



**California State  
Budget Alternatives  
&  
Long Term Fiscal  
Solutions**

*May 2009*



## REQUEST TO LEGISLATORS

*California residents deserve to know where the Governor and their individual legislators stand on the current proposal and alternative budget solutions. For that reason, AFSCME requests that each legislator review this booklet, and indicate whether you support or oppose the budget alternatives contained within. If you oppose any item, identify why, and what specific cuts, new revenues or other proposals you have to replace the revenue you oppose. Should you have additional ideas for specific savings or new revenues, please include that as well.*

*Please return your responses to:*

**AFSCME California PEOPLE  
1121 L Street, Ste. 904  
Sacramento, CA 95814  
Attn: Willie Pelote**

## Who Is AFSCME

Our members work every day and everywhere to make California better. We are the probation officers, court employees, and emergency dispatchers who keep Californians safe. We are the home health workers, social workers and doctors who care for the elderly and the disabled. We are the water engineers and city staff members who plan for California's future. We are the school bus drivers, paraeducators and university staff members who guarantee an education for every Californian. We are the groundskeepers, maintenance crews, and recreation leaders who keep our state's parks and facilities open for business.

We are AFSCME, the American Federation of State, County and Municipal Employees, AFL-CIO, and we are 179,000 members strong in California alone.

California PEOPLE is AFSCME's legislative and political arm in California, representing 76 locals state-wide. PEOPLE (Public Employees Organized to Promote Legislative Equality) is on your side, fighting to protect working families!



# Introduction

## Open letter to Members of the California State Legislature,

Once again California is facing a massive budget crisis, and once again proposals to address this situation focus on massive cuts to education, health care, In-Home Supportive Services, courts, public safety and other essential services, combined with borrowing and balance sheet gimmicks. This has become a pattern—repeated year after year—that has failed to solve the underlying structural deficit plaguing the state. In fact, this pattern continues to worsen the situation by cutting core services, threatening the loss of billions in federal funds, and relying on borrowing that creates an even larger deficit in future years. Simultaneously, large tax cuts are awarded to large corporations and other special interests, deepening the cash flow crisis.

California is at a breaking point. Vital services have been cut to the bone and beyond; budget gimmicks have driven the state bond rating to the lowest in the nation; and an air of defeatism permeates the halls of the Capitol in Sacramento. Yet policymakers are quick to point out that “their hands are tied,” alternatives not politically possible, and the enacted budgets are the best we can get.

We disagree.

Real solutions are needed to address the continuing structural deficit—solutions that are fair to all citizens of California. We all rely on government services—the low income and the wealthy, small businesses and large corporations, private sector employees and public servants—and we must all equally share the responsibility for funding those services.

The first steps must be to put aside the politics that paralyze the California budget process, reject policy decisions based solely on ideology, and craft sound, long-term solutions that are fair and that make sense. AFSCME has gathered common sense budget proposals from a variety of sources that achieve \$33 billion in revenues for the 2009-10 Fiscal Year, and over \$44 billion in future recurring revenue. This is in contrast to the current proposals of risky borrowing, massive cuts to vital public services, and continued budget meltdowns.

Once sound budget proposals are crafted, the Governor and Legislature must be open and honest with the citizens of California, explain and defend their proposals in their towns, cities and counties, and show the leadership we all are desperately seeking to pass a budget that works. If the budget proposals are fair and address the real structural deficit of California, then Californians will rally behind their legislators and the votes will come. Any recalcitrant legislators will have the choice of shifting their stance to support a fair end to structural deficits or face the wrath of their constituents.

The choice is simple: continue with the tired, failed budget practices of the past that have decimated this state and will leave more children hungry, restrict opportunities for the next generation of our youth to attend college, cause massive layoffs that tear apart working Californian families, and continue the instability that drives jobs from the state; or develop real, long-lasting structural solutions that will put California on the path to stability, recovery and growth. AFSCME—and all California voters—will be watching closely.





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# California State Budget Alternatives & Long Term Budget Solutions

## MAJORITY VOTE REVENUE

FY 2009-10 Revenue & Savings: \$7.46 billion

Recurring Revenue & Savings: \$11.52 billion

One-Time Savings: \$2 billion

<u>FY 2009-10</u>	<u>FY2010-11</u>	<u>REVENUE</u>	<u>REVENUE*</u>	<u>PROPOSAL &amp; DESCRIPTION</u>	<u>SUPPORT</u>	<u>OPPOSE</u>
\$4.7 Billion	\$6 billion			<b>SWITCH THE GAS FEE TO A TAX</b> - Add 14 cents to pay transportation bonds - \$3.3 billion in replacement revenues - \$1.4 billion in backing out General Fund costs - \$6 billion in annually thereafter	SUPPORT  <input type="checkbox"/>	OPPOSE  <input type="checkbox"/>
\$900 Million	\$1.6 billion			<b>SINGLE FLIP</b> - Restores current 1/4% sales tax to General Fund, ending the temporary reduction of the local "Bradley Burns" sales tax	SUPPORT  <input type="checkbox"/>	OPPOSE  <input type="checkbox"/>
\$1.4 billion	\$1.4 billion			<b>Alcohol fee of \$0.10 per drink</b> - \$500 million for the general Fund; \$1.4 billion overall	SUPPORT  <input type="checkbox"/>	OPPOSE  <input type="checkbox"/>
\$150 million	\$400 million			<b>Various collections</b> (e.g. Amazon, bank collections, others) - Revenue will increase to \$400 million annually when fully implemented - \$55 from Amazon collections similar to NY. - \$60 million from utilizing financial institution data matches to locate assets of tax avoiders. - \$80 million from requiring report on book vs. tax income for corporations - \$100 from other collection measures proposed last year (conform to federal back-up withholdings, suspend professional licenses for tax debtors, deny sales tax refunds to lenders on worthless accounts, require use tax collection on income tax forms.)	SUPPORT  <input type="checkbox"/>	OPPOSE  <input type="checkbox"/>

\* All FY 2010-11 Revenue listed throughout this document is recurring revenue unless otherwise noted.





## MAJORITY VOTE REVENUE (continued)

<u>FY 2009-2010</u> REVENUE	<u>FY 2010-11</u> REVENUE	<u>PROPOSAL &amp; DESCRIPTION</u>	SUPPORT	OPPOSE
\$310 million	\$620 million	<b>Business registration for use tax</b> - AB 711 (Calderon) - Revenue achieved in FY 09-10 if implemented as part of budget deal	<input type="checkbox"/>	<input type="checkbox"/>
\$0	\$2 billion*	<b>Withholding on independent contractors</b> - Establishes 3% withholding requirement for independent contractors for payments in excess of \$600 per year made by businesses to all independent contractors. - Achieves \$250 million in recurring revenue from increased tax compliance <i>(included in "Close Wasteful Tax Breaks and Loopholes" section on page 10.)</i>	<input type="checkbox"/>	<input type="checkbox"/>
\$0	\$1.5 billion	<b>Change ownership for commercial Property</b> - Change of ownership statutes are extremely loose and contain numerous loopholes. Tightening these rules is a necessary step towards needed structural commercial property tax reform.	<input type="checkbox"/>	<input type="checkbox"/>

**NOTES:** *If you opposed any of the options above, please indicate your reasoning, and your SPECIFIC proposal(s) for achieving similar revenue or savings.*

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\* Indicates a one-time savings in revenue acceleration, and not recurring revenue.



# California State Budget Alternatives & Long Term Budget Solutions

## REVENUE REQUIRING 2/3 VOTE

**FY 2009-10 Revenue & Savings: \$26.4 billion**  
**Recurring Revenue & Savings: \$27.4 billion**

<u>FY 2009-2010</u>	<u>FY 2010-11</u>	<u>PROPOSAL &amp; DESCRIPTION</u>		
<u>REVENUE</u>	<u>REVENUE</u>		<b>SUPPORT</b>	<b>OPPOSE</b>
<b>\$3 billion</b>	<b>\$4 billion</b>	<p><b>Restore the top-rate income tax brackets</b></p> <ul style="list-style-type: none"> <li>- Restore to the same levels under Governors Wilson and Regan: 10 percent above \$250,000 and 11 percent above \$500,000.</li> <li>- The bulk of economic growth over the past three decades has gone to those in the highest income groups, with 23% of income now going to the top 1% (as opposed to the top 8% of income going to this group in 1980.)</li> <li>- As we work to solve our state's structural budget deficit, it makes sense to ask more from those who have benefited the most.</li> <li>- The cost of this proposal to those high-income households is significantly offset by increased deductions on their federal taxes.</li> <li>- Previously, this proposal was estimated to raise \$4 billion to \$6 billion annually. That figure would be lower today, both because of the economic downturn and the current top rate to 9.55 percent.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
<b>\$18.8 billion</b>	<b>\$18.8 billion</b>	<p><b>Expand the Sales Tax base &amp; Reduce Rate</b></p> <ul style="list-style-type: none"> <li>- Reduce State Sales Tax Rate from 5% to 3% and extend Sales Tax to all services.</li> <li>- The current "service sector" economy is significantly different from the 1933 "manufacturing" economy when the Sales Tax was enacted by a Republican Governor and Legislature. This change reduces the State share of the Sales Tax by 40% while spreading the effects across the entire economy in a fair and equitable manner.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>





## REVENUE REQUIRING 2/3 VOTE (continued)

<u>FY 2009-2010</u> REVENUE	<u>FY2010-11</u> REVENUE	<u>PROPOSAL &amp; DESCRIPTION</u>	SUPPORT	OPPOSE
\$1 billion	\$1 billion	<b>Impose oil severance tax of 9.9%</b> - California is the only state which does not levy a tax on oil extraction, and only place in the world which receives neither tax nor royalty revenue. Gov. Sarah Palin in Alaska instituted a 25% oil severance tax by comparison.	<input type="checkbox"/>	<input type="checkbox"/>
\$2 billion	\$2 billion	<b>Restore Vehicle License Fee to 2%</b> - This was the rate when Governor Schwarzenegger took office in 2003. The fee is progressive in that owners of more expensive autos pay more.	<input type="checkbox"/>	<input type="checkbox"/>
\$1 billion	\$1 billion	<b>Increase corporate tax rate by 1% to 9.84%</b>	<input type="checkbox"/>	<input type="checkbox"/>
\$600 million	\$600 million	<b>Restore Subchapter S entity tax rate to 2.5%</b> - Currently Sub S corporations pay only a 1.5% entity level tax (compared to 8.84% for regular corporations), despite many being large, closely-held corporations. The original rate was 2.5% when California adopted the Sub S form.	<input type="checkbox"/>	<input type="checkbox"/>

**NOTES:** *If you opposed any of the options above, please indicate your reasoning, and your SPECIFIC proposal(s) for achieving similar revenue or savings.*

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# California State Budget Alternatives & Long Term Budget Solutions

## CLOSE WASTEFUL TAX BREAKS & LOOPHOLES

**FY 2009-10 Revenue & Savings: \$2.49 billion**  
**Recurring Revenue & Savings: \$5.51 billion**

California has failed to mind its fiscal store, instead allowing unnecessary loopholes and tax expenditures to flourish. At a time when lawmakers are considering deep cuts in core services, it is lawmakers responsibility to give these tax breaks the closest scrutiny.

<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>PROPOSAL &amp; DESCRIPTION</u>	<u>REVENUE</u>	<u>REVENUE</u>		
\$410 million	\$410 million	Limit Net Operating Loss carry forwards to 50% of tax liability			SUPPORT	OPPOSE
					<input type="checkbox"/>	<input type="checkbox"/>
\$400 million	\$400 million	Eliminate tax loophole on like-kind exchange of commercial property - Commercial property owners reap enormous gains on sales but never pay tax on them when they roll these gains into additional commercial properties– even out of-state properties. This results in major revenue loss with no corresponding increase in economic activity.			SUPPORT	OPPOSE
					<input type="checkbox"/>	<input type="checkbox"/>
\$100 million	\$100 million	End multinational tax sheltering by including tax havens in water’s edge filings - Corporations can park income in Caribbean tax havens to avoid paying taxes on income. Tax havens should become apart of the “water’s edge” for purposes of California taxation.			SUPPORT	OPPOSE
					<input type="checkbox"/>	<input type="checkbox"/>
\$400 million	\$400 million	Phase out Enterprise Zone tax breaks. - This program was intended to help poor communities. It is overly broad, full of obsolete and outdated policies, and has proven ineffective in achieving its goals. (Alternatively, tightening major abuses in the system will generate roughly \$100 million annually.)			SUPPORT	OPPOSE
					<input type="checkbox"/>	<input type="checkbox"/>



## CLOSE WASTEFUL TAX BREAKS & LOOPHOLES (continued)

<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>PROPOSAL &amp; DESCRIPTION</u>		
<u>REVENUE</u>	<u>REVENUE</u>			
\$300 million	\$300 million	End accelerated research and exploration deduction	SUPPORT <input type="checkbox"/>	OPPOSE <input type="checkbox"/>
\$290 million	\$290 million	Limit research and development credit to two-thirds of tax liability	SUPPORT <input type="checkbox"/>	OPPOSE <input type="checkbox"/>
\$146 million	\$146 million	Eliminate exemptions for industry-specific equipment	SUPPORT <input type="checkbox"/>	OPPOSE <input type="checkbox"/>
\$75 million	\$75 million	Eliminate certain diesel fuel exemptions	SUPPORT <input type="checkbox"/>	OPPOSE <input type="checkbox"/>
\$70 million	\$70 million	Eliminate exemptions for leasing of films and tapes	SUPPORT <input type="checkbox"/>	OPPOSE <input type="checkbox"/>
\$70 million	\$70 million	Eliminate exemption for custom computer programs	SUPPORT <input type="checkbox"/>	OPPOSE <input type="checkbox"/>
\$65 million	\$65 million	Eliminate "nowhere income" tax loophole - Multi-state corporations are permitted to treat the accounting of stock purchases and asset sales differently for federal and state law, allowing them to be taxed on less than their full income, or "nowhere in come".	SUPPORT <input type="checkbox"/>	OPPOSE <input type="checkbox"/>

# California State Budget Alternatives & Long Term Budget Solutions

## CLOSE WASTEFUL TAX BREAKS & LOOPHOLES (continued)

<u>FY 2009-10</u> <u>REVENUE</u>	<u>FY 2010-11</u> <u>REVENUE</u>	<u>PROPOSAL &amp; DESCRIPTION</u>	<b>SUPPORT</b>	<b>OPPOSE</b>
\$55 million	\$55 million	<b>Eliminate small business stock capital gain tax break</b> - This program has no evidence supporting its effectiveness.	<input type="checkbox"/>	<input type="checkbox"/>
\$0	\$250 million	<b>Withholding for independent contractors to help close the tax gap</b>	<input type="checkbox"/>	<input type="checkbox"/>
\$0	\$2.5 billion	<b>Eliminate tax loopholes created in February FY 09-10 budget deal</b> - This includes single sales, loss carry-back and credit-sharing.	<input type="checkbox"/>	<input type="checkbox"/>
\$21 million	\$21 million	<b>Eliminate remaining oil company loopholes</b>	<input type="checkbox"/>	<input type="checkbox"/>
\$0 million	\$730 million	<b>Step up the basis of inherited assets for personal income tax purposes</b>	<input type="checkbox"/>	<input type="checkbox"/>





