CALIFORNIA BUDGET PROJECT

budget brief

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WHAT WOULD PROPOSITION 30 MEAN FOR CALIFORNIA?

Proposition 30, which will appear on the November 6, 2012 statewide ballot, would increase personal income tax rates on very-high-income Californians for seven years and raise the state's sales tax rate by one-quarter cent for four years. The Legislative Analyst's Office (LAO) estimates that the measure would raise an average of approximately $6 billion annually between 2012-13 and 2016-17, and smaller amounts in 2011-12, 2017-18, and 2018-19 as the taxes are phased in and out.[1] Revenues generated by the tax increases would provide additional funding for public schools and help avoid deeper state spending reductions. The measure would also put key provisions of the recent "realignment" of public safety, health, and human services programs in the state Constitution, ensuring that counties receive ongoing funding to support realigned programs.[2] Proposition 30 was placed on the ballot by Governor Jerry Brown via the initiative process, and supporters include the California Federation of Teachers and California Teachers Association. The California Budget Project has endorsed Proposition 30. This *Budget Brief* provides an overview of the measure and the policy issues it raises.

What Would Proposition 30 Do?

Proposition 30, the "Schools and Local Public Safety Protection Act of 2012," would add three new personal income tax rates for very-high-income Californians and would raise the state sales tax rate by one-quarter cent, on a temporary basis.[3] Currently, the state's top marginal personal income tax rate – the rate at which the highest increment of income is taxed – is 9.3 percent and applies to taxable income above $48,208 for single tax filers and above $96,057 for taxpayers filing jointly.[4] Specifically, Proposition 30 would create:

- A 10.3 percent tax bracket for single filers' taxable income between $250,001 and $300,000 and joint filers' taxable income between $500,001 and $600,000;
- An 11.3 percent tax bracket for single filers' taxable income between $300,001 and $500,000 and joint filers' taxable income between $600,001 and $1 million; and
- A 12.3 percent tax bracket for single filers' taxable income above $500,000 and joint filers' taxable income above $1 million (Table 1).[5]

These new tax rates would be in effect for seven years, from tax year 2012 through tax year 2018.[6]

Proposition 30 would increase the state sales tax rate by one-quarter cent for four years, from January 1, 2013 through December 31, 2016. California's statewide base sales tax rate is 7.25 percent, and the tax increase would raise it to 7.50 percent.[7] Local governments currently may impose – with voter approval – additional rates to support local programs and services. Combined state and local sales tax rates are as high as 9.75 percent in some cities, but the average state and local sales tax rate is just above 8 percent.[8]

Proposition 30 is an initiative constitutional amendment, meaning that it would alter the state's Constitution. The measure would secure the recent "realignment" of program and funding

Table 1: Proposition 30 Tax Rates			
Taxable Income*		Additional Marginal Tax Rate Proposed by Proposition 30	Total Marginal Tax Rate Including Additional Rate Proposed by Proposition 30
Single Tax Filers	Joint Tax Filers		
$250,001 to $300,000	$500,001 to $600,000	1.0%	10.3%
$300,001 to $500,000	$600,001 to $1 Million	2.0%	11.3%
More Than $500,000	More Than $1 Million	3.0%	12.3%

* Reflects income brackets in 2011. These brackets would be adjusted annually for inflation.
Note: Total marginal tax rates exclude the 1 percent rate on incomes above $1 million that was approved by voters through Proposition 63 of 2004.
Source: Legislative Analyst's Office

responsibility for public safety, health, social services, and related programs by placing the state-to-county revenue shift and key legal protections in the Constitution. Proposition 30's tax increases could not be extended, nor any of its other provisions changed, without voter approval.

How Would Proposition 30 Revenues Be Used?

Revenues raised by Proposition 30's tax increases would be deposited into a newly created "Education Protection Account" (EPA) within the state's General Fund. The Department of Finance estimates that the new revenues would total approximately $8.5 billion in 2011-12 and 2012-13 combined. With the overall boost in General Fund revenues, the minimum funding level for schools and community colleges constitutionally required by Proposition 98 would increase by approximately $2.9 billion.[9] Proposition 30 revenues would be used to fulfill the Proposition 98 requirement, thus freeing up an estimated $5.6 billion General Fund to help close the budget gap.[10]

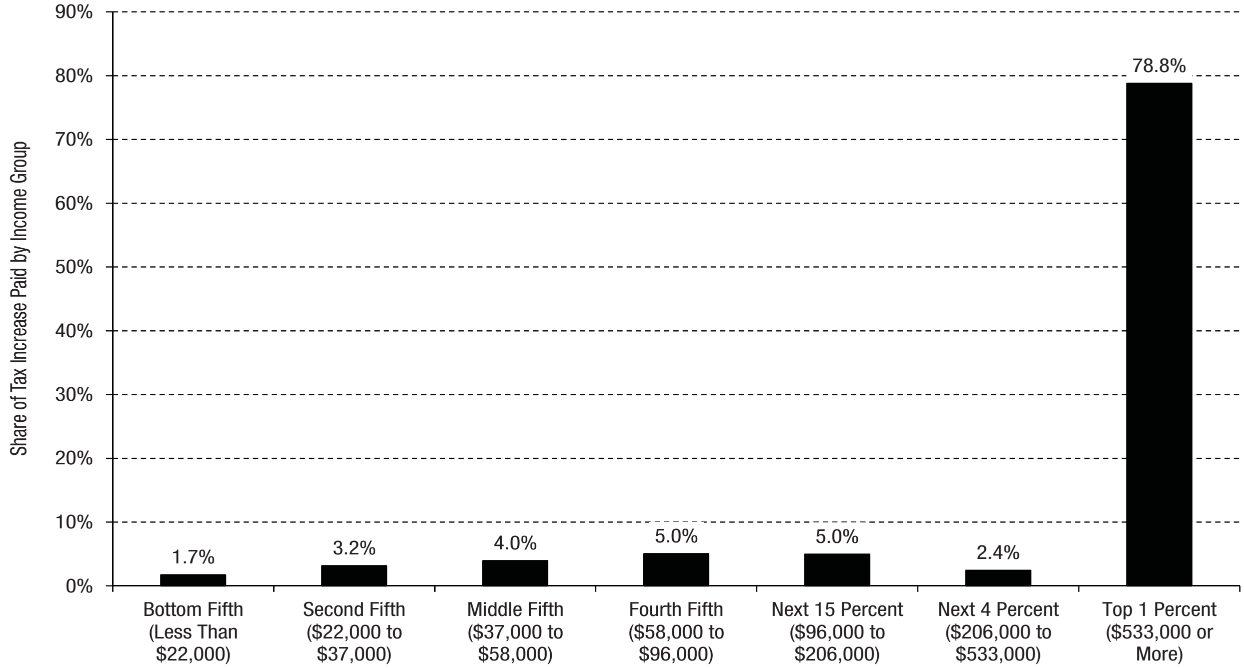
Proposition 30 specifies how EPA funds would be allocated. The greater share of EPA funds, 89 percent, would go directly to K-12 school districts, county offices of education, and charter schools, and the remaining 11 percent directly to community college districts. No school district would receive less than $200 in EPA funds per student, and no community college district would receive less than $100 in EPA funds per student.[11] School districts, county offices of education, charter schools, and community college districts would decide how the funds could be used, but they would be required to hold public meetings when making spending decisions.[12] In addition, they would be required to publish annual reports online explaining how the money was spent.

Who Would Proposition 30's Tax Increases Affect?

The wealthiest 1 percent of Californians – those with annual incomes of $533,000 or more – would contribute more than three-quarters (78.8 percent) of the revenues raised by Proposition 30's tax increases, while the top 5 percent of Californians – those with annual incomes of at least $206,000 – would contribute 81.2 percent of the revenues raised (Figure 1). The disproportionate contribution by the wealthiest taxpayers reflects the fact that the personal income tax increase would affect only those in the top 5 percent of the income distribution. The quarter-cent sales tax rate increase would affect all consumers, but it would generate a much smaller share of the total revenues raised by the measure.

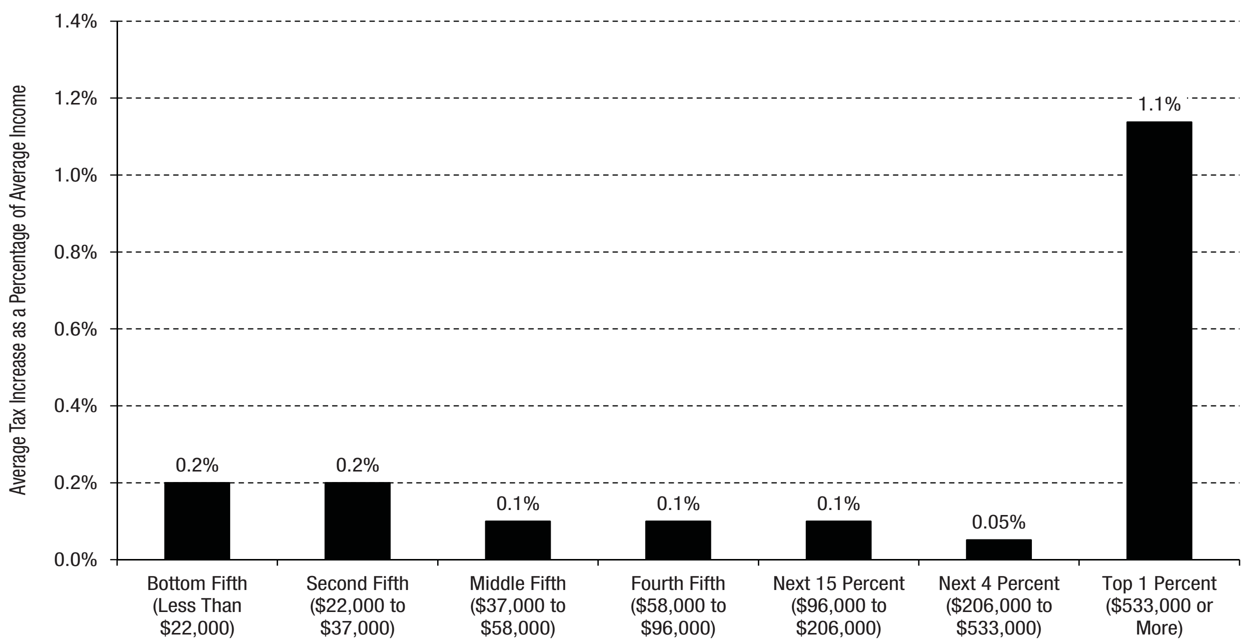
Overall, the tax increases imposed by Proposition 30 would be progressive. That is, the highest-income Californians would pay a larger share of their incomes in taxes. The average Californian in the top 1 percent of the income distribution would see a tax increase equal to 1.1 percent of his or her income, while Californians in each of the bottom four fifths of the income distribution, who would be affected only by the additional quarter-cent sales tax rate, would see an increase of between 0.1 percent and 0.2 percent of their incomes, on average (Figure 2).[13] The lowest-income taxpayers – those in the bottom two fifths – would pay a slightly larger share of their incomes (0.2 percent) than those in the middle or second highest fifth of the income distribution (0.1 percent). This reflects the fact that lower-income households spend a larger share of their incomes on taxable goods than do higher-income households and, as a result, would be disproportionately affected by the increased sales tax. Nevertheless, the average household in the bottom fifth of the income distribution would see a total tax increase of just $24, and the average household in the middle fifth would see an increase of just $55 (Figure 3). In contrast, the average household in the top 1 percent would pay an additional $21,883 in taxes.[14] Consequently, Proposition 30 would take a modest step toward reducing the significant income gap between low- and middle-income Californians and the wealthy (see box, "Most Income Gains During the Past Generation Went to the Wealthiest Californians").

Figure 1: The Wealthiest 1 Percent Would Pay More Than Three-Quarters of Proposition 30's Tax Increases



Note: Income is for 2011. Percentages do not sum to 100 due to rounding.
Source: Institute on Taxation and Economic Policy

Figure 2: The Wealthiest 1 Percent Would Pay a Significantly Larger Share of Their Incomes in Proposition 30's Tax Increases Than Other Californians

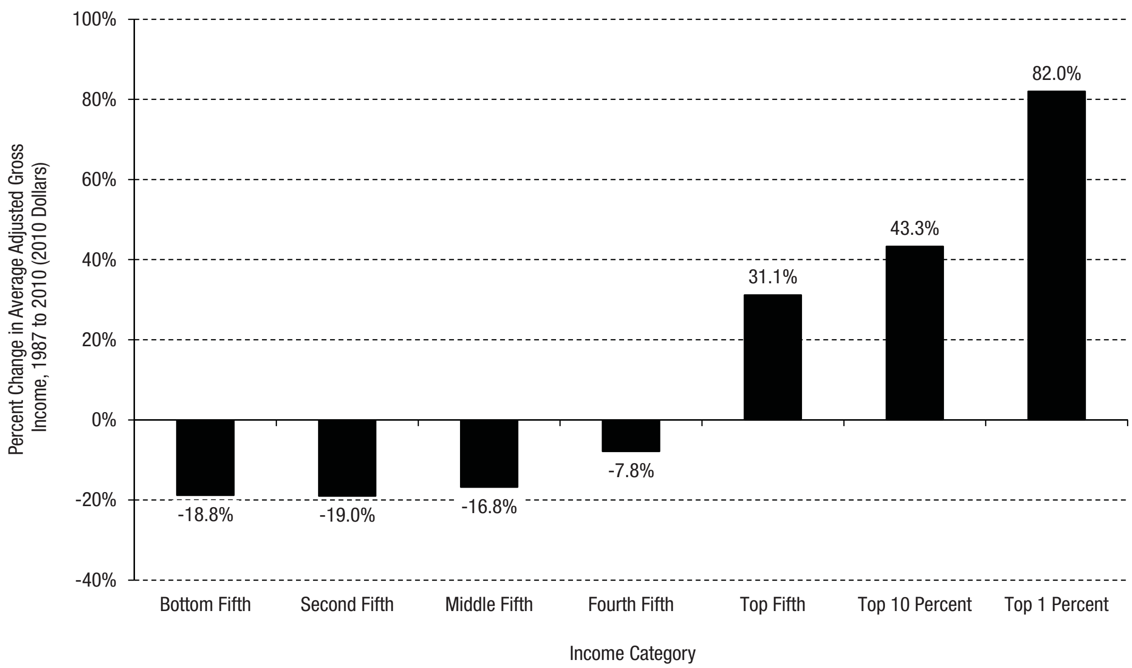


Note: Includes offset for federal deductibility of state taxes. Income is for 2011.
Source: Institute on Taxation and Economic Policy

Most Income Gains During the Past Generation Went to the Wealthiest Californians

The wealthiest Californians made significant income gains during the past generation, while low- and middle-income families lost ground.[15] Between 1987 and 2010, the average inflation-adjusted income of the top 1 percent of California taxpayers increased by 82.0 percent, rising from approximately $785,000 to more than $1.4 million.[16] In other words, the top 1 percent earned approximately $644,000 more, on average, in 2010, than similar taxpayers earned a generation ago, after adjusting for inflation. In contrast, the average income of Californians in each of the bottom four fifths of the distribution lost purchasing power during the past generation. For example, the average inflation-adjusted income of taxpayers in the middle fifth dropped by 16.8 percent between 1987 and 2010, falling from approximately $42,000 to $35,000. This decline means that middle-income Californians earned approximately $7,000 less, on average, in 2010 than similar Californians earned a generation ago, after adjusting for inflation. In fact, middle-income Californians had lower average earnings in 2010 than at any point since at least 1987.[17]

The Incomes of the Wealthy Increased Significantly During the Past Two Decades, While Those of All Other Californians Declined

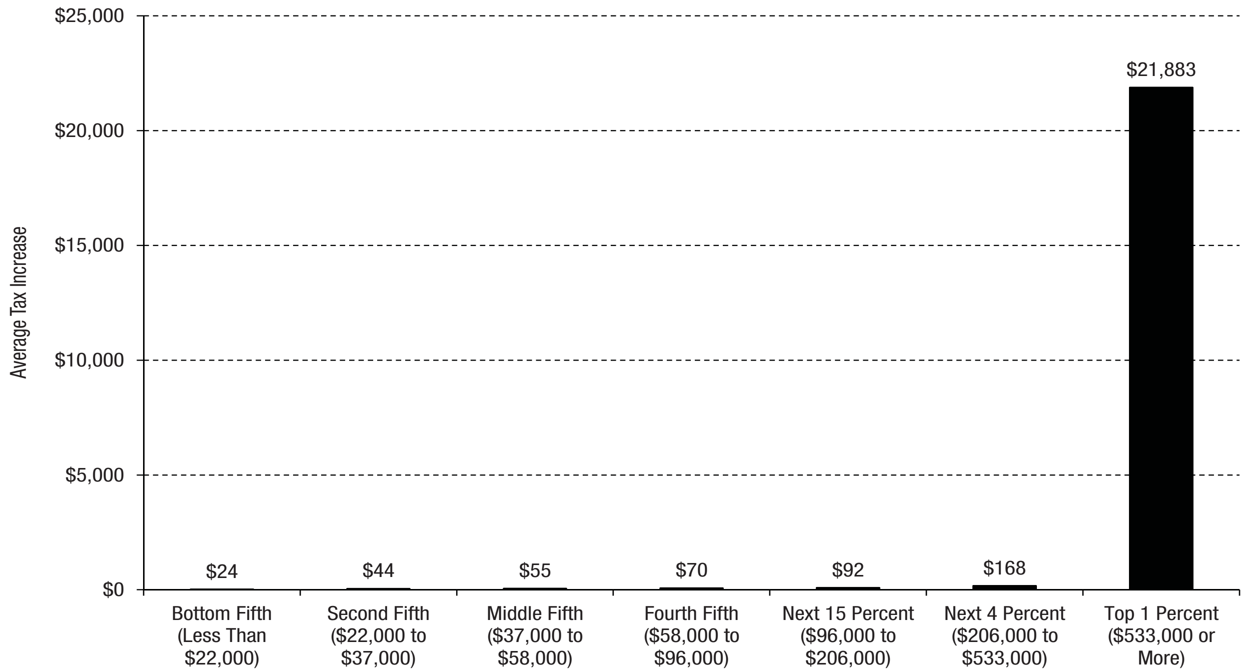


Source: Franchise Tax Board

As the incomes of the wealthiest Californians skyrocketed in recent decades, the gap between the incomes of wealthy and middle-income Californians widened substantially. In 2010, Californians in the top 1 percent earned, on average, 41 times what Californians in the middle fifth earned. That gap is about twice as large as it was a generation ago and means that in 2010, the average Californian in the top 1 percent could earn in approximately six workdays what the average middle-income Californian could earn in one year.

The incomes of the wealthy stand in stark contrast to those of the millions of Californians living in poverty. More than 6 million Californians had incomes below the poverty line in 2010, the most recent year for which data are available. For a family of four with two children, that means living on roughly $22,000 or less per year. In contrast, California's 41,000 millionaire taxpayers – just 0.3 percent of the state's taxpayers – had a combined income of nearly $144 billion in 2010. To put that sum in context, the state's millionaires had seven times the income needed to lift every single Californian out of poverty.[18]

Figure 3: Proposition 30 Would Primarily Affect the Top 1 Percent



Note: Income is for 2011.
Source: Institute on Taxation and Economic Policy

Proposition 30 Revenues Would Help Stabilize the State Budget

California has faced a structural deficit – a gap between the revenues raised by the state's tax system and the cost of providing the current level of services – for more than a decade.[19] Lawmakers bridged recent years' budget gaps through "solutions" that were temporary or did not materialize, and through deep spending cuts to virtually all areas of the budget. For example, the state reduced Proposition 98 spending for K-12 education by $7.4 billion between 2007-08 and 2011-12 – a drop of $1,271 per student.[20] In response, many school districts reduced their days of instruction, eliminated programs, and downsized the number of teachers they employ. Lawmakers also made deep cuts to higher education and, as a result, the tuition and fees charged by the University of California and California State University increased dramatically in recent years, shifting much of the cost of a college education to students and their families (see box, "Revenues Supporting Education and Other Core Public Systems Have Eroded Since the Beginning of the Great Recession").

Revenues raised by Proposition 30 are part of California's 2012-13 spending plan to close a $15.7 billion budget gap and address the state's structural deficit. Providing additional revenues would shield core public systems such as education and public safety from further cuts. Economists affirm that a balanced approach to closing the budget gap – one that combines carefully targeted spending reductions with additional revenues – is a prudent strategy when economic growth is slow (see box, "Spending Cuts or Tax Increases: Which Are Preferable When the Economy Is Weak?"). Proposition 30 revenues would help California pay down debt from previous years' budget shortfalls, helping stabilize the state's economic footing and lowering debt obligations for future years.

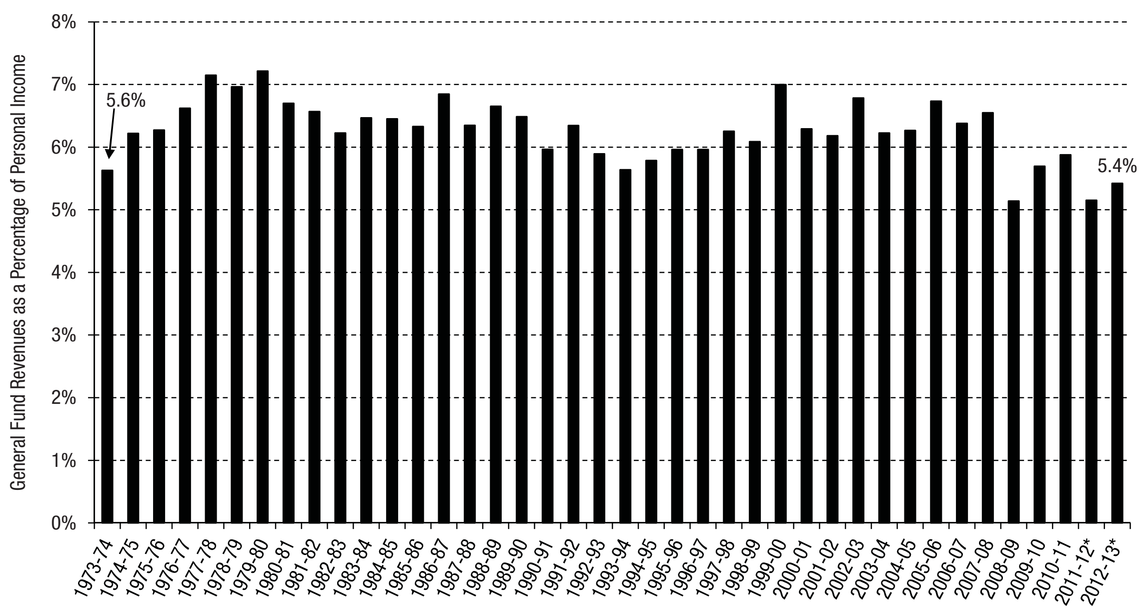
The 2012-13 budget assumes passage of Proposition 30 and counts on approximately $5.6 billion in revenues from the measure's tax increases to help fill the budget gap.[21] Proposition 30 revenues would comprise only about one-third of the dollars helping to fill the budget gap. The new revenues are accompanied by approximately $8.1 billion in spending reductions and $2.5 billion in other "solutions." The spending reductions to help balance the budget include deep cuts to health and human services programs as well as to student aid and child care.

Revenues Supporting Education and Other Core Public Systems Have Eroded Since the Beginning of the Great Recession

California's budget challenges largely resulted from a steep drop in revenues brought about by the Great Recession, as more than a million people lost their jobs, saw their incomes decline, and cut back their spending. Recent shortfalls also reflect years of tax cuts, including large, permanent corporate tax breaks enacted during the depths of the downturn.[22] Last fall, the LAO projected that 2012-13 "baseline" revenues – the amount anticipated in the absence of a tax increase – would be nearly $47 billion below the 2012-13 level that had been forecast in 2007, just before the national recession began.[23] That amount is approximately equal to current spending for health and human services, corrections, higher education, natural resources, and environmental protection combined.

Due to repeated spending cuts and the prolonged economic downturn, state General Fund revenues – the dollars that support California's public schools, colleges and universities, and health and human services programs – are lower today as a share of the economy than in all but two of the past 40 years. Even if voters approve Proposition 30, General Fund revenues will still be lower as a share of the economy in 2012-13 than they were in the mid-1970s.[24] This is particularly significant in light of the fact that California's population continues to grow and age, placing greater demands on core public systems and supports that provide the foundation for our quality of life and a strong economy. During the past decade alone, California gained an average of around 300,000 new residents each year – equivalent to adding a new city the size of Riverside annually.[25] Californians age 65 or older make up the fastest-growing segment of the population, heightening the need for health care and related services.[26] Additional General Fund revenues would create a foundation on which to rebuild going forward and help all Californians share in the state's future prosperity.

Even if Voters Approve Proposition 30, General Fund Revenues as a Share of Personal Income Are Projected To Remain Below Mid-1970s Levels



* 2011-12 estimated, 2012-13 projected.
Note: General Fund revenues in 2011-12 and 2012-13 assume passage of Proposition 30, which includes the Governor's proposed tax increases, and exclude revenues transferred to counties as part of the 2011 realignment of program responsibility.
Source: CBP analysis of Department of Finance data

Spending Cuts or Tax Increases: Which Are Preferable When the Economy Is Weak?

Many experts argue that a balanced approach to closing the budget gap – one that combines carefully targeted spending reductions with additional revenues – is preferable to a "cuts-only" approach.[27] Nationally renowned economists, including Nobel Prize-winning economist Joseph Stiglitz and Peter Orszag, the former director of the Congressional Budget Office, argue that cutting spending during an economic downturn could do more harm to states' economies than raising taxes on high-income earners.[28] At the beginning of the Great Recession, for example, Stiglitz wrote that during a downturn, "economic theory and evidence give a clear and unambiguous answer: It is economically preferable to raise taxes on those with high incomes than to cut state expenditures."[29] Although the national recession technically ended in 2009, California's job market remains unusually weak three years into the recovery, as evidenced by a recession-like double-digit jobless rate.[30] Given this fact, the case against a cuts-only approach to closing the state's budget shortfall is just as strong today as it was during the depths of the downturn.

According to leading economists, when the economy is weak, increasing taxes on high-income earners is preferable to cutting state spending because:

- **Spending cuts fall hardest on low- and middle-income families and pull dollars out of local communities, which costs jobs and weakens the recovery.**[31] Budget cuts directly translate into fewer jobs and lower wages for low- and middle-income Californians whose employment is supported by state dollars, such as public school teachers, child care workers, and in-home care workers.[32] Since these individuals and their families tend to spend most of their incomes – and spend them locally – budget cuts have a ripple effect throughout the economy. Families whose incomes decline due to state budget cuts tend to spend less on basic necessities, such as groceries. In essence, each dollar less that the state spends generally reduces consumption by the same amount, according to Stiglitz and Orszag.[33] In response to weak sales, local businesses, in turn, may lay off workers or reduce employees' pay, resulting in even more families cutting back their spending.
- **Tax increases targeted to high-income earners have far less of an impact on local communities.** High-income earners typically spend only a fraction of their incomes and save the rest.[34] Consequently, increasing taxes on high-income earners is unlikely to reduce their spending on a dollar-for-dollar basis, at least in the short-run. In addition, raising high-income individuals' taxes is unlikely to impact small businesses, since only a fraction of small-business owners have very high incomes. Just 3.3 percent of US taxpayers with small-business employer income had incomes above $1 million in 2007, while more than three-quarters (75.8 percent) had incomes below $200,000.[35]

The bottom line: State budget cuts result in fewer dollars circulating in local economies and, as a result, are likely to further restrain recovery from a recession. Tax increases on high-income earners are far less likely to have the same result.

The Personal Income Tax Is an Essential Source of Revenues for California

Revenues from California's personal income tax posted the strongest growth among all sources of state revenues during the past four decades, making the personal income tax an essential source of support for the public systems that contribute to the state's prosperity. Between 1970-71 and 2010-11, personal income tax revenues increased by an average of 9.6 percent per year – a substantially higher growth rate than that of the other two major state taxes, the corporate income tax (7.6 percent per year) and the sales and use tax (5.9 percent per year).[36] The high rate of growth in personal income tax revenues largely reflects the significant gains posted by the highest-income earners in recent decades, as well as the fact that California's personal income tax treats wage earners and investors equally, imposing the same tax rate on income regardless of how it is gained. If policymakers had responded to calls in recent years to reduce the state's reliance on the personal income tax, the growth of state revenues would have been suppressed, making it even harder for California to support a growing and aging population. A sensible state tax policy ensures that revenues keep pace with economic growth and with the cost of providing public services, while also taking into account taxpayers' ability to pay.[37] By this measure, California's personal income tax is a key strength of the state's tax system.

What Happens if Voters Don't Approve Proposition 30?

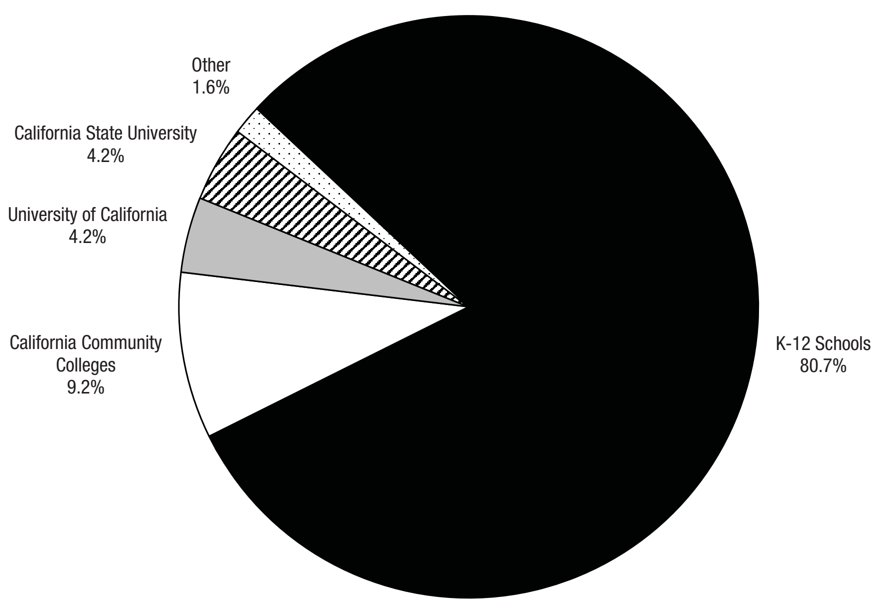
Immediate Midyear Cuts Would Target Education

The state's 2012-13 budget relies on revenues from the passage of Proposition 30. If voters reject this measure, approximately $6 billion in midyear "trigger" cuts would automatically take effect on January 1, 2013. About 80 percent of these reductions – $4.8 billion – would target public schools, while most of the remaining cuts would target community colleges and universities.[38] Specifically, the following cuts are slated to occur (Figure 4):

- $4.8 billion from public schools, with schools authorized to reduce the academic year from the current minimum of 175 days of instruction to 160 days of instruction in each of 2012-13 and 2013-14;
- $550.0 million from the California Community Colleges (CCC), with the CCC chancellor authorized to reduce college enrollment proportionately;
- $250.0 million from the California State University;
- $250.0 million from the University of California;
- $50.0 million from the Department of Developmental Services;
- $20.0 million in reduced funding for a new grant program for city police departments;
- $10.0 million from the Department of Forestry and Fire Protection;
- $6.6 million from flood control programs;
- $5.0 million in reduced grants to local law enforcement for water safety patrols;
- $3.5 million in reduced funding for Department of Fish and Game wardens and non-warden programs;
- $1.5 million in reduced funding for state park rangers and lifeguards at state beaches; and
- $1.0 million from the Department of Justice's law enforcement programs.

In addition to the $6 billion in cuts triggered this year, General Fund revenues in future years would be billions of dollars lower than if Proposition 30 were approved, meaning deeper cuts would likely be needed in those years to bring the budget into balance.

Figure 4: K-12 Schools Would Bear the Brunt of the Trigger Cuts if Proposition 30 Fails



Total 2012-13 Trigger Cuts = $6 Billion

Note: Percentages do not sum to 100 due to rounding.
Source: Department of Finance

The State Would Face Increased Proposition 98 Payments

Proposition 30 is the only measure on the November ballot that would authorize a key provision of the 2011-12 budget agreement. This provision allowed the Legislature to exclude revenues set aside for realignment from calculations used to determine the Proposition 98 minimum funding guarantee in 2011-12 and future years, provided that voters approved the exclusion in a subsequent election.[39] If voters do not approve Proposition 30, the state's 2011-12 minimum funding obligation to schools and community colleges would increase retroactively due to the recalculation of the minimum guarantee, while overall state General Fund revenues for that year would not increase. As a result, the Legislature would likely have to reduce spending on key priorities outside the Proposition 98 guarantee – in addition to making trigger cuts – to bring the budget into balance.[40]

What Would Happen to the Budget When the Tax Increases Expire?

Proposition 30's tax increases would be temporary and could not be extended without voter approval. The sales tax increase would expire at the end of 2016, and the much larger personal income tax increase would expire at the end of the 2018 tax year. Consequently, General Fund revenues would decline modestly in 2016-17 and more steeply in 2018-19 relative to where they would have been if the tax increases continued. If state General Fund revenues grow more slowly than the economy in a given year, the minimum spending level required by the state's constitutional Proposition 98 guarantee could also fall, but the state would be required to make additional payments to schools and community colleges in future years.[41] Proposition 98 allows for a short-term dip in education spending when General Fund revenues do not keep pace with growth in the economy, but requires the state to make payments in subsequent years to increase the minimum funding level for schools and community colleges to where it would have been absent the decline.[42] To the extent the state is required to make these payments to restore education funding, less money would be available for other state programs and services.

Because the 2012-13 budget assigns a dedicated source of funding to support programs realigned to the counties – a portion of existing sales tax and Vehicle License Fee revenues – the phase-out of Proposition 30's tax increases would not affect realignment funding.[43]

What Would Happen if Voters Approve Proposition 30 and Proposition 38?

Another measure on the November 2012 ballot, Proposition 38, includes temporary tax increases and thus could be viewed as conflicting with the provisions of Proposition 30. The state Constitution specifies that if provisions of two measures on the ballot conflict and both are approved by voters, then the measure that receives more "yes" votes prevails. If voters approve both measures and Proposition 30 receives more "yes" votes, only Proposition 30's provisions would take effect. On the other hand, if voters approve both measures and Proposition 38 receives more "yes" votes, then Proposition 38's personal income tax provisions would take effect rather than Proposition 30's. In the latter instance there could be legal challenges regarding the other provisions of Proposition 30, and the courts would decide whether these provisions would take effect. For more information about Proposition 38, see the California Budget Project's publication, *What Would Proposition 38 Mean for California?*[44]

What Do Proponents Argue?

Proponents of Proposition 30, including Governor Brown, the California Federation of Teachers, and the California Teachers Association, argue that the measure "will protect school and safety funding" and "is a critical step in stopping the budget shortfalls that plague California."[45] They state that "Prop. 30's taxes are temporary, balanced, and necessary to protect schools and safety."[46]

What Do Opponents Argue?

Opponents of Proposition 30, including the Howard Jarvis Taxpayers Association, Sacramento Taxpayers Association, Small Business Action Committee, and National Federation of Independent Business/California, argue that the measure allows Sacramento policymakers to "raise taxes instead of streamlining thousands of state funded programs, massive bureaucracy and waste."[47] They contend that the measure would hurt small businesses and cost the state jobs.

Conclusion

Proposition 30 would increase the personal income tax rates of very-high-income Californians for seven years and boost the state's sales tax rate by one-quarter cent for four years. The measure would generate an average of approximately $6 billion annually between 2012-13 and 2016-17, and smaller amounts in 2011-12, 2017-18, and 2018-19.[48] Proposition 30 revenues would augment funding for public schools and help avoid deeper state spending reductions. The measure would also provide constitutional protections for the realignment of certain programs from the state to the counties and would ensure that counties have ongoing, dedicated funding to support realigned programs.

Proposition 30 presents voters with the opportunity to begin reversing a decade of disinvestment in California. The measure would help the state stabilize its budget, pay down debt, and begin to reinvest in education and other critical public services. About one-third of the "solutions" needed to close the budget gap in 2012-13 would be provided by the measure, preventing deeper cuts to K-12 schools and higher education. Proposition 30 raises the vast majority of its revenues from the wealthiest Californians, who have experienced substantial gains over the past two decades. In contrast, low- and middle-income Californians – who bore the brunt of the Great Recession's effects on the economy – would see very small tax increases.

Hope Richardson prepared this Budget Brief *with assistance from Samar Lichtenstein, Alissa Anderson, and Jonathan Kaplan. The California Budget Project (CBP) has endorsed Proposition 30. The CBP was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, subscriptions, and individual contributions. Please visit the CBP's website at www.cbp.org.*

ENDNOTES

1 Legislative Analyst's Office, "Proposition 30. Temporary Taxes to Fund Education. Guaranteed Local Public Safety Funding. Initiative Constitutional Amendment. Analysis by the Legislative Analyst," in Secretary of State's Office, *California General Election Tuesday, November 6, 2012: Official Voter Information Guide,* p. 12, downloaded from http://www.voterguide.sos.ca.gov/ on August 29, 2012. The measure's personal income tax provisions would take effect in tax year 2012, and a portion of the revenues would be attributed to fiscal year 2011-12.

2 In 2011-12, policymakers transferred – or "realigned" – responsibility for certain programs from the state to the counties and dedicated a portion of existing sales tax and Vehicle License Fee (VLF) revenues to fund the shift. Proposition 30 would add the revenue shift to the state Constitution, thereby guaranteeing that counties have ongoing, dedicated funding to support the realigned programs. In addition, the measure would provide counties and the state with protections against certain unanticipated costs and would ensure that the revenues shifted to counties would not be used in calculating the Proposition 98 school funding guarantee. For more information about realignment, see California Budget Project, *Finishing the Job: Moving Realignment Toward Completion in 2012* (June 2012).

3 The sales and use tax is actually two separate taxes: a tax on the sale of tangible goods in California – the "sales tax" – and a tax on goods purchased outside of the state for use in California – the "use tax." Because sales and use taxes are complementary, they are typically referred to as the sales tax. This *Budget Brief* will use the term "sales tax" to refer to both taxes.

4 "Single tax filers" include married individuals and registered domestic partners (RDPs) who file taxes separately. "Taxpayers filing jointly" include married and RDP couples who file jointly, and qualified widows or widowers with a dependent child. An additional 1 percent rate applies to taxable income earned above $1 million. The revenues from that 1 percent rate are dedicated to mental health services and would not be affected by Proposition 30.

5 For head-of-household filers, the 10.3 percent rate would apply to income between $340,001 and $408,000; the 11.3 percent rate would apply to income between $408,001 and $680,000; and the 12.3 percent rate would apply to income above $680,000. In addition, all taxable income above $1 million would remain subject to the 1 percent mental health services tax, so the top marginal tax rate for income above $1 million would be 13.3 percent.

6 According to the Legislative Analyst's Office, "Because the rate increase would apply as of January 1, 2012, affected taxpayers likely would have to make larger payments in the coming months to account for the full-year effect of the rate increase." Legislative Analyst's Office, "Proposition 30. Temporary Taxes to Fund Education. Guaranteed Local Public Safety Funding. Initiative Constitutional Amendment. Analysis by the Legislative Analyst," in Secretary of State's Office, *California General Election Tuesday, November 6, 2012: Official Voter Information Guide,* p. 14, downloaded from http://www.voterguide.sos.ca.gov/ on August 29, 2012.

7 California State Board of Equalization, "Detailed Description of the Sales and Use Tax Rate." California State Board of Equalization website, accessed July 31, 2012 at http://www.boe.ca.gov/news/sp111500att.htm.

8 California State Board of Equalization, "California City and County Sales and Use Tax Rates, Publication No. 71," downloaded from http://www.boe.ca.gov/ on August 2, 2012. Legislative Analyst's Office, "Proposition 30. Temporary Taxes to Fund Education. Guaranteed Local Public Safety Funding. Initiative Constitutional Amendment. Analysis by the Legislative Analyst," in Secretary of State's Office, *California General Election Tuesday, November 6, 2012: Official Voter Information Guide,* p. 13, downloaded from http://www.voterguide.sos.ca.gov/ on August 29, 2012.

9 The state is constitutionally required to provide a minimum level of funding for K-12 education and community colleges guaranteed by Proposition 98, an initiative passed by voters in 1988. Proposition 30 would increase General Fund revenues, and an increase in General Fund revenues tends to boost the Proposition 98 minimum guarantee. For an overview of Proposition 98, see California Budget Project, *School Finance in California and the Proposition 98 Guarantee* (April 2006).

10 Department of Finance, *California State Budget, 2012-13* (June 28, 2012), p. 4. The Legislative Analyst's Office (LAO) estimates that the measure would raise a combined total of $7.7 billion in General Fund revenues in 2011-12 and 2012-13. The LAO does not provide an estimate of the amount by which the Proposition 98 minimum guarantee would increase. Legislative Analyst's Office, *Hearing Concerning Propositions 30, 31, 38, and 39: Presented to Senate Governance and Finance Committee, Hon. Lois Wolk, Chair* (August 8, 2012), p. 15.

11 Community college district minimums are per full-time equivalent student. K-12 district minimums are based on average daily attendance.

[12] These funds could be used for any educational purpose and could not pay for administrative costs.

[13] Institute for Taxation and Economic Policy.

[14] Institute for Taxation and Economic Policy. Average tax increase estimates are based on incomes reported in 2011.

[15] For a more in-depth description of income trends during the past generation, see California Budget Project, *A Generation of Widening Inequality* (November 2011).

[16] Franchise Tax Board. "Income" refers to adjusted gross income, which is income reported for California tax purposes.

[17] 1987 is the earliest year for which these data are available.

[18] Franchise Tax Board and US Census Bureau. According to the US Census Bureau's American Community Survey, in 2010 it would have taken $20.5 billion to bring the incomes of all Californians living in poverty up to the federal poverty line.

[19] Legislative Analyst's Office, *The 2012-13 Budget: Overview of the May Revision* (May 18, 2012).

[20] California Budget Project analysis of Legislative Analyst's Office data. The Proposition 98 spending totals used in this calculation exclude child care and the state preschool program.

[21] This figure excludes the amount that would go toward fulfilling the Proposition 98 minimum guarantee.

[22] Tax cuts approved since 1993 will cost the state more than $13 billion in 2012-13, according to state data. The corporate tax breaks enacted in 2008 and 2009 *alone* will permanently cost the state an estimated $1.5 billion or more per year.

[23] Legislative Analyst's Office, *The 2012-13 Budget: California's Fiscal Outlook* (November 2011) and Legislative Analyst's Office, *California's Fiscal Outlook: LAO Projections 2007-08 Through 2012-13* (November 2007).

[24] Department of Finance. In 2011-12 and 2012-13, the Department of Finance's estimate of General Fund revenues assumes passage of Proposition 30 and excludes revenues transferred to counties as part of the 2011 realignment of program responsibility. In 2012-13, General Fund revenues are projected to equal 5.4 percent of California's personal income, compared to 5.6 percent in 1973-74. The state's General Fund revenues as a share of the economy in 2012-13 would remain close to the 1973-74 level even if the portion of revenues shifted to counties for realignment had remained in the General Fund.

[25] Department of Finance.

[26] Department of Finance. The number of Californians age 65 or older is projected to increase by approximately 75 percent between 2000 and 2020, while the total population is projected to increase by approximately 29 percent.

[27] See California Budget Project, *Budget Cuts or Tax Increases: Which Are Preferable During an Economic Downturn?* (updated November 2008).

[28] Peter Orszag and Joseph Stiglitz, *Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive Than the Other During a Recession?* (Center on Budget and Policy Priorities: Revised November 6, 2011). In fact, in late 2008, more than 100 economists signed a letter to New York Governor David A. Paterson arguing that it is economically preferable to raise taxes on high-income earners rather than cut state expenditures during recessions. See Fiscal Policy Institute, *Economists to Governor: Raise High-End Income Taxes To Help Close Budget Gaps* (December 13, 2008).

[29] Joseph E. Stiglitz, letter to New York Governor David A. Paterson, New York Senate Majority Leader Joseph L. Bruno, and New York State Assembly Speaker Sheldon Silver (March 27, 2008).

[30] Employment Development Department data show that California's unemployment rate has been above 10 percent for 42 consecutive months. Prior to the Great Recession, the state's jobless rate had not been in the double digits since 1983.

[31] More than seven out of every 10 dollars the state spends goes toward "local assistance," which includes support for K-12 schools and community colleges, financial aid for low-income college students, and cash assistance and services for low-income seniors and people with disabilities.

[32] In fact, "local government" job losses, which include jobs lost at K-12 public schools and community colleges, have offset more than one out of every 10 private sector jobs gained since California's job market began to recover in early 2010. In other words, for every 10 private sector jobs the state has gained, California has lost one local government job. Budget cuts also result in lower cash payments for families and individuals who participate in income support programs, as well as less business for private employers as state agencies and local governments reduce or cancel contracts with vendors.

[33] Peter Orszag and Joseph Stiglitz, *Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive Than the Other During a Recession?* (Center on Budget and Policy Priorities: Revised November 6, 2011).

[34] Fiscal Policy Institute, *Economists to Governor: Raise High-End Income Taxes To Help Close Budget Gaps* (December 13, 2008).

[35] See Sarah Ayres, *Small-Business Owners Are Not Millionaires and Millionaires Are Not Small-Business Owners* (Center for American Progress: October 20, 2011). Moreover, even if tax increases affect the small share of small-business owners with high incomes, those taxpayers are unlikely to respond to the increased taxes by reducing their hiring or investing less. See Chye-Ching Huang, *Recent Studies Find Raising Taxes on High-Income Households Would Not Harm the Economy: Policy Should Be Included in Balanced Deficit-Reduction Effort* (Center on Budget and Policy Priorities: April 24, 2012), p. 2.

[36] Sales and use tax is per 1 percent rate.

[37] Ronald Snell, *New Realities in State Finance* (National Conference of State Legislatures: 2004).

[38] Approximately $3 billion of the reductions to education are cuts to schools' general purpose funding, and $2.3 billion of the reductions would be achieved by eliminating repayment of prior-year deferrals to schools and community colleges.

[39] The 2011-12 budget agreement transferred a portion of existing sales tax revenues – historically counted as state General Fund revenues – to counties to pay for the realignment of certain program responsibilities from the state to counties. The budget agreement excluded these sales tax dollars from calculations used to determine the Proposition 98 minimum funding guarantee. However, the budget agreement only allowed this exclusion contingent upon voter approval of a ballot measure by November 17, 2012 that would authorize the exclusion and provide funding for schools and community colleges in an equivalent amount.

[40] If voters reject Proposition 30, the 2011-12 Proposition 98 guarantee would be increased retroactively, and the state would be required to make "settle-up" payments in each of five years from 2012-13 through 2016-17. In addition, an increase in the 2011-12 Proposition 98 guarantee would boost state General Fund obligations to schools and community colleges in 2012-13 and future years. Without new revenues to support these increased obligations, the Legislature would likely have to reduce spending on other core public systems such as higher education and health and human services.

[41] These payments would be necessary in order to meet the "maintenance factor" requirement of Proposition 98, as modified by Proposition 111 of 1990.

[42] In most years, the Proposition 98 minimum guarantee is determined by changes in per capita personal income and K-12 attendance. However, the state can reduce Proposition 98 funding below this level when per capita General Fund revenues grow more slowly than per capita personal income. If this occurs, the overall dollar amount needed to return Proposition 98 funding to the level that it would have been absent the reduction is called the "maintenance factor." The state is required to restore funding in years when the percentage growth in per capita General Fund revenues exceeds the percentage growth in state per capita personal income. "Maintenance factor" payments then become part of the base used to calculate subsequent years' funding guarantees.

[43] The passage of Proposition 30 would codify this dedicated funding source for realignment in the state Constitution.

[44] California Budget Project, *What Would Proposition 38 Mean for California?* (September 2012).

[45] "Argument in Favor of Proposition 30," in Secretary of State's Office, *California General Election Tuesday, November 6, 2012: Official Voter Information Guide,* p. 18, downloaded from http://www.voterguide.sos.ca.gov/ on August 29, 2012.

[46] "Argument in Favor of Proposition 30," in Secretary of State's Office, *California General Election Tuesday, November 6, 2012: Official Voter Information Guide,* p. 18, downloaded from http://www.voterguide.sos.ca.gov/ on August 29, 2012.

[47] "Rebuttal to Argument in Favor of Proposition 30," in Secretary of State's Office, *California General Election Tuesday, November 6, 2012: Official Voter Information Guide,* p. 18, downloaded from http://www.voterguide.sos.ca.gov/ on August 29, 2012.

[48] Legislative Analyst's Office, "Proposition 30. Temporary Taxes to Fund Education. Guaranteed Local Public Safety Funding. Initiative Constitutional Amendment. Analysis by the Legislative Analyst," in Secretary of State's Office, *California General Election Tuesday, November 6, 2012: Official Voter Information Guide,* p. 12, downloaded from http://www.voterguide.sos.ca.gov/ on August 29, 2012.