Policy Making by Initiative Threat
The latest tool for the latest pet peve

2/3 Vote on Taxes “Tax Fairness, Transparency & Accountability Act”

California Consumer Privacy Act

Lead Paint Liability

State Budget and Legislature
State Revenue Outlook Good ... for now

Big Three Tax Revenues


$160               $140               $120               $100               $ 80

5.2%               5.0%               4.1%               4.6%

Source: LAO

California State Spending Plan
Approved 2018-19 Budget

Governor’s Budget Focus
✓ Build reserves
✓ Increase K-12, community college funding
✓ Infrastructure spending
Rainy Day Fund & Debt Reduction
Proposition 2 (2014)

Debt/Reserve Estimates

June Budget Act. Estimate the following:
1.5% of General Fund revenues.
Capital gains revenues over 8% of General Fund taxes.
Less amounts that must be spent on Proposition 98.

Debt Payments
Choose among the following:
- Pay down certain "wall of debt" items.
- Make extra pension/retiree health payments.

Budget Stabilization Account^a
Fill rainy-day reserve to 10% of General Fund taxes.

Proposition 2 required to BSA $3.4 Billion

BSA Reserve $1.7
Supplemental 3.5
Prior balance 8.5
Total BSA $13.8

SFEU Reserve $2.0
new SafetyNet Reserve $0.2

Total Reserves $16.0 Billion
at end of 2018-19

Annual Revenue Could Drop by over $20 Billion in a Recession
California State General Fund (Dollars in Millions)

Source: Governor’s Proposed 2018-19 Budget Summary Figure INT-02
SB1: The Road Repair and Accountability Act of 2017

The Road Repair and Accountability Act of 2017

SB 1 Restored Lost Purchasing Power for the Gas Tax

Source: Governor's Proposed 2018-19 Budget Summary Figure INT-06

CaliforniaCityFinance.com
True or False?

The State Legislature has taken transportation funds for other purposes and has no plans to return them.

Answer: **False**

The last pre-Prop22 borrowings of HUTA gas tax are being returned under SB1.

True or False?

Gas tax revenues, including the new SB1 taxes, cannot be *taken* for other purposes... but the Legislature can *borrow* them.

Answer: **False**

All gas taxes are now constitutionally protected from taking or borrowing.
Sales and Use Tax: Ripe for Reform?

For taxable sales in unincorporated areas, the local 1% rate goes to the county.

<table>
<thead>
<tr>
<th>City*</th>
<th>County TDA</th>
<th>Proposition 172</th>
<th>County Realignment</th>
<th>State General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00%</td>
<td>0.25%</td>
<td>0.50%</td>
<td>1.5625%</td>
<td>3.9375%</td>
</tr>
</tbody>
</table>

Total base rate 7.25%

* For taxable sales in unincorporated areas, the local 1% rate goes to the county.
Sales Tax Collections

Revenues per capita inflation adjusted

Consumer spending growth is in:
- Housing
- Healthcare
- Food
- Entertainment
- Education

Some taxable goods being replaced by non-taxed digital equivalents:
- Computer software
- Music
- Movies
- Games
- Books

💡 Tax growth is concentrating in distribution centers
💡 Major amounts kicked-back to corporations, not public services

“Over the Counter” Transaction

Seller’s Place of Business

Buyer Receives at ...

Retail Store

City A

Sales Tax

TrU Tax
Remote (Online) Sale

Seller with In-State Presence

- Seller’s Place of Business: City A Warehouse
- Sales Office: City A
- Sales Tax
- Product Delivered
- Residence or Business: City B
- Buyer Receives at ...
- TrU Tax

Remote (Online) Sale

Out-of-State Seller

- Seller’s Place of Business: Sales Office, Out of State, Warehouse
- Product Delivered
- Residence or Business: City D
- Buyer Receives at ...
- TrU Tax
- City D, E, X, Y, Z
- Countywide pool
- Use Tax
What *South Dakota v Wayfair* Means

### Uncollected Revenues from Out of State Sales

<table>
<thead>
<tr>
<th>Potential Revenue Gains from Expanded State Tax Collection Authority</th>
<th>United States</th>
<th>Low scenario</th>
<th>High scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business to Consumer (B2C)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet Retailers</td>
<td>$ 3.2</td>
<td>$ 4.8</td>
<td></td>
</tr>
<tr>
<td>E-marketplace sellers (Ebay, Amazon)</td>
<td>3.9</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>Other remote Retailers (catalog, TV, etc.)</td>
<td>1.5</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>(less consumer use tax compliance)</td>
<td>(0.2)</td>
<td>(0.2)</td>
<td></td>
</tr>
<tr>
<td><strong>B2C total</strong></td>
<td>$ 8.4</td>
<td>$ 12.5</td>
<td></td>
</tr>
<tr>
<td><strong>Business to Business (B2B)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchant wholesale E-Commerce</td>
<td>1.0</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>(less business use tax compliance)</td>
<td>(0.9)</td>
<td>(2.0)</td>
<td></td>
</tr>
<tr>
<td><strong>B2B Total</strong></td>
<td>$ 0.1</td>
<td>$ 0.9</td>
<td></td>
</tr>
<tr>
<td><strong>Grand total (B2B+B2C)</strong></td>
<td>$ 8.5</td>
<td>$ 13.4</td>
<td></td>
</tr>
</tbody>
</table>

- **California**
  - $ 1.0
  - $ 1.7

Source: US Government Accountability Office November 2017

**Uncollected Revenues from Out of State Sales**

**Potential Revenue Gains from Expanded State Tax Collection Authority**

<table>
<thead>
<tr>
<th>California</th>
<th>rate</th>
<th>low</th>
<th>high</th>
</tr>
</thead>
<tbody>
<tr>
<td>State General Fund</td>
<td>3.9375%</td>
<td>$480</td>
<td>$832</td>
</tr>
<tr>
<td>County Realignment</td>
<td>1.5625%</td>
<td>190</td>
<td>330</td>
</tr>
<tr>
<td>Proposition 172</td>
<td>0.5000%</td>
<td>$61</td>
<td>$106</td>
</tr>
<tr>
<td>County TDA</td>
<td>0.2500%</td>
<td>30</td>
<td>53</td>
</tr>
<tr>
<td>City* Bradley-Burns</td>
<td>1.0000%</td>
<td>$122</td>
<td>$211</td>
</tr>
<tr>
<td>Add-On Local Transaction &amp; Use</td>
<td>varies</td>
<td>117</td>
<td>203</td>
</tr>
</tbody>
</table>

*To county where situs is unincorporated. Also, some cities share a portion of their 1% with their county.

**Total**

- $ 1,000
- $ 1,735

Source: US Government Accountability Office November 2017