SENATE COMMITTEE ON GOVERNANCE AND FINANCE

INFORMATIONAL HEARING: BALLOT INITIATIVES FOR THE NOVEMBER 2012 ELECTION: GOVERNMENT REFORM AND TAXES

August 8, 2012

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I. Proposition 30: "The Schools and Local Public Safety Protection Act of 2012"

Proponent	Governor Jerry Brown
Initiative Type	Constitutional amendment and initiative statute
Main Proposals	• Sales and use surtax • Sliding-scale personal income tax increase on incomes greater than $250,000
Goals	Provide funds for realignment, public safety, and K-14 education
Estimated Revenue Increase	$6 billion/year
Severability	Terms are not severable
Expiration	• Sales and use tax rate expires in 2017 • Personal income tax rates expire in 2019

Stated Purpose

"The Schools and Local Public Safety Protection Act of 2012" finds that many cuts to critical services have hurt California's seniors, middle-class, working families, children, college students, and small businesses the most. To help California, this initiative will temporarily raise the **sales and use tax (SUT)**, which is a tax on the sale and consumption of tangible personal property, for everyone. This Act will also raise the **personal income tax (PIT),** a tax on the gross income generated by individuals, for the highest income earners in California. This increase in revenue will be used to fund local public services and education.

Realignment and Local Public Safety

This Act requires all revenue collected from the sales and use tax and the vehicle license fee to be deposited in the Local Revenue Fund 2011. Money in this account will be used exclusively to fund local public safety services, as defined, according to the terms in the **2011 Realignment Legislation,** legislation that shifted state program responsibilities and revenues to local governments. The treasurer of each county must create a County Revenue Fund 2011 and use money in that fund according to the terms in the 2011 Realignment Legislation. These funds must not be used to supplant other funding for public safety services. The State is not obligated to reimburse local governments for costs incurred from a new program or an improved service stemming from the 2011 Realignment Legislation, but instead must use the funds for existing purposes. Local agencies are not obligated to provide programs or levels of service required by legislation enacted after September 30, 2012, or regulations, executive orders, or administrative directives implemented after October 9, 2011, unless the State provides funding for it. The State will not reimburse Local agencies that wish to comply above the level of provided funding. If a federal program causes a cost increase for local governments, the State will provide 50% of the nonfederal share of the cost.

K-14 Education

This Act creates the Education Protection Account. One-fourth of the incremental increase in revenue from the personal income tax increase provided in this Act is deposited into the Education Protection Account. This Act stipulates the formula of how this amount may be adjusted. 11% of money in the Education Protection Account is allocated to the California Community Colleges, while 89% is allocated to public and charter schools. Each school's administration has sole authority to determine how it spends its funds from the Education Protection Account, provided it makes its funds accounting public. Each school is audited each year to ensure it uses its Education Protection Account funds appropriately.

The Controller may audit the Local Revenue Fund 2011 and any County Local Revenue Fund 2011, and must audit the Education Protection Account. The Attorney General or local district attorneys are authorized to seek civil or criminal penalties for misuse of funds.

Tax Changes

This Act places **surtax**, a tax on top of existing tax rates, of 0.25% on the SUT starting in 2013. This surtax will expire in 2017.

Current law imposes a 9.3% tax for all portions of personal income over $23,950 for non-heads of household. This Act imposes a 10.3% PIT rate for the portion over $250,000 but not over $300,000, an 11.3% PIT rate for the portion of taxable income over $300,000 but not over $500,000 is 11.3%, and a 12.3% PIT rate for the portion of taxable income over $500,000 is 12.3%. These tax rates will expire in 2019.

Current law imposes a 9.3% tax on the portion of income over $32,600 for **heads of household,** who are people considered to be unmarried and pay more than half the cost of maintaining a home. This Act will impose a 10.3% PIT rate for the portion over $340,000 but not over $408,000, an 11.3% PIT rate for the portion of taxable income over $408,000 but not over $680,000, and a 12.3% PIT rate for the portion of taxable income over $680,000. These tax rates will expire in 2019.

This Act is estimated to raise about $6 billion per year in new revenue.

CHART 1: PROPOSITION 30 PROPOSED SURTAX RATES

Sales and Use Tax

Surtax is
0.25%

Personal Income Tax

Non-head of Household		
If the taxable income is		
Over	But not over	Surtax is
$250,000	$300,000	1.00%
$300,000	$500,000	2.00%
$500,000	And over	3.00%

Head of Household		
If the taxable income is		
Over	But not over	Surtax is
$340,000	$408,000	1.00%
$408,000	$680,000	2.00%
$680,000	And over	3.00%

CHART 2: PROPOSITION 30 CURRENT AND PROPOSED RATES

Sales and Use Tax

Current Rate	New Rate	Surtax is
7.25%	7.50%	0.25%

Personal Income Tax

	Non-head of Household						
	If the taxable income is						
	Over	But not over	Tax is			Of amount over	Surtax is
Current Rates	$0	$3,650	$0.00	Plus	1.00%	$0	0.00%
	$3,650	$8,650	$36.50	Plus	2.00%	$3,650	0.00%
	$8,650	$13,650	$136.50	Plus	4.00%	$8,650	0.00%
	$13,650	$18,950	$336.50	Plus	6.00%	$13,650	0.00%
	$18,950	$23,950	$654.50	Plus	8.00%	$18,950	0.00%
	$23,950	And over	$1,054.50	Plus	9.30%	$23,950	0.00%
New Rates	$250,000	$300,000	$22,077.15	Plus	10.30%	$250,000	1.00%
	$300,000	$500,000	$27,227.15	Plus	11.30%	$300,000	2.00%
	$500,000	And over	$49,827.15	Plus	12.30%	$500,000	3.00%

	Head of Household						
	If the taxable income is						
	Over	But not over	Tax is			Of amount over	Surtax is
Current Rates	$0	$7,300	$0.00	Plus	1.00%	$0	0.00%
	$7,300	$17,300	$73.00	Plus	2.00%	$7,300	0.00%
	$17,300	$22,300	$273.00	Plus	4.00%	$17,300	0.00%
	$22,300	$27,600	$473.00	Plus	6.00%	$22,300	0.00%
	$27,600	$32,600	$791.00	Plus	8.00%	$27,600	0.00%
	$32,600	And over	$1,191.00	Plus	9.30%	$32,600	0.00%
New Rates	$340,000	$408,000	$29,779.20	Pus	10.30%	$340,000	1.00%
	$408,000	$680,000	$36,783.20	Plus	11.30%	$408,000	2.00%
	$680,000	And over	$67,519.20	Plus	12.30%	$680,000	3.00%

II. Proposition 31: "The Government Performance and Accountability Act"

Proponent	**California Forward**
Initiative Type	Constitutional amendment and initiative statute
Main Proposals	• Legislative process reform • Transparency and mandatory program reviews • Pay-Go legislation • Biennial budget • Performance-based budgeting • Community Strategic Action Plan
Goals	• Increase government accountability and transparency • Improve budget process • Empower local governments
Estimated Revenue Increase	None
Severability	Terms are severable
Expiration	None

Stated Purpose

"The Government Performance and Accountability Act" finds and declares that the government must be trustworthy, accountable for results, cost-effective, transparent, focused on results, cooperative, closer to the people, supportive of regional job creation, willing to listen, and thrifty and prudent. This Act is intended to improve the budget process, foster more government transparency and accountability, empower and encourage local government proactivity, and strengthen public participation, all by using the state's existing resources.

Legislative Process

This Act makes several changes to the Legislative process. It provides that no bill may be passed unless it has been in print with amendments and made available to the public for 3 days, unless it is an urgency bill that addresses a state of emergency declared by the Governor as a result of a natural disaster or a terrorist attack. The Legislature may not pass any bill after June 30 of the second year of the legislative session except bills that take effect immediately. The Legislature may not introduce or consider any bill in the second year of the legislative session that is substantially the same and has the same effect as a bill that has already been introduced.

The Legislature is prohibited from passing a bill that will increase state costs or decrease state revenue by more than $25,000,000, unless it provides a source that would offset the cost increase or revenue decrease by an equal or greater amount. This requirement is known as **Pay-Go Legislation**, short for Pay-As-You-Go Legislation. Beginning on the first Monday following July 4 of the second year of the legislative session, the Legislature must conduct program oversight and review of state programs, including the Community Strategic Action Plans created by this Act. Each state program must be reviewed at least once every five years.

If the Governor declares a state fiscal emergency, the Legislature may propose bills to address the fiscal emergency, which will take effect immediately upon enactment. If the Legislature does not pass and send a bill to the Governor by the 45th day following the Governor's declaration of a fiscal emergency, the Governor may, by executive order, reduce or eliminate any General Fund appropriation not required by the Constitution or federal law in order to balance the budget. The Legislature has 20 days to override the Governor's executive order with a 2/3 vote when in session, and 30 days to override the Governor's executive order with a 2/3 vote when not in session.

Budget

This Act requires the Governor and Legislature to pass a **biennial budget**. At the beginning of each odd numbered year, the Governor must propose a budget for the following two fiscal years and identify the total state resources available to cover those expenditures. Within the first 10 days of each even-numbered year, the second year of a 2-year budget, the Governor may submit revisions to the budget. This Act specifies what items must be included in the budget. The Governor must recommend expenditure reductions if expenditures exceed revenue, and the recommendation must include an analysis of its long-term impact on the state economy.

This Act requires the Governor to use Pay-Go Legislation as well. It prohibits the Governor from proposing a budget that will increase state costs or decrease state revenue by more than $25,000,000, unless the budget provides a source that would offset the cost increase or revenue decrease by an equal or greater amount. The Legislature must hear and vote on the bills that contain the governor's proposed budget. The budget must be balanced and include a statement of the General Fund obligations, a statement of the expected revenue for that year, and an explanation of why it may differ from the previous year. The Governor must submit a plan to the Legislature to implement the **performance-based budgeting** plan so that it can be fully implemented by the 2015-2016 fiscal year.

The Director of Finance (DOF) is required to submit to the Legislature projections of state revenue and expenditures for the biennial budget by May 15, prior to passage of the budget bill. The DOF is also required to submit to the Legislature the total revenues and expenditures for the budget year and the succeeding fiscal year, and by November 30, is required to submit a fiscal update of actual revenues and expenditures compared to those adopted in the budget.

Community Strategic Action Plan

This Act authorizes a county to form a Community Strategic Action Plan, which is a plan for the county and other participating local governments to achieve their goals, identify their desired outcomes and how those will be measured, and decide a method for reporting their outcomes to the public and the State. Specified local entities, residents, and school districts must approve the Action Plan.

A county with a qualified Action Plan may combine state or local funds for the purpose of providing services provided by the Action Plan. If a statute hinders the Action Plan, or if the county requires more statutory authority to implement the Action Plan, the county may include provisions that are functionally equivalent to statutes if they can justify the need for these provisions in order to achieve their objective. The county must submit these provisions to the Legislature, and if the Legislature does not reject it within 60 days, the provisions will take effect. These provisions will expire in four years unless they are renewed. Similar rules apply to regulations that a local government deems impedes its Action Plan. Counties, cities, and city and county, and any other local government entity may, by a two-thirds vote, enter into contracts to apportion their revenue from ad valorem property taxes. The State can enter into contracts with a county to help it with its Action Plan. Counties must evaluate their Action Plan at least once every 4 years.

The Performance and Accountability Trust Fund is created in the State Treasury to provide funding to qualified Action Plans. 0.035% of the sales and use tax revenue is deposited into the Performance and Accountability Trust Fund. The Controller must distribute funds to each county with an Action Plan based on the number of people who will be served under the Action Plan. If schools receive funds from the Action Plan, this fund will not be used to reduce the state's funding obligation to these schools.

* Assembly Constitutional Amendment No. 4 (ACA 4, 2009-10), which will appear on the election ballot on November, 4, 2014, amends the same Constitutional sections as this initiative and is consistent with the goals of this initiative.

III. Proposition 38: "Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act"

Proponent	**Molly Munger, The Advancement Project**
Initiative Type	Initiative statute
Main Proposals	• Sliding-scale personal income surtax • California Education Trust Fund
Goals	• Provide funds for K-12 and early care education • Improve accountability and transparency in school budgeting • Bond debt repayment
Estimated Revenue Increase	$10 billion/year
Severability	Terms are severable
Expiration	2024

Stated Purpose

The "Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act" finds that California lags behind the rest of the nation in student investment and class sizes, and that its early childhood care program is also underserving eligible children. This Act imposes a graduated tax rate on top of the current income tax rates, with a higher rate for higher income earners, in order to revitalize schools. It encourages more accountability, transparency, and community involvement in public education spending. This Act also allocates a portion of the new surtax revenue to alleviate the State's current bond debt so that the State can issue more bonds if necessary, which the Act asserts that the ability to issue bonds will help keep education funds, along with other funds, stable in times of economic trouble.

California Education Trust Fund (CETF)

This Act creates the California Education Trust Fund (CETF) in the State Treasury. CETF funds cannot be used to pay administrative costs or transferred to the General Fund. CETF must be used to supplement, not supplant, any existing federal, state, and local funds for education. No CETF funds may be used to increase salary or benefits of personnel.

In addition, this Act creates the Fiscal Oversight Board, which consists of the State Controller, State Auditor, State Treasurer, Attorney General, and Director of Finance. The Board's purpose is to ensure that funds are appropriately allocated and spent. Its administrative costs are paid using funds from the CETF, provided that such payments do not exceed specified amounts. The Fiscal Oversight Board is required to publish a list of the amount of funds each local education agency (LEA) received from the CETF.

No later than 6 months following the end of the fiscal year, the Fiscal Oversight Board must have an independent audit of the CETF and publish its findings on its website. Each LEA is required to submit a form to the Fiscal Oversight Board each year. Any party who knowingly uses the funds inappropriately will be investigated, and if found guilty, charged with felony.

Bond debt

For the first 4 years after this Act is implemented, 30% of all revenue is allocated to pay for bond debts. The Education Debt Service Fund is created to receive this revenue and all excess CETF funds. Money in the Education Debt Service Fund is used to pay off education bonds first, then child healthcare and general obligation bonds. Starting in 2017, all revenue generated by this Act is to be used for educational purposes.

Education

K-12

For the first 4 years after this Act is implemented, 70% of all new revenue generated by this Act will be used as specified in the Act for education funding. After 2017, 100% of all new revenue generated by this Act will be used for education funding.

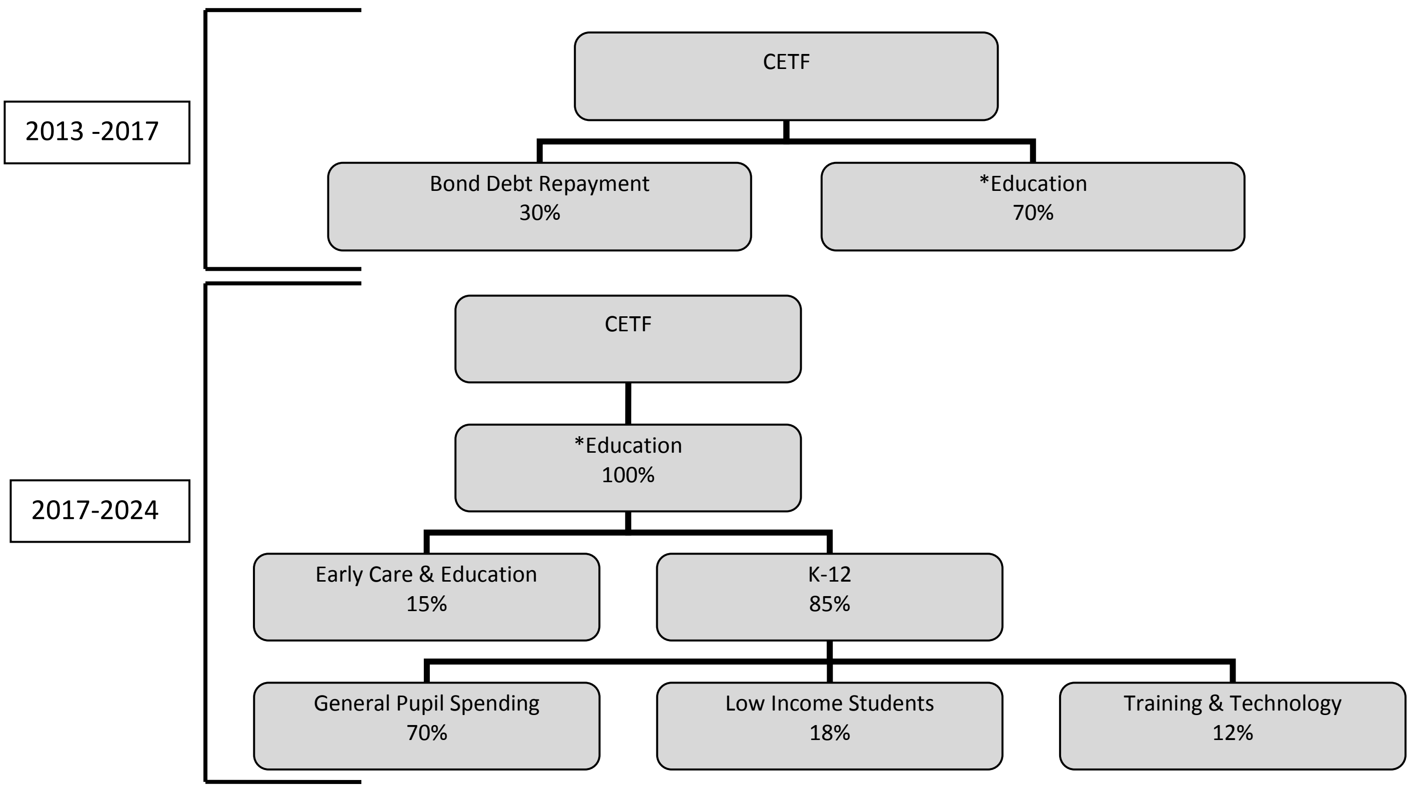
Of the money in the CETF going towards education, 85% is allocated to K-12 schools. Funds are allocated on a per-pupil basis, with students in the higher grades receiving more money than students in the lower grades, but students in the same grade receive the same amount. Of the funds allocated to K-12 schools, 70% is used for student spending. 18% of those funds are evenly distributed among all low-income students, defined as students that qualify for a free lunch. 12% of those funds are used for training, technology, and teaching material grants, also on a per pupil basis. At least 90% of all funds allocated to an LEA must be spent within one year. Each LEA is allowed to carry over 10% of its allocated funds to the next year, while amounts in excess of the 10% are redistributed to other LEAs in need of funding.

Each LEA is required to create a separate account for CETF funds it receives, called the California Education Trust Fund account. LEAs must annually publish on their websites an account of how their CETF funds were spent, the last year's expenditures, and the current year's budget. Only the governing board of an LEA has authority to decide how funds are spent. Each year, each LEA's governing board is required to hold a public hearing about how the funds are spent and why, then another public hearing to receive input from the school's community about their budget decisions.

Early Care and Education (Birth to Pre-School)

Of the money in the CETF going towards education, 15% is allocated to the State Superintendent to distribute to early care and education programs. The Act specifies amounts to be used on specified early care and education (ECE) programs. Amounts in excess of the stipulated ECE expenses are deposited into an account that strengthens and expands ECE programs, called "SAE funds." This Act also specifies how SAE funds are allocated in order to establish and maintain the California Early Head Start program and preschool programs. Funds are distributed based on an area's income, with the lowest median income areas receiving funds first. The Early Learning Advisory Council (ELAC) is required to create the Early Learning Quality and Rating and Improvement System (QRIS), which is a voluntary quality rating scale, intended to help ECE providers increase the quality of their program.

CHART 3: ALLOCATION OF CETF FUNDS



*Funds designated to education for 2013-2017 are divided into the same percentages as funds designated to education for 2017-2024.

Tax Changes

This Act imposes surtax on the current personal income tax rates to generate revenue for the CETF. The surtax rates are graduated, with higher income earners paying a higher surtax. All revenue generated from this surtax must be deposited into the CETF fund and allocated as prescribed by this Act. The lowest surtax rate begins at 0.40% for non-heads of household earning over $7,316 and heads of household earning over $14,642. The highest surtax rate is

2.20% for non-heads of household earning over $2,500,000 and heads of household earning over $3,402,944. The surtax calculation is according to the following chart.

This Act is estimated to raise about $10 billion per year in new revenue.

CHART 4: PROPOSITION 38 PROPOSED SURTAX RATES

Personal Income Tax

Non-head of Household		
If the taxable income is		
Over	But not over	Surtax is
$0	$7,316	0.00%
$7,316	$17,346	0.40%
$17,346	$27,377	0.70%
$27,377	$38,004	1.10%
$38,004	$48,029	1.40%
$48,029	100,000	1.60%
$100,000	$250,000	1.80%
$250,000	$500,000	1.90%
$500,000	$1,000,000	2.00%
$1,000,000	$2,500,000	2.10%
$2,500,000	And over	2.20%

Head of Household		
If the taxable income is		
Over	But not over	Surtax is
$0	$14,642	0.00%
$14,642	$34,692	0.40%
$34,692	$44,721	0.70%
$44,721	$55,348	1.10%
$55,348	$65,376	1.40%
$65,376	$136,118	1.60%
$136,118	$340,294	1.80%
$340,294	$680,589	1.90%
$680,589	$1,361,178	2.00%
$1,361,178	$3,402,944	2.10%
$3,402,944	And over	2.20%

CHART 5: PROPOSITION 38 CURRENT AND PROPOSED RATES

Personal Income Tax

Non-head of Household

If the taxable income is

Current rates

Over	But not over	Tax is			Of amount over
$0	$3,650	$0.00	Plus	1.00%	$0
$3,650	$8,650	$36.50	Plus	2.00%	$3,650
$8,650	$13,650	$136.50	Plus	4.00%	$8,650
$13,650	$18,950	$336.50	Plus	6.00%	$13,650
$18,950	$23,950	$654.50	Plus	8.00%	$18,950
$23,950	And over	$1,054.50	Plus	9.30%	$23,950

Plus

If the taxable income is

New rates

Over	But not over	Tax is			Of amount over
$0	$7,316	$0	Plus	0.00%	$0
$7,316	$17,346	$0	Plus	0.40%	$7,316
$17,346	$27,377	$40	Plus	0.70%	$17,346
$27,377	$38,004	$110	Plus	1.10%	$27,377
$38,004	$48,029	$227	Plus	1.40%	$38,004
$48,029	$100,000	$368	Plus	1.60%	$48,029
$100,000	$250,000	$1,199	Plus	1.80%	$100,000
$250,000	$500,000	$3,899	Plus	1.90%	$250,000
$500,000	$1,000,000	$8,649	Plus	2.00%	$500,000
$1,000,000	$2,500,000	$18,649	Plus	2.10%	$1,000,000
$2,500,000	And over	$50,149	Plus	2.20%	$2,500,000

Head of Household

If the taxable income is

Current rates

Over	But not over	Tax is			Of amount over
$0	$7,300	$0.00	Plus	1.00%	$0
$7,300	$17,300	$73.00	Plus	2.00%	$7,300
$17,300	$22,300	$273.00	Plus	4.00%	$17,300
$22,300	$27,600	$473.00	Plus	6.00%	$22,300
$27,600	$32,600	$791.00	Plus	8.00%	$27,600
$32,600	And over	$1,191.00	Plus	9.30%	$32,600

Plus

If the taxable income is

New rates

Over	But not over	Tax is			Of amount over
$0	$14,642	$0	Plus	0.00%	$0
$14,642	$34,692	$0	Plus	0.40%	$14,642
$34,692	$44,721	$80	Plus	0.70%	$34,692
$44,721	$55,348	$150	Plus	1.10%	$44,721
$55,348	$65,376	$267	Plus	1.40%	$55,348
$65,376	$136,118	$408	Plus	1.60%	$65,376
$136,118	$340,294	$1,540	Plus	1.80%	$136,118
$340,294	$680,589	$5,215	Plus	1.90%	$340,294
$680,589	$1,361,178	$11,680	Plus	2.00%	$680,589
$1,361,178	$3,402,944	$25,292	Plus	2.10%	$1,361,178
$3,402,944	And over	$68,169	Plus	2.20%	$3,402,944

CHART 6: WHAT HAPPENS IF VOTERS APPROVE BOTH PROP 30 AND 38?

According to the Legislative Analyst's Office:

State Constitution specifies what happens if two measures conflict.

If provisions of two measures approved on the same ballot conflict, the Constitution specifies that the provisions of the measure receiving more "yes" votes prevail. Proposition 30 and Proposition 38 on this statewide ballot both increase personal income tax (PIT) rates and, as such, could be viewed as conflicting.

The measures state that only one set of tax increases goes into effect.

Proposition 30 and Proposition 38 both contain sections intended to clarify which provisions are to become effective if both measures pass:

If Proposition 30 receives more Yes votes. Proposition 30 contains a section indicating that its provisions would prevail in their entirety and none of the provisions of any other measure increasing PIT rates -- in this case, Proposition 38 -- would go into effect.

If Proposition 38 receives more Yes votes. Proposition 38 contains a section indicating that its provisions would prevail and the tax rate provisions of any other measure affecting sales or PIT rates -- in this case, Proposition 30 -- would not go into effect.

Proposition 30 Conflict Measure Language

"In the event that this measure and another measure that imposes an incremental increase in the tax rates for personal income shall appear on the same statewide ballot, the provisions of the other measure or measures shall be deemed to be in conflict with this measure. In the event that this measure receives a greater number of affirmative votes than a measure deemed to be in conflict with it, the provisions of this measure shall prevail in their entirety, and the other measure or measures shall be null and void."

Proposition 38 Conflict Measure Language

"(a) In the event that this measure and another measure or measures amending the California personal income tax rate for any taxpayer or group of taxpayers, or amending the rate of tax imposed on retailers for the privilege of selling tangible personal property at retail, or amending the rate of excise tax imposed on the storage, use or other consumption in this state of tangible personal property purchased from any retailer for storage, use or other consumption in this state, shall appear on the same statewide election ballot, the rate-amending provisions of the other measure or measures and all provisions of that measure that are funded by its rate-amending provisions, shall be deemed to be in conflict with this measure. In the event that this measure receives a greater number of affirmative votes than any such other measure, the rate-amending provisions of the other measure, and all provisions of that measure that are funded by its rate-amending provisions, shall be null and void, and the provisions of this measure shall prevail instead.
(b)Conflicts between other provisions not subject to subdivision (a) of this section shall be resolved pursuant to article II, section 10, subdivision (b) of the California Constitution."

IV. Proposition 39: "The California Clean Energy Jobs Act"

Proponent	**Tom Steyer, Californians for Clean Energy & Jobs**
Initiative Type	Statute initiative
Main Proposals	• Mandatory single sales factor • Investment in clean energy
Goals	• Acquire funds for the clean energy market • Retrofit schools and public buildings to be more energy efficient • Create jobs
Estimated Revenue Increase	$1.1 billion/year
Severability	Terms are not severable
Expiration	• Fund transfers to Clean Energy expire in 2018 • Mandatory single sales factor does not expire

Stated Purpose

"The California Clean Energy Jobs Act" finds and declares that California is currently undergoing a recession that has resulted in many job cuts, but its current tax code discourages corporations from locating jobs in California. According to the Legislative Analyst's Office, by taxing corporations on how much of their total sales occur in California, the state can increase revenue and create 40,000 new jobs. The additional revenue can create even more jobs if it is invested in the clean energy market, as well as increase energy efficiency in California. By adding revenue into the General Fund, there would also be more available funds for education.

Clean Energy

Between 2013 and 2018, a sum of five hundred fifty million dollars ($550,000,000) will be transferred from the General Fund to the Clean Energy Job Creation Fund, created by this measure, which will be used to improve energy efficiency and expand clean energy generation. Specifically, funds will be used to retrofit schools and public facilities to improve energy efficiency, provide job training and workforce development, and support public-private partnerships. If the increased revenue does not equal one billion one hundred million dollars ($1,100,000,000), half of the total revenue will be the transferred to the Job Creation Fund.

This Act creates the Citizens Oversight Board, composed of nine members appointed by the State Treasurer, State Controller, and the Attorney General whose expertise may contribute to the effective execution of energy projects. The Citizens Oversight board ensures that the funds are used appropriately, audits projects, and evaluates the projects' cost effectiveness.

This Act stipulates that existing state and local governments with expertise in energy shall select projects. Projects must be selected based on in-state job creation and energy benefits. All projects must be cost effective, be subject to audit, and be selected in coordination with the

California Energy Commission and the California Public Utilities Commission to avoid duplication. Program overhead costs cannot exceed 4% of total funding.

Tax Changes

Currently, California has a **corporate income tax,** which is a tax on the gross income generated by a corporation, with an elective single sales factor apportionment method. Corporations can elect between two formulas to calculate their annual corporate income tax. The first formula is called the **3-factor formula**, which uses the proportion of the corporation's property, payroll, and sales that occur in California, to calculate the corporation's tax liability. The second formula is called the **single sales factor formula**, which uses only the proportion of the corporation's sales that occurs in California, to calculate the corporation's tax liability.

This Act repeals the elective system for the corporate income tax on December 1, 2013. This Act requires that all corporations considered to be doing business in California use the single sales factor formula to calculate their corporate income tax. A corporation is "doing business" in California if it actively engages in any transaction for the purpose of making a profit. Specifically, a corporation is considered to be doing business in California if its sales exceed $500,000 or 25% of its total sales; its property exceeds $50,000 or 25% of its total property value; or its wages and compensation exceed $50,000 or 25% of its total compensation take place in California. For qualified taxpayers and qualified groups, as defined, only 50% of its qualified sales in the State are used to calculate its tax.

This Act is estimated to raise about $1.1 billion per year in new revenue.

CHART 7: CALIFORNIA'S CORPORATE INCOME TAX FORMULAS

California currently has an elective system for corporate income tax. Corporations can choose between using the 3-factor formula or the single sales factor formula to calculate their state tax liability. Proposition 39 would require that all corporations use the single sales factor formula.

3-Factor Formula	Single Sales Factor Formula
Unqualified Corporation $income \times \frac{property + payroll + 2(sales)}{4}$ *Qualified Corporation $income \times \frac{property + payroll + sales}{3}$	$income \times sales$

* A qualified corporation is a corporation that engages mostly in the agriculture, extractive, business and loans, or finance industries

CHART 8: TAX INITIATIVES COMPARISON

	Net Revenue	Tax Source	Spending	Rate Change	Tax Reform	Severability	Expiration
Proposition 30 (Schools and Public Safety)	$6 billion/year	Sales and Use	Public Safety	Yes	No	No	SUT: 2017
		Income	Education (K-14)				PIT: 2019
Proposition 38 (Schools, Early Education, and Bond Reduction)	$10 billion/year	Income	Education (K-12)	Yes	No	Yes	2024
Proposition 39 (Clean Energy)	$1.1 billion/year	Corporate	Clean Energy	No	Mandatory Single Sales Factor	No	Fund Transfers to Clean Energy: 2018
			Public Facilities				Single Sales Factor: Does not Expire
			Education				

VI. GLOSSARY

1. **2011 Realignment Legislation –** legislation that shifted state program responsibilities and revenues to local governments. These programs include fire, juvenile justice, public safety, mental health, foster care, and child welfare programs.
2. **3-factor formula –** method of calculating a corporation's income subject to state corporate taxes based on the percentage of the corporation's property, compensation, and sales that occur in the state.
3. **Biennial budgeting** – budgeting method whereby the budget is calculated over two years. In general, under biennial budgeting, states enact separate budgets for each of two fiscal years, but do so at the same time. True biennial budgeting—enacting a single two-year budget—is rare. Biennial budgeting is intended to improve the planning horizon for departments, from one year to two years, although states typically adjust budget decisions during the second year of the two-year biennium.
4. **Corporate income tax –** tax on the gross income generated by a corporation.
5. **Gross income** – all income, regardless of source, including but not limited to wages, salary, bonuses, interest, dividends, business income, rents, royalties, alimony, pensions and annuities, and income tax refunds.
6. **Head of household –** a person considered to be unmarried and pay more than half the cost of keeping up a home.
7. **Pay-Go legislation** – stands for "pay-as-you-go," is a budget rule that requires changes in policy or programming, whether they increase costs or decrease revenues, to include provisions to cover those costs. Costs are typically covered through commensurate expenditure reductions in other parts of the budget, or through revenue increases. As implemented by the Federal Government though the Budget Enforcement Act of 1990, which has now expired, legislation needed to be "funded" over an agreed upon period of time, which typically consisted of the budget year, and a number of years beyond the budget year. Congress initially established Pay-Go as federal law. More recently it has been established as a procedural rule.
8. **Performance based budgeting** – similar to program budgeting but are constructed with a focus on program goals and objectives. They are measured by short-term outputs, projected longer term outcomes, and cost/benefits analysis. Appropriations are not only linked with programs, but also with expected results specified by these performance criteria.
9. **Personal income tax** – tax on the gross income generated by individuals.
10. **Sales tax** – tax applied to the purchase of tangible goods.
11. **Single sales factor formula**– method of calculating a corporation's income subject to state corporate taxes based on the percentage of the corporation's sales that occur in the state.
12. **Surtax** – a tax levied on top of another tax.
13. **Use tax** – the companion to the sales tax, which applies to the use, storage, or consumption of a good.