

MAY 31, 2022

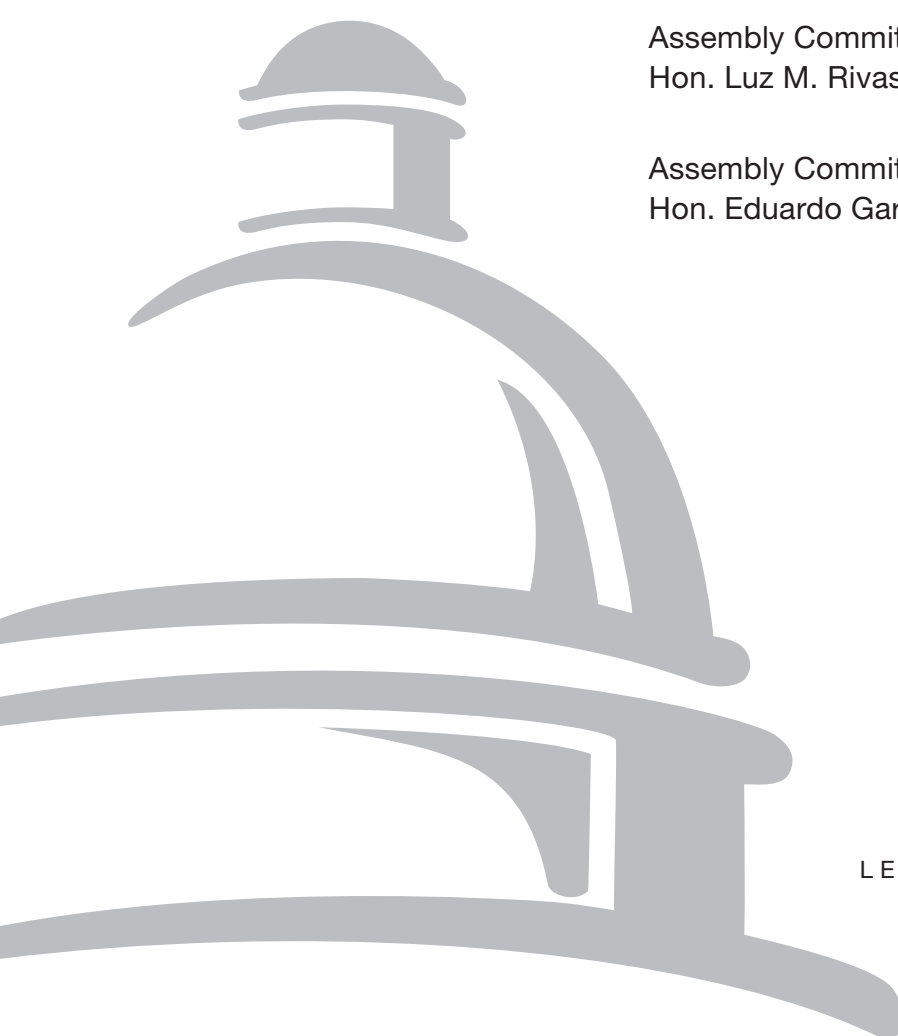
Initiative Statute: Provides Funding for Programs to Reduce Greenhouse Gas Emissions by Increasing Tax on Personal Income Over \$2 Million

PRESENTED TO:

Assembly Committee on Transportation
Hon. Laura Friedman, Chair

Assembly Committee on Natural Resources
Hon. Luz M. Rivas, Chair

Assembly Committee on Utilities and Energy
Hon. Eduardo Garcia, Chair



LEGISLATIVE ANALYST'S OFFICE

LAO Role in the Initiative Process

Fiscal Analysis Prior to Signature Collection

- State law requires our office to work with the Department of Finance to prepare a joint impartial fiscal analysis of each initiative before it can be circulated for signatures. State law requires that this analysis provide an estimate of the measure's fiscal impact on the state and local governments.
- A summary of the estimated fiscal impact is included on petitions that are circulated for signatures.

Analyses for Qualified Measures

- State law requires our office to provide impartial analyses of all statewide ballot propositions for the statewide voter information guide, including a description of the measure and its fiscal effects.
- We are currently in the process of preparing these materials for the November 2022 ballot. As such, the fiscal effects discussed in this handout are generally based on our earlier analysis prior to signature collection.



Background

California Personal Income Taxes

- The state collects a personal income tax on income earned within the state. Last year, the personal income tax raised over \$120 billion in revenue. Most of the revenue goes to the General Fund.

Zero-Emission Vehicle Efforts

- To help meet state greenhouse gas and air quality goals, the state undertakes various efforts to promote “zero-emission vehicles” (ZEVs), such as electric cars and hydrogen fuel cell cars.
- **Spending.** In recent years, state spending for ZEV programs—such as rebates for ZEVs and incentives to install charging stations—generally has been in the hundreds of millions of dollars annually, though the state’s 2021-22 budget included \$3.9 billion over three years for these purposes.
- **Regulations.** Regulations meant to promote ZEV adoption include requiring ride-sharing companies (such as Uber and Lyft) to use an increasing number of ZEVs for their services and requiring automobile manufacturers to sell increasing numbers of ZEVs.



Background

(Continued)

Wildfire Response and Prevention Programs

- **Response.** The California Department of Forestry and Fire Protection (CalFire) is the primary entity responsible for wildfire suppression activities—commonly known as firefighting—on about one-third of the land area in California. Over the past several years, CalFire has spent about \$2 billion annually on wildfire suppression activities, with higher amounts in recent years.
- **Prevention.** The state also runs programs to reduce the chances that wildfires will start and to limit the damage they cause when they do occur—also known as wildfire prevention and mitigation. Some examples of wildfire prevention activities include forest resilience projects (such as conducting prescribed fires and thinning overgrown forests) and creating defensible space. In recent years, the state has spent about \$300 million annually on wildfire prevention, with a significant one-time funding increase of roughly \$1 billion in 2021-22.



Proposal

Increases Income Taxes for High-Income Taxpayers

- This measure increases the personal income tax for taxpayers earning more than \$2 million annually. These taxpayers would pay an additional tax of 1.75 percent on the share of their income above \$2 million.
- This tax increase would end the earliest of: (1) January 1, 2043 or (2) beginning January 1, 2030, the January 1 following three consecutive calendar years in which statewide greenhouse gas emissions have been reduced by 80 percent below 1990 levels.

Allocates Additional Revenue to Support ZEVs and Wildfire Activities

- ***ZEV Incentives and Other Mobility Options (45 percent).*** Forty-five percent of revenue would be continuously appropriated to the California Air Resources Board (CARB) for programs to promote ZEVs, as well as other mobility options.
 - In initial years, at least two-thirds of the overall funding must be targeted to programs that support deployment of new passenger ZEVs.
 - CARB would determine how to allocate the rest of the funds. Eligible programs include incentives for heavy-duty ZEVs and other mobility options (electric bikes and protected bike lanes, for example.)
 - At least half of this category of funding must go to programs that primarily benefit residents who live in or near low-income and disadvantaged communities.



Proposal

(Continued)

- ***ZEV Fueling Infrastructure (35 Percent)***. Thirty-five percent would be continuously appropriated to the California Energy Commission for programs to increase the availability of ZEV infrastructure.
 - Funding would be used for multifamily dwelling charging stations, single-family charging stations, fast fueling infrastructure for passenger vehicles, and medium- and heavy-duty fueling infrastructure.
 - At least half of the ZEV fueling infrastructure funding must be dedicated to projects that benefit residents who live in or near low-income and disadvantaged communities.
- ***Wildfire Suppression and Prevention (20 Percent)***. Twenty percent would be continuously appropriated for wildfire-related activities.
 - Of this amount, 75 percent would go to CalFire. Top priority must be given to hiring and training firefighters, and in the first six years no more than one-quarter of the CalFire funding can be used for defensible space, home hardening, and forest resilience programs.
 - The remaining 25 percent of overall funding for wildfire-related activities would go to the Office of the State Fire Marshal for wildfire suppression and prevention activities.



Fiscal Effects

Increased State Personal Income Tax Revenues Dedicated to ZEVs and Wildfire Activities

- The measure's new tax on high-income earners likely would raise \$3 billion to \$4.5 billion in most years. As discussed earlier, these new revenues would be dedicated to ZEV incentives and other mobility options (45 percent), ZEV fueling infrastructure (35 percent), and wildfire-related activities (20 percent).

Other Potential Fiscal Effects

- **Potential Decrease in State General Fund Revenue.** Some taxpayers probably would reduce their income in California to avoid paying more taxes. This would reduce existing state General Fund revenues from the personal income tax.
- **Potential Net Decrease in State and Local Revenue From Transportation Taxes and Fees.** To the extent this measure encourages consumers to purchase ZEVs instead of gasoline-powered vehicles, state and local governments would likely generate less overall revenue from transportation-related taxes and fees. Ultimately, these effects would depend on what other state ZEV policies would be adopted with and without this measure passing.
- **Potential Decreased State and Local Costs for Wildfire-Related Spending.** This measure could decrease some future state and local government costs related to wildfire response and recovery.
- **State Appropriations Limit (SAL) Consideration.** Because this measure would significantly increase tax collections and some of the spending required by the measure likely would not be excludable from the SAL, the measure would increase the chances that the state would spend revenues in excess of the limit.

