

# Budget problems, revenue solutions, and building for the long-term



**LENNY GOLDBERG**  
**CALIFORNIA TAX REFORM ASSOCIATION**  
**PRESENTATION TO ALAMEDA COUNTY, MARCH 25, 2010**  
**[WWW.CALTAXREFORM.ORG](http://WWW.CALTAXREFORM.ORG)**

# 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)

REX BABIN THE SACRAMENTO DFE

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)
- **Reinstate 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 1/2 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  
STUMBLERD UPON THE  
ORIGINS OF THE DEMISE  
OF CALIFORNIA'S  
CIVILIZATION...

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# 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

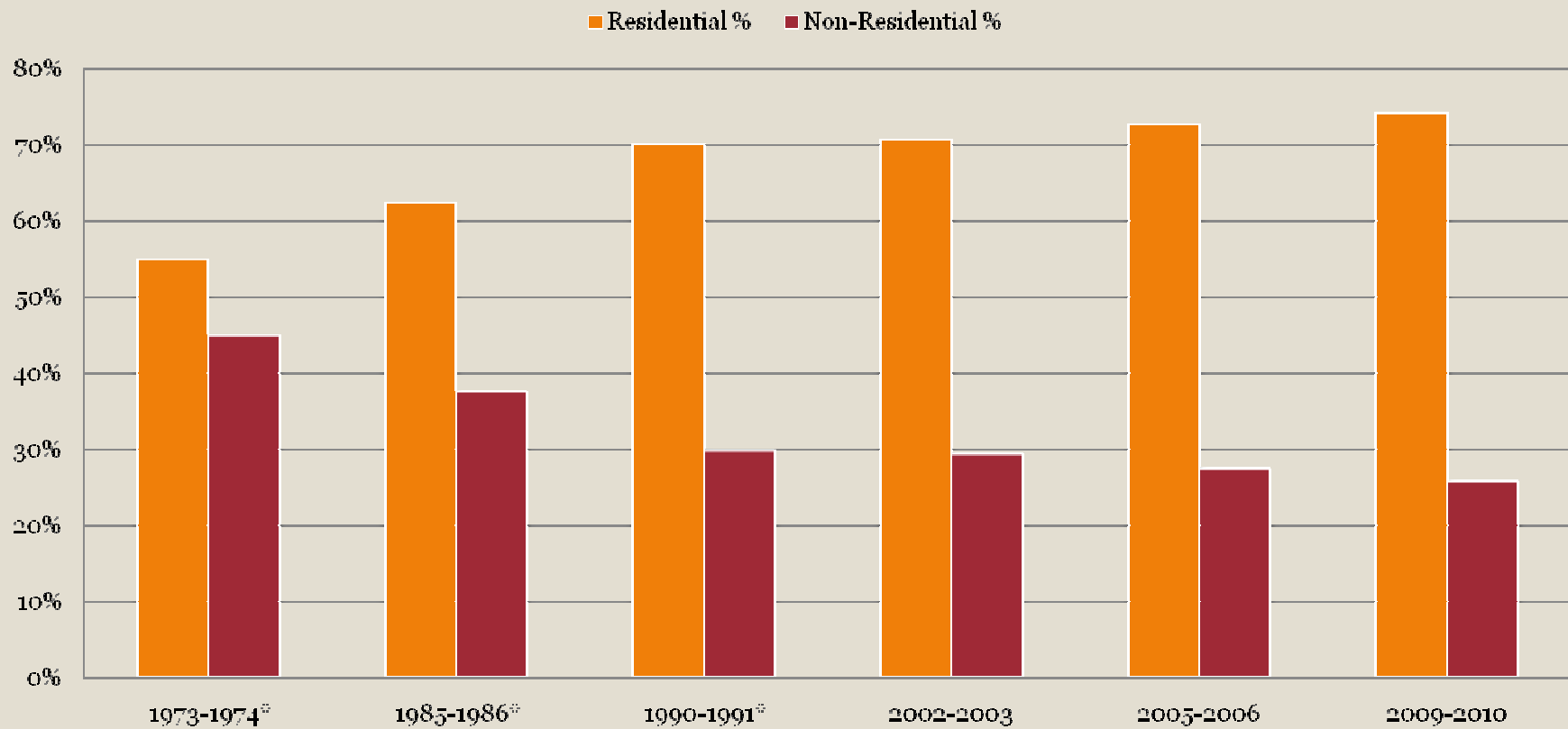


- Goal: Create inevitability of change in irrational, counterproductive policy
- Research elements: county-by-county
  - Shift to homeowners, away from commercial/industrial
  - Loopholes in change of ownership
  - Amount raised for cities, counties, schools, special districts
  - Identify major underassessed properties

# Burden shift: Alameda County



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





# 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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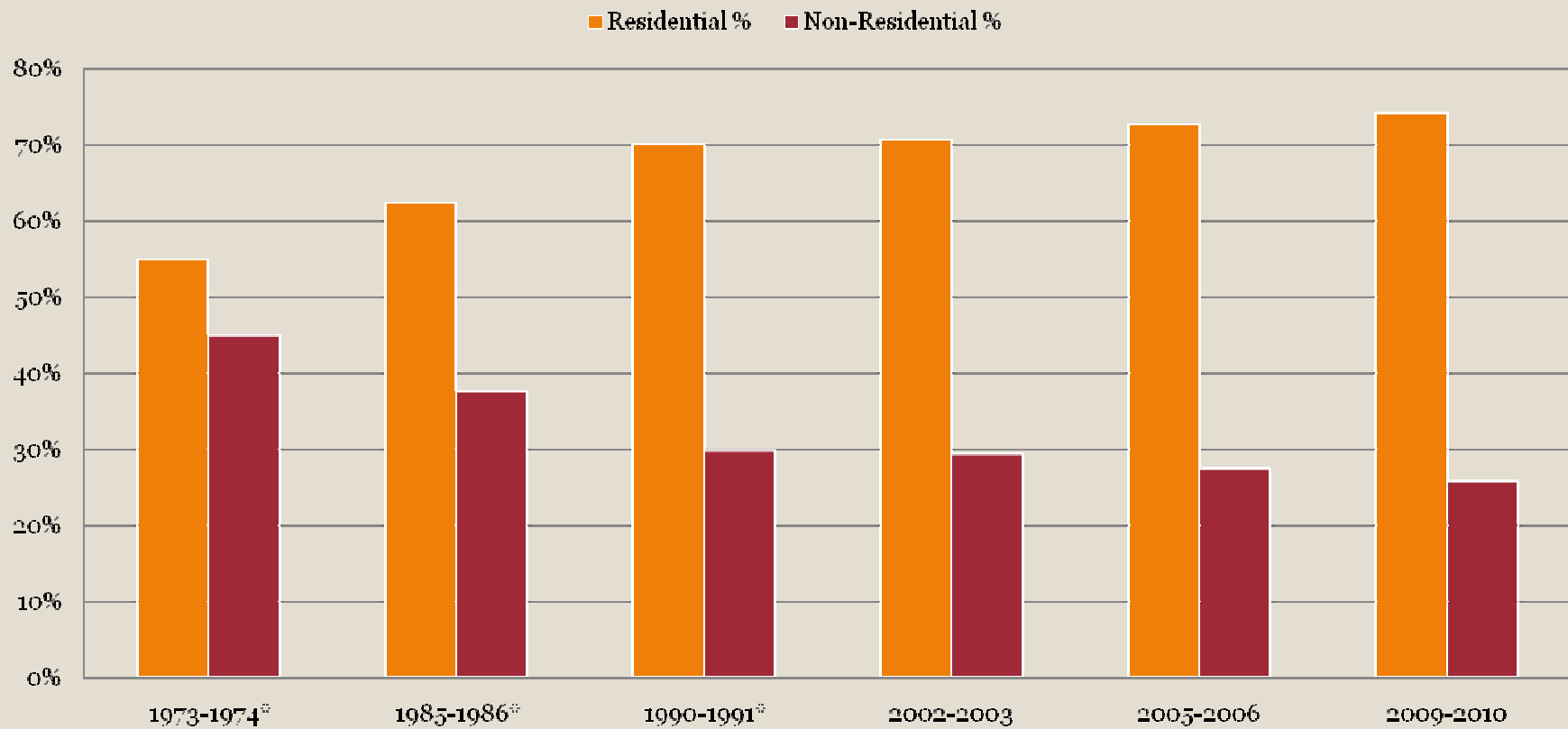


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