

REVENUE ESTIMATES

California's economy is expected to see continued improvement over the next several years. General Fund revenues will continue to benefit from the improvement in the economy, high levels of capital gains, and strong growth in wages for high-income taxpayers. As a result, General Fund revenue over the budget window is expected to be more than \$4 billion above the 2014 Budget Act.

Figure REV-01 displays the changes between the 2014 Budget Act and the Governor's Budget forecasts. Revenue is expected to be \$108 billion in 2014-15 and \$113.4 billion in 2015-16. Revenue for 2013-14 has come in approximately \$500 million over forecast based on preliminary data. Revenue for 2014-15 is forecast to be \$2.5 billion greater than the amount forecast at the 2014 Budget Act. Revenue for 2015-16 is forecast to be \$1 billion greater than the amount forecast for the 2014 Budget Act. These increases are due primarily to a higher forecast for the personal income tax and corporation tax—up almost \$2.3 billion and almost \$2 billion, respectively. The projection for sales tax revenue has been reduced by \$1.4 billion relative to the 2014 Budget Act. The revised revenue estimate for 2013-14 is the first forecast to exceed the pre-recession revenue peak of \$102.6 billion, achieved in 2007-08.

The improved revenue forecast for personal income tax is driven by higher capital gains forecasts and higher tax receipts from wages. The upward revision in capital gains growth is a result of the robust growth in stock prices during the second half of 2014. The 2014 Budget Act estimated the S&P 500 index at the end of 2014 at just over 1,900. By mid-December 2014, the S&P 500 index was over 2,050. In addition to capital gains

Figure REV-01
2015-16 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2014 Budget Act
(Dollars in Millions)

	Budget Act	Governor's Budget	Change From Budget Act Forecast	
Fiscal 13-14: Preliminary				
Personal Income Tax	\$66,522	\$66,560	\$37	0.1%
Sales & Use Tax	22,759	22,263	-496	-2.2%
Corporation Tax	8,107	8,858	751	9.3%
Insurance Tax	2,287	2,363	76	3.3%
Alcoholic Beverage	351	354	3	0.9%
Cigarette	86	86	0	0.4%
Other Revenues	1,726	1,813	87	5.0%
Transfers	347	376	30	8.6%
Total	\$102,185	\$102,675	\$490	0.5%
Fiscal 14-15				
Personal Income Tax	\$70,238	\$71,699	\$1,460	2.1%
Sales & Use Tax	23,823	23,438	-385	-1.6%
Corporation Tax	8,910	9,618	708	7.9%
Insurance Tax	2,382	2,490	108	4.5%
Alcoholic Beverage	359	367	8	2.2%
Cigarette	84	84	0	0.4%
Other Revenues	1,957	1,954	-3	-0.1%
Transfers	-2,265	-1,608	656	-29.0%
Total	\$105,489	\$108,042	\$2,553	2.4%
Change from Fiscal 13-14	\$3,304	\$5,367		
% Change from Fiscal 13-14	3.2%	\$0		
Fiscal 15-16				
Personal Income Tax	\$74,444	\$75,213	\$769	1.0%
Sales & Use Tax	25,686	25,166	-520	-2.0%
Corporation Tax	9,644	10,173	529	5.5%
Insurance Tax	2,499	2,531	32	1.3%
Alcoholic Beverage	365	374	9	2.3%
Cigarette	82	82	0	0.2%
Other Revenues	1,629	1,594	-35	-2.2%
Transfers	-2,020	-1,752	268	-13.3%
Total	\$112,329	\$113,380	\$1,051	0.9%
Change from Fiscal 14-15	\$6,840	\$5,338		
% Change from Fiscal 14-15	6.5%	\$0		
Three-Year Total			\$4,094	

increases, the Budget forecasts personal income tax on wages to be significantly higher than what was anticipated for the 2014 Budget Act. While the wage forecast is up modestly relative to the 2014 Budget Act forecast, tax receipts from withholding in 2014 have been far above expectations. Withholding through November was 9 percent above 2013 levels. Much of this growth is likely due to significant increases in wages from high-income taxpayers, who pay higher marginal tax rates.

The corporate tax forecast is \$2 billion above the 2014 Budget Act forecast due to a combination of higher payments and lower refunds. Corporate tax payments are up by 14 percent in 2014, whereas corporate tax refunds are down by 10 percent in 2014.

The sales and use tax forecast is \$1.4 billion lower over the budget window than the Budget Act forecast. The forecast reflects the lower growth rate in sales and use tax receipts in 2014. The Budget Act forecast sales and use tax receipts to grow by 7.8 percent over 2013 levels for the first eleven months of 2014. Adjusting for a one-time accounting error, the actual growth rate through November has been 5.9 percent.

The Budget forecast also reflects the estimated revenue impact of the College Access Tax Credit Fund authorized by Chapter 367, Statutes of 2014. The revenue received as a result of this legislation is used to increase the amount of financial aid provided by the Cal Grant B access award. This tax credit is expected to reduce personal income tax revenue and corporate tax revenue by \$780 million through 2015-16. Over two-thirds of the credits are expected to offset personal income tax. The revenue loss from the tax credit is offset by transfers from the College Access Tax Credit Fund to the General Fund. Overall, this program results in a temporary net gain to the General Fund of \$130 million in 2014-15 and \$40 million in 2015-16 because transfers occur when the credit is certified and revenue is lost when the tax credit is used to offset tax liability.

At the 2014 Budget Act, capital gains for 2014 were expected to be \$105.2 billion, an increase of 32 percent relative to 2013. This increase reflected, in part, the expected shift of 20 percent of capital gains from 2013 into 2012 because of federal tax rate changes. The Budget forecast expects 2014 capital gains to be \$115.4 billion, an increase of 44 percent relative to 2013. The sustained strong performance of the stock market over the past several years is expected to lead to continued above-normal capital gains in 2015, because some of the gains that individual taxpayers accrued during these years will be realized in 2015. At the 2014 Budget Act, capital gains for 2015 were expected to be \$89 billion. The Budget forecasts 2015 capital gains to be \$103.4 billion. Capital gains and the associated revenue for 2016 and future years are expected to decline to more normal levels.

Figure REV-02 shows revenue from capital gains as a percentage of total General Fund tax revenue. As seen from this table, the amount of revenue the General Fund derived from capital gains can vary greatly from year to year. For instance, in 2007, capital gains contributed \$10.9 billion to the General Fund. By 2009, the contribution from capital gains

Figure REV-02
Capital Gains
As a Percent of General Fund Revenues
 (Dollars in Billions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 ^p	2014 ^e	2015 ^e
Capital Gains Realizations	\$45.6	\$75.5	\$112.4	\$117.9	\$132.0	\$56.3	\$28.8	\$55.3	\$52.1	\$100.0	\$80.0	\$115.4	\$103.4
Capital Gains Tax	\$3.7	\$6.1	\$9.2	\$9.6	\$10.9	\$4.6	\$2.3	\$4.7	\$4.2	\$10.4	\$8.1	\$11.9	\$10.8
Total General Fund Tax Revenues	\$70.5	\$80.4	\$91.0	\$93.9	\$95.8	\$79.5	\$84.6	\$90.1	\$83.0	\$95.8	\$100.8	\$108.6	\$114.1
Capital Gains Tax as Percent of General Fund Revenues & Transfers	5.2%	7.6%	10.1%	10.2%	11.4%	5.7%	2.7%	5.2%	5.0%	10.8%	8.1%	11.0%	9.4%

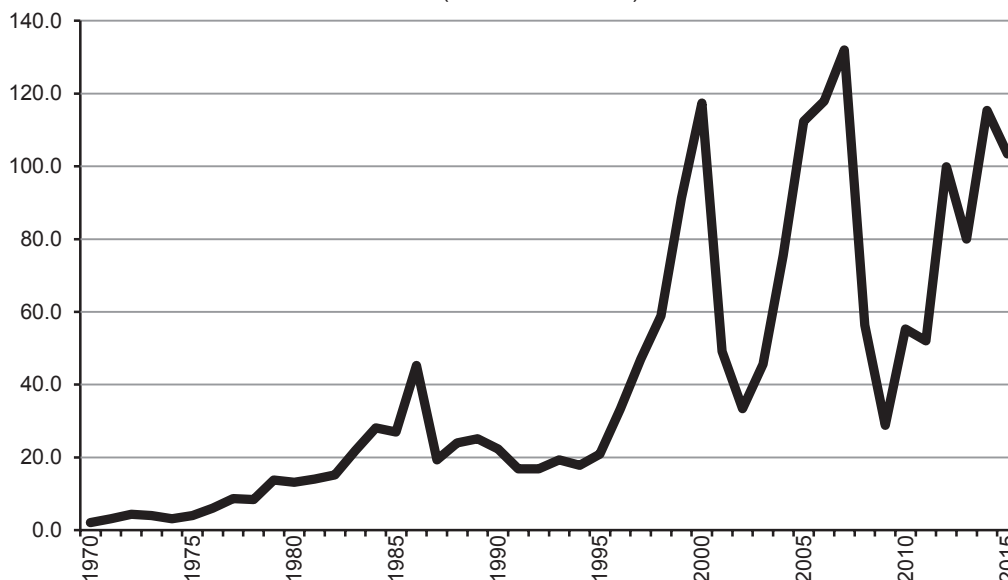
^p Preliminary
^e Estimated

Note: Totals may not add due to rounding and exclude revenues from economic recovery bonds.

had dropped to \$2.3 billion. For 2014, capital gains are expected to contribute nearly \$12 billion to General Fund revenue.

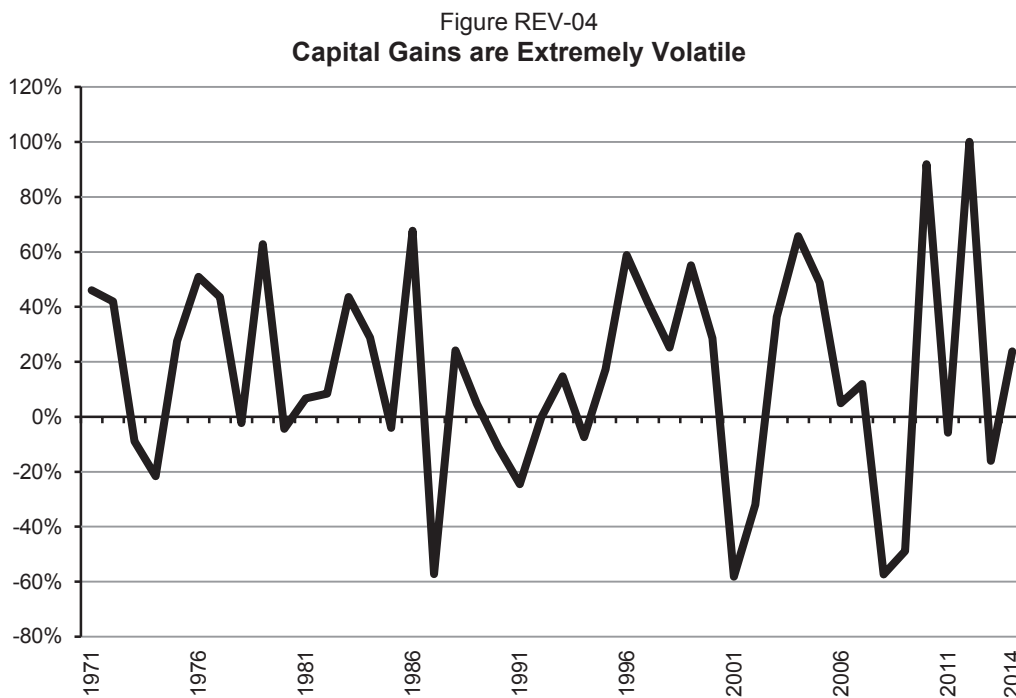
Figure REV-03 shows capital gains reported on California tax returns from 1970 through projections for 2015. Although the level of capital gains has grown significantly since 1970

Figure REV-03
Capital Gains Realizations
 (Dollars in Billions)



(along with the economy and total personal income tax revenue), capital gains volatility has been a constant.

Figure REV-04 shows the year-over-year percentage change in capital gains since 1970. Growth exceeding 40 percent has been common. On the other hand, capital gains show an absolute year-over-year decline about one-quarter of the years, and declines exceeding 40 percent have happened four times during this period. History suggests that above-normal levels of capital gains eventually drop off.



The highest income Californians pay a large share of the state’s personal income tax. For the 2012 tax year, the top 1 percent of income earners paid over 50 percent of personal income taxes. While this figure is somewhat inflated because of the federal tax law induced shift of income from 2013 to 2012, this percentage has been greater than 40 percent for eight of the past ten years. The share of total adjusted gross income for this group has increased from 13.8 percent in 1993, to almost 25 percent in 2012. This figure is also inflated due to the income shift. However, this number has exceeded

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20 percent in eight of the past ten years. Consequently, changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues.

These two related phenomena—significant reliance of the General Fund on capital gains and on taxes paid by a small portion of the population—underscore the difficulty of forecasting personal income tax revenue, particularly in the long term, and the importance of budgeting in a way that does not build long-term commitments on temporary windfall revenue. The passage of the Rainy Day Budget Stabilization Fund Act (Proposition 2) in November 2014 is a significant step toward a long-term balanced budget. Among other provisions, this act amends the State Constitution to require that when capital gains revenues are projected to be greater than 8 percent of General Fund tax revenues, that windfall revenue will be used to pay off General Fund debts and build up the Budget Stabilization Account, the state’s Rainy Day Fund.

LONG-TERM FORECAST

Figure REV-05 shows the forecast for the three largest General Fund revenues from 2013-14 through 2018-19. Total General Fund revenue from these sources is expected to grow from \$97.7 billion in 2013-14 to \$121.4 billion in 2018-19. The average year-over-year growth rate for this period is 4.5 percent.

Figure REV-05

Long-Term Revenue Forecast - Three Largest Sources

(General Fund Revenue - Dollars in Billions)

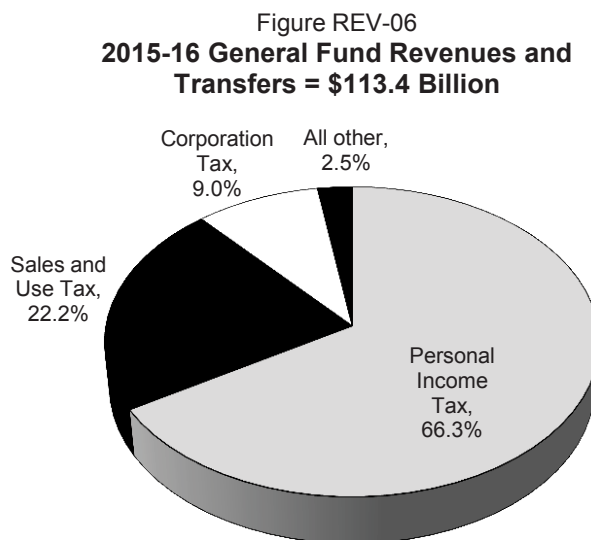
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Average Year-Over- Year Growth
Personal Income Tax	\$66.6	\$71.7	\$75.2	\$78.6	\$82.8	\$82.3	4.4%
Sales and Use Tax	22.3	23.4	25.2	25.6	25.9	27.0	3.9%
Corporation Tax	8.9	9.6	10.2	11.0	11.5	12.1	6.4%
Total	\$97.7	\$104.8	\$110.6	\$115.1	\$120.3	\$121.4	4.5%
Growth	N/A	7.2%	5.5%	4.1%	4.5%	0.9%	

Note: Numbers may not add due to rounding

The economic forecast reflects modest but steady growth over the next five years. The projected average growth rate in Gross Domestic Product over this period is less than 3 percent, a slightly slower rate than normal for an economic expansion. The long-term forecast reflects the sunset of the Proposition 30 sales tax rate increase halfway through 2016-17 and the elimination of the top three personal income tax brackets at the end of 2018.

GENERAL FUND REVENUE

In 2015-16, General Fund revenues and transfers represent 70.7 percent of total revenues reported in the Budget. Figure REV-06 shows the breakdown of General Fund revenues by taxation type. The remaining 29.3 percent consists of special fund revenues dedicated to specific programs.



PERSONAL INCOME TAX

The personal income tax (PIT) is the state's largest single revenue source, accounting for 66.3 percent of all General Fund revenues and transfers in 2015-16.

Modeled closely on the federal income tax law, California's PIT is imposed on net taxable income—gross income less exclusions and deductions. The tax rate structure

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is progressive over much of the income spectrum. For the 2012 tax year, the marginal rates ranged from 1 percent to 12.3 percent. Proposition 30 created three new income tax brackets for families with rates of 10.3 percent for taxable income above \$500,000, 11.3 percent for taxable income above \$600,000, and 12.3 percent for taxable income above \$1,000,000. These new tax brackets are in effect for seven years—tax years 2012 to 2018.

The largest income source for the PIT is wages and salaries. Although the year-over-year growth rates for wages tend to be less volatile than other income sources, wages and salaries includes some volatile types of compensation such as the vesting of restricted stock and restricted stock units, the exercise of most stock options, and bonus payments. In 2012, taxes attributable to wages and salaries accounted for over 56.3 percent of PIT revenues. Based on the economic forecast, wages and salaries are expected to rise by an average of 5.5 percent in 2014, followed by 5.4-percent growth in 2015, and 4.9 percent in 2016.

As noted previously, continued strength in the stock market is expected to result in capital gains that are significantly above normal levels for 2014 and 2015. Forecasting capital gains beyond 2015 is difficult, since capital gains realizations are heavily dependent upon stock market performance. As such, the forecast assumes capital gains will return to more normal levels beginning in 2016.

Pension income is a growing income source for PIT and accounted for 8 percent of PIT revenues in 2012. Pension income is increasing due to a growing 65 and over population and a strong stock market. Pension income is forecast to rise by 8.1 percent in 2014, 6.5 percent in 2015, and 5.8 percent in 2016. A significant reversal in the stock market could reduce these forecasted growth rates.

A portion of PIT revenue is for dedicated purposes and deposited into a special fund instead of the General Fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over \$1 million. Revenue from the surcharge is transferred to the Mental Health Services Fund and used to fund mental health service programs. Revenues of \$1.4 billion are estimated for the 2013-14 fiscal year. Annual revenues of \$1.8 billion for 2014-15 and 2015-16 are projected. The General Fund and the Mental Health Services Fund shares of PIT revenues for 2013-14 through 2015-16 are shown in Figure REV-07.

Figure REV-07
Personal Income Tax Revenue
(Dollars in Thousands)

	2013-14 Preliminary	2014-15 Forecast	2015-16 Forecast
General Fund	\$66,559,659	\$71,698,570	\$75,212,557
Mental Health Services Fund	1,436,000	1,802,000	1,775,000
Total	\$67,995,659	\$73,500,570	\$76,987,557

SALES AND USE TAX

The sales and use tax (sales tax) is generally applied to the sale of merchandise, including vehicles, in the state. Sales tax revenues are forecast by relating taxable sales to economic factors such as income, employment, housing starts, and inflation. The sales tax is expected to generate General Fund revenues of \$23.4 billion in 2014-15 and \$25.2 billion in 2015-16. Revenue growth from 2013-14 to 2014-15 is muted due to a \$486 million reduction in 2014-15 revenues as a result of the start of the manufacturing equipment sales tax exemption on July 1, 2014. This exemption was one of the pieces of a tax package adopted in 2013 that replaces enterprise zones with more effective economic development incentives. The sales tax exemption applies to purchases of manufacturing or biotech research and development equipment, valued at up to \$200 million per business. Receipts from the sales tax, the state's second largest revenue source, are expected to contribute 22.2 percent of all General Fund revenues and transfers in 2015-16.

Figure REV-08 displays total sales tax revenues for the General Fund, and various special funds, for 2013-14 through 2015-16. Beginning on July 1, 2004, a temporary 0.25-percent state sales tax rate was imposed with revenues dedicated to the repayment of Economic

Figure REV-08
Sales Tax Revenue
(Dollars in Thousands)

	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast
General Fund	\$22,263,123	\$23,438,344	\$25,166,091
Sales and Use Tax-1991 Realignment	3,064,538	3,195,601	3,385,697
Sales and Use Tax-2011 Realignment	5,863,064	6,217,187	6,634,878
Economic Recovery Fund ¹	1,506,867	1,593,000	988,000
Public Transportation Account	638,690	613,497	616,435
Childrens Health and Human Services Fund	827,561	1,432,849	2,124,756
Total	\$34,163,843	\$36,490,478	\$38,915,857

¹ Economic Recovery Bonds are expected to be repaid near the beginning of 2015-16.

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Recovery Bonds. The total sales tax rate did not increase, however, as there was a concurrent drop in the Bradley-Burns rate for local governments. Once these bonds are repaid, which the Budget currently estimates to be in early 2015-16, these rate adjustments will sunset.

Figure REV-09 displays the individual elements of the state and local sales tax rates.

Figure REV-09 2015-16 State and Local Sales and Use Tax Rates (as of January 1, 2015)		
State Rates		
General Fund	4.19%	□□ The permanent rate of 3.94% may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels. As of January 1, 2013, Proposition 30 temporarily adds 0.25 percent to the General Fund rate.
Local Revenue Fund 2011	1.06%	□□ Revenues attributable to a rate of 1.0625 percent are dedicated to the Local Revenue Fund 2011.
Local Revenue Fund	0.50%	□□ Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 state-local realignment.
Economic Recovery Fund	0.25%	□□ Beginning on July 1, 2004, a temporary 0.25% state sales tax rate was imposed, with a corresponding decrease in the Bradley-Burns rate. These revenues are dedicated to repayment of Economic Recovery Bonds. Once these bonds are repaid, this tax will sunset and the Bradley-Burns rate will return to 1%. This is expected to occur in January of 2016.
Local Uniform Rates¹		
Bradley-Burns	0.75%	Imposed by city and county ordinance for general purpose use. ²
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to cities and counties for public safety purposes by Proposition 172.
Local Add-on Rates³		
Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments ⁴ up to a combined maximum of 2.00% in any county. ⁵ Any ordinance authorizing a transactions and use tax requires approval by the local governing board and local voters.

¹ These locally-imposed taxes are collected by the state for each county and city and are not included in the state's revenue totals.

² The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area (or 0.75 percent during the period when Economic Recovery Bonds are being repaid).

³ These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the state for each jurisdiction and are not included in the state's revenue totals.

⁴ Increments imposed at 0.125 percent are only allowed when revenues are dedicated for library purposes.

⁵ An exception to the 2 percent maximum is Los Angeles County, which may impose up to 2.5 percent.

Figure REV-10 shows combined state and local tax rates for each county including special rates for certain cities within those counties.

Figure REV-10
Combined State and Local Sales and Use Tax □□
Rates by County □□
(city rate provided if different from the county rate) □□
Rates in Effect on January 1, 2015

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	9.00%	Mendocino	7.625%	San Mateo	9.00% □□
Alpine	7.50%	Point Arena, Ukiah and Willits	8.125%	San Mateo	9.25% □□
Amador	8.00%	Fort Bragg	8.625%	Half Moon Bay	9.50% □□
Butte	7.50%	Merced	7.50%	Santa Barbara	8.00% □□
Calaveras	7.50%	Atwater, Gustine	8.00%	Santa Maria	8.25% □□
Colusa	7.50%	Los Banos, Merced		Santa Clara	8.75% □□
Williams	8.00%	Modoc	7.50%	Campbell	9.00% □□
Contra Costa	8.50%	Mono	7.50%	Santa Cruz	8.25% □□
Antioch, Concord, Hercules	9.00%	Mammoth Lakes	8.00%	Capitola, Santa Cruz	8.75%
Orinda, Pinole, Pittsburg,	9.25%	Monterey	7.50%	and Scotts Valley □□	8.75%
San Pablo	9.50%	Salinas and Sand	8.00%	Watsonville	9.00% □□
El Cerrito and Moraga	9.50%	Carmel, Del Rey Oaks,	8.50%	Shasta	7.50% □□
Del Norte	7.50%	Marina, Pacific Grove		Anderson	8.00% □□
El Dorado	7.50%	Seaside and Soledad		Sierra	7.50% □□
Placerville and South Lake	8.00%	Napa	8.00%	Siskiyou	7.50% □□
Fresno	8.225%	Nevada	7.625%	Mt. Shasta	7.75% □□
Reedley and Selma	8.725%	Grass Valley	8.125%	Solano	7.625% □□
Sanger	8.975%	Truckee	8.375%	Vacaville	7.875% □□
Huron	9.225%	Nevada City	8.50%	Rio Vista	8.375% □□
Glenn	7.50%	Orange	8.00%	Vallejo and Fairfield	8.625% □□
Humboldt	7.50%	La Habra	8.50%	Sonoma	8.25% □□
Arcata, Eureka and Trinidad	8.25%	Placer	7.50%	Healdsburg, Rohnert Park □□	8.75%
Imperial	8.00%	Plumas	7.50%	Santa Rosa and Sonoma □□	9.00% □□
Calexico	8.50%	Riverside	8.00%	Sebastopol	9.00% □□
Inyo	8.00%	Cathedral City and Palm	9.00%	Stanislaus	7.625% □□
Kern	7.50%	Sacramento	8.00%	Ceres and Oakdale	8.125% □□
Ridgecrest	8.25%	Galt, and Sacramento	8.50%	Sutter	7.50% □□
Arvin and Delano	8.50%	San Benito	7.50%	Tehama	7.50% □□
Kings	7.50%	San Juan Bautista	8.25%	Trinity	7.50% □□
Lake	7.50%	Hollister	8.50%	Tulare	8.00% □□
Clearlake and Lakeport	8.00%	San Bernardino	8.00%	Visalia	8.25% □□
Lassen	7.50%	Montclair and San Bernardino	8.25%	Farmersville, Porterville, and	8.50% □□
Los Angeles	9.00%	San Diego	8.00%	Dinuba	8.75% □□
Avalon, Commerce, Culver	9.50%	Vista	8.50%	Tuolumne	7.50% □□
El Monte, Inglewood,		La Mesa	8.75%	Sonora	8.00% □□
San Fernando, Santa Monica		El Cajon and National City	9.00%	Ventura	7.50% □□
and South El Monte		San Francisco	8.75%	Oxnard and Port Hueneme	8.00% □□
La Mirada, Pico Rivera,	10.00%	San Joaquin	8.00%	Yolo	7.50% □□
Madera	8.00%	Manteca and Tracy	8.50%	West Sacramento	8.00% □□
Marin	8.50%	Lathrop and Stockton	9.00%	Woodland	8.25% □□
Corte Madera, Fairfax,	9.00%	San Luis Obispo	7.50%	Davis	8.50% □□
Novato and San Anselmo	9.25%	Arroyo Grande, Grover Beach	8.00%	Yuba	7.50%
San Rafael	9.25%	Morro Bay, Paso Robles		Wheatland	8.00%
Mariposa	8.00%	Pismo Beach and San Luis			

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Taxable sales, including sales of gasoline, increased by 6 percent in 2012-13. Based on preliminary data, it is estimated that taxable sales increased by 5.7 percent in 2013-14. Growth is expected to continue at 4 percent in 2014-15, followed by 5.7 percent in 2015-16.

Over the last few years, wholesale trade has been the largest contributor to the sales tax base. Motor vehicle and parts dealer taxable sales realized the largest year-over-year growth of all sectors. Other significant contributors to the sales tax base include sales from gasoline stations and food services, which primarily include full-service restaurants, as well as food contractors and caterers.

CORPORATION TAX

Corporation tax revenues are expected to contribute 9 percent of all General Fund revenues and transfers in 2015-16. Corporation tax revenues were \$8.9 billion in 2013-14 and are expected to increase by 8.6 percent to \$9.6 billion in 2014-15. In 2015-16, they are expected to increase by 5.8 percent to \$10.2 billion.

Corporate income tax receipts have exceeded the Budget Act forecast by over \$1.1 billion through the end of November due to lower refunds and higher estimated payments. Refunds through November were \$751 million below the Budget Act forecast, likely reflecting strong corporate earnings and a depletion of net operating loss carryforwards that can be used to offset profits for tax year 2013. Estimated payments from April through November were up 18 percent over the prior year, whereas the Budget Act forecasted a growth rate of 14 percent. The majority of the estimated payments received to date are related to liabilities for 2014 and suggest that corporate profits in the current year were robust.

INSURANCE TAX

Most insurance policies written in California are subject to a 2.35-percent gross premiums tax. This premium tax takes the place of all other state and local taxes on insurance companies except those on real property and motor vehicles. In general, the basis of the tax is the amount of "gross premiums" received, less returned premiums. The insurance tax is expected to generate General Fund revenues of \$2.5 billion in 2014-15 and \$2.5 billion in 2015-16.

The Department of Finance conducts an annual survey to project insurance premium growth. Responses were received this year from a sample representing about 48 percent of the dollar value of premiums written in California.

In 2013, \$124.8 billion in taxable premiums were reported, representing an increase of 3.7 percent from 2012. The most recent survey indicates that total premiums will increase by 3.9 percent and 3.1 percent in 2014 and 2015, respectively. Survey respondents also reported 10.9-percent and 4.1-percent growth for taxable premiums from workers' compensation insurance in 2014 and 2015, respectively. The estimated growth rates from this year's survey have been reflected in the forecast for insurance tax revenues beginning in 2014-15.

Refunds that are expected to be paid pursuant to a Board of Equalization decision in the *California Automobile Insurance Company* case are also reflected in the insurance tax forecast. In this case, the Board of Equalization found that the gross premiums tax applied only to the amount of gross premiums paid to the insurer, as opposed to the amount written by the insurer. According to the California Department of Insurance, refunds resulting from this decision are expected to equal \$9.6 million in 2014-15 and \$25.5 million in 2015-16.

ALCOHOLIC BEVERAGE TAXES

In addition to the sales tax paid by retail purchasers, California levies an excise tax on distributors of beer, wine, and distilled spirits. The tax rates per gallon are applied as follows: (1) \$0.20 for beer, dry wine, and sweet wine, (2) \$0.30 for sparkling wine, and (3) \$3.30 for distilled spirits.

Alcoholic beverage revenue estimates are based on projections of total per capita consumption and population for each type of beverage. Overall, consumption of alcoholic beverages is expected to grow by about 3.6 percent and 1.9 percent in 2014-15 and 2015-16, respectively. Revenues from this tax were \$354 million in 2013-14 and are forecasted to be \$367 million in 2014-15 and \$374 million in 2015-16.

CIGARETTE TAX

The state imposes an excise tax of 87 cents per pack of 20 cigarettes on distributors selling cigarettes in California. An excise tax is also imposed on the distribution of other tobacco products such as cigars, chewing tobacco, pipe tobacco, and snuff. The rate on other tobacco products is calculated annually by the Board of Equalization based on the wholesale price of cigarettes and the excise tax on cigarettes.

Revenues from the tax on cigarettes and other tobacco products are distributed as follows:

- Ten cents of the per-pack tax is allocated to the General Fund.
- Fifty cents of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution according to the provisions of Proposition 10 of 1998.
- Twenty-five cents of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Projections of cigarette tax revenues are based on projected per capita consumption of cigarettes and population growth, while revenue estimates for other tobacco products also rely on wholesale price data. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, anti-smoking campaigns, including state campaigns funded by Proposition 99 Tobacco Tax and Health Protection Act revenues and revenues from the Master Tobacco Settlement, and the 2009 federal cigarette tax rate increase have reduced cigarette consumption considerably.

This declining trend is expected to continue. Annual per capita consumption (based on population ages 18-64) declined from 123 packs in 1989-90 to 84 packs in 1997-98 and 36 packs in 2013-14. This forecast assumes an annual decline in total consumption of approximately 3.6 percent.

Figure REV-11 shows the distribution of tobacco tax revenues for the General Fund and various special funds for 2013-14 through 2015-16.

Figure REV-11
Tobacco Tax Revenue
(Dollars in Millions)

	2013-14	2014-15	2015-16
	Preliminary	Forecast	Forecast
General Fund	\$86.4	\$84.3	\$82.1
Cigarette and Tobacco Products Surtax Fund	268.8	254.1	247.2
Breast Cancer Fund	17.3	16.0	15.6
California Children and Families First Trust Fund	460.6	437.4	425.6
Total	\$833.1	\$791.8	\$770.5

PROPERTY TAXES

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools generally offset General Fund expenditures.

Assessed value growth is estimated based on statistical modeling and evaluations of real estate trends. The median sales price of existing single-family homes rose by almost 27 percent in 2013 (with activity in the 2013 calendar year driving fiscal year 2014-15 assessed valuations for property tax purposes). However, sales volume in 2013 declined by almost 6 percent from 2012 levels, which moderated the impact of the increase in median sales prices. Based on current data, 2014 median sales prices appear to have grown less robustly than they did in 2013, and sales volumes also shows a reduction in growth. Despite these trends, property tax revenues are forecast to continue to show steady, positive growth. This revenue growth will occur as moderating home prices and rising personal incomes increase sales volume, and as homes whose values were reassessed downward during the 2007-2009 housing slump are reassessed to their prior valuations.

Statewide property tax revenues are estimated to increase 6.1 percent in 2014-15 and 5.25 percent in 2015-16, of which roughly 41 percent (\$16.7 billion) will go to K-14 schools. While this amount includes \$1 billion that schools are expected to receive in 2015-16 pursuant to the dissolution of the redevelopment agencies, it excludes \$400 million shifted from schools to cities and counties to replace sales and use tax revenues redirected from those entities to repay the Economic Recovery Bonds.

REVENUE ESTIMATES

Nor does it include the \$7.2 billion shifted to cities and counties to replace Vehicle License Fee (VLF) revenue losses stemming from the reduced VLF rate of 0.65 percent.

OTHER REVENUES

UNCLAIMED PROPERTY

The Budget reflects receipts of \$442 million in 2014-15, and \$452 million in 2015-16. These numbers reflect moderate growth attributable to increased security sales.

INDIAN GAMING

The Budget reflects General Fund revenues from tribal gaming of \$332 million in 2013-14, \$321 million in 2014-15, and \$325 million in 2015-16. This revenue includes approximately \$95 million in 2013-14 and \$77.6 million in 2014-15 and 2015-16 that is transferred annually from a special deposit fund to the General Fund for certain transportation programs that would otherwise be funded with revenues from a bond sale yet to occur. Absent a bond sale, the Administration proposes to continue this funding arrangement through 2015-16.

LOAN REPAYMENTS TO SPECIAL FUNDS

The Budget reflects the repayment of loans to special funds based on the operational needs of the programs requiring these repayments. Total repayments are projected to be \$851.3 million and \$964.8 million in 2014-15 and 2015-16, respectively.

SPECIAL FUND REVENUE

The California Constitution and state statutes specify into which funds certain revenues must be deposited and how they are to be spent.

Total special fund revenues are estimated to be \$45.5 billion in 2015-16. Taxes and fees related to motor vehicles are expected to comprise about 25 percent of all special fund revenue in 2015-16. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2015-16, it is expected that about \$11.4 billion in revenues will be derived from the ownership or operation of motor vehicles.

MOTOR VEHICLE FEES

Motor vehicle fees and taxes consist of vehicle license, registration, weight, driver license, and other charges related to vehicle operation. Figure REV-12 displays revenue from these sources from 2013-14 through 2015-16.

The Vehicle License Fee (VLF) is imposed on vehicles that travel on public highways in California. The current

VLF tax rate is 0.65 percent. This tax is imposed in lieu of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. The number of vehicles in the state, the ages of those vehicles, and their most recent sales price affect the amount of VLF collected. The total number of vehicles in California—autos, trucks, trailers, and motorcycles including vehicles registered in multiple states—is estimated to be 30,831,742 in 2014-15 and is expected to increase to 31,349,151 in 2015-16. Consistent with expected increases in national new vehicle sales due to the availability of consumer credit, an improving employment picture, and projected increases to after-tax income, the forecast projects that there will be 2,151,919 new vehicles registered in 2014-15, increasing to 2,249,437 in 2015-16.

In addition to the VLF, truck owners pay a fee based on vehicle weight. Due partly to the expected increase in truck sales reflecting an improving business climate, weight fee revenues are expected to be \$992 million in 2014-15 and to increase by 2.4 percent to \$1.015 billion in 2015-16.

MOTOR VEHICLE FUEL TAXES

The motor vehicle fuel tax, diesel fuel tax, and use fuel tax are the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Over one-third of these revenues are apportioned to local jurisdictions for a broad range of local road projects,

Figure REV-12
Motor Vehicle Fees Special Fund Revenue
(Dollars in Thousands)

	2013-14 Preliminary	2014-15 Forecast	2015-16 Forecast
Vehicle License Fees	\$2,144,318	\$2,195,293	\$2,258,056
Registration, Weight, and Other Fees	<u>4,058,514</u>	<u>4,151,322</u>	<u>4,275,346</u>
Total	\$6,202,832	\$6,346,615	\$6,533,402

Figure REV-13
Motor Vehicle Fuel Tax Revenue
(Dollars in Thousands)

	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast
Gasoline ¹	\$5,724,181	\$5,307,177	\$4,489,819
Diesel	<u>339,175</u>	<u>369,467</u>	<u>417,580</u>
Total	\$6,063,356	\$5,676,644	\$4,907,399

¹ Does not include jet fuel.

REVENUE ESTIMATES

including both maintenance of existing roads and construction of new roads. In addition, some jurisdictions choose to spend a portion of their allocation on improvements to the state highway system in their region to decrease traffic congestion. Motor vehicle fuel tax collections are shown in Figure REV-13.

The gallons of gasoline consumed were up 0.74 percent in 2013-14 when compared to the prior fiscal year. Gasoline consumption is expected to increase 1 percent in 2014-15 and remain flat for 2015-16. Because most diesel fuel is consumed by the commercial trucking industry, the gallons consumed are affected most significantly by general economic conditions. A recovering economy is expected to contribute to growth of 2 percent in diesel consumption per year in 2014-15 and 2015-16.

The motor vehicle fuel tax (gas tax) is collected from distributors when fuel is loaded into ground transportation for transport to retail stations. This fuel is taxed at a rate of 36 cents per gallon under current law. The excise rate is adjusted annually so that the total amount of tax revenue generated is equal to what it would have been when gasoline was subject to the state sales tax rate. The Budget forecasts that the excise tax on gasoline will be 30.5 cents per gallon in 2015-16. Fuels subject to the gas tax include gasoline, natural gas, and blends of gasoline and alcohol sold for use on public streets and highways.

Distributors pay the diesel fuel tax, which applies to both pure diesel fuel and blends, at the fuel terminal. Diesel fuel for highway use is taxed at a rate of 11 cents per gallon in 2014-15. The excise rate is adjusted annually so that the total amount of tax revenue generated is neutral given the changes to the sales add-on for diesel fuel. Under current law, the sales tax rate add-on will remain 1.75 percent in 2015-16, and the Budget forecasts that the excise tax on diesel fuel will be adjusted to 12 cents per gallon in 2015-16. Dyed diesel fuel, which is used for off-highway purposes such as farm equipment, is not taxed.

SUMMARY OF STATE TAX SYSTEM

The state's tax system is outlined at the end of this section in Figure REV-14. Tax collections per capita and per \$100 of personal income are displayed in Schedule 2 in the Appendix. The revenue generated from each state tax from 1970-71 through 2015-16 is displayed in Schedule 3 in the Appendix.

Figure REV-14
**Outline of State Tax System
as of January 1, 2015**

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes:				
Beer	Gallon	\$0.20	Equalization	General
Distilled Spirits	Gallon	\$3.30	Equalization	General
Dry Wine/Sweet Wine	Gallon	\$0.20	Equalization	General
Sparkling Wine	Gallon	\$0.30	Equalization	General
Hard Cider	Gallon	\$0.20	Equalization	General
Corporation:				
General Corporation	Net income	8.84% ¹	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	6.65%	Franchise	General
Tobacco:				
Cigarette	Package	\$0.87 ²	Equalization	See below ²
Other Tobacco Products	Wholesale cost	29.95% ³	Equalization	See below ³
Insurance				
Insurers	Gross Premiums	2.35% ⁴	Insurance Dept.	General
Liquor License Fees	Type of license	Various	Alc. Bev. Control	General
Motor Vehicle:				
Vehicle License Fees (VLF)	Market value	0.65%	DMV	Motor VLF, Local Revenue ⁵
Fuel—Gasoline	Gallon	\$0.360 ⁶	Equalization	Motor Vehicle Fuel ⁷
Fuel—Diesel	Gallon	\$0.11 ⁸	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	\$69.00	DMV	Motor Vehicle ⁹
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway
Personal Income	Taxable income	1.0-12.3% ¹⁰	Franchise	General
Proposition 63 Surcharge	Taxable income > \$1 million	1.0%	Franchise	Mental Health Services
Alternative Minimum Tax	Alt. Taxable Income	7.0%	Franchise	General
Retail Sales and Use	Sales or lease of taxable items	7.50% ¹¹	Equalization	See below ¹¹
Medi-Cal Managed Care Plans	Gross Receipts	3.94% ¹²	Equalization	Children's Health and Human Services Special Fund

¹ Minimum Tax is \$800 per year for existing corporations. New corporations are exempt for the first two years. □

² This tax is levied at the combined rate of 10 cents/pack of 20 cigarettes for the General Fund, 25 cents/pack for the Cigarette and Tobacco Products □ Surtax Fund, 2 cents/pack for the Breast Cancer Fund, and 50 cents/pack for the California Children and Families First Trust Fund. □□

³ The surtax rate is determined annually by the BOE and is equivalent to the combined rate of tax applied to cigarettes, with funding for the Cigarette and □ Tobacco Products Surtax Fund and California Children and Families First Trust Fund. Effective July 1, 2014, through June 30, 2015, the rate is 29.95 □ percent of the wholesale cost. □□

⁴ Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain □ pension and profit sharing plans, surplus lines, and nonadmitted insurance. □

⁵ For return to cities and counties. Trailer coach license fees are deposited in the General Fund. □

⁶ As part of the fuel tax swap implemented beginning July 1, 2010, this rate was increased from 18 cents and will be adjusted each year to maintain □ revenue neutrality with the elimination of the General Fund portion of the sales tax on gasoline. □

⁷ For administrative expenses and apportionment to State, counties and cities for highways, airports, and small craft harbors. □

⁸ As part of the fuel tax swap, this rate will be adjusted each year to maintain revenue neutrality with the 1.75% increase in sales tax on diesel fuel □□ beginning July 1, 2014. □□

⁹ For support of State Department of Motor Vehicles, California Highway Patrol, other agencies, and motor vehicle related programs. □

¹⁰ Proposition 30 (The Schools and Local Public Safety Protection Act of 2012) was passed by the California voters in November 2012. Proposition 30, □ for tax years 2012 through 2018, created three new income tax brackets with rates of 10.3 percent for taxable income over \$250,000, 11.3 percent for □ taxable income over \$300,000, and 12.3 percent for taxable income over \$500,000. □□

¹¹ The 7.50 percent rate includes the rates for General Fund, Special Funds, and uniform local rates. Additionally, cities and counties may generally □ assess up to an additional 2.00 percent to the statewide rate. This rate includes the passage of Proposition 30 (The Schools and Local Public Safety □ Protection Act of 2012), effective beginning January 1, 2013. □□

¹² Effective July 1, 2013 through June 30, 2016, sales tax is imposed on sellers of Medi-Cal Managed Care Plans at a rate of 3.9375% of total gross □ receipts. □□

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