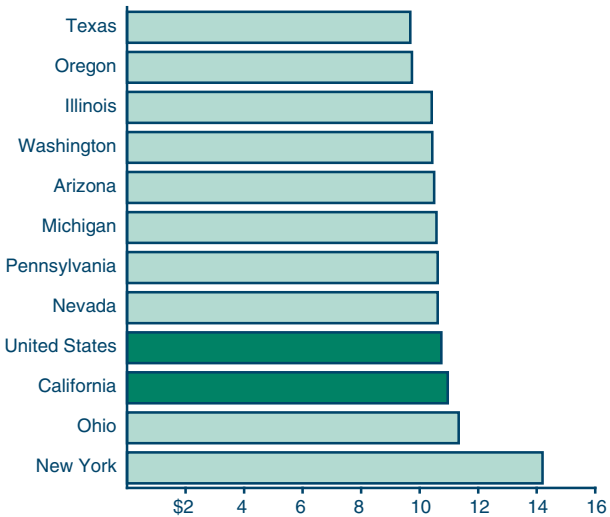


California's Tax Burden Is Slightly Above Average

Combined State-Local Taxes per \$100 of Personal Income



Source: 2003-04 Census of Government, U.S. Census Bureau.

- California's overall tax burden—\$10.96 per \$100 of personal income—is slightly above the \$10.74 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
Personal Income	Marginal rates of 1% to 9.3% Additional 1% surcharge on high incomes (7% AMT ^a)	Married couples with gross incomes of \$27,426 or less need not file. The top rate applies to married couples' taxable income in excess of \$86,934. The surcharge is placed on taxable incomes of \$1 million or more.
Sales and Use	6.25% ^b	Applies to final purchase price of tangible items, except for food and certain other items.
Corporation		
<i>General Corporations</i>	8.84% ^c (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.
Vehicle Fuel	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.
Alcohol and Cigarette		Tax is collected from manufacturers or distributors.
<i>Wine and beer</i>	20¢/gallon	Equivalent taxes are collected on sale of other tobacco products.
<i>Sparkling wine</i>	30¢/gallon	
<i>Spirits</i>	\$3.30/gallon	
<i>Cigarettes</i>	87¢/pack	
Horse Racing License Fees	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.
Insurance	2.35%	Insurers are subject to the gross premiums tax in lieu of all other taxes except property taxes and vehicle license fees.

Continued

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

Local Taxes	Current Rate	Comments/Description
Property	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.
Local Sales and Use	1% to 2.5% ^d	Collected with state sales and use tax. Revenues go to cities, counties, and special districts.
Vehicle License Fee	0.65% ^e	Tax is applied to depreciated purchase price. It is collected by the state and distributed to cities and counties.
Other Local	Varies by jurisdiction	Types of taxes and rates vary by jurisdiction. Includes utility users tax, business license tax, and transient occupancy taxes.

^a Alternative minimum tax.

^b Includes rates levied for state-local program realignment and local public safety, and repayment of deficit-financing bonds.

^c A 1.5 percent rate is levied on net income of Subchapter S corporations.

^d A portion of sales and use tax revenues formerly received by local governments (0.25 percent) is used for debt service on the state's deficit-financing bonds. Local governments are compensated through additional property taxes.

^e The state shifted additional property tax revenues to cities and counties beginning in 2004-05 to compensate for the vehicle license fee rate reduction from 2 percent.

Initiative Measures Have Had Major State-Local Fiscal Implications

Measure/Election	Major Provisions
Proposition 13/ June 1978	<ul style="list-style-type: none"> • Limits general property tax rates to 1 percent, limits increases in assessed value after a property is bought or constructed. • Makes Legislature responsible for dividing property tax among local entities. • Requires two-thirds vote for Legislature to increase taxes, and two-thirds voter approval of new local special taxes.
Proposition 4/ November 1979	<ul style="list-style-type: none"> • 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). • Requires state to reimburse locals for mandated costs.
Proposition 6/ June 1982	<ul style="list-style-type: none"> • Prohibits state gift and inheritance taxes.
Proposition 7/ June 1982	<ul style="list-style-type: none"> • Requires indexing of state personal income tax brackets for inflation.
Proposition 37/ November 1984	<ul style="list-style-type: none"> • Creates state lottery and allots revenue to education. • Places prohibition of casino gambling in State Constitution.
Proposition 62/ November 1986	<ul style="list-style-type: none"> • Requires approval of new local general taxes by two-thirds of the governing body and a majority of local voters (excludes charter cities).
Proposition 98/ November 1988	<ul style="list-style-type: none"> • Establishes minimum state funding guarantee for K-12 schools and community colleges.
Proposition 99/ November 1988	<ul style="list-style-type: none"> • Imposes a 25 cent per pack surtax on cigarettes and a comparable surtax on other tobacco products, and limits use of surtax revenue, primarily to augment health-related programs.
Proposition 162/ November 1992	<ul style="list-style-type: none"> • Limits the Legislature's authority over PERS and other public retirement systems, including their administrative costs and actuarial assumptions.
Proposition 163/ November 1992	<ul style="list-style-type: none"> • Repealed "snack tax" and prohibits future sales tax on food items, including candy, snacks, and bottled water.

Continued

Initiative Measures Have Had Major State-Local Fiscal Implications

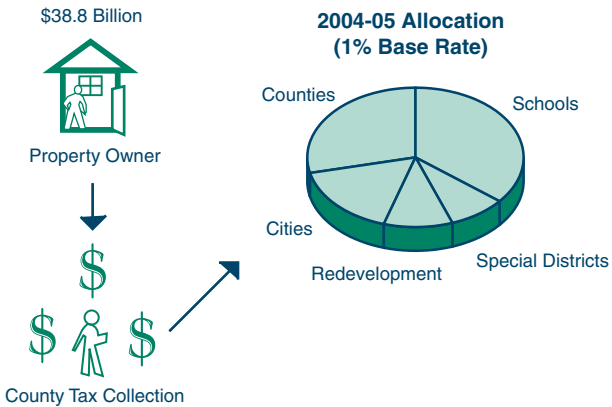
Measure/Election	Major Provisions
Proposition 172/ November 1993	<ul style="list-style-type: none"> Imposes half-cent sales tax and dedicates the revenue to local public safety programs.
Proposition 218/ November 1996	<ul style="list-style-type: none"> Limits authority of local governments to impose taxes and property-related assessments, fees, and charges. Requires majority of voters to approve increases in all general taxes, and reiterates that two-thirds must approve special taxes.
Proposition 10/ November 1998	<ul style="list-style-type: none"> Imposes a 50 cent per pack surtax on cigarettes, and higher surtax on other tobacco products. Limits use of revenues, primarily to augment early childhood development programs.
Proposition 39/ November 2000	<ul style="list-style-type: none"> Allows 55 percent of voters to approve local general obligation bonds for school facilities.
Proposition 42/ March 2002	<ul style="list-style-type: none"> Permanently directs to transportation purposes sales taxes on gasoline previously deposited in the General Fund. Authorizes state to retain gasoline sales taxes in General Fund when state faces fiscal difficulties.
Proposition 49/ November 2002	<ul style="list-style-type: none"> Requires that the state fund after-school programs at a specified funding level.
Proposition 57/ March 2004	<ul style="list-style-type: none"> Authorizes \$15 billion in bonds to fund budgetary obligations and retire the state's 2002-03 deficit.
Proposition 58/ March 2004	<ul style="list-style-type: none"> Requires a balanced budget, restricts borrowing, and mandates creation of a reserve fund.
Proposition 1A/ November 2004	<ul style="list-style-type: none"> Restricts state's ability to reduce local government revenues from the property tax, sales tax, and vehicle license fee.
Proposition 63/ November 2004	<ul style="list-style-type: none"> Imposes an additional 1 percent tax on incomes of \$1 million and over to fund mental health services.
Proposition 1A/ November 2006	<ul style="list-style-type: none"> Limits state's ability to retain gasoline sales taxes in General Fund and constitutionally requires repayment of past-year loans to transportation.

Votes Required to Increase Taxes, Fees, Assessments, or Debt

Measure	Approval Requirement	
	Governing Body	Voters
State		
Tax	2/3	None
Fee or assessment	Majority	None
General obligation bond	2/3	Majority
Other debt	Majority	None
Initiative proposing new revenue or debt	None	Majority
Local		
Tax		
Funds used for general purposes	2/3 ^a	Majority
Funds used for specified purposes	2/3 ^a	2/3
Property assessment	Majority	Majority ^b
Fee	Majority	None
General obligation bond		
K-14 districts	2/3	55%
Cities, counties, and special districts	2/3	2/3
Other debt	Majority	None
^a For most local agencies. ^b Only affected property owners vote. Votes weighted by assessment liability.		

- At the local level, most types of revenue increases require approval of both the governing body and the voters.

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 2004-05 was 1.09 percent.
- Property tax revenues collected in a county can be distributed only to a local entity within that county.
- Until the state's deficit-financing bonds are completely paid off, about one-tenth of the schools' share of property taxes is redirected to cities and counties. The state backfills the school losses.

California's Property Tax Has Changed Significantly

Dollars in Billions

Tax Distribution					
Years ^a	Revenue	Schools	Counties	Cities	Other ^b
1977	\$10.3	53%	30%	10%	7%
1979	5.7	39	32	13	16
1994	19.3	52	19	11	18
2005	35.4	34	28	19	19

^a Information for 1977 includes debt levies. Data for 2005 is estimated.

^b Redevelopment agencies and special districts.

- 1977—Before 1978, local agencies determined the property tax rate and its distribution of revenues.
- 1979—Proposition 13 (1978) set a maximum tax rate of 1 percent and shifted control over the distribution of property taxes to the state. The state basically prorated these revenues among local agencies except that it gave a smaller share to schools and backfilled the schools' losses with state aid.
- 1994—Facing fiscal pressure in the early 1990s, the state modified the distribution of property taxes to give a greater share to schools (thereby reducing state school spending).
- 2005—The state shifted a greater share of property taxes to cities and counties to offset their losses due to the (1) reduction in the vehicle license fee rate and (2) use of local sales taxes to pay the state's deficit-financing bonds.

Extensive Use of Redevelopment by Local Agencies in Some Counties

	Percent of 2004-05 Countywide:	
	Property Value Under Redevelopment	Property Taxes to Redevelopment
Top Four Counties		
Butte	38%	26%
Riverside	33	24
San Bernardino	35	25
Santa Cruz	26	16
Statewide Average	15	10
Selected Other Counties		
Los Angeles	16%	10%
Sacramento	7	5
San Francisco	7	7

- If a city or county creates a redevelopment project area to address urban blight, its redevelopment agency receives the future growth in property taxes from the area. (Absent redevelopment, schools and other local agencies receive these tax revenues.)
- Redevelopment projects range from 2 acres to over 46,000 acres. Local agencies in four counties have placed so much property under redevelopment that more than one-quarter of their countywide assessed property value is under redevelopment.
- Statewide, redevelopment agencies receive 10 percent of property taxes paid by property owners, but this percentage varies significantly at the local level. The City of Fontana's redevelopment agency receives more than 77 percent of property taxes paid in the city.

Paying for County, City, and Special District Services

2003-04

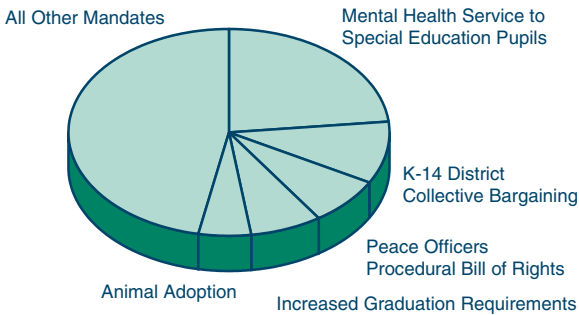
	Counties	Cities	Special Districts ^a
Total Revenues (In Billions)	\$46.3	\$42.8	\$8.6
Sources of Revenues			
Property taxes	13%	7%	24%
Sales and other taxes	7	28	—
User charges, permits, assessments, fines	20	43	53
Intergovernmental aid	52	8	12
Other revenues	9	13	11

^a Nonenterprise special districts only.

- Counties receive roughly half of their revenues from the state and federal government and must spend these funds on specific health and social services programs. About one-fifth of county revenues come from local taxes. Counties use tax revenues to pay for public protection and other local programs, as well as paying the required “match” for state and federal programs.
- Cities receive over 40 percent of their revenues from various user charges. Cities use these funds to pay for electric, water, and other municipal services. Over one-third of city revenues come from local taxes, the largest of which is the sales tax. Cities spend about one-fourth of their revenues on public safety programs, such as police and fire.
- Special district financing varies significantly based on the type of service the district provides.

Five State Mandates Account for Half of the State's Payments

\$440 Million
(Estimated 2006-07 Costs)



- If the state mandates that a local government provide a new program or higher level of service, the Constitution generally requires the state to provide reimbursement.
- School districts, counties, and other local governments currently implement over 80 state reimbursable mandates. Five mandates account for about half of the state's annual mandate payments.
- The state has accumulated a large backlog of unpaid mandate bills, which it is beginning to pay. In 2006-07, these mandate bills totaled more than \$1 billion.
- The Legislature may "suspend" a mandate in the budget act. Suspending a mandate makes local agency implementation of the mandate optional for one year. In 2006-07, the state budget suspended more than 30 mandates. Some of these mandates have been suspended annually for over a decade.

Major Local Programs—2006-07

Program	Policy Control	Funding ^a
Education (K-14)	School Districts/State	
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	
Police/Sheriff	Local/State	
Trial Courts	State	
Parks and Recreation	Local	
Streets and Roads	Cities/Counties	



^aAll funding distributions are LAO estimates.