



California Pan-Ethnic Health Network

Investing in a Future for All Californians

A Primer on California Budget
and Tax Policy

What's happening to our Golden State?

California has one of the most diverse populations in the country. People of color make up more than half of the state's population, and more than 40% of Californians speak a language other than English at home. While each community is unique, we all share a common commitment to safe, healthy lives for our families. This includes access to quality childcare and education for our children; security and good wages in our jobs; clean air and water in our neighborhood; and affordable health care for our families. Creating the conditions in which our families can thrive requires an investment through tax dollars in strong public systems and structures.

Unfortunately, a sustained recession made worse by short-sighted tax policies has put the California dream out of reach for many and the economic gap is widening. While many Californians struggle to make ends meet, the main response by policymakers has been to cut important services. In the last six years, the Governor and our Legislature have cut nearly 20% from the state budget.¹ These cuts have continued despite changes in political leadership and economic circumstances. As a result, our public schools and universities, parks, transportation, and health care systems are starting to crumble. Public schools have had to decrease staff as a result of cuts to their budget, and now California ranks last among all states in student-to-teacher ratio.²

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How did we get here?

A significant factor fueling these ongoing cuts is a structural shortfall between the revenue the state takes in and the amount of funding needed to continue to provide basic services for our growing population. In 2012-13, the state faced its 11th year of a budget shortfall with a \$9.2 billion deficit. Revenues from personal income tax, which make up 50% of the state's revenues, and other sources such as sales and corporate taxes (28.7% and 11.6% respectively) were not high enough to cover General Fund expenditures. The result is cuts year after year to the state budget, with K-12 education, higher education, and health and human services, which collectively make up over 80% of the General Fund, bearing the brunt.

While some of the shortfall can be attributed to changes in the economy, two core factors are causing our huge budget challenges:

- 1) **A structural shortfall in revenue caused by poor policy choices and changing economic trends**
- 2) **A broken budget process that has made it difficult to respond to our changing economy and population**



I. A Structural Shortfall in Revenue

During years of prosperity, when California had a revenue surplus, the state shared the wealth and lowered fees and taxes for its residents. The loss of these important revenues, and the lack of political will to get them back, has created an ongoing shortfall that makes it impossible for the state to maintain the current level of public services. These policy decisions included:

- ♦ ***Reductions in the Vehicle License Fee (VLF):*** The VLF is the initial registration fee and the amount you pay annually to register your car in California. Since 1998 the effective rate of the VLF has been incrementally reduced from 2% of a vehicle's current estimated value to 0.65%, representing a 67.5% decline in the rate overall.³ While this fee goes to cities and counties, it has impacted the state General Fund because the state has reimbursed the counties for the loss of this revenue.
- ♦ ***Cuts to corporate income taxes:*** California would have collected an additional \$8.4 billion in corporate taxes in 2006 if corporations had paid the same percentage of their profits that year as they had in 1981.⁴ Restoring these corporate tax rates would be a valuable source of revenue as profits for large businesses in California are rising far more rapidly than personal income. From 2001 to 2010, the total adjusted gross income of California's personal income taxpayers increased by 24.4% while the net profits reported by corporations for California tax purposes increased by 485.2%.⁵

- **Decreases in commercial property taxes, due to Proposition 13, passed in 1978:** Proposition 13 froze property values (used to assess taxes) on personal and commercial property to the time of purchase and limited property tax increases to 2% a year resulting in an average drop of 57% in property tax rates after its passage.⁶ Although property taxes go to city and county governments, Proposition 13 has impacted the state budget because the state has had to offset the revenue gap by increasing funding to local governments, particularly for education.
- **Reductions in income and sales taxes:** In the late 1990s, during a time of budget surplus, income taxes were reduced. In 2009, the state legislature temporarily increased income and sales taxes, but this increase expired in December 2010.

Several other factors contribute to the structural shortfall as well, including increasing bond debt, which is expected to reach \$7.3 billion and comprise over 7% of General Fund spending by the end of the 2016-17 budget year.⁷ Other factors include economic trends, such as a shift from the production of goods to services, most of which are not taxed (e.g., going to the movies, visiting the doctor), and the rise in Internet and mail-order sales, transactions where sales tax has not traditionally been collected by vendors.⁸ However, as of September 15, 2012, a new California law requires out-of-state internet retailers, such as Amazon, to collect taxes on internet purchases.

II. A Broken Tax and Budget Process

Unfortunately, in addition to the poor policy decisions discussed above, California's tax system is broken. Two major factors are often presented as the root of our paralyzed, dysfunctional tax and budget process.

1. Revenues Held Hostage by the Minority:

In California, a two-thirds vote is needed in the legislature to raise revenue. By contrast, tax cuts can be made with a simple majority vote — meaning that it is much easier to chip away at our budget than to raise revenues. This two-thirds requirement was put in place by a voter-approved Proposition 13. At the same time, partisan negotiations have resulted in a handful of policymakers with the power to make big demands in exchange for their votes.

2. **Ballot-Box Budgeting:** Ballot propositions give voters the opportunity to weigh-in on major policy proposals. Unfortunately, there is often limited or confusing information available; the propositions are voted on by a small percentage of citizens (those who voted in that particular election); and the campaign that is most heavily financed often wins. Additionally, while some individual ballot measures may have merit, the sum total of rules and regulations put in place by propositions ties the hands of our policymakers, making it difficult for the state to address economic challenges and crises. Proposition 13 is a good example of this.

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How do we fix this problem?

There is a clear and urgent need for fundamental reform of our budget and tax systems, with many experts working on different solutions. We need to make sure that the changes that are passed create the opportunity for all of our families to live safe, healthy, and dignified lives.

While not ideal, key decisions about the state's budget and revenue continue to be made through the initiative process. CPEHN has developed a list of questions to help you analyze new proposals to determine whether an initiative will help solve the state's budget problems and promote health equity.



When preparing to vote on a ballot initiative, ask yourself the following questions:

- **How much money will the initiative raise?** The California Legislative Analyst's Office (www.lao.ca.gov), which provides nonpartisan fiscal and policy analysis for the California Legislature, analyzes each ballot initiative to determine the cost of the initiative to the state, as well as the impact on the state's revenues. Often times an initiative that sounds good may actually cost the state money or result in a decrease in state revenues.
- **Where will the funds go?** When analyzing initiatives it's important to note where the funds are going and who benefits from the measure. An initiative that raises money for the General Fund benefits all Californians by paying for services such as public education and state parks. However, many initiatives put restrictions on how revenue can be spent. For example, Proposition 42 (2002) required that gasoline taxes could no longer be used in the General Fund and had to be used specifically for transportation services. Many propositions passed by voters designate taxes for important programs, and while it can seem like a good idea, restrictions on how money can be spent divert sources of funding away from other critical services. As a result, when it's time to balance the budget, the programs without specific funding streams — such as most health and human services — are more vulnerable to cuts.
- **Who pays?** In California, our income tax structure is “progressive,” that is, how much an individual is taxed is based on how much they make, with wealthier Californians paying a higher percentage of their income than those with lower income. A “regressive” tax is one where everyone pays the same amount regardless of income. An example of a regressive tax in California is our sales tax: everyone going to the store to buy a toothbrush or a bar of soap pays the same sales tax on those items. Measures that seek to raise regressive taxes such as sales taxes, results in a greater burden on low-income families because that tax is a much larger percentage of their income than a wealthier family's income.

- **Does this proposal help us plan for our state’s long-term future?** The current budget process is distorted by a narrow focus on short-term solutions, due to a combination of pressures: term limits for legislators, sharp party discipline on tax positions, and the need to pass a budget every year. In addition, policies have been proposed that severely limit legislators’ flexibility to make spending decisions in future years. These proposals include giving the Governor unilateral power to make cuts in cases of fiscal emergency without any public accountability; prohibiting the Legislature from creating new expenditures unless they are offset by revenues or spending cuts; and putting a cap or limit on future spending. These types of proposals often have great political appeal because they are seen as a way to impose tighter controls on the budget system. Yet these very proposals can contribute to the tangle that makes it difficult for legislators to respond to a budget crisis with a range of comprehensive solutions.

Other Resources

For more information on current ballot initiatives you can visit the following websites:

- **California Pan-Ethnic Health Network** at www.cpehn.org, in the Policy Center, provides an overview of the impact of ballot initiatives on the health of communities of color.
- **Easy Voter Guide** at www.easyvoterguide.org, has non-partisan voter guides that are available in English, Chinese, Spanish, Vietnamese, and Korean.
- **League of Women Voters** at www.lwv.org, encourages informed and active participation in government, works to increase understanding of major public policy issues, and influences public policy through education and advocacy.
- **Mobilize the Immigrant Vote** at www.mivcalifornia.org, provides an overview of the impact of ballot initiatives on immigrant communities in California.

Endnotes

- 1 “A Generation of Widening Inequality.” The California Budget Project. November 2011. Accessed at www.cbp.org/pdfs/2011/111101_A_Generation_of_Widening_Inequality.pdf
- 2 “California’s Public Schools Have Experienced Deep Cuts in Funding Since 2007-08.” The California Budget Project. April 10, 2012. Accessed at www.cbp.org/pdfs/2012/120410_K-12_by_District_Budget_Cuts.pdf
- 3 “Vehicle License Fee Adjustment: The Department of Motor Vehicles Effectively Captured the Information Needed to Calculate the Adjustment.” California State Auditor. September 2005. Accessed at www.bsa.ca.gov/pdfs/reports/2005-125.1.pdf
- 4 “California’s Tax System.” California Budget Project. February 2009. Accessed at www.cbp.org/pdfs/2009/0902_Californias_Tax_System.pdf
- 5 “Who Pays Taxes in California?” California Budget Project. April 2012. Accessed at www.cbp.org/pdfs/2012/120413_Who_Pays_Taxes.pdf
- 6 O’Leary K. “How California’s Fiscal Woes Began: A Crisis 30 Years in the Making.” TIME. July 1, 2009. Accessed at www.time.com/time/nation/article/0,8599,1907504,00.html
- 7 “The 2012-13 Budget: California’s Fiscal Outlook,” California Legislative Analyst’s Office. November 2011. Accessed at www.lao.ca.gov/reports/2011/bud/fiscal_outlook/fiscal_outlook_2011.pdf
- 8 “California’s Tax System.” California Budget Project. February 2009. Accessed at www.cbp.org/pdfs/2009/0902_Californias_Tax_System.pdf

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The California Pan-Ethnic Health Network

CPEHN works to ensure that all Californians have access to quality health care and can live healthy lives. We gather the strength of communities of color to build a united and powerful voice in health advocacy. You can find more information about our advocacy campaigns on the state budget and tax policy at the Policy Center on our website at www.cpehn.org

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