

EXECUTIVE SUMMARY

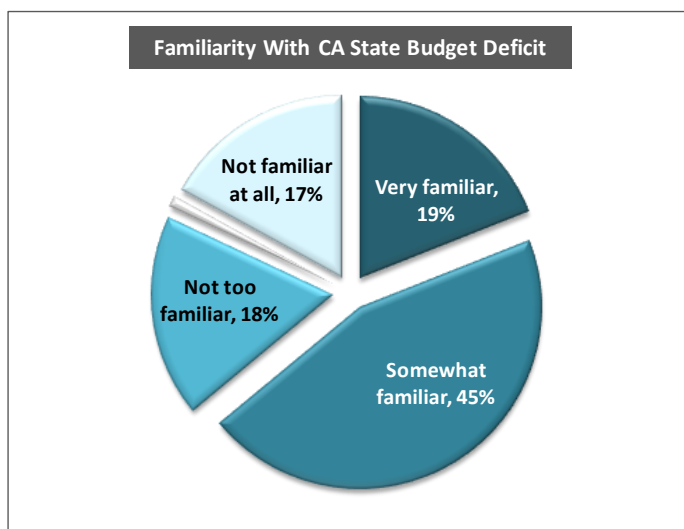
1. Close to two-thirds of Californians are at least somewhat familiar with the state's budget deficit and the \$27.8 billion dollar gap is generally regarded as a very serious problem.
2. Californians generally oppose cuts to education, higher education and health and human services programs. A small plurality support cuts to prisons.
3. Californians support some tax increases and oppose others as a way to balance the budget. Large majorities oppose increases to the sales tax and auto registration fees. However, 57% support imposing higher income taxes on households earning more than \$250,000 and increasing the tax on tobacco products is favored by 74% of the state's residents.
4. More information is not helping to resolve the legislative stalemate. When it comes to how to address the budget shortfall, we find some consensus among Californians who are only somewhat familiar with the budget. However, a gulf divides Republicans and Democrats who report greater familiarity with the budget problem. These plugged-in partisans tend to desire the more extreme options.

AWARENESS OF THE BUDGET CRISIS

Awareness of California's \$27.8 billion dollar budget crunch is high. Sixty-four percent say they are familiar with California's state budget deficit; however, most do not admit to strong familiarity.

As would be expected, certain demographic groups tend to be more familiar with the budget deficit than others. Those with higher levels of education or income, older residents, males and non-Hispanics all show higher levels of awareness of California's budget problems. Specifically, those with advanced degrees are more than three times as likely as those with a high school education or less to be very familiar with the budget deficit. Adults with more education generally pay

more attention to current events and news. In this case the relationship of education to knowledge may be heightened by the more complex nature of the budget issue. Similarly, the higher the household income, the more likely one is to be aware of the budget crisis. Residents earning more than \$80,000 annually are twice as likely as those earning less than \$40,000 to be very familiar with the budget situation. Since the tax burdens fall harder on more affluent households, budget shortfalls that could lead to higher taxes may get the attention of higher income earners. In addition, affluent residents may be more conversant and comfortable with the budget discussion that revolves around high dollar figures.



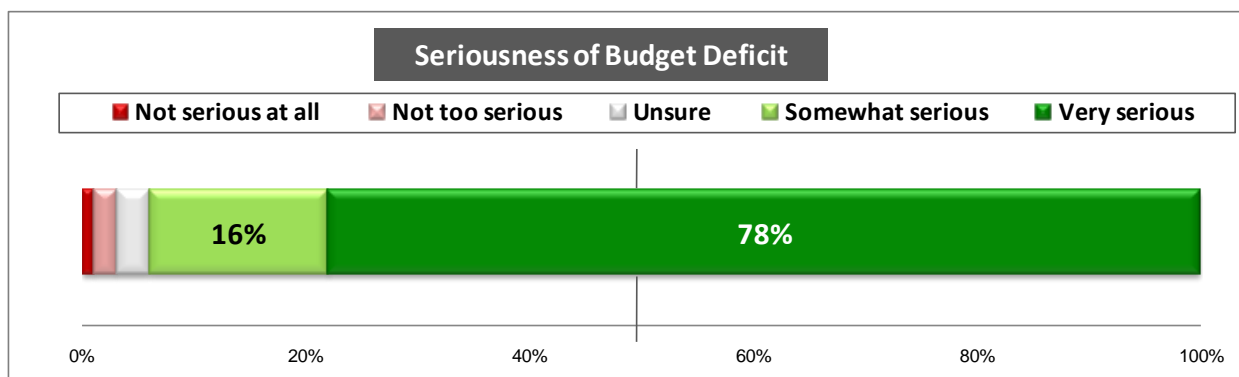
Familiar With State Budget Deficit?	All Adults	Education				
		< High School	High School	Some College	College Degree	Advanced Degree
Not familiar at all	17%	41%	32%	13%	12%	1%
Unsure	1	8	1	1	1	0
Not too familiar	18	23	21	22	11	13
Somewhat familiar	45	19	37	49	52	49
Very familiar	19	9	10	15	24	36

Familiar With State Budget Deficit?	All Adults	Registered to Vote		Income		
		No	Yes	<\$40K	\$40-80K	>\$80K
Not familiar at all	17%	35%	12%	30%	16%	5%
Unsure	1	4	1	2	1	1
Not too familiar	18	26	16	22	14	14
Somewhat familiar	45	29	49	34	50	55
Very familiar	19	6	22	12	20	25

The survey shows that registered voters are paying more attention to the deficit than non-registrants. Twenty-two percent of the former are very focused on the budget while only 6% of non-registrants claim the same thing. In fact, 40% of the non-registrants are not paying any attention at all. Since registrants have voted on state budget matters and pay closer attention to political issues in general, this makes perfect sense and is reassuring to fans of the political process.

SEVERITY OF THE SITUATION

The large majority of Californians believe that the budget crisis is a very big problem. Seventy-eight percent of California residents think that the budget problems are now very serious and 81% of self-reported registered voters say the same. Our results are consistent with those found in a September 2008 Field Poll which reported that 82% of voters describe the situation as very serious. This clearly continues to be a white hot crisis.

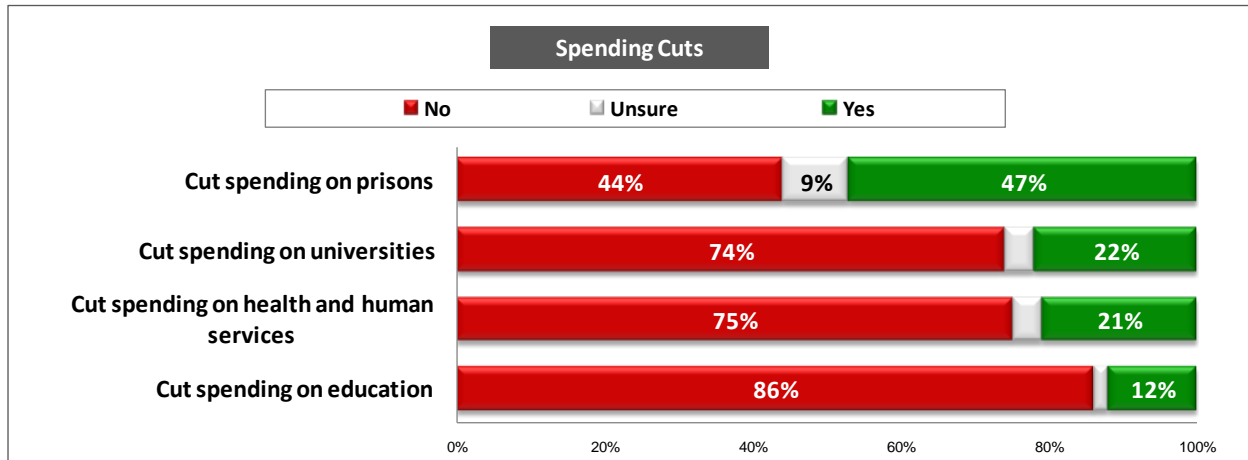


Residents familiar with the budget crisis are more likely to say it is a very serious matter. Ninety-three percent of those who say they are very familiar with the budget crisis also describe the situation as very serious. Only 58% of the residents who say they are not familiar with the budget situation rate it as a very serious problem. Familiarity clearly breeds concern.

Although males, non-registrants and non-partisans tend to find the crisis to be a bit less severe than females, voters and members of the major parties, we find no demographic group in which most residents declare this to be less than a very serious crisis.

SPENDING CUTS

The overwhelming perception that the budget has reached crisis proportions suggests that residents will entertain drastic action to put the state on solid financial footing. However, Californians remain reluctant to cut government spending.



Broad Opposition to Education Cuts

Only 12% would agree to cut spending on education to help close the deficit and this is the least popular way to close the deficit. Voters and non-voters are about equal in their opposition to balancing the budget on the back of education. Democrats and women are even more opposed to reducing spending on education – with only 5% of Democrats saying they would agree to education cuts. According to California’s Legislative Analyst Office (LAO), the 2008-2009 budget allocated \$40 billion or 38.7% to K-12 education.

Seventy-four percent oppose cutting university funding. Republicans and ideological conservatives are a bit less opposed to making cuts here, but even 62% of Republicans and two-thirds of very conservative residents oppose reducing spending on universities. The LAO reports that in FY 2009 the State’s General Fund will spend 11.6% on the state’s higher education system.

Little Support for Cuts to Health and Human Services

Only 21% support cutting social services to balance the budget. We again find less opposition among Republicans and conservatives, but even among these groups opposition outweighs support. When compared to non-registrants, registered voters evince slightly more support for cutting welfare services, but, again, the overwhelming majority oppose this tactic to close the deficit. The State’s

Legislative Analyst's Office reports that the 2008-2009 enacted budget for the state allocated \$31.1 billion or 30% of the budget for health and social services.¹

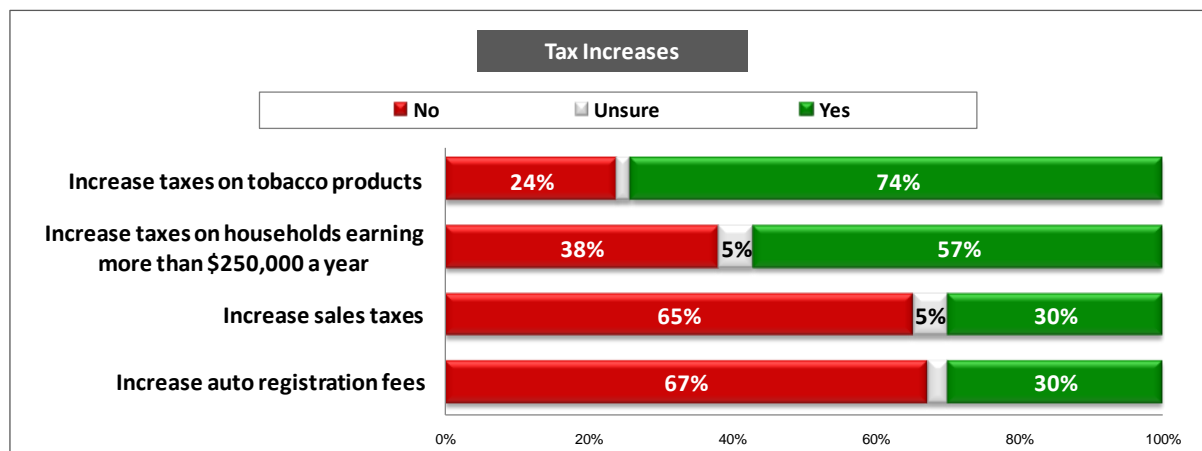
Some Support for Cuts to Prisons

What do Californians have the stomach for cutting? Reducing the amount of spending on the prison system (the criminal justice system comprises 12.8% of 2008-2009 General Fund) is the most palatable cut we tested. Forty-seven percent favor decreasing the state's investment in prisons. Since only 44% oppose cutting funds for prisons, this is the only area where support for a reduction in spending outweighs opposition. Still, it is close and residents certainly are not speaking with one voice even when it comes to this type of spending reduction. In fact, the only demographic group registering majority support for cutting prison funding is highly educated residents with advanced degrees. Fifty-seven percent of them support the idea. Among all other significant groups, less than half express support for the reductions. Registered voters are no more keen to cut prison spending than non-registrants.

Thirty-nine percent do not agree with *any* of the cuts we specifically asked about. When these folks were asked which programs they would cut to help close the deficit, 74% could not come up with an answer. They either refused to name a program to be cut or were undecided. Of the remaining respondents, the most frequent answer was to reduce the salaries/perks/expenses of government employees.

TAX INCREASES

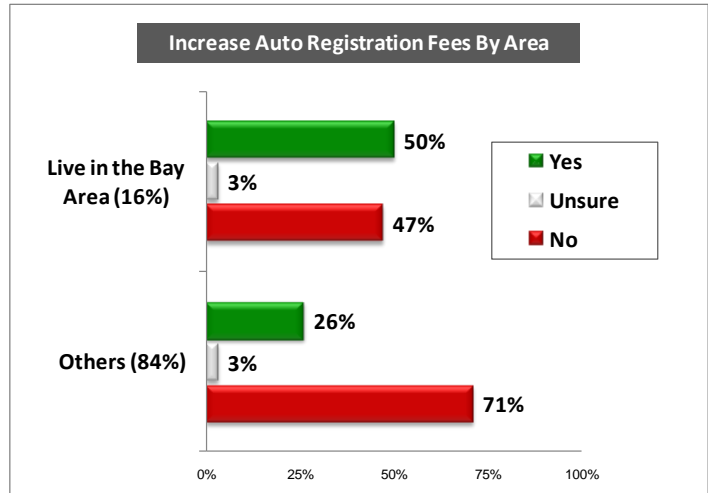
Although spending cuts generally receive a cold reception, Californians are willing to raise some taxes that fall on "other" people. The fiscal solution for the state will most likely be resolved on the backs of certain specific groups, as any general tax increase is likely to cause an uproar and be resisted.



Widespread Opposition to Increasing Auto Registration Fees

¹ . California Legislative Analyst's Office, "California Spending Plan 2008-09", pg. (http://www.lao.ca.gov/2008/spend_plan/spending_plan_08-09.pdf). Percentages calculated by San Diego Institute for Policy Research.

Opposition to increasing auto registration fees is widespread with 67% of residents coming down on the “no” side. The car tax does generate some support from self-identified liberals, those with advanced degrees and those residing in the San Francisco bay area. This suggests that relatively higher levels of mass transit usage in the Bay Area lead to greater support for this option. Further lending credence to this view is the high levels of opposition in more auto-dependent areas like the Central Valley (76% opposed) and Southern California (74% opposed).



There also tends to be more support for increased auto registration fees among voters, as 10% more of them say “yes” to this option. However, even among voters, support only gets to 32%, so this would be a sure loser at the ballot box and candidates supporting such a measure will likely take note of this.

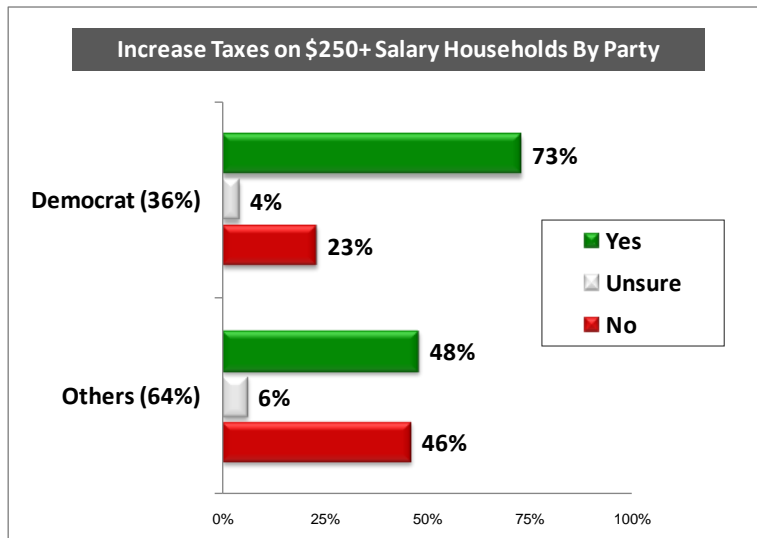
Widespread Opposition to Sales Tax Increase

As with raising car registration fees, residents reject a sales tax increase by a wide margin, as 65% oppose this budget balancing tactic. No demographic sub-group supports the sales tax option, although the survey does find less opposition among liberals. Voters are again a bit more inclined than non-voters to support a sales tax increase, but, again, that support does not get anywhere near 50%.

Support for Raising Taxes on Higher Income Households

Taxing households earning over \$250,000 a year is a viable option, with 57% saying that the government should increase the state’s revenue in this way. This is principally because few people would take a direct hit from this. Well over half of the residents who earn less than \$150,000 annually think taxing the wealthy is a good idea. The level of agreement here is about the same for both residents earning \$80,000 to \$150,000 and the poor (those earning less than \$20,000). The clear implication is that residents will support a tax they do not have to pay.

Democrats are much more eager to raise income taxes on those who make more than \$250,000 a year, with 73% of supporting this option. Only 48% of non-Democrats support this revenue enhancing option.



Ideology factors in as well. Liberals are more likely to agree with an income tax increase and conservatives are not. Eighty-two percent of those who are very liberal favor raising taxes on the wealthy, but only 33% of those who are very conservative would agree. Continuing a theme we have seen throughout the data, adults with advanced degrees are more likely to support such tax increases.

Widespread Support for Raising Taxes on Tobacco

Taxing tobacco products is by far the most popular choice, as 74% say the government should do this to balance the budget. No demographic segment opposes levying a tax increase on smokers. Support for such a measure is strongest among Democrats, liberals and residents under the age of 35. This last bit of information could unnerve the tobacco industry, as it suggests that support for taxing tobacco products will increase as time goes by.

Only thirteen percent did not agree with any of the tax increases they were asked about. Virtually none of those folks were able to come up with a new alternative funding mechanism to balance the budget.

TAXERS AND SPENDERS

By distilling the responses to the spending cut and tax increase questions, we can get a clearer view of the inclinations of Californians and examine more generally their attitudes toward taxing and spending to close the budget deficit. We grouped people into the following categories. Those wanting to see one or two taxes raised were classified as supporting “limited tax increases”. Those wanting one or two programs cut were classified as favoring “limited budget cuts”. Those on the further extremes were classified as favoring “dramatic” approaches (favoring three or all four of the provided options) or as favoring “no” taxes or budget increases if they did not support any of the four options offered.

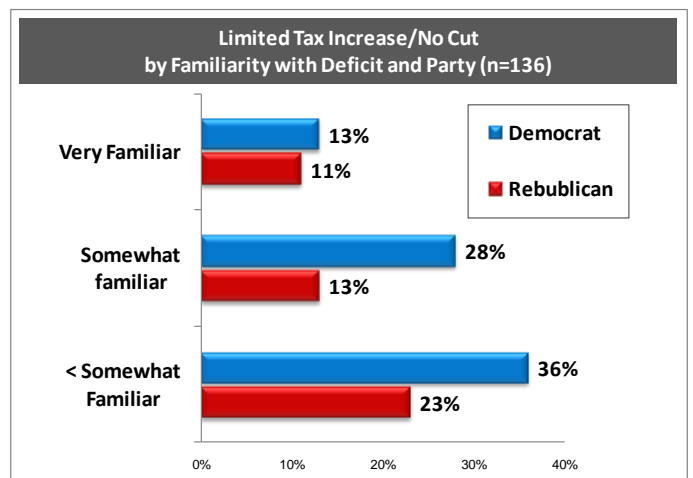
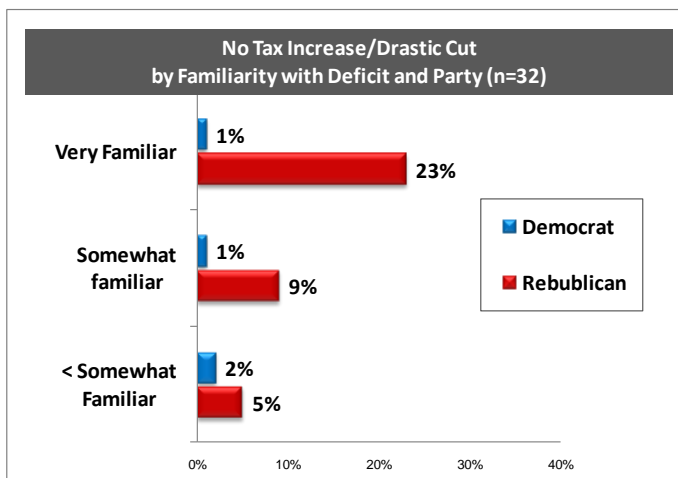
	Dramatic Tax Increases	Limited Tax Increases	No Tax Increases
No Budget Cuts	12%	23%	4%
Limited Budget Cuts	18%	28%	4%
Dramatic Budget Cuts	2%	4%	5%

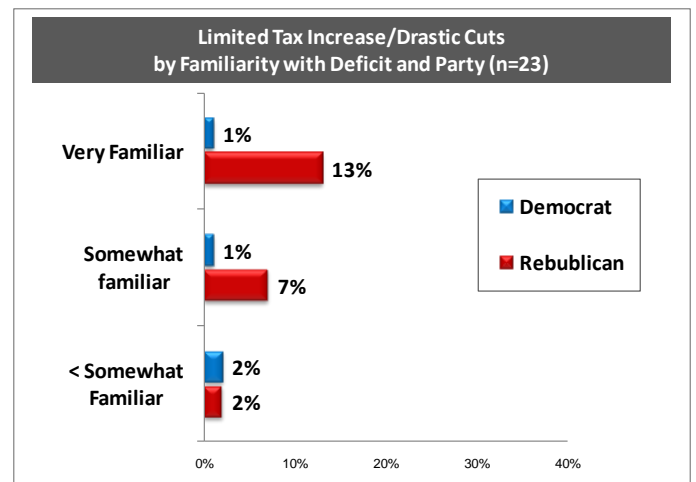
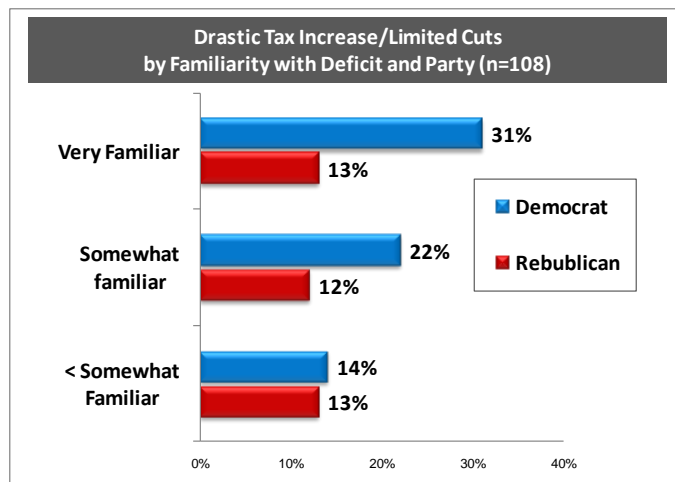
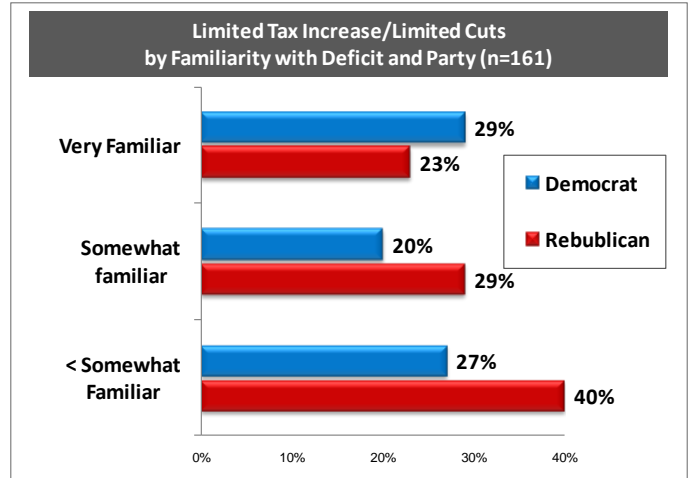
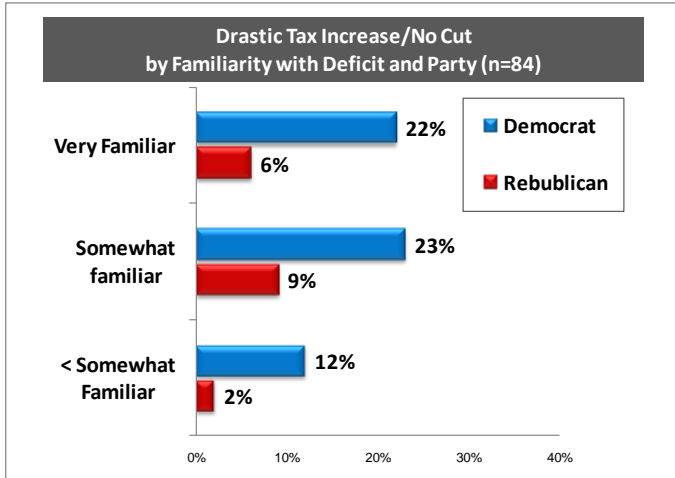
Note that most voters are either moderate in how they approach both their tax increases and spending cuts (28%) or want no cuts and limited taxes (23%). Fifty-one percent fall into these two categories. Second tier positions involve either dramatic increases and limited budget cuts (18%) or dramatic tax increases and no cuts at all (12%). Very few residents are found on the extremes (either no cuts and no tax increases or dramatic cuts and dramatic tax increases).

Republicans are more likely to take the “limited increase, limited cut” approach. Substantial percentages of GOP members like the strategy of no increase and limited cuts and even the no increase, big cuts approach. They tend to eschew the other popular option of big increases and small cuts. Democrats most frequently chose the course of limited tax increases and no services cut, but also gravitate toward limited increases and limited cuts (as GOP members do). However, a substantial portion of Democrats (23%) believe dramatic tax increases and few cuts is the way to go. The strategy of big increases and no cuts is also appealing to some Democrats as 19% favor this route. This presents a wide divergence from Republicans, as only 7% of the GOP respondents want big increases and no cuts.

When we include knowledge about the budget situation in our analysis, we find that it significantly colors the approach partisans want the state to be taking. Republicans who are less than somewhat familiar with the state’s budget situation are more likely to want limited increases and limited cuts. Forty percent of unfamiliar GOPers take this approach and another 21% want the more “liberal” approach of limited increases and no cuts at all. Only six percent of this less informed GOP group say they want no tax increases and drastic budget cuts. On the other hand, Republicans who say they are very familiar with the budget crisis tend to favor no tax increases and widespread cuts.

But greater familiarity with the budget crisis does not lead to hardened positions only among Republicans. We found that knowledge about the budget has a similar impact on Democrats. Among those stating that they are very familiar with the budget, only 13% favor the option of limited tax increases and no cuts. The preferred choices for Democrats who are very familiar with the budget situation are either drastic tax increases with limited cuts (30% favor this) or limited tax increases and limited cuts (29%). Information in this case, leads to greater reliance on tax increases.





So, in the case of both parties the more people educate themselves about the budget, the more they are likely to take their party's harder line on the issue. Information, in this case, apparently breeds a more radical point of view.

The partisans of *both* parties that are paying attention have fundamentally different approaches when it comes to how to address the state's fiscal balance. Those engaged enough to know have fundamentally different views of the world. These findings suggest that elected officials are reflecting back the views of their engaged and active supporters. **Paradoxically, information doesn't help as it tends to drive the respective partisans away from the middle and toward opposite extremes.**

ABOUT THE SDI/COMPETITIVE EDGE RESEARCH

The November survey was conducted from November 18th to November 21st, 2008 and includes 1004 randomly selected adult respondents in California.

This survey was conducted by Competitive Edge Research & Communication (CERC) in conjunction with the San Diego Institute for Policy Research (SDI). SDI and CERC jointly determined the issues to be covered in this survey. SDI provided CERC with background information on the issues contained in the questionnaire and both entities discussed the topics in order to produce an effective questionnaire. Final responsibility for all questions and the data collection presented herein rests with CERC.

The interviewing was conducted in English and Spanish from CERC's San Diego facility. Professional interviewers were trained specifically for this project. The duration of the average interview was five minutes. The random digit dial sample was provided by Scientific Telephone Samples of Foothill Ranch, CA. The percentages for age were mathematically adjusted to bring them in line with the proportions found in the base sample.

SAMPLING ERROR

According to statistical theory, the confidence level associated with a sample of this type is such that, with a question where the respondents answer 50% "yes" and 50% "no," 95% of the time the results are within plus or minus $\pm 3.1\%$ of the *true value in the state*, where true value refers to the results obtained if it were possible to interview every possible qualified respondent. The degree of error is reduced when responses have larger (e.g. 60%-40%, 70%-30%) percentage differences.

In addition to error introduced by sampling variability, there are many other possible sources of bias such as how a question is worded, the question sequence, or individual interviewer techniques. Competitive Edge does everything in its power to minimize these potential sources of bias.

A survey of this type is a good measure of current attitudes that may change over time. This survey should not necessarily serve as an unqualified predictor of events, but as an indicator to the situation in mid November 2008.

ABOUT THE SAN DIEGO INSTITUTE FOR POLICY RESEARCH

The San Diego Institute for Policy Research (SDI) is a non-partisan organization whose goal is to improve the efficiency and effectiveness of the public sector throughout San Diego County. Established in 2006, SDI produces high quality policy research papers, economic bulletins, public opinion polls and major events and symposiums to help generate debate and discussion among San Diego's decision makers and citizens alike.

ABOUT COMPETITIVE EDGE RESEARCH & COMMUNICATION

Competitive Edge Research & Communication, Inc. is California's premier polling firm. Established in 1987, the firm provides insight and strategic advice to clients across the state and across the country.