.00	7.00	F&D	1.68	7.50	7.50	1.51	12.0
Hawaii	1.40	**8.25**	*6.85*	2,000	40,000	80,000	4.40	6.40	4.00	4.00	D	0.32	16.00	27.50	1.36	100.0
Idaho	1.60	**7.80**	*6.20*	1,087	21,730	43,460	7.60	7.60	5.00	8.00	D	1.26	26.00	26.00	0.45	28.0
Illinois	3.00	**3.00**	-	Flat Rate	Flat Rate	Flat Rate	7.30	7.30	6.25	9.25	1% F&D	2.86	19.80	27.10	0.73	58.0
Indiana	3.40	**3.40**	-	Flat Rate	Flat Rate	Flat Rate	7.90	7.90	6.00	6.00	F&D	1.64	15.00	26.00	0.47	15.5
Iowa	0.36	**8.98**	*8.62*	1,211	54,495	54,495	6.00	12.00	5.00	7.00	F&D	2.32	20.10	20.10	1.75	36.0
Kansas	3.50	**6.45**	*2.95*	15,000	30,000	60,000	4.00	7.35	5.30	8.30	D	1.12	24.00	24.00	0.30	24.0
Kentucky	2.00	**6.00**	*4.00*	3,000	8,000	8,000	4.00	8.25	6.00	6.00	F&D	1.20	16.40	18.40	0.50	3.0
Louisiana	2.00	**6.00**	*4.00*	10,000	50,000	100,000	4.00	8.00	4.00	9.50	D & 2%F	0.77	20.00	20.00	0.11	24.0
Maine	2.00	**8.50**	*6.50*	4,200	16,700	33,400	3.50	8.93	5.00	5.00	F&D	2.42	22.00	22.00	0.60	74.0
Maryland	2.00	**4.75**	*2.75*	1,000	3,000	30,000	7.00	7.00	5.00	5.00	F&D	2.30	23.50	23.50	0.40	66.0
Massachusetts	5.30	**5.30**	-	Flat Rate	Flat Rate	Flat Rate	9.50	9.50	5.00	5.00	F&D	1.24	21.00	21.00	0.55	76.0
Michigan	4.00	**4.00**	-	Flat Rate	Flat Rate	Flat Rate	1.90	1.90	6.00	6.00	F&D	2.39	19.00	19.00	0.51	75.0
Minnesota	5.35	**7.85**	*2.50*	18,710	61,461	108,661	9.80	9.80	6.50	7.50	F&D	1.25	20.00	20.00	0.30	48.0
Mississippi	3.00	**5.00**	*2.00*	5,000	10,000	10,000	3.00	5.00	7.00	7.25	D	1.29	18.40	18.40	0.35	18.0
Missouri	1.50	**6.00**	*4.50*	1,000	9,000	9,000	6.25	6.25	4.23	8.35	D&1.2%F	1.27	17.03	17.03	0.36	17.0
Montana	2.00	**11.00**	*9.00*	2,200	75,400	75,400	6.75	6.75	-	-		1.36	27.00	27.00	1.06	18.0
Nebraska	2.56	**6.84**	*4.28*	2,400	26,500	46,750	5.58	7.81	5.50	7.00	F&D	2.24	25.50	25.50	0.75	34.0
Nevada	-	**-**	-	-	-	-	-	-	6.50	7.25	F&D	1.01	24.00	31.75	0.40	35.0
New Hampshire	-	**-**	-	-	-	-	8.50	8.50	-	-		3.40	19.50	19.50	varies	52.0
New Jersey	1.40	**6.37**	*4.97*	20,000	75,000	150,000	9.00	9.00	6.00	6.00	F&D	3.91	14.50	14.50	0.70	80.0
New Mexico	1.70	**8.20**	*6.50*	5,500	65,000	100,000	4.80	7.60	5.00	7.25	D	0.98	16.00	16.00	1.70	21.0
New York	4.00	**6.85**	*2.85*	8,000	20,000	40,000	7.50	7.50	4.00	8.50	F&D	0.78	22.60	22.60	0.19	111.0
North Carolina	6.00	**8.75**	*2.75*	12,750	120,000	200,000	6.90	6.90	4.50	8.50	F&D	1.26	23.65	23.65	0.79	5.0
North Dakota	2.10	**12.00**	*9.90*	27,050	297,350	297,350	3.00	10.50	5.00	7.50	F&D	1.91	21.00	21.00	0.50	44.0
Ohio	0.74	**7.50**	*6.76*	5,000	200,000	200,000	5.10	8.50	5.00	7.00	F&D	1.44	22.00	22.00	0.32	24.0
Oklahoma	0.50	**7.00**	*6.50*	1,000	10,000	10,000	6.00	6.00	4.50	9.85	D	1.04	17.00	17.00	0.72	23.0
Oregon	5.00	**9.00**	*4.00*	2,500	6,250	12,500	6.60	6.60	-	-		1.32	24.00	27.00	0.67	68.0
Pennsylvania	2.80	**2.80**	-	Flat Rate	Flat Rate	Flat Rate	9.99	9.99	6.00	7.00	F&D	2.62	25.90	25.90	varies	31.0
Rhode Island	2.50	**9.65**	*7.15*	10,000	307,050	307,050	9.00	9.00	7.00	7.00	F&D	2.21	31.00	31.00	0.60	71.0
South Carolina	2.50	**7.00**	*4.50*	2,400	12,000	12,000	5.00	5.00	5.00	7.00	D	0.66	16.00	16.00	0.90	7.0
South Dakota	-	**-**	-	-	-	-	-	-	4.00	6.00	D	1.74	22.00	23.00	0.93	33.0
Tennessee	-	**-**	-	-	-	-	6.00	6.00	7.00	9.75	D & 6%F	1.42	21.40	22.40	1.21	13.0
Texas	-	**-**	-	-	-	-	-	-	6.25	8.25	F&D	0.95	20.00	20.00	0.20	41.0
Utah	2.30	**7.00**	*4.70*	863	4,313	8,626	5.00	5.00	4.75	7.00	D	0.99	24.50	24.50	varies	51.5
Vermont	3.60	**9.50**	*5.90*	27,950	307,050	307,050	7.00	9.75	5.00	6.00	F&D	2.02	20.00	20.00	0.55	44.0
Virginia	3.00	**6.50**	*3.50*	3,000	17,000	17,000	6.00	6.00	3.50	4.50	D & 4%F	1.34	17.50	19.50	1.51	2.5
Washington	-	**-**	-	-	-	-	-	-	6.50	8.90	F&D	1.10	23.00	23.00	0.87	142.0
West Virginia	3.00	**6.50**	*3.50*	10,000	60,000	60,000	9.00	9.00	6.00	6.00	D	0.82	25.35	25.35	1.00	17.0
Wisconsin	4.60	**6.75**	*2.15*	8,280	124,200	124,200	7.90	7.90	5.00	5.60	F&D	2.72	28.10	28.10	0.25	77.0
Wyoming	-	-	-	-	-	-	-	-	4.00	6.00	D	0.75	14.00	14.00	varies	12.0