



Talking Points: State Budget 2008 [August 28, 2008]

Our perspective

To address a projected state budget deficit of \$17.2 billion, the governor, Democrats, and Republicans have each proposed solutions involving two choices: more state revenues to cover the necessary programs, or cuts to those programs. The CFT believes that the wealthiest people in California and large corporations, after years of tax reductions, could easily afford more taxes to support the well-being of the entire population. CFT proposes to increase state revenues by instituting fair tax policies on those who can afford it.

The Proposals

The governor has proposed billions of dollars in cuts, including to public education, along with a tax increase to cover part of the deficit, but it is a sales tax, which is regressive (harming those the most who can afford it the least). His proposal also includes a spending cap that would over time result in net reductions to vital state programs, due to inflation and population growth. The sales tax would also only cover \$6 billion per year, leaving the rest of the deficit to be made up by huge cuts to education, health care, and public safety programs. **The Republicans** have irresponsibly refused to consider *any tax increase at all*, and also refused to specify which program cuts totaling \$17 billion they would impose. **The Democrats** have proposed a combination of cuts and progressive tax increases, including returning income tax rates on the wealthiest Californians to 11% from the current 9.3%. This would raise nearly the same amount of money as the governor's sales tax, but without placing a burden on the middle class, working people and the poor.

Point 1: The proposed cuts would devastate public education and other public services

Statewide, the governor's proposed program reductions would have the following effects:

- Cut millions of dollars from each K-12 school district, and increase class sizes by as much as 35%
- In community colleges and universities, students will lose classes, contingent faculty and support personnel will be laid off, and student costs will rise, along with the amount of time necessary to graduate. The governor's proposed cuts average \$3 million from each community college campus.
- Even worse are the proposed cuts to health care and human services. Nearly \$3 billion would be taken from the sick, the elderly, and the hungry. From the perspective of educators, these reductions would be terrible, since children who come to school sick or hungry cannot learn.

Point 2: California is already under funding education

California ranks 46th in the nation in K-12 per-pupil spending. California community colleges rank 45th in the nation in per-pupil spending. California ranks 48th in the nation in state employees per resident. When the governor and the Republicans say, "We have a spending problem," they are dead wrong. California is under-funding education. California's K-12 public schools educate more than 6.3 million kids. The community colleges serve 2.5 million adults. These are the largest systems of public education in the country. Failure to adequately fund them will severely impact the state's future.

Point 3: Another way: tax fairness to preserve and improve education and other services

California is the richest state in the richest country on earth. The problem is not that we don't have the money. The problem is one of priorities, and that the money is in the wrong pockets. The top 1% of wealth holders owns 34% of the wealth. Their tax rates today are lower than they used to be. In 1993 the highest tax bracket in the California was 11% of income; today it is 9.3%. The same is true for corporations. In 1980 California corporations contributed nearly 15% of the state budget; today they pay 11%. The legislature has imposed more than \$12 billion in tax cuts for individuals, families and businesses over the past 15 years. It is time to reverse this trend so we can continue to provide necessary services to Californians. The revenue options below could raise an estimated \$16 billion per year. These would address the state's structural budget problem, with progressive tax policies that largely do not adversely affect the average Californian.

- Reinstating the vehicle license fee (\$6 billion/year)
- Return the top tax bracket (\$400,000/year income and up) back to 11% (\$5 billion/year)
- Re-assess non-residential real property (\$3 billion/year)
- Enact severance tax on oil produced in California (\$1.5 billion per year with oil at \$100/barrel)
- Require that large corporations file as corporations, not "S" partnerships (\$500 to 600 million/year)
- Close the tax loophole for luxury boats and planes exchanged in Mexico (\$26 million)

Close loopholes, not schools!