Budget problems, revenue solutions, and building for the long-term
The Trouble We’re In

- $20 billion deficit: $6 billion current year, $14 billion 10-11
- $20 billion deficits, through 2013
- $32 billion in cuts, February and July budgets
- $8 billion + in taxes expire 2011: sales, income, vlf
- $1.7-2 billion in new corporate loopholes take effect
- Loss of stimulus funds
- 75% of state budget is local support
Governor’s proposed “solutions”

- Federal funds: $7.9 billion (!) additional
- Take away transit money, with complex switch
- Cuts in education, health, IHSS, social services
- Failure to get federal funds triggers more severe cuts: e.g. elimination of CalWorks, IHSS, Healthy Families, tax cut delays
How did we get here?

- VLF cut in 2003 now costs $6 billion yearly, over $20 billion cumulative
- Many years of tax cuts back to 1994, $6+ billion
- Borrowed for last deficit, $3 billion debt service
- (Some interim good luck, tax shelters and amnesty)
- Great Recession: $12 billion decline in revenue
- Phony solutions: selling compensation fund, accelerating revenues, illegal cuts
- 2/3 vote requirements (of course)
That's what I love about the two-thirds vote requirement... It's so democratic!
Talking about taxes

- Tough job—many efforts at “framing”, lots of polling
- Structural
  - Inside vs. outside—i.e legislators vs. public awareness (2/3 vote)
  - Government “efficiency” vs. taxes for services
  - Complexity: how to explain
- Themes
  - Values: common good, public interest
  - Investment in our future
  - Taxes vs. program loss: economic impact
  - Waste, fraud and abuse in the tax system
  - Giveaways: “Money for nothing” compared to programs
  - Close loopholes, tax the rich! (time-tested)
  - Price paid for civilization
  - Fair sharing of the burden
  - Charge for harm
  - Low-hanging fruit
Taxes: 10 policies for $20 billion

- Oil Severance: $1.2 billion
  - Only state, only place in world w/out oil production tax or royalties to state.
  - No impact on price of gasoline or oil production

- Eliminate secret corporate loopholes: $1.7-2b
  - Loss carry-backs, credit-sharing, elective single sales factor
  - Passed without hearings in budget hostage-taking

- Broaden sales tax base: $2 billion plus
  - Electronic commerce, entertainment, golf, etc—many commodities, plus labor services. (Tax Commission recommendations)

- Reinstall top income tax brackets: $4b, up to 6b
  - Top 1% has 25% of California income
  - No evidence of relocation effect from income tax

- Close corporate property tax loopholes: $2b
  - Complex ownership forms make “change of ownership” difficult to track
  - Thousands of properties change ownership w/out reassessment
10 policies for $20 billion (cont)

- **VLF permanent at 1%: $1.3b**
  - Long-term stable solution to vehicle license fee

- **End wasteful corporate giveaways: $1b**
  - Enterprise zones: definitive study, no benefit: $500m
  - Like-kind exchanges for commercial property: $350 m
  - Off-shore tax havens shelter billions: $150 m

- **Increase tobacco and alcohol: $2.6b**
  - Alcohol at 10 cents/drink: $1.4 billion
  - Tobacco at $1.50/pack: $1.2 billion
  - (Marijuana: $1.4 billion?)

- **Improve tax collections: $1.5b (initially)**
  - Withholding on independent contractors, “Amazon” nexus

- **Keep ½ cent of sales tax increase: $2.5 billion**
  - Little evidence of economic harm, although burdensome
Short-term Strategies/majority vote

- Tax collections: majority, opposed by Gov, $1.5b
  - Sales tax issue also benefits locals, businesses, jobs
- Fees: alcohol and tobacco, “charge for harm”: $1.8b
- Replace gas tax as fee, enact substitute revenue (Senate solution)= $1 billion or more, rejected by Governor
- Change of ownership loopholes, potential majority, $1-2 billion, not supported by Governor
Longer term: structural change

- Reassess commercial property = $8 billion for cities, counties, and schools
- Change vote requirements for taxes and budget
- Ease restrictions on local taxes
- Constitutional reforms/Convention

Why?.....
I believe we’ve stumbled upon the origins of the demise of California’s civilization...
Where do we go from here?/Taking it local

- **November ballot**
  - Repeal secret corporate loopholes
  - Majority vote for budget
  - Business restrictions on fees?
  - Also, tobacco tax for research, local government protection, marijuana, redistricting, AB 32 repeal

- **Future efforts: taking it local**
  - Local tax and fee options
  - Commercial property reform: cities, counties, and schools
Commercial Property: Overview

- Bad economics: taxes new investment, not windfalls
- Bad law: loophole-ridden, easy to manipulate, irrational
- Bad fiscal policy
  - Shift to homeowners
  - Fails to fund growth, infrastructure
- Bad land use: promotes speculation and sprawl
- Reassessment: $8 billion for cities, counties, schools
- Polling: 58 yes, 34 no
Commercial Property: Building a campaign

• **Goal:** Create inevitability of change in irrational, counterproductive policy

• **Research elements:** county-by-county
  - Shift to homeowners, away from commercial/industrial
  - Loopholes in change of ownership
  - Amount raised for cities, counties, schools, special districts
  - Identify major underassessed properties
Burden shift: Alameda County

Share of Alameda County Property Tax Burden: Residential vs. Non-Residential Property

- **Residential %**
- **Non-Residential %**

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Incremental Revenues, Alameda County

- **Total**: $231 million annually (lowest case, 2008)
- **Schools**: $99.7 million
  - Oakland Unified: $18 million
- **County**: $26 million
- **Cities**: $43.9 million
  - Oakland: $10 million
- **Special Districts**: $55 million
Building a campaign (cont)

- Local coalition-building
  - ACCE (formerly ACORN), community organizations
  - Labor/teachers/police/fire
  - Public interest: LWV/PTA
- City Councils
- School Boards
- County Boards of Supervisors
- Local media, opinion leaders, businesses
  - So far, all major newspapers including San Diego UT

- Locality by locality, property by property
  - Example: Menlo Park

- Goal: November 2012, polling and funding permitting
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LENNY GOLDBERG
CALIFORNIA TAX REFORM ASSOCIATION
PRESENTATION TO ALAMEDA COUNTY, MARCH 25, 2010
WWW.CALTAXREFORM.ORG
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