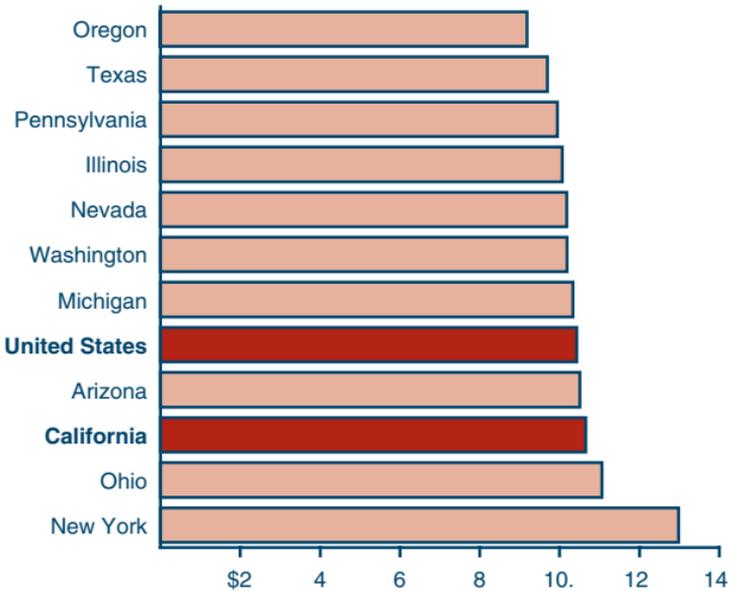


## California's Tax Burden Is Somewhat Above Average

*Combined State-Local Taxes Per \$100 of Personal Income*



Source: 2001-02 Census of Government, U.S. Census Bureau.

- California's overall tax burden—\$10.66 per \$100 of personal income—is slightly above the \$10.43 average for the United States as a whole.
- Compared to other western states, California's overall tax burden is somewhat higher—although it is in the same general range as that of many large industrial states.

## California's Governments Rely On a Variety of Taxes

State Taxes	Current Rate	Comments/Description
<b>Personal Income</b>	Marginal rates of 1% to 9.3% Additional 1% surcharge on high incomes (7% AMT <sup>a</sup> )	Married couples with gross incomes of \$24,160 or less need not file. The top rate applies to married couples' taxable income in excess of \$76,582. The surcharge is placed on taxable incomes of \$1 million or more.
<b>Sales and Use</b>	6% <sup>b</sup>	Applies to final purchase price of tangible items, except for food and certain other items.
<b>Corporation</b>		
<i>General Corporations</i>	8.84% <sup>c</sup> (6.65% AMT)	Applies to net income earned by corporations doing business in California.
<i>Financial Corporations</i>	10.84% (6.65% AMT plus adjustment)	For financial corporations, a portion of the tax is in lieu of certain local taxes.
<b>Vehicle Fuel</b>	18¢/gallon of gasoline or diesel fuel	Tax is collected from fuel distributors or wholesalers with equivalent taxes levied on other types of vehicle fuels.
<b>Alcohol and Cigarette</b>		
<i>Wine and beer</i>	20¢/gallon	Tax is collected from manufacturers or distributors.
<i>Sparkling wine</i>	30¢/gallon	Equivalent taxes are collected on sale of other tobacco products.
<i>Spirits</i>	\$3.30/gallon	
<i>Cigarettes</i>	87¢/pack	
<b>Estate<sup>d</sup></b>	0.8% to 16%	The estate tax is a "pick-up" tax to take advantage of the maximum state credit allowed against the federal estate tax, at no net cost to taxpayers.
<b>Horse Racing License Fees</b>	0.4% to 2%	Fees/taxes are levied on amounts wagered. Rate is dependent on type of racing and bet, and where the wager is placed.

*Continued*

## California's Governments Rely On a Variety of Taxes *(Continued)*

State Taxes	Current Rate	Comments/Description
<b>Insurance</b>	2.35%	Insurers are subject to the gross premiums tax in lieu of all other taxes except property taxes and vehicle license fees.
Local Taxes	Current Rate	Comments/Description
<b>Property</b>	1% (plus any rate necessary to cover voter-approved debt)	Tax is levied on assessed value (usually based on purchase price plus the value of improvements and a maximum annual inflation factor of 2%) of most real estate and various personal and business property.
<b>Local Sales and Use</b>	1% to 2.25% <sup>e</sup>	Collected with state sales and use tax. Revenues go to cities, counties and special districts.
<b>Vehicle License Fee</b>	0.65% <sup>f</sup>	Tax is applied to depreciated purchase price. It is collected by the state and distributed to cities and counties.
<b>Other Local</b>	Varies by jurisdiction	Types of taxes and rates vary by jurisdiction. Includes utility users tax, business license tax, and transient occupancy taxes.

<sup>a</sup> Alternative minimum tax.

<sup>b</sup> Includes rates levied for state-local program realignment and local public safety.

<sup>c</sup> A 1.5 percent rate is levied on net income of Subchapter S corporations.

<sup>d</sup> Inheritance and gift taxes have been repealed, but still apply to gifts and deaths prior to 1982. The state credit is being phased-out, pursuant to 2001 federal law changes.

<sup>e</sup> 0.25 percent of SUT revenues formerly received by local governments is used for debt service on the state's deficit-reduction bonds. Local governments are compensated through additional property taxes.

<sup>f</sup> The state shifted additional property tax revenues to cities and counties beginning in 2004-05 to compensate for the VLF rate reduction from 2 percent.

## Ballot Measures Have Had Major State/Local Fiscal Implications

Measure/ Election	Major Provisions
<b>Proposition 13/</b> June 1978	<ul style="list-style-type: none"> <li>Limits general property tax rates to 1 percent.</li> <li>Limits increases in assessed value after a property is bought or constructed.</li> <li>Makes Legislature responsible for dividing property tax among local entities.</li> <li>Requires two-thirds vote for Legislature to increase taxes, and two-thirds voter approval of new local special taxes.</li> </ul>
<b>Proposition 4/</b> November 1979	<ul style="list-style-type: none"> <li>Generally limits spending by the state and local entities to prior-year amount, adjusted for population growth and inflation (now per capita personal income growth).</li> <li>Requires state to reimburse local entities for mandated costs.</li> </ul>
<b>Proposition 6/</b> June 1982	<ul style="list-style-type: none"> <li>Prohibits state gift and inheritance taxes except for "pickup" tax qualifying for federal tax credit.</li> </ul>
<b>Proposition 7/</b> June 1982	<ul style="list-style-type: none"> <li>Requires indexing of state personal income tax brackets for inflation.</li> </ul>
<b>Proposition 37/</b> November 1984	<ul style="list-style-type: none"> <li>Establishes state lottery and dedicates revenue to education.</li> <li>Places prohibition of casino gambling in State Constitution.</li> </ul>
<b>Proposition 62/</b> November 1986	<ul style="list-style-type: none"> <li>Requires approval of new local general taxes by two-thirds of the governing body and a majority of local voters (excludes charter cities).</li> </ul>
<b>Proposition 98/</b> November 1988	<ul style="list-style-type: none"> <li>Establishes minimum state funding guarantee for K-12 schools and community colleges.</li> </ul>
<b>Proposition 99/</b> November 1988	<ul style="list-style-type: none"> <li>Imposes a 25 cent per pack surtax on cigarettes and a comparable surtax on other tobacco products.</li> <li>Limits use of surtax revenue, primarily to augment health-related programs.</li> </ul>
<b>Proposition 162/</b> November 1992	<ul style="list-style-type: none"> <li>Limits the Legislature's authority over PERS and other public retirement systems, including their administrative costs and actuarial assumptions.</li> </ul>

*Continued*

## Ballot Measures Have Had Major State/Local Fiscal Implications (Continued)

Measure/ Election	Major Provisions
<b>Proposition 163/</b> November 1992	<ul style="list-style-type: none"> <li>• Repealed "snack tax" and prohibits any future sales tax on food items, including candy, snacks, and bottled water.</li> </ul>
<b>Proposition 172/</b> November 1993	<ul style="list-style-type: none"> <li>• Imposes half-cent sales tax and dedicates the revenue to local public safety programs.</li> </ul>
<b>Proposition 218/</b> November 1996	<ul style="list-style-type: none"> <li>• Limits authority of local governments to impose taxes and property-related assessments, fees, and charges.</li> <li>• Requires majority of voters to approve increases in all general taxes, and reiterates that two-thirds must approve special taxes.</li> </ul>
<b>Proposition 10/</b> November 1998	<ul style="list-style-type: none"> <li>• Imposes a 50 cent per pack surtax on cigarettes, and higher surtax on other tobacco products.</li> <li>• Limits use of revenues, primarily to augment early childhood development programs.</li> </ul>
<b>Proposition 39/</b> November 2000	<ul style="list-style-type: none"> <li>• Allows 55 percent of voters to approve local general obligation bonds for school facilities.</li> </ul>
<b>Proposition 42/</b> March 2002	<ul style="list-style-type: none"> <li>• Permanently directs to transportation purposes sales taxes on gasoline previously deposited in the General Fund.</li> </ul>
<b>Proposition 49/</b> November 2002	<ul style="list-style-type: none"> <li>• Requires that the state provide funds for after-school programs.</li> </ul>
<b>Proposition 57/</b> March 2004	<ul style="list-style-type: none"> <li>• Approved \$15 billion in bonds to fund budgetary obligations and retire the state's 2002-03 deficit.</li> </ul>
<b>Proposition 58/</b> March 2004	<ul style="list-style-type: none"> <li>• Requires the enactment of a balanced budget, restricts borrowing, and mandates the establishment of a reserve fund.</li> </ul>
<b>Proposition 1A</b> November 2004	<ul style="list-style-type: none"> <li>• Restricts the ability of the state to reduce local government revenues from the property tax, sales tax, and vehicle license fee.</li> </ul>
<b>Proposition 63</b> November 2004	<ul style="list-style-type: none"> <li>• Imposes a 1 percent surcharge on incomes of \$1 million and over to fund mental health services.</li> </ul>

## Approval Requirements for State and Local Revenues

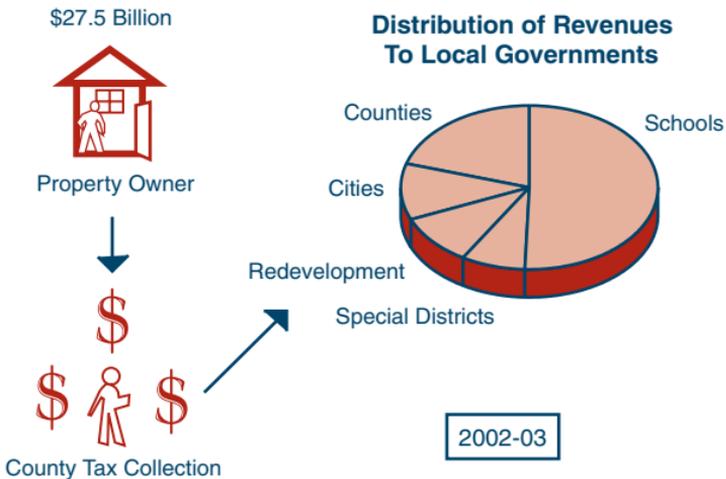
State Level	Legislative Approval	Voter Approval
Taxes	2/3	None
General obligation bonds	2/3	Majority
Other debt <sup>a</sup>	Majority	None
Fees	Majority	None
Local Level	Governing Body Approval	Voter Approval
City or county "general" taxes (revenues used for unrestricted purposes)	2/3 (Majority for charter cities)	Majority
City or county "special" taxes (revenues used for specific purposes)	Majority	2/3
All school or special district taxes	Majority	2/3
City, county, and special district general obligation bonds	Majority	2/3
K-14 district general obligation bonds	2/3	55 percent <sup>b</sup>
Other debt <sup>a</sup>	Majority	None
Property assessments	Majority	Majority of property owners. Votes weighted by assessment liability
Property—related fees	Majority	2/3 of voters or majority of property owners <sup>c</sup>
Fees—all other	Majority	None

<sup>a</sup> Includes revenue and lease-revenue bonds and certificates of participation.

<sup>b</sup> Exceptions: The State Constitution (1) requires approval by two-thirds of voters if the district does not meet certain requirements, and (2) specifies that a majority of voters can approve bonds used for repairing or replacing unsafe public school buildings.

<sup>c</sup> No vote required for gas, electric, water, sewer, refuse, or developer fees.

## Property Taxes Are Distributed to Many Entities Within a County

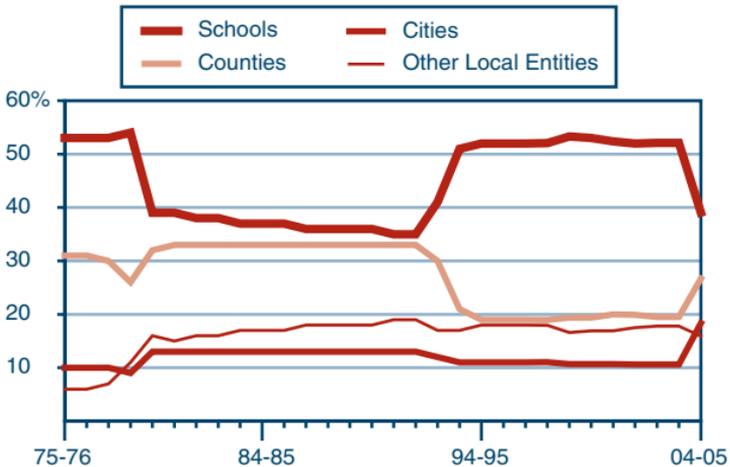


- Property taxes are collected by each county government. The revenues are then distributed to a variety of governments, including the county, cities, school districts, redevelopment agencies, and special districts.
- The property tax rate is limited to 1 percent by the Constitution, plus any additional rate necessary to pay for voter-approved debt. The average tax rate across the state in 2002-03 was 1.08 percent.
- Property tax revenues collected in a county can be distributed only to a governmental entity within that county.
- Three recent changes, described on the next page, change how property tax revenues are allocated in 2004-05 and the future.

## Recent Changes in Property Tax Allocation Laws

- **Proposition 57 or “Triple Flip.”** In 2004, state voters approved a deficit-financing bond, pledging as repayment for the bond one quarter of a cent of the local Bradley-Burns sales tax. During the time this bond is outstanding (up to 14 years), city and county revenue losses are replaced on a dollar-for-dollar basis with property taxes shifted from K-14 districts. K-14 tax losses, in turn, are offset by increased state aid. These revenue transfers commonly are referred to as the “triple flip.”
- **VLF-Property Tax Swap.** In 1999, the state began reducing the vehicle license fee (VLF) rate charged to vehicle owners—and backfilling city and county revenue losses from this tax reduction with state subventions. The 2004-05 budget package permanently replaced the VLF backfill by shifting an equal amount of K-14 property taxes to cities and counties. Increased state aid offsets K-14 district revenue losses.
- **2004-05 Property Tax Shift.** The 2004-05 budget package included a \$1.3 billion shift of property taxes from noneducation local agencies (cities, counties, special districts, and redevelopment agencies) to K-14 districts. Unlike the two permanent property tax shifts enacted the 1990s, this tax shift sunsets in 2006-07.
- **Proposition 1A.** In 2004, state voters amended the State Constitution to prohibit the state from permanently reallocating the property tax in any county from noneducation local agencies to K-14 districts. Also, this measure generally requires a two-thirds vote of the Legislature to change the distribution of property taxes among noneducation local agencies.

## Property Tax Shares Have Changed Markedly Over the Years



- After passage of Proposition 13 in 1978, the state shifted property taxes from schools to other local governments—and backfilled schools’ losses with increased state aid. This property tax shift reduced local governments’ revenue losses resulting from Proposition 13’s limit on the property tax rate.
- In 1992 and 1993, the state permanently modified the property tax allocation formulas again. Specifically, the state shifted property taxes from cities, counties, and special districts to schools. This shift is commonly called “ERAF,” after the name of the fund into which the taxes are deposited.
- In 2004, the state made additional changes to property tax allocation laws. The net effect of these changes is that schools’ share of property taxes in 2005 will be decreased to levels similar to the early 1980s and city and county shares will be increased accordingly.

## Major Local Programs—2004-05

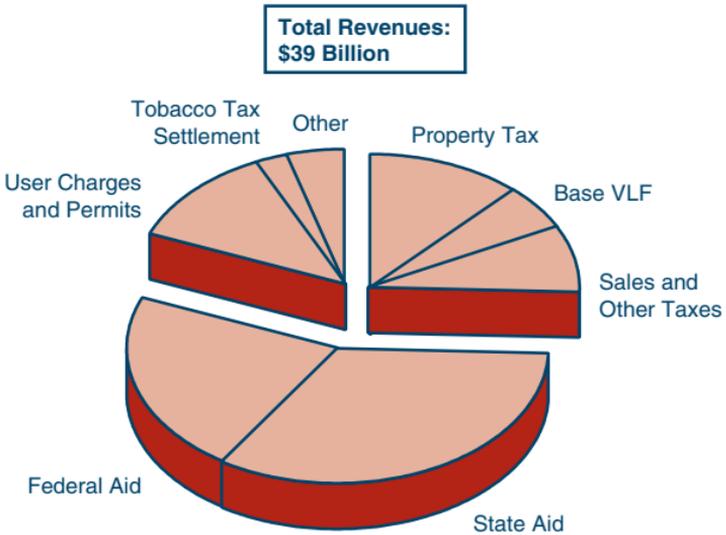
Program	Policy Control	Funding <sup>a</sup>
CalWORKs	State/Federal	
Child Welfare Services	State/Federal	
General Assistance	Counties/State	
Mental Health	Counties/State/Federal	
Substance Abuse Treatment	Counties/State/Federal	
Jails	Counties/State	
Probation	Counties/State	
Sheriff	Counties/State	
Trial Courts	State	
Libraries	Counties	
Parks and Recreation	Counties	
Roads	Counties	



<sup>a</sup>All funding distributions are LAO estimates.

## An Overview of County Finance

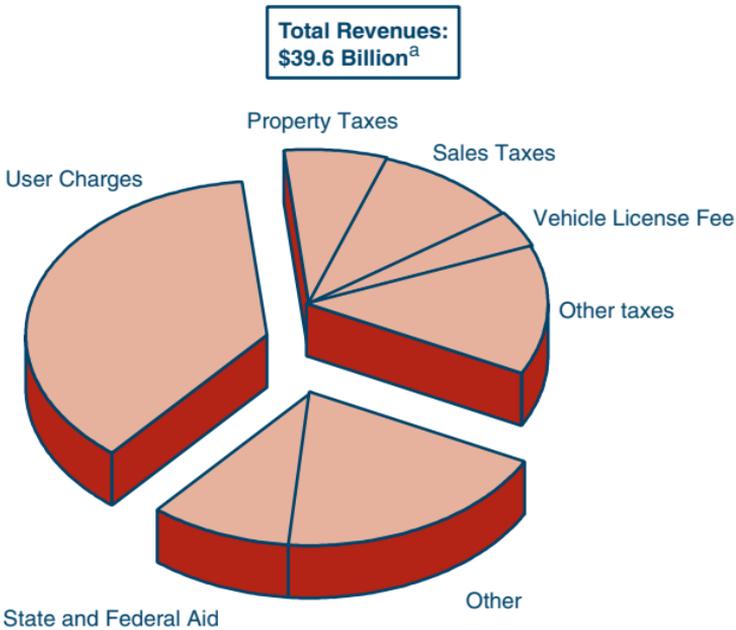
2001-02



- About one quarter of counties' spending comes from tax revenues. These are the counties' discretionary general purpose revenue sources. State and federal aid represent the largest sources of county revenues.
- About half of county spending is on various health and social services programs. An additional 30 percent of county spending is for public protection, including police and fire services.

## An Overview of City Finance

2001-02



<sup>a</sup>Excludes San Francisco

- About one-third of city spending comes from discretionary general purpose revenues. The largest general purpose revenue for cities is the sales tax.
- About 40 percent of city revenues are from user charges (for electric, water, and other services) which offset the cost of providing these services.
- Cities spend about one-fourth of their revenues on public safety expenditures, such as police and fire services.