

## California's Tax Burden Is Somewhat Above Average

*Taxes Per \$100 of Personal Income*



Source: 1998-99 Census of Government, U.S. Census Bureau.

- California's overall tax burden—\$11.35 per \$100 of personal income—is somewhat above the \$11.04 average for the United States as a whole.
- Compared to other western states, California's overall tax burden is somewhat higher—although it is lower than that of many industrial states.
- Nontax collections add to the overall revenue burden in California—in an amount that is similar to the average for other 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% (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.
<b>Sales and Use</b>	6% <sup>b</sup>	Applies to final purchase price of tangible items, with exemptions 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 factor)	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. 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	
<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.

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## 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>	1.25% to 2.5%	Collected with state sales and use tax. Revenues go to cities, counties and special districts.
<b>Vehicle License Fee</b>	0.65% <sup>e</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> The state provides additional funding, which results in total revenues to local governments equivalent to a 2 percent VLF rate.

## Initiative Measures Have Had Major State-Local Fiscal Implications

Measure/ Election	Major Provisions
<b>Proposition 13/</b> June 1978	<p>Limits general property tax rates to 1 percent.</p> <p>Limits increases in assessed value after a property is bought or constructed.</p> <p>Makes Legislature responsible for dividing property tax among local entities.</p> <p>Requires two-thirds vote for Legislature to increase taxes, and two-thirds voter approval of new local special taxes.</p>
<b>Proposition 4/</b> November 1979	<p>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).</p> <p>Requires state to reimburse local entities for mandated costs.</p>
<b>Proposition 6/</b> June 1982	<p>Prohibits state gift and inheritance taxes except for "pickup" tax qualifying for federal tax credit.</p>
<b>Proposition 7/</b> June 1982	<p>Requires indexing of state personal income tax brackets for inflation.</p>
<b>Proposition 37/</b> November 1984	<p>Establishes state lottery and dedicates revenue to education.</p> <p>Places prohibition of casino gambling in State Constitution.</p>
<b>Proposition 62/</b> November 1986	<p>Requires approval of new local general taxes by two-thirds of the governing body and a majority of local voters (excludes charter cities).</p>
<b>Proposition 98/</b> November 1988	<p>Establishes minimum state funding guarantee for K-12 schools and community colleges.</p>
<b>Proposition 99/</b> November 1988	<p>Imposes a 25 cent per pack surtax on cigarettes and a comparable surtax on other tobacco products.</p> <p>Limits use of surtax revenue, primarily to augment health-related programs.</p>

*continued*

## Initiative Measures Have Had Major State-Local Fiscal Implications (Continued)

Measure/ Election	Major Provisions
<b>Proposition 162/</b> November 1992	Limits the Legislature's authority over PERS and other public retirement systems, including their administrative costs and actuarial assumptions.
<b>Proposition 163/</b> November 1992	Repealed "snack tax" and prohibits any future sales tax on food items, including candy, snacks, and bottled water.
<b>Proposition 172/</b> November 1992	Imposes half-cent sales tax and dedicates the revenue to local public safety programs.
<b>Proposition 218/</b> November 1996	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.
<b>Proposition 10/</b> November 1998	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.
<b>Proposition 39/</b> November 2000	Allows 55 percent of voters to approve local general obligation bonds for school facilities.
<b>Proposition 42/</b> March 2002	Permanently directs to transportation purposes sales taxes on gasoline previously deposited in the General Fund.
<b>Proposition 49/</b> November 2002	Requires that the state provide funds for after-school programs, beginning in 2004-05.

## 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
General obligation bonds	Majority	2/3 <sup>b</sup>
Other debt	Majority	None
Property assessments	Majority	Majority of affected property owners. Votes weighted by assessment liability
Property—related fees	Majority	2/3 of voters or majority of affected 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> Exception: The Constitution specifies that a majority of voters can approve bonds used for repairing or replacing unsafe public school buildings and 55 percent of voters can approve bonds for new school facilities under certain conditions.

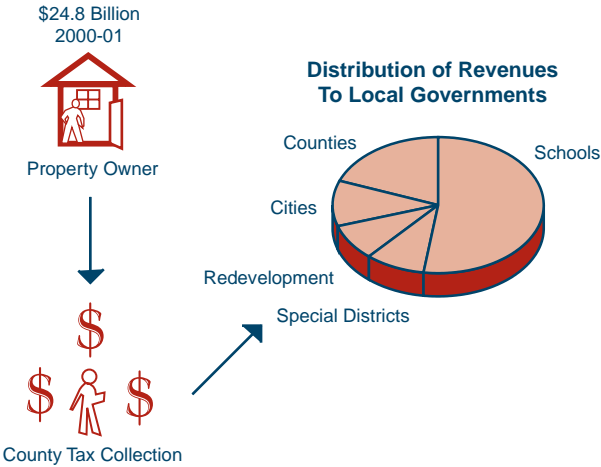
<sup>c</sup> No vote required for gas, electric, water, sewer, refuse, or developer fees.

## Californians Are Served by Over 6,000 Local Entities

Counties	58
Cities	477
Redevelopment agencies	408
Special districts	4,792
K-12 school districts	998
County offices of education	58
Community college districts	72
<b>Total</b>	<b>6,863</b>

- Most Californians are governed by several overlapping local governments: a city, county, school, and community college district, *plus* one or more special districts.
- Special districts provide specialized services, such as firefighting, water delivery, transit, or flood control. The count of special districts includes non-profit organizations and joint power agencies formed by local governments.
- About 60 percent of special districts have independently elected or appointed boards. Other special districts are governed by a board of supervisors or (less frequently) a city council.
- Measured on a per capita basis, California tends to have fewer cities, counties, and special districts than other states.

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

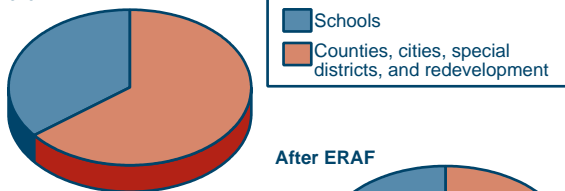


- Property taxes are collected by each county government. The revenues are then distributed to a variety of governments, including the county, cities, school districts, redevelopment agencies, and special districts.
- The property tax rate is limited to 1 percent by the Constitution, plus any additional rate necessary to pay for voter-approved debt. The average tax rate across the state in 2000-01 was 1.07 percent.
- Property tax revenues collected in a county can be distributed only to a governmental entity within that county.

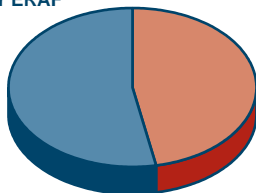


## School's Share of the Property Tax Has Changed Over the Years

Before ERAF<sup>a</sup>



After ERAF



<sup>a</sup>Educational Revenue Augmentation Fund.

- 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.
- Beginning in 1992, the state modified the formulas for allocating property taxes 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 2001-02, about \$4.5 billion of property taxes are subject to this shift. About three-quarters of this amount is attributable to counties.
- The share of property taxes now allocated to schools is about the same as before Proposition 13.

## How Much Property Taxes Do Counties and Cities Receive?

1999-00

Large Counties	Per Capita Property Taxes	Large Cities	Per Capita Property Taxes
Santa Clara	\$153	Oakland	\$147
Los Angeles	139	Los Angeles	142
Alameda	121	San Diego	118
Contra Costa	116	Long Beach	101
Sacramento	101	San Jose	82
San Diego	94	Fresno	62
Riverside	77	Anaheim	56
San Bernardino	66	Santa Ana	56
Orange	51	Riverside	43
<b>Statewide County Average</b>	<b>\$115</b>	<b>Statewide City Average</b>	<b>\$85</b>

- Four factors explain the large differences among property tax receipts. Cities and counties tend to receive more property taxes if they:
  - Have many valuable buildings, manufacturing plants, and other developed property within their borders.
  - Received a large share of countywide property taxes before Proposition 13.
  - Provide many municipal services, instead of relying upon other local governments to provide some services.
  - Have few large redevelopment projects within their borders.

## Major Changes in the State-County Relationship During Past Decade

### Property Tax Shifts

1992 and 1993 **Ongoing Revenue Shifts.** State shifted property taxes from counties and other local entities to schools in order to reduce state costs. Subsequently, these reduced county revenues were mostly offset by various mechanisms, including funding for public safety (Proposition 172 sales tax revenues, COPS funding, and changes to trial court funding) and general assistance mandate relief.

### Health and Social Services

1991 **Realignment.** Shifted authority from the state to counties, and increased counties' share of costs, for many health and social services programs. Provided new revenue sources to counties to offset increased county costs.

1997 **Welfare Reform.** Provided counties with more flexibility regarding (1) delivery of welfare-to-work services and (2) recipient participation requirements. Provided fiscal incentives for counties to assist recipients in getting jobs.

### Trial Court Funding

1988 **Brown-Presley Act.** Provided initial state funding through block grants to counties based on total judicial positions.

1997 **County Cap.** Placed a cap on county expenditures for trial courts, resulting in future increases in state costs.

2000 **Court Employees.** Established a new trial court employee personnel system, transferring the responsibility for their employment from the counties to the respective trial courts.

2002 **Court Facilities.** Specifies the process for transferring trial court facilities from counties to the state.

### Transportation

2000 **Traffic Congestion Relief Program.** Authorized \$6.9 billion in new funds over six years for congestion relief and local streets and roads.

## Major County Programs—2002-03

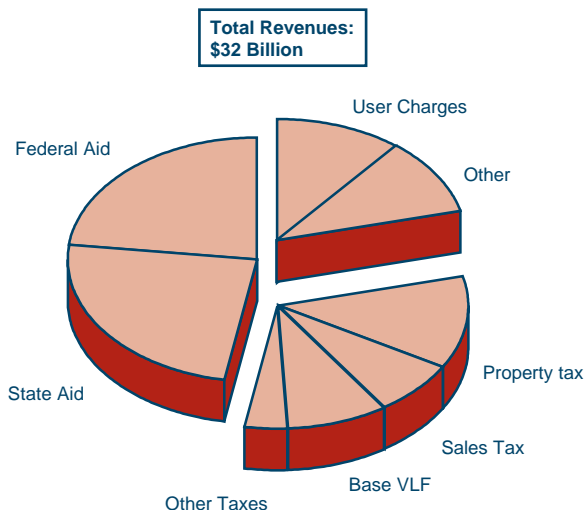
Program	Policy Control	Funding <sup>a</sup>
CalWORKs	State/Federal	
Child Welfare Services	State/Federal	
General Assistance	State/Counties	
Mental Health	Counties/State/Federal	
Public Health	Counties/State/Federal	
Substance Abuse Treatment	Counties/State/Federal	
Jails	Counties/State	
Probation	Counties/State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

Federal
 State
 County

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

## An Overview of County Finance

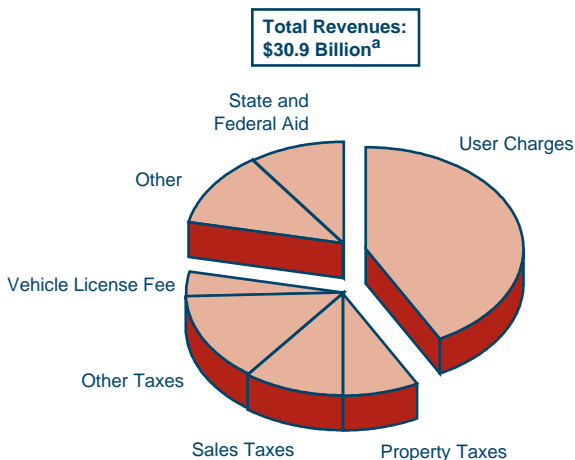
1999-00



- 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

1998-99



<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.