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Tax Reform

FROM THE OFFICE OF:
ASSEMBLYMAN WILLIAM T. BAGLEY
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FOR IMMEDIATE RELEASE

PRESS CONFERENCE COMMENTS

10 a.m. FRIDAY, OCT. 15, 1971

"The State's cash-flow crisis demands the immediate attention of the Legislature, and I am today offering a vehicle for all of us to board for a quick and painless solution to the problems caused by the past economic down turn. Amendments will be prepared and printed by Monday to my AB 185, which is presently in the Senate Revenue and Taxation Committee and which is set for hearing next Wednesday.

"This move has the full support of Governor Reagan who has been in continuing communication with us. At the same time I have consulted Republican and Democratic legislators in the Senate and sense a sentiment on their part to move quickly toward balancing the budget and solving the cash-flow problem.

"Essentially, the bill will provide budget balancing monies ($336 million), immediate further authorization for revenue anticipation notes, a flow of cash from withholding commencing in January 1972 to cover these notes, and enough additional monies ($120 million) to make existing property tax relief provisions more workable and equitable.

"We would:

--------Expand the Senior Citizens Property Tax Assistance Program pursuant to SB 137, Carrell;

--------Provide equibable reimbursement to local government for the existing Open Space Program (Williamson Act) and for the inventory tax exemption losses;

--------Continue the present 30% inventory exemption.

- more -

"The program would be financed by a modest business tax increase, loophole closing, and by a new 11% income tax bracket plus the institution of 'withholding.' Other than for an additional 3 cent tax on cigarettes (this proposal is subject to change) the average citizens pays no extra tax.

"This program is obviously not a full-blown tax reform measure, but it includes two of the three major components of 'tax reform.' First, we plug loopholes, and secondly, we provide for more elasticity of our tax structure by more reliance upon the income tax. The third component, a massive shift away from the residential property tax, is deferred but we also do not tap major State revenue sources which are needed to finance such a shift. This is left for further discussion between the executive and legislative brances this year, or for later resolution in reference to the school equalization picture which itself may require more than one billion dollars of state money.

"For the past two months, the legislature has been tiptoeing on a fiscal precipice. It is time that California's citizens are shown that the three branches of government, including the Legislature can work together."

----------Attached is a outline of the program.

EXPENDITURES*	1971-72	1972-73	1973-74
Retain the existing business inventory exemption at 30%	--	$ 67	$ 76
Actual reimbursement to local government for the business inventory exemption	23	23	27
Provide for local reimbursement for the California Land Conservation Act (Williamson Act)	--	13	15
Expand the Senior Citizens Property Tax Assistance Program (SB 137, Carrell)	--	16	17
Budget Balancing	336	330	330
Totals	$ 359	$ 449	$ 465

REVENUE*	1971-72	1972-73	1973-74
Increase the Bank and Corporation Tax by ½% (January 1, 1971)	$ 52	$ 45	$ 49
Inheritance Tax Conformity (January 1, 1972)	--	66	68
Increase the tax on cigarettes by 3¢, commencing June 1, 1972	--	57	57
Federal Conformity including a 2.5% minimum tax on income preferences; depletion on oil and gas at 22%	45	50	59
Place an 11% bracket on 1973 personal income	--	15	55
Establish a system of withholding, including a 15% credit in the 1971 income year (50% forgiveness); less an allocation of $200 million in Capital Outlay Funds for higher education, park acquisition programs, and local school district safety	270	210	175
Sub-Totals	$ 367	$ 443	$ 463
Interaction	$ 2	$ 3	$ 3
Administrative Costs	- 7	+ 4	+ 4
Totals	$ 362	$ 450	$ 470

* Figures are in millions

Tax Reform

PRESS CONFERENCE OF WILLIAM T. BAGLEY, HOUSTON I. FLOURNOY AND KEN HALL

HELD OCTOBER 15, 1971

Reported by

Beverly Toms, CSR

(This rough transcript of the press conference is transcribed as rapidly as possible.after the conference, and no corrections are made add there is no guaranty of absolute accuracy.)

---oOo---

MR. FLOURNOY: I'd like to read the statement with regard to this package.

(Whereupon Houston I. Flournoy read a statement dated October 15, 1971.)

MR. BAGLEY: I guess I can go ahead with the -- at least the scribbling draft of the handout which will arrive momentarily. Perhaps it is Bob Moretti that's running the mimeographs. We do have an attachment which will be the program and as soon as that arrives everybody will have one. In the meantime at least let me give you an idea of our thinking in this regard. Our little handout will say:

(Whereupon Assemblyman Bagley read a statement dated October 15, 1971.)

And that's why I'm offering the program.

Q Will you explain the loophole closing?

ASSEMBLYMAN BAGLEY: Yes. I assume by now you have a copy of the handout plus an attachment. Let me see, do you have the attachment in the package of the handout?

Q Yes.

ASSEMBLYMAN BAGLEY: All right. I don't, but that's all right.

(Laughter)

ASSEMBLYMAN BAGLEY: Loophole closing, you know, first of all is a matter of degree, and a matter of semantics. The program as we have it -- first of all, by adopting withholding obviously closes a loophole. Those tax dropouts, those who escape taxation u under the income tax now will have obviuusly been covered by withholding. Secondly, we hawe two measures of what you might call classic loophole closing. One is a reduction of the oil depletion allowance to 22 per cent. That's federal conformity, but it does reduce the depletion allowance. Number 2, of much more significance, is a proposed two and a half per cent minimum income tax on what is called preferential income. Preferential income is that income upon which you do not pay normal income tax. Accelerated depreciation, depletion gain, if you will, and Items such as that. Here we use the federal formula after the first $30,000 of so-called preferential income, then regardless of what other taxes you pay, you pay an additional two and a half per cent on that type of income. Incidentall, on oil alone the reduction from 27 and a half per cent to 22 per cent on the depletion allowance raises seven million dollars. The total oil depletion loophole, if you will, is only 25 million so you can't solve the fiscal problems of the state by abolishing depletion. The depletion in that sense -- the issue is something of a political sop. Everybody throws it out and hopes it sops something up, but it doesn't. It doesn't create enough money. Nonetheless, the loophole should be closed to some extent, to the extent politically possible in Sacramento.

The first seven million we get from a depletion allowance cut to 22 per cent. The minimum income tax itself at two and a half cents -- two and a half per cent raises another twenty million dollars from general preferential income sources, seven of which is from the oil industry. So when you combine a 22 per cent depletion allowance with a two and a half per cent oil -- not oil, but minimum income tax provision, you get approximately 15 million dollars out of the 25 million which is the total loophole now in existence. So we have in effect cut the depletion allowance in half by this proposal.

Q What about capital gains?

ASSEMBLYMAN BAGLEY: This program was tailored very frankly to some of the wishes and some of the desires of the Senate Revenue and Tax Committee, and hopefully the Senate Finance Committee. I have discussed, as I mentioned in the formal statement, some of the components with Democratic and Republican Senators. I have said, and I want to say right now out loud, I would hope to, in effect, become a catalyst to achieve a consensus among the Senate committee members so that when I hand this program to you or hand it to them I'm not saying take it or leave it, I'm saying please, committee members, help us balance the budget. Help us achieve a consensus. And on that score, it is my understanding throughout the -- this year that the various programs and there have been three or four that have come before the Senate Revenue and Taxatinn Committee, a significant number of members of that committee, number one, don't want a massive program. That's why the Moretti-Gonsalves package, even if it did pass our house, would never get through in my humble opinion, Senate Revenue and Tax Committee. Number two, significant numbers of the members of the Senate committees involved don't want to hit, if you will, capital gains. So we have tailored the program to suit what I read as their wishes. Now, if they tell me differently, of course, we will expand the capital gain coverage.

Q Mr. Bagley, what income level does that -- the increase --

A ASSEMBLYMAN BAGLEY: The 11 per cent bracket.

Q Where does that come in?

MR. FLOURNOY: 28.

Q 28,000?

ASSEMBLYMAN BAGLEY: 28,000 for a family, a joint return of 28,000. In other words, above 28,000 married couple, you would tax instead of at a ten per cent maximum, you tax 11 per cent.

Q Does that include two kids?

ASSEMBLYMAN BAGLEY: That's -- yes, Hugh says that is taxable income, which means the gross income might be upwards of 37 or 38,000. Perhaps Ken Hall ought to at least add, before we go into further questions, add the sentiments of the Department of Finance and the Administration.

MR. HALL: My statement is short. As Bill has mentioned, the Governor is adding his endorsement to AB 185. Our tax reform discussions of some two weeks had two aims. One was to try and provide lasting property tax relief to California citizens. And the second was to provide a means of meeting California's fiscal crisis. We are no longer able to ensure to the people of California that we will be able to successfully deliver property tax reform during this legislative session. It is still necessary, however, that the state enact withholding January 1, 1972, have authority to sell revenue anticipation notes, and raise revenue to the extent of 130 million dollars. AB 185 meets each of these objectives and thus the administration is adding his endorsement.

Q Mr. Hall, is it fair to say then that -- or draw the conclusion from your statement that the Governor has given up about giving property tax relief this year?

MR. HALL: No, I think we have to recognize that the task of trying to provide property tax relief in the limited amount of time left in this legislative session is a Herculean effort. I think all of you also recognize that the discussions broke on some philosophical differences. The ability to be able to bridge those philosophical differences in the short amount of time left is something that we cannot ensure will happen and so consequently we feel that this bill becomes essential. If it is possible to provide this -- meeting the fiscal crisis as well as property tax reform during this legislative session, we will be happy to join in that effort.

Q Will somebody explain this withholding provision here? What does it mean, less an allocation of 200 million in capital outlay?

ASSEMBLYMAN BAGLEY: All right.

Q What's 50 per cent credit and 50 per cent forgiveness?

ASSEMBLYMAN BAGLEY: In very round figures, when you institute withholdibg in January, the period of overlapping collection is obviously from January till April 15, and that overlapping period -- it is not double taxation, we have all explained, you are collecting for different years which happen to be collected at the same time, for three and a half months. During that overlapping period there is an excess, a one-time revenue, if you will, of around 500 to 550 million dollars. The attempt or the proposal attempts to forgive approximately 50 per cent of that ono-time revenue -- it is just mechanically impossible to forgive exactly 15 per cent, you have to -- you'd have to have people calculating something like 17.7 per cent of their income tax and the mistake ratio goes up horrendously if that were asked for, and that's literally true, and that's why we adopted 15 per cent rather than 17.7 or 18.2, whatever it is. So the 15 per cent -- approximates a 15 per cent credit on a full-year's tax, approximates 50 per cent of the overlap of the three and a half month period. You figure that out, it does work out arithmetically, so the other 50 per cent is forgiven, is credited.

The allocation of 200 million for capital outlay is a usage of almost all of the 50 per cent which is not forgiven. So we are not using other than in the first year for reasons I'll get into -- we are not using the one-time windfall to balance the budget on an on-going basis. That isn't responsible, because you -- it is -- it just simply couldn't continue it. So the vast amount of the nonforgiven one-time revenue is put into a special capital outlay fund. This provision is already in my AB 184, which is lodged still in the Assembly Revenue and Tax Committee, that's why we are starting on the Senate side with AB 185, and the breakdown is approximately -- and the figures have changed a little bit in three areas. We would have a five-year fund created for capital outlay for higher education of something in the neighborhood of a hundred million dollars. Another 50 million or 45, depending on the formulas that are still being written for coastline acquisition and for park acquisition. Now, that's 50 million bucks of interest-free money for conservation. That's the biggest conservation measure that's been introduced or has a chance of passage this year, incidentally,and lastly, approximately 50 million dollars for local capital assistance to schools subject to the Field act. The Field Act, the earthquake safety act requires major construction by 1975. Now, this would provide 50 million dollars for that purpose. So there is your capital outlay fund.

Q Now, does that come out of the 270 million, that 200 million, which leaves 70 million?

MR. FLOURNOY: No, that is over and above.

Q ASSEMBLYMAN BAGLEY: No.

Q So the whole thing raises 470 million?

ASSEMBLYMAN BAGLEY: Plus, of course, the forgiveness. You see, there are -- there is four -- but let me just simplify it by saying there are two major components of withholding revenue raising. One is this overlapping collection which is, in round figures, 500 million dollars. And then there is approximately 200 million of on-going revenue that you pick up because you are taxing the economy at an earlier date. You are not taxing 14 months after the money is earned. You are picking up money from those who don't otherwise pay and that's in the magnitude of about 50 million dollars if I recall. And you are also taxing to some minor extent people who don't file for a refund. And that is 18 or 20 million dollars.

Q What does the 270 represent?

ASSEMBLYMAN BAGLEY: The 270 represents, in round figures, about 200 million dollars of on-going revenue.

Q Well, then, what's the other 70?

ASSEMBLYMAN BAGLEY: The other 70 is, in large part, the over-collection -- the over withholding that takes place in the first year.

Q O. K., so the windfall is 200 million, is that right?

ASSEMBLYMAN BAGLEY: The one-time windfall is 200 million and that is devoted to capital outlay.

Q Bill, can you give us the total figure that you generate with the withholding and then break it down again, because I think --

ASSEMBLYMAN BAGLEY: All right.

Q You generate 550 million?

ASSEMBLYMAN BAGLEY: You generate -- let's say 550 million, from an overlapping collection, but we are crediting half of that.

Q Stop right there, if you will, just to clarify it. You are collecting 550 million dollars.

ASSEMBLYMAN BAGLEY: You are not collecting, you would collect.

Q You would collect. And from your overlap that's your winfall figure. In addition to that you are getting 270 million in on-going --

ASSEMBLYMAN BAGLEY: Additional revenue. In addition to that you get -- in a normal year, about 200 in on-going revenues. The first year you get this balloon that you really have to pay back because you have the overpayment over withholding and then refunds later.

Q Right, so you are actually talking --

ASSEMBLYMAN BAGLEY: It is not this simple.

(Laughter)

Q You are actually talking about -- you are talking about then a total of something like, in the first year, of something like 800 million dollars?

ASSEMBLYMAN BAGLEY: W ll, except you are not collecting the amount, that's forgiven. You are talking --

Q True, but I mean the total figure, including your forgiveness, you are talking about something like 800. It would be generated the first yeartthrough the imposition of withholding if you didn't give some of it back.

ASSEMBLYMAN BAGLEY: You collect approximately 470, but if you added to that 180 or 200, that is forgiven, then yes, you are up in the magnitude of 600. But you are nottcollecting it. The one half of the windfall. So you can't say the total magnitude is 600 thousand dollars -- 600 million. All right, I've done it, I'll try it again.

Q You are collecting it, but you are giving it back in a different fashion, you are taking that money from people's pay checks and you are giving it back when they pay their April 15 tax.

MR. FDOURNOY: Except for the fact that they haven't given you the money for the April 15 liability yet. That comes in a lump so that by knocking the credit on that it is money the state never gets. Because that is -- they are paying it on the '71 year liability.

MSSEMBLYMAN BAGLEY: Someone owes a thousand dollars on their April income tax, there will be a line item credit, 15 per cent.

Q Minus 15 per cent?

ASSEMBLYMAN BAGLEY: You subtract 150.

Q The 15 per cent credit means that your '71 tax liability is reduced by 15 per cent

ASSEMBLYMAN BAGLEY: Right. That is correct. That amounts to approximately one half of the collections during three and ahalf months, 15 per cent of one year is approximately 50 per cent of three months.

Q Have you had any conversations with Speaker Moretti or any of the Democrats?

ASSEMBLYMAN BAGLEY: I' have. I talked to Bob Moretti two or three times on this subject, in the last week. I told him, for example, on Wednesday, that we were going to do this on Friday. I've spoken to him last Friday, I spoke to him again on Wednesday. I spoke to his staff, Bill Hauck, after Bob M.retti rejected my suggestion I went and lobbied the staff a little bit, and my suggestion was this, that even though we recognize the necessity and he does, too, of balancing the budget and even though we .e going ahead with this program, I have urged him to tone down, to temper down the magnitude of the Gonsalves-Moretti bill and to beef up the expenditure control language and even without a general agreement, even without trying to meet again with the senate forces, because these forces aren't necessarily in parity with the Assembly Democratic forces-- that if he would tone down and change his bill more commensurate with the Governor's accommodations during the course of our discussions, that I would think he would then be able to move his bill out of the -- out of the Assembly, if, for example, the Governor were neutral. And I've said, "Bob, why don't you do that, you want to move a bill and see what happens to it in the Senate. Put it down within the realm of reason where we can -- some of us can vote for it." He has said, no, he's not going to do that. I hope he changes his mind.

Q Are you saying then that you don't think this particular program that you are offering today has any chance?

A Oh, no.

Q He's going to have to come up with an alternative?

A Oh, no, no. I am saying his one billion three hundred or one billion five hundred, if it does change, depending upon the various accommodations that we have tried to make for each other -- I'm saying his massive program cannot pass the Assembly without his changing it to at least meet most of the objections of the administration and of the Assembly Republicans. Now, that being the case, his -- he will certainly run a bill and will go through, if you'll pardon the expression, a partisan charade. I said charade and it came out Schrade once. A partisan charade on the floor next week. And you'll -- you've all been through that exercise where we each get up and make dumb speeches about who's at fault. Now, that charade we are going to go through probably next week. In the meantime this package can and I predict will get bi-partisan support in the Senate and will move. Now, once it passes the Senate, let's say two weeks from now, maybe with some changes that the committees want, but certainly within the parameters, within the magnitude that we have indicated, then it is up for grabs on the Senate floor, for a direct vote on the Assembly floor, for a direct vote on concurrence. And that's when the Assembly Democrats have to decide do they want to balance the budget or do they want to vote no, because a conference committee, and go through this whole routine again. I think they'd better think long and hard before they decide to kill a budget balancing mechanism which also supplies a few bucks to pay for tax anticipation notes that we have got outstanding.

VOICE: Any more questions? Thanks.

Q How would you classify that last one?

ASSEMBLYMAN BAGLEY: A charade.

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TAX REFORM
EM
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Press

TAX PROGRAM (AB 185, Bagley)

EXPENDITURES

I. Business Inventories

This program stabilizes the property tax exemption for business inventories at 30%. Present law provides for an exemption of 30% of inventories for 1970 and 1971 and a 15% exemption for each year thereafter.

For 1971-72 and each year thereafter, the reimbursement to local government for the inventory exemption will be on a cost basis, rather than on a fixed amount as in present law.

Business inventory taxation has long been viewed as undesirable. Studies by the Assembly Committee on Revenue and Taxation, National Tax Association and recently by the Advisory Commission on Intergovernmental Relations have all condemned this tax for several reasons:

1. Inventory taxes place California at a definite disadvantage in competing with other states for new industries and jobs. California needs both.

2. Inventory taxes cause an annual slow-down in business activity prior to March 1 that causes a loss in warehouse occupancy in California, fewer goods available to consumers, loss in business income and jobs, and loss in tax revenue to state and local government.

3. Inventory taxes are inequitable. They produce serious tax inequities between businesses requiring inventories and those that do not, and even a disparity of tax burdens between businesses requiring inventories due to differences in turnover, seasonal fluctuations, etc.

4. Inventory taxes hinder the efficient operation of free markets and reduce income from other tax sources.

5. Inventory taxes are regressive. They are passed on to the consumer and are imposed on such items as food, medicine, clothing, etc.

Compliments of
WILLIAM T. BAGLEY
Marin-Sonoma Assemblyman

II. OPEN SPACE REIMBURSEMENTS

Implementations of the Land Conservation Act by counties has resulted in a reduction of assessed valuations in a number of local government jurisdictions.

Losses of tax revenue to local government due to this Act will be reimbursed in the following manner under AB 185 (Bagley):

Schools:

School districts, where the assessed value per ADA adjusted by inflation has declined, will receive reimbursement by computing:

-the difference between the adjusted assessed value of land in the district prior to the implementation of the Conservation Act and the current assessed value of land in the district

-and applying that portion of the tax rate in the district in excess of the following rates against the computed loss of assessed value of land in the district:

Elementary	$2.00
High School	$1.10
Junior College	.25

Counties:

Counties will be reimbursed on a per acre basis as follows:

50¢ per acre for non-prime land of more than local importance
$1.50 per acre for prime land
$3.00 per acre for prime land within 1 mile of a boundary of an incorporated community of 1,500 registered voters.

Since the State is reimbursing counties and schools for the loss of revenue, cancellation payments made to counties under existing law will be transmitted by the county to the State. The State also has the authority to ask for judicial enforcement of the contract between the land owner and the county.

This measure provides for a 3-cent "revenue adjustment factor" for local school districts to adjust for open-space valuation changes.

III. SENIOR CITIZENS

This program increases the benefits of the senior citizens' property tax assistance as follows:

1. Special assessments are considered property taxes for purposes of assistance.

2. Claimants will no longer have to submit proof of payment of the property taxes but rather will submit proof of liability by means of the tax bill.

3. The age of eligibility is reduced from 65 to 62.

4. The rate schedule is changed as follows to substantially liberalize the reimbursements at all income levels and to provide some assistance at higher levels of income:

REFUND OF TAXES PAID FOR FIRST $7,500 OF ASSESSED VALUE

Income Level	Proposed % Refund	Present % Refund
$ 1,000	96 %	95%
1,500	92	75
2,000	92	55
2,500	88	35
3,000	80	15
3,500	70	--
4,000	60	--
4,500	52	--
5,000	45	--
5,500	38	--
6,000	32	--
6,500	26	--
7,000	21	--
7,500	16	--
8,000	12	--
8,500	8	--
9,000	6	--
9,500	5	--
10,000	4	--

Present provisions include a lower schedule of reimbursements, an eligible age of 65, payments on the first $5,000 of assessed value, the exclusion of special assessments from property taxes in determining the amount of refund, and the submission of proof of payment of the taxes before refund is made.

Low income senior citizens merit special consideration for property tax relief.

They are retired and now living on a much reduced income stream and cannot afford the property tax payments which they could meet when they were employed. They are generally on a fixed income or one that does not keep pace with the increases in cost of living.

IV. <u>CAPITAL OUTLAY</u>

1. $150,000,000 is set aside for capital outlay as follows:

   80,000,000 for higher education

   40,000,000 for conservation and beaches and parks

   25,000,000 for local school earthquake safety

2. The $150 million must be spent in 1971-72 through 1974-75, and must be in excess of a maintenance of the current Capital Outlay effort of the $75 million during the same years.

3. If the $150 million is not spent, the state sales tax rate is reduced by 1/2 cent for 1975.

V. <u>BUDGET</u>

AB 185 (Bagley) provides $337 million for budget balancing purposes for the 1971-72 fiscal year. Since the Legislative Analyst has estimated that approximately $310 million will be needed to balance the budget, this is an adequate figure for this fiscal year.

This measure also provides $355 million for the 1972-73 fiscal year. The Legislative Analyst estimates 1972-73 expenditures to be $340 million.

REVENUE

I. Personal Income Tax

This program proposes several major changes and numerous minor changes to the Personal Income Tax Law.

A. Withholding - The pay-as-you-go method of collecting personal income taxes will begin on January 1, 1972. The one-time revenues received through this stepped up collection method will be used to finance the existing $310 million budget deficit as well as to provide $150 million for state capital outlay projects.

Specifically, the withholding program:

1. Begins withholding of state personal income taxes beginning January 1, 1972, and requires quarterly estimates if a person has $1,000 or more in income subject to tax from other than wages and salaries.

2. Repeals the present October prepayment of one-half of the previous year's income tax paid.

3. Allows the Franchise Tax Board to contract with the Department of Human Resources for the collection of payroll withholding from employers.

4. Provides a 20% tax credit for 1971 income taxes.

Withholding is a procedure for collecting state income tax when income is earned, by withholding the tax from wages and by quarterly estimates, similar to federal law.

Beginning on January 1, 1972, most wage earners will be subject to withholding in their regular payroll period.

If the amount withheld by an employer is more than $50 per month, the employer will remit to the State, on a monthly basis; if less than $50, the remittance will be required on a quarterly basis.

For persons with more than $1,000 income from sources other than salaries and wages, a quarterly declaration and payment of estimated tax will be required on April 15, 1972. The second payment is due June 15 and the other on September 15 and January 15 of the following year.

B. New Tax Rate - An additional tax rate of 11% of the taxable income above $31,000 (joint return) will be levied on income earned during 1973 and subsequent income years.

C. Long Term Capital Gains - Under present law, one-half of all capital gains held 6 months or more are not subject to income tax. Under this program, this exemption will be reduced as follows:

Holding Period	Percent Taxable
0 - 1 year	100%
1 - 5 years	65%
5 years and above	50%

D. Oil and Gas Depletion - Limited to 22%.

The present state law percentage depletion rate for an oil or gas well is 27.5% of the gross income from the property. The federal rate is 22% and this bill would reduce the rate to conform with this figure. It is noted that the rate of depletion is related solely to the value of production.

E. Tax on Tax-Preference Income - A tax at 2½% on preferential income (income not subject to income tax) which is in excess of $30,000 is proposed.

Preferential income includes:

1. Excess investment interest
2. Capital gains - excluded portion
3. Stock Options
4. Accelerated depreciation on real property
5. Personalty subject to net lease
6. Excess amortization
7. Depletion

F. Military Pay Exclusion - Limits $1,000 exclusion to military personnel on extended active duty.

A reservist as well as an individual on active duty with the armed forces receives the $1,000 military exclusion. This proposal would remove the reservist from the special benefit.

G. Federal Conformity - Many of the federal provisions included in the Tax Reform Act of 1969 are included in this proposal.

II. BANK AND CORPORATION TAX LAW

This program makes the following changes:

A. The tax rate on net income is increased from 7% to 7.6% for income earned in 1972 and thereafter.

B. Oil and Gas Depletion - Parallel provisions to the Personal Income Tax Law are proposed.

C. Minimum Tax - Similar provisions to the Personal Income Tax Law are proposed with the following two exceptions:

1. Capital gains are treated as ordinary income for corporations, so they are not a source of tax preference.

2. Bad Debt Deductions of Financial Institutions - excess amounts of deduction are included as a tax preference item.

D. Federal Conformity - Many of the federal provisions included in the Tax Reform Act of 1969 are included in this proposal.

E. Bank and Corporation Tax Payments are accelerated.

F. The minimum Bank and Corporation Tax is raised from $100 to $200.

III. INHERITANCE TAX

In 1970 the federal government reduced the time for filing an estate tax return from 15 to 9 months after the date of decedent's death. This proposal would conform California law to this 9 month filing period by reducing our existing period from 24 to 9 months.

Secondly, these provisions eliminate the 5% discount that currently law provides if the return is filed and the tax paid within 6 months of the date of death.

Under existing law, estates have 2 years from date of death to pay the inheritance tax, or 5% discount is allowed on the tax due of payment is made within 6 months.

NON-FISCAL PROVISIONS

1. Extends the power to issue and redeem tax anticipation needs by 3 months.

2. Requires legislative analyst analysis of initiatives to include increases or decreases of both revenues and cost to state and local governments. The analysis is to show the fiscal effects for the first year and for the year when the last of any delayed provisions go into effect.

3. Includes the provisions of AB 1264 which extends the welfare property tax exemption until 1981 to property owned by non-profit organizations which is used for preservations of nature, open space lands used for recreation or scenic beauty and open to the general public subject to reservable restriction.

4. Sales tax prepayment date changed from 25th of the month to the 20th.

5. Occupancy tax (hotel-motel) transferred without change from Government Code to a new part on local taxes in Revenue and Taxation Code.

6. Requires monthly reports by counties now submitted to Dept. of Social Welfare on welfare caseload and expenditures to be submitted to Department of Finance and Legislative Analyst.

7. Application for homeowner's exemption is to be mailed to everyone who received that exemption in the previous year and to persons buying homes between March 1 and December 31 of the prior year.

8. Tax bills are now required to itemize either the tax rate or dollar amount for county, city, educational purposes and special districts. In addition, the tax bill shall show the amount of tax that would have been paid without the benefit of the homeowners' exemption and with the benefit of that exemption.

9. A notice of the existence of the senior citizens' property tax assistance law will accompany the homeowner's exemption application and tax bills.

AB 185 (Bagley), as amended by the Conference Committee on December 1, 1971

EXPENDITURES	1971-72	1972-73	1973-74
-- Retain the existing business inventory exemption at 30%	--	$ 67	$ 76
-- Actual reimbursement to local government for the business inventory exemption	$ 21	23	27
-- Provide for local reimbursement for the California Land Conservation Act (Williamson Act)	--	13	15
-- Expand the Senior Citizens Property Tax Assistance Program to $10,000 income and age 62	--	46	50
-- Budget Balancing (The Department of Finance figures on the budget deficit are $300 million in 1971-72, $330 in 1972-73, and $330 in 1973-74	$310	$340	$340
TOTALS	$331	$489	$508

REVENUE		1971-72	1972-73	1973-74
-- Increase the Bank and Corporation Tax to 7.6% (January 1, 1972)		$ 18	$ 50	$ 54
-- Inheritance Tax Conformity (January 1, 1972)		--	66	68
-- Decrease Oil and Gas Depletion to 22%		7	5	5
-- Accelerate Corporate Payments (January 1, 1973)		9	24	3
-- Increase minimum franchise rate from $100 to $200 (January 1, 1972)		5	7	7
-- Place an 11% bracket on 1973 personal income		--	15	50
-- Limit capital gains (January 1, 1972)		--	37	42
-- Provide for a minimum income tax @ 2½%		31	29	32
-- Other Federal Conformity		11	15	21
-- Enact withholding, with 50% forgiveness; $150 million in Capital Outlay Funds for higher education, park acquisition programs, and school district safety	$650 -215 -150	270	220	175
Interaction		1	17	12
Administrative Costs		-6	-7	-6
Interest Savings		5	10	10
REVENUE TOTALS		$351	$488	$473
AB 2109 (Hot Food/Candy)		7	16	17
		$358	$504	$490
Excess		+27	+15	-18

Compliments of
WILLIAM T. BAGLEY
Marin-Sonoma Assemblyman

PRESS CONFERENCE OF GOVERNOR RONALD REAGAN Tax Reform

SENATORS JOHN HARMER, FRED MARLER and ROBERT LAGOMARSINO

and ASSEMBLYMEN WILLIAM BAGLEY, ROBERT MONAGAN and JOHN STULL

HELD MAY 17, 1972

Reported by

Bèverly D. Toms, CSR

(This rough transcript of the Governor's press conference is furnished to the members of the Capitol press corps for their convenience only. Because of the need to get it to the press as rapidly as possible afterthe conference, no corrections are made and there is no guaranty of absolute accuracy.)

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GOVERNOR REAGNN: We are all here in connection with the announcement that I am going to make, the legislative leadership and those who are going to handle the piece of legislation that I am here to announce.

(Whereupon Governor Reagan read release No. 300)

GOVERNOR REAGAN: Now, I think-you gentlemen wanted to add anything to this before we have Ken go into the details of the tax --

SENATOR LAGOMARSINO: No, Governork only to add that I think -- I think this is a measure that is -- as you say, worth of consideration, and the support by the legislature. It meets two of the biggest problems we face, the issue of school finance and of course the issue that we have had for many years, as you pointed out, of prcperty tax reform. And the thing that is very appealing to me about it is that this is able to be done without increasing the income tax.

ASSEMBLYMAN BAGLEY: I might point out procedurally that since we have ABe1000 which is a familiar number, the Moretti package, in the Assembly, we want to stqrt this bill on its course in the Senate. So that Senator Bob Lagomarsino -- and he and I were together a couple of years ago, and I have Leroy again with me -- Senator Lagomarsino will be the main author of the bill to be introduced very shortly, within days, in the Senate. I'll be the Assembly co-author. If necessary, I got a couple of spot bills, too, but the whole point is we will start in the Senate with this bill. Just by way of conclusion, I have been on a Serrano kick now for a year or so urging that we meet the mandate of Serrano, becaus it is perhaps the most important finance -- government finance issue of the century, and all I want to do, I really mean this, is commend Governor Reagan for facing the reality of Serrano, facing the realities of the unequal educational opportunity that is built into our system now, and repairing that inequality, and I do commend

Governor Reagan for that, and I thank him for his leadership.

GOVERNOR REAGAN: Gentlemen, anyone else? Well, you will all have a chance at all of us here in just a few moments for questioning, but first, and this might anticipate some of your questions, I'll ask Ken Hall and Bill -- I appreciate those words, except I have to turn and give the credit to my staff and the -- Verne Orr and Ken and all of the people over in finance who have been working so hard on this with legislative leadership help.

ASSEMBLYMAN BAGLEY: You want me to move, Kenny?

MR. HALL: I just want to try and run through a couple quick concepts and then maybe cover the general questions with the Governor and the principles, and then if you have detailed questions I'll be happy to come back to those. The proposal is a major property tax reform proposal balanced upon two different issues. One attempting to try and provide guaranteed and lasting property tax relief to Californians beleaguered homeowners and others. And at the same time to provide an equal educational opportunity program to California school children. The educational portion is approximately 860 million dollars of additional money, State support, for schools, of which 210 is a program increase for the poorest school districts. The balance, 650 million dollars, is a roll back in the property tax rate currently supporting local education. This will take the State support to 50-50 sharing in terms of the basic educational program. The details as to how it works is to take -- build upon the existing foundation program and expand the support for -- expand the State support from a present level of a guaranteed of 480 dollars per student for the elementary school to $687. For a high school student, to increase the support from the current level of $560 to a $900 level. The typical school district in California would receive approximately 85 per cent additional state support. 95 per cent of California's school children would receive additional State support.

The property tax relief portions are as we mentioned, $650 million rollback in the school property tax rate. Plus increasing the homeowner's exemption to first $1250 effective with this December's tax bills, and increasing $100 incrementally for a period of four years to a total of $1550. Also for the property taxpayer to limit property tax increases for the future to a vote of the local electorate, unlike Watson which gives a limitation in terms of the property tax that the voter has no option of going above this proposal, would give the option of the local electorate to go above that level for cities, counties and schools. A total of property tax relief, $650 on the roll back of the rate, $242 for additional homeowners' exemptions, a total of $829 million dollars worth of property tax relif within the proposal.

Income tax relief in three different parts. $84 million for renters in order to try and balance the sales tax increases that would be imposed upon them. Also increasing the singles exemption. Singles credit from the current $25 to $35 andgive those who have had household returns the potential -- the advantage of using and claiming a credit for their first dependent. Replacement revenues are dedicating $100 million dollars of State surplus that will be announced tomorrow. A, dedicating that state surplus for property tax relief rather than for additional spending for state services. Secondly, the funding is from federal revenue sharing to the extent of $240 million dollars. When the question is raised as to the potential of federal revenue sharing passing this legislative session, we think the potential is excellent, but just in case there is a difficulty in terms of adopting federal revenue sharing, there is a reserve fund established of other surpluses in the state budget which would offset the $240 million dollars worth of increase -- of revenues coming from federal revenue sharing. If this reserve fund is not needed, because of the advent of federal revenue sharing, then any reserves in this surplus would be returned to the taxpayer in terms of an income tax reduction.

The revenues in terms of tax increases do not include any type of an income tax increase. Theyare a sales tax going up one per cent effective next May; luxury tax increases on cigarettes and liquors, 5 cents per pack, 50 cents per gallon, and a gank and corporation tax increase, 1.4 per cent.

Local government. As we mentioned, property taxes are limited for cities, counties and school districts to a vote -- vote of electorate. We are providing cities, counties and school districts with an increase on additional revenue from the VLF. The Vehicle in Lieu Fee. The Vehicle In Lieu Fee would be increased .85 per cent and would be shared equally between the three jurisdictions, counties, cities and schools. This would be the first time that schools will have participated in the VLF program. It is a tax on automobiles in lieu of property tax, automobiles and trucks. At the same time it would require the State of California to fully fund any new mandated or increased programs that are mandated by the State of California, tTo try and round out the package, the constitutional amendments, some of which the Governor has mentioned, are three. One is to authorize a carbon copy for the State income tax returns on -- of the federal tax. The issue has been in front of the electorate in the past. There are two -- two new features that we think are important in terms of that electorate decision. One is the advent of withholding. We feel that in part maybe the local electorate's changed their mind, and secondly in the Mills revenue sharing bill the federal government is proposing to check state income taxes with no administrative charge. Secondly, that as you will note in your handouts, since the Governor mentioned an option for the electorate to choose either a two-thirds or majority vote for all tax increases, and third, we'd eliminate basic aid for the highest school districts in compliance with Serrano. Maybe-- that kind of rounds out the package, Governor, maybe someone has some general questions that they can _______ to you and the legislature and then I'll be happy to come back and respond to specific questions at the conclusion of that.

Q. Governor, are we now talking about -- do you have -- are you able to do this because you now have something like $350 million in surplus? Is that what enables you to set aside $100 million in surplus for -- one phase of this and then a reserve fund to make up for --

GOVERNOR REAGAN: Well, now, I'm not going to jump the gun on the Finance Department, which Tom will be reporting to the legislature. As nearly as we can estimate what our situation is -- but I can only tell you that I've been happier than I've been in a long time. You know, we have been fighting desperately for years to get government's expenditures to within the framework of our present revenues. We have occasionally had single time surpluses, single time savings. Two instances in which we have rebated them by way of the income tax, the last one this April because of the additional revenues from the overlap of withholding. For the first time we now are reasonably optimistic. Optimistic enough to see that -- two things have happened. One is the -- evidently the President's programs are working. In recent months the stimulation of the economy has gone beyond our estimates of such things that reflect citizen confidence such as the sales tax. But more important, if you will remember, last year when we were being told over and over again that we needed $750 million dollars to balance the budget and we insisted we didn't, and you will remember that we were constantly told that our estimates of savings from welfare and Medi-Cal were exaggerated, and that we were phonying them up simply to get the reforms passed, and we insisted that not only were they not phony but that we honestly believed that we were being modest, that we were being conservative because if we were going to be surprised we wanted to be surprised on the happy side. Well, we were right in everything we said. We not only didn't need the $750 million but our welfare and Medi-Cal reforms are producing as we ourselves thought they would, far more in savings. We now believe that we have enough of a view to know that some of those savings are going to be ongoing. So, for the first time, not just suggesting a single temporary rebate, we are able to commit $100 million dollars that we know will be ongoing and we believe that there will be additional on-going relief or surplus. And therefore if the federal revenue sharing plan should go through the State's share over and above the local and county and cities share -- the State's share would be around $240 million. We are willing to commit that $240 million to this program of tax relief. To guard against the possibility of Congress' unpredictability and that they might not pass the revenue sharing we will hold in trust the additional surplus funds that we are going to have and use those in place of the -- the federal sharing if that should not take place. If that does take place, we believe that we are going to be in the position then to propose for the first time an across-the-board reduction in the state income tax.

Q. Governor, why did you change your position, though, as far as you took the money from income taxpayers, but you are giving it back to property taxpayers? Who may make up only 55 per cent of the income taxpayers.

GOVERNOR REAGAN: Right.

Q. 40 per cent of renters, you know, you are not giving the renters the same property tax, ongoing program.

GOVERNOR REAGAN:
A. One of the outgrowths of all of our studies has been the fact that the prorated share of the renter in paying property tax is only about 30 per cent of what it is for the person who is providing his own home, and therefore they don't have the same property tax inequity, the renter does not that the homeowner has. So the need there is not as great.

Q. Gobernor, why did you wait so late in the session to present this? They are supposed to wind up by June 30 or thereabouts.

GOVERNOR REAGAN: Let me tell you, it wasn't a case of waiting. It was a case that, as I told you, I guess, last week in the press conference, that as we have gone on through these several years of attempts and -- we started out with, as you know, quite complicated programs, trying to cure every problem across the way that we could. We have learned a lot, and what we learned revealed that the problem was more complicated and the more we knew the harder the problem became. We also faced this year the fact that very much a major part of any tax reform had to be the solution to the school financing. It was ridiculous to talk about altering the tax structure and ignore Serrano hanging over you. So this has been the result of an awful lot of work and a lot of different proposals that we have debated and -- and burned the midnight oil on and turned down. And so finally I just have to tell you this, this was as quick as we could come up with something.

I would point out that the only other alternative to Watson that the legislature has is really only being introduced -- well, tomorrow, as a matter of fact.

Q. Governor, this freezing of the tax rates, the '72-73 level, isn't that more in the spirit of Watson than Serrano?

GOVERNOR REAGAN: Well, no, we feel that if we are going to -- and we recognize that this is going to be -- not received joyously by local government, it never has been, the idea of controls -- but we are not keeping the controls in the hands of the state ourselves, we are putting them in the hands of the people. But we believe that by freezing for a brief period that it is only fair to the people who from then on are going to have the responsibility and the right to raise those property taxes, that they should have time to see those bills come in and reflect this difference in the property tax. See if the structure is working before someone should start trying to induce them to go ahead and raise their own property tax.

ASSEMBLYMAN BAGLEY: The Watson initiative doesn't allow -- takes the right of the voter away. Cannot raise the local rate even if he wants to enrich the program.

GOVERNOR REAGAN: Fixed in the constitution.

ASSEMBLYMAN BAGLEY: That's the difference.

Q. Governor, how do you accomplish this rollback of local property taxes and which taxes will be done and who will decide that?

GOVERNOR REAGAN: Ken or somebody.

ASSEMBLYMAN BAGLEY: Let me try to indicate --

GOVERNOR REAGAN: Bill.

ASSEMBLYMAN BAGLEY: -- let me try to indicate, we are talking about a rollback only in the school tax rates. We are talking about a rollback inthis -- in this sense. As the chart showed the present -- and let's take an elementary district. The present elementary district guarantee is a program of only $355. That goes up to $687. Let's take a district that is now spending $1,000 but has an assessed valuation that's low enough to -- to benefit from the increased state monies, and let's assume that it gets a couple of hundred dollars of new state monies out of the -- almost -- well, $210 million that we have got per child. So what you do is to the extent that the present district is above the foundation program, i.e. 687, and to the extent of new money, they are forced to roll back their rates, let's say, of $3.50 to $2.50 by the amount, if that's how it works out, of the new state money. Those districts that are below the foundation level now will not have to roll back. So we are rolling back those districts that are -- have a high tax rate and have a program which is above the foundation basis. However, you are not forcing program rollback because you get an exact commensurate amount of money for the rollback that is caused.

Q. Well, now, just to pursue that a little bit further, if you have an impoverished school district, as far as assessed value is concerned, and they are taxing high to reach the minimum level, now, so the state increases that guarantee of the minimum level, but that school district still has to -- to stay up there, still has to maintain its high property tax --

ASSEMBLYMAN BAGLEY: No, sir. No, sir, because the lower the assessed valuatinn the more on those charts -- the more new state money you are going to get and therefore the -- the more tax rate reduction. But they will still stay at their -- at their high rate because that's what the people have voted. Not their high tax rate, but their high expenditure rate.

Q. How far will this go to equalizing school proparty tax rates betweenddistricts which now vary from $1.00 to $7.00?

ASSEMBLYMAN BAGLEY: The other way to answer it is that more than 95 or 97 --

KEN HALL: 95.

ASSEMBLYMAN BAGLEY: 95 per cent of the districts of California will be equalized. There will still be those few districts that have the unique very high assessed valuation, which will be able to rely upon that assessed valuation without any state monies. And that, we maintain, is quote, unquote, substantial compliance with Serrano. And we would say that if that's what the legislature enacts and when the legislature finds a specific series of facts which will add up to a basic foundation education and we make a finding that that is basic education, then we go back to the courts. Then the court is on the hook. Are they going to say, you didn't do enough, the whole system is still unconstitutional, and risk the system blowing up in the State's face? I don't think so.

Q. Can you identify those few districts?

ASSEMBLYMAN BAGLEY: Oh, I can't by name.

Q. Is San Francisco one that has an urban factor in the program?

ASSEMBLYMAN BAGLEY: In addition to the monies we are talking about the elementary district, for example, at 687, high school at 900, all of the present categorical programs, compensatory ed, special ed., continue and are in addition to these monies because they are specially budgeted programs.

Q. These 90 Oer cent -- 95 per cent that are equalized, is this absolute equalization or is it --

ASSEMBLYMAN BAGLEY: Not in terms of dollars, because the public in those various districts has voted a varying enrichment of their own programs. But 95 per cent of the districts will have the basic foundation program or more. All of the basic foundation program.

Q. What about tax overrides?

ASSEMBLYMAN BAGLEY: Well, we will eliminate all of the permissive overrides that presently skew education financing and provide only for -- only for overrides permissive without a vote of the people on ________ financing and earthquake safety. The rest of the present override will be eliminated and everything above the rate of spending, not the tax rate, but the rate of spending, i.e. $1,000 a month, if that's the present rate, from this point in the future will be subject to a voter override with the exception that the State guarantees cost of living which is not now the case.

Q. Governor, the school district is but one of the local governmental agencies which use the property tax. Do you have any concern that as the school property tax is rolled back that, say, county supervisors may feel freer to raise their property tax?

GOVERNOR REAGAN: They are covered by this same voting provision. All property tax will require a vote of the people to increase it. This was the only way finally, after years of trying, that we felt we could come down to a -- a system of control that would keep the State's nose out of -- of actually dictating local policy. We couldn't -- we couldn't find the control that applied to local government without it being state dictating, so we gave the power to the people and we figured that that was as democratic as you possibly could get, democratic, small d.

Q. Have you considered next year, instead of cutting back the -- cutting theincome taxes, of rolling back the sales tax?

GOVERNOR REAGAN: That what?

Q. If you are able to cut some tax next year, had you considered instead of -- you said you might -- you would cut the income taxes, but did you consider instead rolling back the sales tax?

GOVERNOR REAGAN: I didn't close my mind to anything. But we have found that with the people -- the one is, believe me, much less popular than the other. All of our -- we haven't done this blindly without trying to find out the feelings of the people, and we have found out that there has been -- in just the last year or so an increasing feeling about the income tax as compared to the property tax.

Q. Governor, what does Senator Bradley think about your program this year?

GOVERNOR REAGAN: What's that?

Q. Senator Bradley.

ASSEMBLYMAN BAGLEY: He likes sales tax.

GOVERNOR REAGAN: I don't know, I haven't had a chance to interview him.

Q. Governor Reagan, you indicated Mr. Moretti's bill is coming up tomorrow in the Assembly. Now, you have some similarities here between his bill and yours. What are the fundamental differences as you see them?

GOVERNOR REAGAN: Fundamental differences from that -- that he has no control. There is no way to keep property taxes after the one time reduction or the first reduction from going right back on up. The second basic difference is that he has about two-thirds of a billion dollars in tax increase in that bill, and where we are reducing net income taxes by these changes in exemptions about $14 million dollars his bill increases the state income tax $800 million.

ASSEMBLYMAN BAGLEY:

And lastly, no Serrano solution proposed.

GOVERNOR REAGAN: That's right, no Serrano solution proposed.

VOICE: Thank you, Governor.

Q. As one of the previous questions indicated, a number of local agencies depend on theproperty tax for revenue. Isn't this asking for a -- a morass of ballot proposals every time some agency wants -- asks to raise the property tax?

GOVERNOR REAGAN: Well, as I say, we are giving them an additional source of income that they haven't had with the Vehicle in Lieu Tax. We have taken away once and for all that big sore spot that has -- that has soured relations between state and local government and that is the state mandating things on local government, without providing the revenues. We have now -- we will now fix by law that the state can't mandate anything additional on local government without providing the revenut itself. So it would be us who would be faced with the problem of funding revenues more than they are. I don't think that -- you see, they still have, of course, the growth that comes from increased assessment. There is no effort to try and say that property has to stay the same value and that is -- that is an appreciable growth for local government in its property tax revenues every year. The building development and simply the added value of these things. If any of you do have any special or specific or technical questions, Ken will be very happy to stay after we return to our duties here and answer yours on the details of the program. Other than that, no one else has anything to offer for the good of the community, thank you very much.

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OFFICE OF GOVERNOR RONALD REAGAN   RELEASE: Immediate
Sacramento, California 95814
Ed Gray, Press Secretary
916-445-4571   5-17-72   #300

Governor Ronald Reagan today announced the details of a major tax reform program he will propose to the legislature. In an opening statement the governor said:

"In my State-of-the-State message to the legislature this year, I said: 'the most urgent unfinished tasks before us involve our educationa system, its financing and direction, and the equally important necessity of providing comprehensive property tax relief for millions of over-burdened California homeowners.'

"At that time, I warned, 'time is growning short. If we fail again this year, the people may act themselves through the initiative process.'

"I don't need to tell you that we now face that very prospect.

"The fact is, during the past three years this administration has made repeated efforts to provide our beleaguered homeowners the relief they have been demanding and have a right to expect. Two years ago, we fell short of writing our program into law---by just one vote.

"No single issue before the legislature deserves a higher priority than meeting and solving this problem in the current session.

"For this reason, I am today proposing a massive program to provide substantial, lasting and guaranteed property tax relief in the years ahead while, at the same time, insuring equal educational opportunity for every child attending California's public schools.

"The program will provide total property tax relief amounting to nearly 900 million dollars without raising income taxes. At the same time, the program will enable us to achieve our long-sought goal of providing 50-50 state-local financing of the basic educational program in our schools in the years ahead.

"It not only provides a direct, across-the-board reduction in school property tax rates of 650 million dollars, but also will add another 210 million dollars in new support for our poorest schools.

"It guarantees every child in California state educational support of no less than 687 dollars at the elementary level and 900 dollars in the high school grades---which means that no youngster will be deprived of an adequate basic education simply because he lives in a poor school district.

"In all, the program provides added state support for 95 percent of California's school children. The typical school district would receive an 87 percent increase in state support, thereby effectively reducing the current heavy reliance of our schools on local property taxes

"In reducing school property tax rates significantly, our program requires that they cannot be increased for two years---and thereafter only by a majority vote of the people at the local level.

"We also are proposing a constitutional amendment which would give Californians the right to decide at the ballot box whether the legislature should be permitted to pass tax increases by only a simple majority vote, or by a two-thirds majority. A simple majority is all that is now required for the legislature to increase income taxes.

"The program we are proposing is the result of many weeks of study and preparation---backed by the experience of more than three years of discussion and debate on the tax reform issue.

"It guarantees substantial and lasting homeowner tax relief by incorporating the ironclad controls necessary to keep property taxes from going up again---unless the people themselves, the taxpayers, decide to do so.

"At the same time, the program will provide countless California school children a better chance to receive an improved basic education---no matter where they happen to live.

"I urge the legislature to give it the careful consideration it deserves."

# # # # # # #

Gray

. FEATURES OF PROPOSED TAX REFORM 1972

EXPENDITURES

Schools

- Provides equalization funding for schools which focuses on the concern of the California Supreme Court in the Serrano decision.

- Guarantees to all school districts $687 minimum program for elementary children and $900 for high school children.

- On the basis of current school expenditures would increase state funding to approximately 50 percent of the foundation program--50/50, state/local sharing on basic school costs.

- Provides an across-th-board reduction in school property tax rates of approximately $650 million.

- Provides a cost-of-living factor for future school years to assure that the state funding for the basic education opportunity program remains 50/50, state/local support.

- Provides added state funds to 95 percent of California's school children.

- The typical California school district would receive 87 percent more state support--thus reducing the school property tax rate.

- Rolls back the school property tax rate by $650 million for required period of two years before they can again be raised.

- Simplifies the school formula so that the layman is able to understand the school finance formula.

- Eliminates basic aid for high wealth school districts who can maintain a quality education program.

Homeowner Relief

- In addition to the property tax reduction under the revised school formula, will provide to each homeowner an increase in the homeowners' assessed value exemption of $500 to a $1,250 total on their November, 1972 tax bills, $1,350 in 1973; $1,450 in 1974 and $1,550 in 1975.

- Total property tax relief including the school tax rollback $892 million.

Income Tax Relief:

Renters

. Provides renter relief to those who pay income taxes in the form of an income tax credit equal to that of the sales tax. Relief on the following scale:

	Joint	Single
less than $4,000 adjusted gross income	$30	$20
4,000 - 6,000	35	25
6,000 - 8,000	40	30
8,000 - 10,000	45	35
10,000 - 12,000	50	40
12,000 - 14,000	50	40
14,000 - 16,000	50	40
16,000 - 18,000	50	40
18,000 & over		

Single Taxpayers and Head of Household

. Reduces the progressiveness of the income tax on single taxpayers and head of households by increasing the singles credit to $35 and giving head of household the credit for the first dependent.

Local Government

. Provides for the first time that schools will be able to share a part of the vehicle-in-lieu fee (tax on trucks, autos and mobile homes in-lieu of property taxes).

. Increase the VLF to 2.85 percent, a ratio equal to that of the property tax, from the current 2.0 percent and provides that cities, counties as well as schools share equally on the .85 percent increase.

REVENUES

Sales Taxes

. Increase the sales tax effective May 1, 1973 by one cent. Total rate will be six cents and six and one-half cents in "BART" counties.

Federal Revenue Sharing

. On the basis that the Mills Revenue Sharing Bill has an excellent chance of passage, uses the expected state portion of $240 million as school equalization rather than for new spending programs.

. Establishes a reserve fund of state surplus reserves that will be used to fund school equalization if Federal Revenue Sharing is not adopted. If Revenue Sharing is adopted, the surplus revenues will be returned as a reduction in the income tax.

General Fund Surplus

- Returns to the taxpayer, $100 million in the form of property tax relief, savings as a result of Reagan reforms and the improved economic climate.

Bank and Corporation Taxes

- Increase the Bank and Corporation taxes 1.4 percent in recognition of the property tax relief they receive in the school formula.

Luxury Taxes

- Increases cigarettes (5¢ per pack) and liquor (50¢ per gallon) taxes.

EXPENDITURE CONTROLS

Expenditure Limits

- Freezes tax rates at the 1972-73 level for all local agencies. Rates may not be increased except by vote of the people.

- Offers local constituency the option of raising their taxes for local purposes. This same right is denied in the Watson Initiative.

- Requires the State to fully fund new or expanded state-mandated programs.

CONSTITUTIONAL AMENDMENTS

Two-thirds Vote on all Tax Increases

- Provide that the 1972 November ballot will include a provision which requires all taxes to be the same, either majority or two-thirds. The voter could vote for either of the options and the provision with the most votes becoming law. Proposals such as:

Vote for one of the following:

The provision for increasing state taxes to be by majority vote of both houses of the Legislature.	
The provision for increasing state taxes to be by two-thirds vote of both houses of the Legislature.	

Piggyback on Federal Income Taxes

. Authorizes the Legislature to adopt a carbon copy state income tax on the Federal return effective January 1, 1974.

. Recognizes that the Federal Revenue Sharing Bill offers to collect state piggybacked income taxes at no charge.

. Offers the option of a simplified state return.

Eliminate Basic Aid for Schools

. Eliminate basic aid for wealthy school district. Only 5 percent of California's school children would receive less state support.

COMPARISON OF REAGAN PROPOSAL WITH AB 1000 (MORETTI)
(in millions of dollars)

	Reagan	Moretti
Amount of property tax relief	892	708
Funds provided for school program	860 (thru a proposed school reform)	500 (earmarked for future years)
Equalization of educational opportunity	210 (in federal revenue sharing)	No program
Increase in sales tax	585 - 1¢	585 - 1¢
Increase in income tax	None! No increase	860 (hits middle income taxpayers)
Increase in Bank & Corporation Tax	125 - 1.4%	125 - 1.4%
Increase in luxury taxes	144	-0-
Relief for renters	84	210
Relief for single taxpayers & head of household	13	-0-
Property Tax Limitation	Tight "lids" guarantees relief	None

	1972-73	1973-74	1974-75	1975-76
EXPENDITURES				
--Schools Equal educational opportunity focusing on Serrano and school rate rollback	--	860	926	995
--Homeowners relief Increase exemption from $750 to $1,250 in 1972-73; to $1,350 in 1973-74; to $1,450 in 1974-75 and $1,550 in 1975-76	232	242	269	298
--Income Tax Relief Renters Provides sliding scale of credit on the income tax of up to $40 for singles and $50 for married.	--	84	87	89
Singles and head of household Increase singles credit to $35 and give head of household dependent credit, effective January 1, 1973.	6	13	14	15
Expenditure Total	238	1,199	1,296	1,397
REVENUES				
--Sales tax increase 1%, May 1, 1973	35	585	620	665
--Bank and Corporation up 1.4%, January 1, 1973	44	125	136	148
--Cigarette tax up 5¢, December 1, 1972	62	118	119	120
--Distilled spirits up 50¢, July 1, 1973	--	26	27	28
Total New Taxes	141	854	902	961
--Federal Revenue Sharing*	--	240	264	290
--State Surplus for Property Tax Relief	100	100	100	100
--Interaction	--	10	30	46
Revenue Total	241	1,204	1,296	1,397
LOCAL REVENUE SHARING Increase vehicle-in-lieu from current 2.0% to 2.85% and share increase equally between schools, cities and counties.	--	103	120	126

*When revenue sharing is provided to California, any state surplus reserved to guarantee equal educational opportunities will be returned to the taxpayers. If revenue sharing is not forthcoming, as proposed, this surplus will be used instead for equalization aid to improve education opportunities for children in poorest school districts.

GOVERNOR'S TAX PROGRAM
1973-74 IMPACT ON TYPICAL TAXPAYERS

HOMEOWNER

Adjusted Gross Income	Personal Income Tax			Sales Tax			Property Tax					
	Current	Proposed	Change	Current	Proposed	Change	Current	Increased Homeowners Exemption	School* Tax Reduction	Tax After Reductions	Change	Total Change
Married — 2 Children												
$ 5,000	$ 0	$ 0	$ 0	$ 100	$ 132	+$22	$ 356	$66	$ 34	$ 256	-$100	-$ 78
7,500	4	4	0	155	186	+31	438	66	40	332	-100	-75
10,000	43	45	+2	195	234	+39	557	66	49	442	-115	-74
15,000	200	203	+3	265	318	+53	804	66	68	670	-134	-78
20,000	406	412	+6	310	361	+60	1,048	66	86	896	-152	-86
25,000	686	693	+7	345	414	+69	1,328	66	107	1,155	-173	-97
50,000	2,914	2,931	+17	445	534	+89	2,290	66	179	2,045	-245	-139
100,000	7,534	7,559	+25	1,045	1,254	+209	4,778	66	366	4,346	-432	-198

*Based on statewide average reduction

GOVERNOR'S TAX PROGRAM
1973-74 IMPACT ON TYPICAL TAXPAYERS

HOMEOWNER

Adjusted Gross Income	Personal Income Tax			Sales Tax			Property Tax					
Single	Current	Proposed	Change	Current	Proposed	Change	Current	Increased Homeowners Exemption	School* Tax Reduction	Tax After Reductions	Change	Total Change
$ 5,000	$ 40	$ 30	-$10	$100	$120	+$20	$ 323	$66	$ 31	$ 226	-$ 97	-$ 87
7,500	102	95	-7	140	168	+28	455	66	42	347	-108	-87
10,000	205	199	-6	175	210	+35	550	66	48	436	-114	-85
15,000	512	509	-3	235	282	+47	867	66	73	728	-139	-95
20,000	904	905	+1	275	330	+55	1,107	66	90	951	-156	-100
25,000	1,432	1,435	+3	305	366	+61	1,420	66	114	1,240	-180	-116
50,000	3,654	3,664	+10	390	468	+78	2,458	66	192	2,200	-258	-170
100,000	8,120	8,140	+20	920	1,104	+184	5,117	66	391	4,660	-457	-253

*Based on statewide average reduction.
5/11/72 — BD

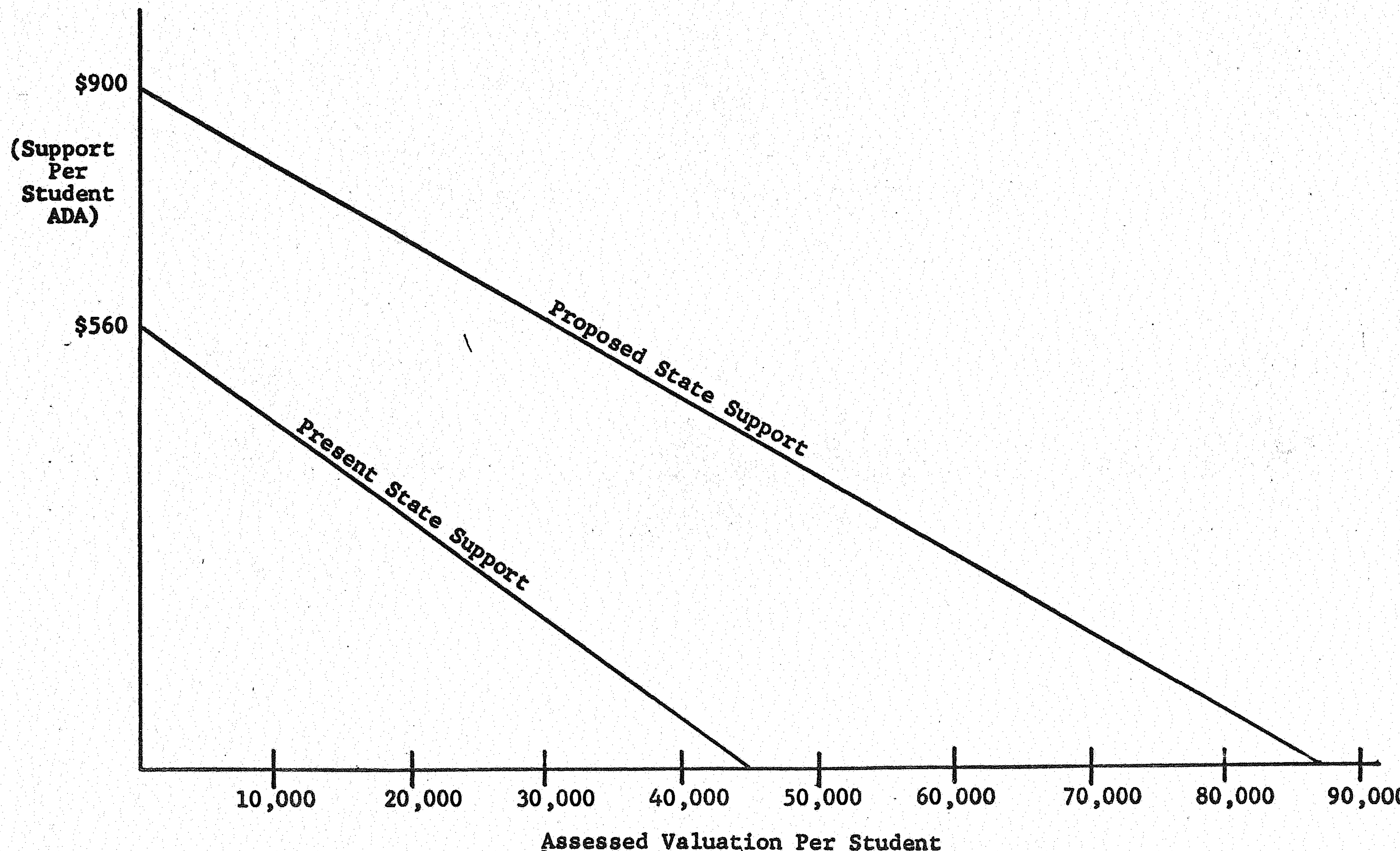
GOVERNOR'S TAX PROGRAM
1973-74 IMPACT ON TYPICAL TAXPAYERS

RENTER

Adjusted Gross	Personal Income Tax			Sales Tax				
Income	Current	Proposed*	Change	Current	Proposed	Change	Renter Credit	Total Change
Married -- 2 Children								
$	$	$	$	$	$	$		$
7,500	4	4	0	155	186	+31	-$ 4	+27
10,000	64	64	0	195	234	+39	-50	-11
15,000	200	198	-2	265	318	+53	-50	+1
20,000	406	402	-4	301	361	+60	-50	+6
25,000	686	681	-5	345	414	+69	-50	+14
50,000	2,914	2,904	-10	445	534	+89	-50	+29
100,000	7,534	7,511	-23	1,045	1,254	+209	-50	+136

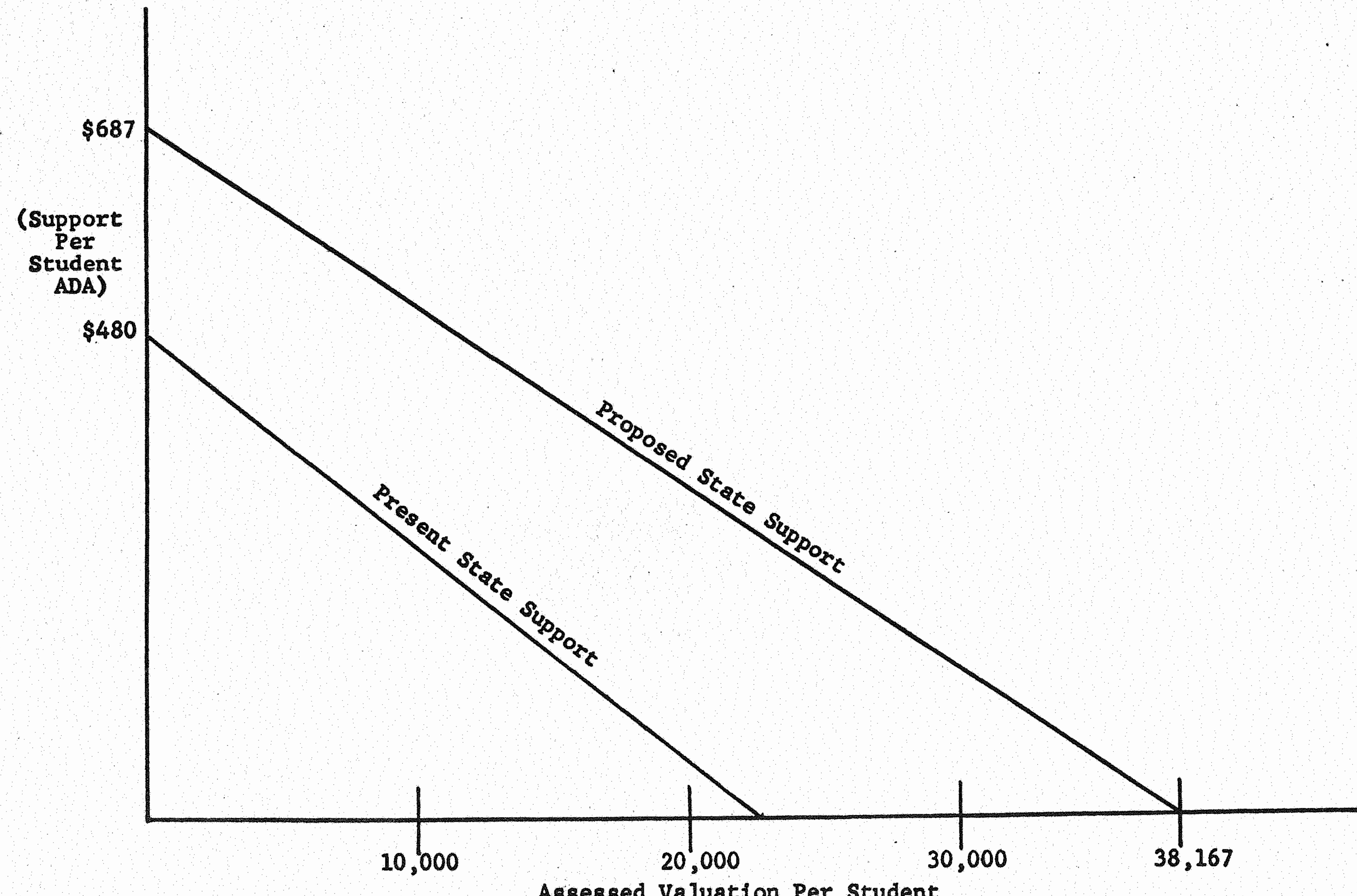
*Does not include renter credit

HIGH SCHOOL RELIEF
(Guaranteed State Support of $900 Per Pupil @ $1.03 tax rate)



50-50 State-Local Sharing on Foundation Program Increase

ELEMENTARY SCHOOL RELIEF
(Guaranteed State Support of $687
Per Pupil @ $1.60 tax rate)



50-50 State-Local Sharing on Foundation Program Increase

GOVERNOR'S TAX PROGRAM
1973-74 IMPACT ON TYPICAL TAXPAYERS

RENTER

Adjusted Gross Income	Personal Income Tax			Sales Tax			Renter Credit	Total Change
	Current	Proposed*	Change	Current	Proposed	Change		
Single								
$	$	$	$	$	$	+$	$	$
7,500	102	91	-11	140	168	+28	-30	-13
10,000	205	193	-12	175	210	+35	-40	-17
15,000	512	498	-14	235	282	+47	-40	-7
20,000	904	888	-16	275	330	+55	-40	-1
25,000	1,436	1,419	-17	305	366	+61	-40	+4
50,000	3,654	3,635	-19	390	468	+78	-40	+19
100,000	8,120	8,090	-30	920	1,104	+184	-40	+114

*Does not include renter credit.
5/11/72 — BD

EXPENDITURES	1971-72	1972-73	1973-74	1974-75
		(Millions)		
Homeowner exemption per schedule--duplexes, apartments, co-ops., etc., $1,500 flat exemption	$484	$506	$524	$567
Business inventory--30 percent full reimbursement for 1971-72, 50 percent thereafter	22	173	197	224
Senior citizens relief to $5,000 and age 62	-	9	10	11
Renter relief--$50 credit on personal income tax	85	97	102	107
Superior court costs	30	32	33	35
County welfare--60 percent of cost over 25¢/$100	87	106	128	153
Open space--$1.50 prime, 50¢ nonprime	12	13	15	17
TOTAL EXPENDITURES	$720	$936	$1,009	$1,114

REVENUE	1971-72	1972-73	1973-74	1974-75
Sales tax--0.5 percent effective July 1971	$205	$255	$275	$290
Increase bank and corporation tax to 7.5 percent on 1971 income and to 8.0 percent on ~~1972~~ 1971 income	53	42	~~100~~ 50	105
Conformity				
Personal income tax	12	12	12	14
Bank and corporation tax	3	4	7	10
Inheritance tax	15	93	38	31
Gift	3	2	2	3
Depletion	7	5	5	5
	(+40)	(+116)	(+64)	(+63)
Personal income tax	~~420~~ 417	~~534~~ 512	~~560~~ 598	~~620~~ 649
Withholding, less 35 percent forgiveness				
Increase rates to 11 and 12 percent, 1972 income year; ~~13 percent, 1973 income year~~				
Squeeze brackets to $1,250/2,500, 1973 income year; 1st bracket $2,000 and $4,000				
Capital gains--1971 income year				
Administrative cost	-6	-7	-6	-6
Interaction	15	25	28	33
TOTAL REVENUE	~~$727~~ 724	~~$965~~ 943	~~$1,021~~ 1009	~~$1,105~~ 1134
Excess of Revenue over Expenditure	~~+$7~~ +4	~~+$29~~ +7	~~+$12~~ 0	~~-$9~~ +20

Corrected as of ~~5/11/71~~ 5/24/71

HOMEOWNERS' TAX RELIEF

The establishment of a program to provide homeowners' property tax relief has been and continues to be a major concern of this Administration. The initial relief provided an exemption from taxation of $750 of the assessed value of the dwelling. This program will broaden that exemption to provide approximately a one-third reduction in property taxes for the average homeowner. Under this proposal, the average resident will receive direct relief of approximately $240.

In order to provide a more equitable distribution of the exemption, the percentage relief to persons owning and occupying single-family homes will be distributed in accordance with a schedule based on the assessed value of the dwelling. This is in lieu of either a flat exemption or a flat exemption plus some percentage. Owner-occupiers of multiple dwelling units--duplexes, apartment buildings, condominiums, cooperative housing projects, etc., will receive a flat exemption of $1,500.

The following schedule shows the percentage of assessed value which would be exempt from property taxes for single-family homes and the estimated number of homes at each assessed value level.

Market value	Assessed value	Percentage reduction in property tax	Number of residents
$0-$4,300	$0-$1,000	100	19,000
4,301- 6,400	1,001- 1,500	90	28,000
6,401- 8,600	1,501- 2,000	80	42,000
8,601-10,700	2,001- 2,500	70	75,000
10,701-12,800	2,501- 3,000	60	92,000
12,801-15,000	3,001- 3,500	55	111,000
15,001-17,100	3,501- 4,000	49	184,000
17,101-19,200	4,001- 4,500	44	223,000
19,201-21,400	4,501- 5,000	40	237,000
21,401-23,500	5,001- 5,500	37	262,000
23,501-25,700	5,501- 6,000	34	237,000
25,701-27,800	6,001- 6,500	32	184,000
27,801-29,900	6,501- 7,000	30	139,000
29,901-32,100	7,001- 7,500	28	134,000
32,101-34,200	7,501- 8,000	27	128,000
34,201-36,300	8,001- 8,500	26	120,000
36,301-38,500	8,501- 9,000	25	100,000
38,501-40,600	9,001- 9,500	24	75,000
40,601-42,700	9,501-10,000	23	56,000
42,701-44,900	10,001-10,500	22	47,000
44,901-47,000	10,501-11,000	21	42,000
47,001 and over	11,001 and over	20	276,000

EXPENDITURES FOR HOMEOWNERS' RELIEF

(Millions)

1971-72	1972-73	1973-74	1974-75
$484	$506	$524	$567

VETERANS' EXEMPTION REIMBURSEMENT

Qualified veterans with assets under $5,000 may receive a $1,000 exemption on the assessed valuation.

This form of property tax relief is absorbed by local government and has the effect of eroding the tax base.

Since the Tax Reform Program proposes an exemption in excess of the $1,000, veterans would shift to the higher exemption. The net effect of these changes would be a windfall to local government for 1971-72 at approximately $44.2 million. This would be distributed on the following basis:

In millions	Distributions
$16.6	Counties and special districts
23.0	Schools
4.6	Cities

An estimated county-by-county distribution is shown on page 18.

BUSINESS INVENTORY RELIEF

California businesses face a major discriminatory tax--a property tax on business inventories. Currently, business is relieved of 30 percent of the business inventory tax and the relief, if no action is taken by the Legislature, will be reduced to 15 percent in 1972-73. The relief provided at the 30 percent level does not fully reimburse local jurisdictions for their full revenue loss which is estimated at approximately $22,000,000 in 1971-72.

The Tax Reform Program will provide for full reimbursement to local jurisdictions at the 30 percent level for 1971-72. The amount of exemption, which will be fully reimbursed, will increase to 50 percent in 1972-73 and thereafter. The full reimbursement for business inventory revenue loss for counties in 1971-72 is shown on page 18.

EXPENDITURES FOR BUSINESS INVENTORY RELIEF

(Millions)

1971-72	1972-73	1973-74	1974-75
$22	$173	$197	$224

SENIOR CITIZENS' RELIEF

California's senior citizens who live on a fixed income are the hardest hit of any of our constituents by the property tax.

Currently, those senior citizens 65 and over who have an annual income of $3,350 or less may receive a partial reimbursement of their property tax payment by filing with the Franchise Tax Board. Under the proposed Reform Program, the income limitation would be raised from $3,500 to $5,000; the amount of relief would be increased and the minimum age for filing would be reduced to 62.

The following table compares the proposed change with the current law for selected income.

Income	Current benefit (Percent)	Proposed benefit (Percent)
$1,000	95	100
1,500	75	100
2,000	55	85
2,500	35	70
3,000	15	55
3,500	—	40
4,000	—	25
4,500	—	12
5,000	—	2

EXPENDITURES FOR SENIOR CITIZENS' RELIEF

(Millions)

1971-72	1972-73	1973-74	1974-75
—	$9	$10	$11

RENTERS' RELIEF

The program provides property tax relief for renters. Each renter who files an income tax return will receive $50 as a credit against his tax. If he owes less than $50, his entire income tax will be removed. This relief is in addition to the double standard deduction for renters which was provided in 1968.

EXPENDITURES FOR RENTER RELIEF

(Millions)

1971-72	1972-73	1973-74	1974-75
$85	$97	$102	$107

RELIEF FOR SUPERIOR COURT COSTS

Currently, county taxpayers pay all superior court operating costs except for the State sharing in a portion of the costs of judges' salaries and retirement plans. We are proposing that the State assume, in addition to the above costs, a share of the operating costs of the superior courts, thereby reducing the counties' cost burdens.

The operating costs for the superior courts in the 1969-70 fiscal year were approximately $30 million. This plan would allocate $30 million to counties based on the Controller's report of expenditures for 1969-70. This will establish a base allocation level. Additional amounts may be appropriated by the Legislature in the future and will be based on workload as measured by the Judicial Council.

Distribution of the state reimbursement to counties for superior courts is shown on page 18.

EXPENDITURES FOR SUPERIOR COURT LOADS

(Millions)

1971-72	1972-73	1973-74	1974-75
$30	$32	$33	$35

COUNTY REIMBURSEMENT OF EXCESSIVE WELFARE COSTS

The program will establish a more equitable county cost-sharing formula by requiring the State to assume 60 percent of each county's share of the basic welfare grant in excess of the revenue generated by a tax rate of 25¢ per $100 of assessed value. The increased state share will aid in equalizing the welfare burden among the counties by requiring the State to share in welfare cost in counties where the burden is excessive.

This reimbursement is separate from any welfare reform package currently being considered by the Legislature. An estimate of the welfare reimbursement for 1971-72 by county, based on current law, is shown on page 19.

EXPENDITURES FOR WELFARE COSTS

(Millions)

1971-72	1972-73	1973-74	1974-75
$87	$106	$128	$153

OPEN SPACE

The Williamson Land Conservation Act was passed by the Legislature to preserve agriculture and other open space lands. Under the Act, local government land owners enter into agreements to commit the land to open space which is then valued and taxed under those provisions. The net effect of this type of agreement is to reduce the taxes which normally would be imposed on the covered land.

In those counties where open space agreements have been reached, the balance of the property taxpayers have been carrying the burden of conservation. In order to relieve this burden, reimbursement will be made to local government for land under contract at the rate of $1.50 per acre for prime land and $.50 per acre for nonprime land for each major local jurisdiction involved (cities, counties, and school districts).

In order to control the State's obligation over time, the following limits will be placed on the program:

1. No jurisdiction will receive more through reimbursement than it would receive under normal taxation.

2. Growth in state expenditures after the base year will be limited to a 10 percent increase. If the demand exceeds that rate, the funds for new contracts will be prorated.

It is estimated that the initial base cost of this program for lands under contract prior to December 31, 1971, will be $12 million. The growth of the program will be limited to 10 percent.

An estimate of the distribution of the county reimbursement is shown on page 19.

EXPENDITURES FOR OPEN SPACE

(Millions)

1971-72	1972-73	1973-74	1974-75
$12	$13	$15	$17

SALES TAX

The state sales tax will be increased from 4.0 percent to 4.5 percent of all taxable transactions on July 1, 1971, increasing the total sales tax to 5.5 percent.

Although some may consider that the sales tax is a regressive tax, recent studies done by outstanding academic institutions indicate that due to the exemptions of food, housing, gasoline, and prescription drugs, the sales tax is proportional (i.e., neither regressive nor progressive).

For some areas of the State, such as BART district counties, total sales tax will be 6.0 percent.

REVENUE FROM SALES TAX

(Millions)

1971-72	1972-73	1973-74	1974-75
$205	$255	$275	$290

BANK AND CORPORATION TAX

The current bank and corporation tax rate is 7 percent. The proposed program would increase the rate to 7.5 percent for the 1971, ~~and~~ 1972 and 1973 income years and to 8 percent for the 1974 income year and thereafter. As the bank and corporation tax is deductible in computing the Federal income tax, approximately 48 percent of the tax increase will be passed on to the Federal Government.

The rate on banks and other financial institutions will not be increased above the current 4 percent. Therefore, the maximum tax rates on these institutions will be 12 percent for ~~1973.~~ 1974

REVENUE FROM BANK AND CORPORATION TAX

(Millions)

1971-72	1972-73	1973-74	1974-75
$53	$42	~~$100~~ $50	$105

CONFORMITY TO FEDERAL TAX CHANGES OF 1969 AND 1970

A variety of changes in the California income and inheritance tax laws are made in order to conform California laws with Federal laws. The conformity provisions are generally those included in the 1969 Federal Tax Reform Act and the 1970 revision. A partial listing is as follows:

- Foster children
- Lump-sum distributions
- Moving expenses
- Fines, bribes, treble damages
- Excess investment interest
- Accelerated depreciation
- Unlimited charitable contributions
- Stock as indebtedness
- Installment method of reporting gains
- Oil and gas depletion reduced to 22 percent
- Mineral production (carved-out) payments
- Charitable contributions of estates and trusts
- Accumulation trusts
- Original issue discount to be included in basis
- Income averaging
- Minimum tax of 1.5 percent of the amount of tax preference income exceeding the sum of $30,000, state income tax paid, and operating loss
- Repeals discovery depletion

Rather than attempt to explain each provision here, we will be happy to provide explanatory material on request.

The largest increase comes from conforming the inheritance tax payment schedule. This will require payment of taxes due within nine months of date of death rather than 24 months provided currently. In addition, the 5 percent discount now allowed for payment of this tax within six months of death will be eliminated.

REVENUE FROM ALL CONFORMITY ITEMS

(Millions)

1971-72	1972-73	1973-74	1974-75
$40	$116	$64	$63

PERSONAL INCOME TAX

Changes are made in personal income tax for the following:

Revenue effect 1971-72

1. Imposition of withholding with full forgiveness (35%) as of January 1, 1972. — +$270 million

2. Narrow income brackets (amount between taxing brackets) from current $1,500 for single returns to $1,250 and from $3,000 for joint returns ~~to~~ $2,500. Will not add new income tax payees. To be implemented in 1973. — +75 million

3. Changes capital gains taxation from current 50 percent taxation after six months to: — +25 million

Holding period	Amount taxed
0 - 1 year	100%
1 - 2 years	80%
2 - 5 years	65%
5 -10 years	50%
over 10 years	40%

4. Adding rates of 11 percent and 12 percent on 1972 income ~~and 13 percent on 1973 income as compared~~ to the current maximum of 10 percent. — +50 million

These changes in the income tax will bring California into closer proximity to the income tax rates of other states* in 1973.

Income	California as ranked with all other income tax states: Current law	Proposed
$5,000	35**	35
10,000	35	34
15,000	32	30
20,000	25	22
50,000	7	~~5~~ 6

Even with these proposed revisions, California's income tax is less burdensome than most other states for all persons with income of $20,000 or less.

*Based on a recent study of 37 income tax states.
**Tied with two other states for last place.

EXPENDITURE CONTROL

The proposal includes a program to put an expenditure limit on counties and school districts (which collect 85 percent of the property taxes) to guarantee that property taxes will not increase after the State finances both a direct reduction in taxes and an increased subvention program. School district expenditures would be adjusted annually by a factor based on average daily attendance and the cost of living (Consumer Price Index). General county expenditures would be adjusted annually by the changes in population and the cost of living. Additionally, the county budgets for welfare would include a factor for the welfare caseload and the state relief of local property taxes for welfare. Above these levels, the expenditure levels could only be increased by a vote of the people.

Mechanically, expenditure limits are effective devices to insure that property tax rates are kept under control. When schools or counties can only expend a fixed amount of money, if more state money is spent in such programs, the local share must drop correspondingly. This automatically precludes the ability of local government to use property tax relief money for additional spending and, in fact, forces local government to use property tax relief money to reduce taxes.

Although cities do not get any direct property tax relief funds from this program, it is proposed to tighten the ability of such jurisdictions to raise property taxes. As cities in almost all cases are subject to property tax rate limits, the program reinforces these limits by allowing local referendum of any new permissive tax rate overrides allowed cities.

The proposed figures noted as expenditures by the State in the synopsis page do not include savings as a result of expenditure controls. State expenditure figures for such items as homeowners' exemption, business inventory, and county welfare would be decreased by limited increases in local tax rates. These "savings," however, in order to avoid any question of an underestimate of expenditures are not identified in decreased state costs.

GOVERNOR'S TAX PROGRAM

Impact on Homeowners
(1972 income year)
1973

Adjusted gross income	Change in income tax	Change in sales tax	Change in property tax	Total change	Change in Federal income tax	Net change
Married homeowner with two children						
$7,500	$0	$16	-$136 -$148	-$120 -$132	- -	-$120 -$132
10,000	9	20	-143 -158	-114 -129	-$22 -$25	-92 -104
15,000	26 26	26	-158 -172	-106 -120	23 26	-83 -94
20,000	59 60	31	-177 -191	-87 -100	22 25	-65 -75
25,000	104 105	34	-197 -213	-59 -74	17 21	-42 -53
30,000	183 184	37	-213 -228	7 -7	-2 2	5 -5
50,000	520 524	44	-343 -365	221 203	-99 -91	122 112
Single						
$7,500	$15	$14	-$144 -$156	-$115 -$127	-	-$115 -$127
10,000	33 34	18	-151 -161	-100 -109	-$24 $26	-76 -83
15,000	86 87	24	-149 -162	-39 -51	11 14	-28 -37
20,000	158 160	28	-177 -191	9 -3	-3 1	6 -2
25,000	257 259	31	-207 -222	81 68	-31 -26	50 42
30,000	353 356	32	-288 -307	97 81	-39 -32	58 49
50,000	687 670	37	-424 -429	300 278	-150 -139	150 139

GOVERNOR'S TAX PROGRAM

Impact on Homeowners
(1972 income year)

Adjusted gross income	Change in income tax	Change in sales tax	Change in property tax	Total change	Change in Federal income tax	Net change
Married homeowner with two children						
$7,500	$0	$16	-$136	-$120	-	-$120
10,000	9	20	-143	-114	$22	-92
15,000	26	26	-158	-106	23	-83
20,000	59	31	-177	-87	22	-65
25,000	104	34	-197	-59	17	-42
30,000	183	37	-213	7	- 2	5
50,000	520	44	-343	221	-99	122
Single						
$7,500	$15	$14	-$144	-$115	-	-$115
10,000	33	18	-151	-100	$24	-76
15,000	86	24	-149	-39	11	-28
20,000	158	28	-177	9	-3	6
25,000	257	31	-207	81	-31	50
30,000	353	32	-288	97	-39	58
50,000	687	37	-424	300	-150	150

Ed Gley – Hold on this page before typewriting; we will have rewrite by 5:00

GOVERNOR'S TAX PROGRAM

Impact on Renters
(197~~2~~ income tax)
3

Adjusted gross income	Change in income tax (Before renter credit)	Change in sales tax	Renter credit	Total change	Change in Federal income tax	Net change
Married with two children						
$7,500	$0	$16	-$4	$12	-	$12
10,000	5	20	-50	-25	-	-25
15,000	18	26	-50	-6	$1	-5
20,000	48	31	-50	29	-7	22
25,000	88	34	-50	72	-20	52
30,000	161	37	-50	148	-47	101
50,000	480	44	-50	474	-213	261
Single						
$7,500	$15	$14	~~-$15~~ -50	~~$14~~ -21	-	~~$14~~ -21
10,000	24	18	~~-24~~ -50	~~18~~ -8	-	~~18~~ -8
15,000	71	24	-50	45	-$12	33
20,000	137	28	-50	115	-36	79
25,000	233	31	-50	214	-81	133
30,000	319	32	-50	301	-120	181
50,000	635	37	-50	622	-311	311

5/~~11~~ 24/71

County	1971-72 tax rate	exemption	relief	Court subvent.
Alameda	$12.91	$2,475,900	$1,322,000	$1,448,500
Alpine	5.15	500	-	7,000
Amador	6.83	30,500	6,000	7,000
Butte	9.46	301,000	165,000	131,500
Calaveras	7.49	43,300	2,000	6,000
Colusa	7.05	15,900	49,000	20,500
Contra Costa	13.25	1,678,500	981,000	473,500
Del Norte	10.15	53,600	19,000	16,000
El Dorado	9.38	142,600	5,000	21,000
Fresno	10.60	1,217,800	288,000	332,000
Glenn	7.65	31,100	13,000	20,500
Humboldt	10.09	291,700	57,000	47,500
Imperial	11.37	205,500	23,000	78,000
Inyo	8.34	30,000	2,000	12,000
Kern	10.42	1,033,600	65,000	479,500
Kings	10.76	164,800	56,000	99,000
Lake	6.84	51,600	1,000	14,000
Lassen	9.33	65,100	3,000	16,500
Los Angeles	11.86	13,129,600	8,429,000	14,051,500
Madera	8.63	97,200	12,000	52,000
Marin	11.94	197,300	76,000	300,000
Mariposa	5.44	11,700	1,000	14,000
Mendocino	9.61	138,200	72,000	127,500
Merced	10.54	263,800	77,000	77,000
Modoc	8.04	17,700	4,000	15,500
Mono	6.13	4,600	1,000	8,500
Monterey	9.71	375,800	107,000	233,500
Napa	11.13	267,600	15,000	71,500
Nevada	7.29	71,400	11,000	19,500
Orange	9.91	2,721,700	1,835,000	1,369,500
Placer	8.93	208,600	33,000	52,000
Plumas	6.40	27,600	1,000	37,000
Riverside	10.83	1,126,900	369,000	655,500
Sacramento	13.71	2,371,300	896,000	944,000
San Benito	7.13	14,700	7,000	12,000
San Bernardino	11.46	2,127,400	469,000	1,037,500
San Diego	10.88	3,760,500	1,178,000	1,981,500
San Francisco	13.52	968,900	493,000	1,507,500
San Joaquin	12.16	859,100	374,000	245,500
San Luis Obispo	10.92	244,200	19,000	100,500
San Mateo	11.27	913,800	781,000	708,500
Santa Barbara	11.49	459,400	135,000	451,500
Santa Clara	11.69	2,026,200	1,428,000	1,254,500
Santa Cruz	10.91	273,900	102,000	105,000
Shasta	8.29	224,200	23,000	58,000
Sierra	6.29	4,800	1,000	10,500
Siskiyou	8.53	112,000	8,000	79,500
Solano	9.97	436,400	69,000	53,500
Sonoma	11.12	513,700	215,000	183,000
Stanislaus	13.04	748,400	527,000	214,000
Sutter	7.83	57,600	93,000	33,000
Tehama	8.50	78,200	8,000	11,000
Trinity	7.90	18,400	7,000	17,000
Tulare	9.54	364,500	111,000	38,500
Tuolumne	9.24	69,000	4,000	17,500
Ventura	10.82	803,200	297,000	433,500
Yolo	10.72	185,500	108,000	149,500
Yuba	11.39	107,000	47,000	39,000
	$11.45	$44,235,000	$21,500,000	$30,000,000

County	Welfare subvention	Open space subvention	Total local govt. relief	Reduction of tax rate
Alameda	$5,149,000	$140,000	$10,545,400	.36
Alpine	-	-	7,500	.10
Amador	-	65,000	108,500	.18
Butte	460,000	124,000	1,181,500	.42
Calaveras	-	90,000	141,300	.17
Colusa	-	-	85,400	.10
Contra Costa	2,032,000	47,000	5,212,000	.30
Del Norte	63,000	-	151,600	.37
El Dorado	17,000	218,000	403,600	.20
Fresno	3,495,000	2,381,000	7,713,800	.76
Glenn	-	-	64,600	.08
Humboldt	459,000	-	855,200	.33
Imperial	545,000	-	851,500	.43
Inyo	-	-	44,000	.06
Kern	1,252,000	2,697,000	5,527,100	.51
Kings	503,000	888,000	1,710,800	1.06
Lake	55,000	34,000	155,600	.15
Lassen	44,000	-	128,600	.34
Los Angeles	39,114,000	-	74,714,100	.38
Madera	365,000	336,000	862,200	.55
Marin	140,000	146,000	859,300	.13
Mariposa	-	-	26,700	.08
Mendocino	259,000	39,000	635,700	.41
Merced	758,000	-	1,175,800	.43
Modoc	-	-	37,200	.11
Mono	-	-	14,100	.03
Monterey	368,000	538,000	1,622,300	.24
Napa	164,000	91,000	609,100	.33
Nevada	41,000	-	142,900	.14
Orange	-	128,000	6,054,200	.15
Placer	201,000	118,000	612,600	.23
Plumas	-	-	65,600	.07
Riverside	1,911,000	82,000	4,144,400	.33
Sacramento	4,843,000	181,000	9,235,300	.75
San Benito	-	489,000	522,700	.65
San Bernardino	3,134,000	9,000	6,776,900	.40
San Diego	3,005,000	24,000	9,949,000	.33
San Francisco	6,246,000	-	9,215,400	.39
San Joaquin	2,186,000	253,000	3,917,600	.53
San Luis Obispo	358,000	40,000	761,700	.25
San Mateo	-	49,000	2,452,300	.13
Santa Barbara	411,000	332,000	1,788,900	.25
Santa Clara	2,081,000	285,000	7,074,700	.23
Santa Cruz	247,000	7,000	735,900	.21
Shasta	467,000	18,000	790,200	.29
Sierra	-	-	16,300	.14
Siskiyou	50,000	81,000	330,500	.33
Solano	792,000	402,000	1,752,900	.44
Sonoma	1,229,000	270,000	2,410,700	.46
Stanislaus	1,878,000	224,000	3,591,400	.91
Sutter	65,000	-	248,600	.15
Tehama	48,000	212,000	357,200	.34
Trinity	-	-	42,400	.15
Tulare	1,823,000	770,000	3,107,000	.61
Tuolumne	43,000	162,000	295,500	.34
Ventura	-	41,000	1,574,700	.14
Yolo	328,000	446,000	1,217,000	.47
Yuba	329,000	-	522,000	.62
	$86,958,000	$12,457,000	$195,151,000	.35

Q. Governor, Mr. Brown, the Secretary of State, says that he's discovered a federal audit which indicates waste and mismanagement, according to him, on the part of Medi-Cal -- Medicare carriers. He claims that they are making duplicate payments and paying lobbyists and trips for executives, this kind of thing, with federal funds. Do you have any knowledge that there is any similar kind of problem with the administration of MediOCal by the same carriers or other carriers?

A. No, he's -- again, he's talking about a federal program and something that's been found by federal auditors and he just confirms what I've said before. The farther up you go into echelons of government the more extravagant government gets, the more inefficient it gets and I've had the same criticism of a great many federal programs, if you'll just check back on the transcript of these press conferences.

RR: Press Conference 2-8-72

Q. Are you pretty sure then there is no similar kind of thing going on at the state level?

A. No, I will say this, wherever government is concerned there is no way to totally eliminate the sins of bureaucracy. It is a constant watch, we are constantly on guard and yet no matter how well you do that job you always are going to be able to find the kind of inefficiencies that creep in where government is concerned. All I can tell you is that I don't know of any government body that has been more concerned with this or more on the watch, or has eliminated more of them than this administration and we are going to keep on trying.

Q. Are you increasing your watchfulness or planning an investigation or anything as a result of what Mr. Brown has revealed?

A. If you will take this up with Medi-Cal and Dr. Brian, I think you'll probably -- most alert where this is concerned is Dr. Brian and his department.

Q. In other words, you are satisfied?

A. I'll never be satisfied but I am satisfied that we are doing our utmost and no one has been able to do any better. Young lady and then you.

Q. Governor, in Mr. Orr's report did he make any mention of the illegal use of state owned automobiles by division employees?

A. No, and I -- I'm aware of that particularccharge, too, Let me just say this, and about that whenever it's brought to our attention, this is -- has been an ongoing problem, I guess, with government as long as there's been an automobile. And it has been of particular concern to us to this administration with our cut, squeeze and trim philosophy. We found there was -- there was a great laxity, a great looseness that had been guilt into government when we came here about the use of state-owned automobiles and it is an ongoing thing. It is one of those things that you can't just slap down a rule and say it once and think that that cures the problem. We are constantly monitoring and constantly checking anc constantly finding that as soon as you turn your back a laxness creeps in. Thereaare certain employees that are officially given the right to take their cars home because in the nature of their work they take -- they take off from their home to go to their duties. And yet out of this then grows this report that they are using the cars for other things and we find that many times a carelessness does creep in, but all I can tell you is again, I don't know of any administration that works harder on this but we are aware after five years that you are going to have to keep working on it, you are going to have to keep watching it every second. RR: Press Conference 2-8-72

To: Agency Secretaries and
Governor's Staff

From: Ed Thomas
Deputy Cabinet Assistant

CABINET MEETING, TUESDAY, APRIL 11, 1972

Decision:

R 72-19

ACA 16 (Foran)

Recommendation: The Administration should support ACA 16, which would revise the State Constitution so that revenues from motor vehicle fuel tax can be used for costs of public transit (but not of operations thereof) and for control of motor vehicle pollution.

Decision: Disapproved by the Governor. Business and Transportation and the Department of Public Works were given permission to oppose the Assembly Constitution Amendment. Everyone else would remain neutral. If issue is placed on the ballot, then our position will be reviewed.

R 72-23

Solid Waste Management

Recommendation: The Administration should seek an amendment to SB 5 and corresponding language in the enabling legislation of the Department of Environmental Protection, providing that the solid waste functions established by SB 5 shall be absorbed into the Department of Environmental Protection on January 1, 1974, providing the DEP becomes law prior to that date.

Decision: Approved by the Governor.

BT 72-6

The Use of Boards and Commissions

Recommendation: The Administration's previously endorsed objective of eliminating unnecessary boards and commissions should be reaffirmed and given new emphasis by implementing immediate selective controls.

Decision: Approved by the Governor. The two following recommendations were approved for immediate implementation:

1. Set up and maintain an updated central public record of all plural bodies, their life expectancy, duties, estimated annual cost to the taxpayer. The Executive Assistant to the Governor shall determine where and to whom the function shall be designated.

OK RR

CABINET ISSUE MEMO

CONSIDERATION 1 [ ]

DISCUSSION 2 [ ]

DECISION 3 [X]

(: Governor Ronald Reagan

DATE: April 10, 1972

FROM: Business & Transportation Agency

CONTROL NO.: BT 72-6

SIGNED BY: Frank J. Walton [signature]

Secretary of Business and Transportation

SUBJECT: The Use of Boards and Commissions

ISSUE: Should the Administration's previously endorsed objective of eliminating unnecessary boards and commissions be reaffirmed and given new emphasis by implementing immediate selective controls?

CONCLUSION: Yes.

RECOMMENDATIONS:

- Set up and maintain in the Governor's Office an updated central public record of all plural bodies, their life expectancy, duties, estimated annual cost to the taxpayer. (Such a record would allow a check against the creation of other plural bodies with overlapping or conflicting responsibilities.)
- Standardize the names of plural bodies and staff titles (as the opportunity arises) defining: boards, commissions, councils, committees, etc.
- Charge the Little Hoover Commission with the ongoing responsibility of examining at least every two years the composition of, duties of, and continued need for each plural body; and making recommendations to the Governor and the Legislature.
- Direct department heads to reexamine the need for <u>every</u> board, commission, or advisory committee under their jurisdiction, and to report to Cabinet through Agencies not later than June 1, 1972, their specific recommendations. For uniform evaluation, one of the following alternatives for action should be indicated:

  Abolish,
  Reduce in size,
  Consolidate,
  Retain with a restated charge and mandate,
  Retain as constituted showing necessity of function and dates of establishment.

FACTS AND DISCUSSION:

With improved communications and counterchecks in the governmental process, the disadvantages of many of the growing number of plural bodies outweigh the advantages.

Lines of authority between plural bodies and departments tend to overlap.

Part-time plural bodies tend to be dominated by the staff.

Plural bodies tend to acquire "immortality" despite completing the purpose for which they were formed.

OFFICE OF THE GOVERNOR
Sacramento, California
Contact: Ed Gray
445-4571 5-9-72

RELEASE: WEDNESDAY P.Ms.
May 10, 1972

PLEASE GUARD AGAINST PREMATURE RELEASE

EXCERPTS OF REMARKS BY GOVERNOR RONALD REAGAN
CHANNEL CITY CLUB
Santa Barbara, California
May 10, 1972

It is difficult for the average citizen to keep up on all the things going on in Sacramento. And I certainly could not cover every subject in the brief time I have with you today. But maybe that is what is wrong---we are looking at all the trees and not seeing the forest. Cut through all the debates, the negotiations, the different bills and the opposing programs you read about in the newspapers and hear about on television and radio and it all boils down to a difference with regard to philosophy. What do we expect of government and how much freedom are we willing to sacrifice in order to have government delivery of social services plus protection against even ourselves from an all-seeing eye in state and national capitols?

When I went to Sacramento 5½ years ago, I had the old-fashioned idea that government ought to live within its income and not spend money it does not have (and cannot get without adding to the citizen's tax burden) That really is not such a radically new concept. The State Constitution requires that we have a balanced budget and the governor's job is to make sure we do.

After working through six budgets, I am a little older, a little wiser and still a few votes short in the legislature. But I still feel that government (particularly at the federal level) is too big and tries to do things that it shouldn't.

Allocating the state's resources is not a game of monopoly with play money. Those revenue figures in the budget are real dollars---and they came out of somebody's pocket. It is <u>your</u> money that is being spent. And we feel we have an obligation to see that we get 100 cents of value from every dollar.

This involves setting priorities, taking care of the necessities first and then taking a hard look at all other spending programs---to see if we can't save a few dollars here and there by reforming some program or even eliminating unnecessary activities.

There is no question but that when you look at government that way, you run into controversy. Too many people, especially in government, feel that the nearest thing to eternal life we will ever see on this earth is a government program.

Then add to this those who sincerely believe that some particular program is the answer to man's greatest problem and must have top priority even if it means closing the parks---which brings out those who believe the parks are the answer to man's greatest problem---and you wind up with both groups unhappy about the way you divided up the money.

In fact, if I might paraphrase Abraham Lincoln, some people say they are not getting enough of the state budget <u>some</u> of the time and some complain they are not getting enough <u>all</u> of the time. And I hear from both most of the time.

What many citizens do not hear often enough is the basic philosophical difference between our opposing views of government.

I hear young people say "There is no difference between the parties or the politicians holding office."

It is time we awaken to the fact that two approaches to government are at work in the land and they are vastly different.

When our administration arrived in Sacramento, the state budget was second largest in the nation. Only the federal budget was larger, and we were adding thousands of new state employees each year. Now we are fourth in budget---behind New York State and New York City.

There are 1500 fewer full-time civil service employees than when we started. We have abolished 29 boards and commissions, and implemented hundreds of cost-savings suggestions. One of these involved the simple idea of one-way bridge tolls. Instead of collecting the one-way toll at each end of a bridge, the toll attendants now collect the round-trip toll at one end...a step that means less equipment and fewer toll-takers. One result of this kind of innovation has been a direct return to the taxpaye:

We have reduced bridge tolls a total of eleven times.

From the very first, we heard a chorus of voices claiming you cannot operate government like a private business. Reducing outgo to match income was called a pinch-penny approach that would not work. Fortunately we were all so inexperienced we did not know all the things you cannot do. So, it worked. And because it worked, government is not pinching so many of the commuter's pennies in bridge tolls.

Then there was the problem of welfare. The rolls were going up at the rate of 40,000 people a month. The cost of this alone threatened to bankrupt the state---and yet, the most needy of our people were not getting as much as they really needed to keep body and soul together; partly because of a fantastic array of abuses which found some people with incomes of $12,000 to $16,000 a year claiming---and getting---welfare. California was sending checks to people who chose to live in other states and even other countries. We were sending one check to a man who lived in Russia.

We started implementing administrative parts of a reform program 14 months ago. Now we are paying the truly needy 30 percent more than we were able to before but instead of adding 40,000 people a month to the welfare rolls, we now have 133,600 fewer welfare recipients than we had in March of last year.

Those reforms have saved the people of California $388 million this year and an estimated $708 million in the year to come.

Some die-hard critics accused us of shifting welfare costs to the counties. As a matter of fact, a number of counties this year are reporting a surplus in their welfare programs. Los Angeles County is considering a reduction in the property tax as a result of their savings.

Some citizens are confused when they hear about cost savings we have made at the state level and yet, they are still receiving higher tax bills. One reason for the confusion is the intricacies of government bookkeeping.

The mini-tax reform we passed a few months ago, for example, included a $46 million increase in the state-financed Senior Citizens Property Tax Relief Program. As a result of this program, our senior citizens will be paying $46 million less in local property taxes this year than they did last year. These reductions range from a 32 percent cash rebate up to more than 90 percent for those senior citizens in the lowest income brackets. Yet, this direct tax relief shows up in our budget as a <u>spending</u> program for the state.

This year, we submitted the state budget in two parts. We hope to give a clearer idea of where your tax dollars are going. Almost two-thirds (some $4.9 billion) of this year's budget is for local assistance--programs financed in whole or part by the state but carried out at the local level. The other one-third is the actual cost of running state government.

That mini-tax program offers a classic example of the opposing views of government that I mentioned.

I am sure most of you have heard of the so-called "windfall"---the money available as a result of the state's change to the withholding method of collecting state income taxes. We took the position that we should return <u>all</u> of this windfall to the people who paid it---the taxpayers. Others wanted to spend it. That was one of the prolonged discussions we had during the debate on tax reform. The result was a compromise.

Each of you who filed an income tax return this past April 15 received a 20 percent tax credit on your 1971 state income taxes. Part of the remainder of the windfall has been earmarked for one-time spending on specific capital construction projects. They include such things as $35 million for park and beach development, $30 million to help our schools conform to earthquake safety standards, $80 million for higher education construction programs.

In spite of the fact that this was one-time money, there were those who would have used it to start on-going programs which, of course, would have required a tax increase for the second year's cost, the third year and on into the future.

Debate over "to spend or not to spend" has led to a few charges and counter charges and a lot of misunderstanding.

Perhaps you recall the excitement a few months ago when the National Education Association alleged that California had "slipped" to 31st in the amount of money being spent per capita on public schools. Somehow this did not seem consistent with the fact that our teachers are among the highest paid and we educate the highest percent of our youth in public schools of any major state in the Union. When we saw their statistics, we challenged them. And what do you know? The NEA discovered a slight error. California somehow jumped from 31st to 16th. We question even that so-called ranking because they apparently did not count some items of aid in California that were counted in other states. But even while this correction was being made, one of our legislators rushed to the floor to demand that we appropriate enough money to be first in spending. Not one word about where we rank in quality or whether more money would result in better education. What if we really are 16th in spending, but maybe in the top ten in quality? State aid to schools during this administration has increased by 54 percent, while enrollment has gone up 12.7.

The fact is, that we have actually had enrollment declines in the lower eight grades. Now, we know that this does not mean some schools do not need more assistance. They do. The present method of distributing state financial support is out of date and inflexible. And we have been trying to get a more realistic system. Some districts with a low tax base have a high tax rate and yet still have difficulty financing a minimum educational program. Other districts---located in areas of high industrial concentrations---find themselves able to finance an expensive education program with a low tax rate.

We have been trying to get a more realistic system. While we are on the subject of education finance, there is a little confusion about our support of higher education. Right now, higher education is getting more money than it has ever received. State aid to the University of Californ has gone from $240 million per year when we took over to $376 million. That is a 56.8 percent increase for a 35.4 percent increase in enrollment. The state colleges have had a 121 percent increase in funding.

State support for community colleges has increased from $71 million to $214 million. That is a 201 percent increase in state aid for an enrollment increase of only 82 percent.

The fact is---we have never cut any educational budget---only budget requests---but then you cut the budget request of every department every year.

Just to wind up this subject, there is one other area of education where we have tried to do more---the Scholarship and Loan Program. It has gone from $4.7 million to $28 million, and believe me this is an increase I actually enjoy---and you should, too. I would like to read you a letter one student sent to a newspaper.

"This grant has meant a new life for me, for it enabled me to continue with my studies. It has meant a new stage of learning for me. This grant has made me realize there are people who really care about needy students...I want to express my appreciation to the State Scholarship and Loan Commission for awarding me this grant and for making school possible for me."

I have never been an advocate of expanding government---at the state level or anywhere else. But this year, at the risk of destroying my image, we are recommending some expansion in the area of protecting California's environment. We have asked the legislature to create a Department of Environmental Protection---to incorporate solid waste management with our air and water pollution control programs.

These are inter-related problems. If you burn garbage, you may be contributing to air pollution. If you dump it at sea, it becomes a water pollution problem. We feel <u>all</u> the different programs to protect and enhance the environment must be coordinated to be effective. The only wa to do this is to have all these programs in the same agency.

We also have recommended a State Power Plant Siting Council---so that environmental safeguards can be assured in locating the electrical energy plants we will need to meet our power needs in the years ahead.

In short, reform also means reorganization to do a better job for the people of California.

This is a business-like approach to government. It is a creative approach, a conservative approach. Certainly, it means saving money if possible. It involves measuring the dimensions of a problem and then applying our resources most effectively to resolve that problem. We think that is what the people sent us to Sacramento to do---to solve the problems of our society at the least possible cost to the taxpayers.

Part of this philosophical nose to nose contest rages around the practice of medicine. On one hand are those who think a gigantic take over by government is the only answer. Some of us still think we can deliver health care within the framework of free enterprise. The most affluent people in our society can meet their own medical needs. The least affluent have Medi-Cal.

But in the middle are about 17½ million working citizens of our state. More than 85 percent of them have some kind of private medical insurance, usually through their jobs. Such plans take care of their basic medical costs. But few people can afford the cost of one kind of illness---the kind that is not covered by medical insurance, the catastrophic illness that goes on for years at great cost---the kind that turns a wage-earning family into a family dependent on welfare.

We have proposed a state program to meet this need, at a cost of $3 per month per wage-earner. It is called the California Health Security Plan. It is designed only to augment private health plans---and provide insurance against financial disaster in case of catastrophic illness.

For $36 a year every family can have protection against catastrophic illness or injury for the entire family. There is no health insurance covering this and no working citizen can afford the cost.

Another so-called health program has been introduced in Sacramento this year. It would cost---by the author's own estimate---some $7.5 billion a year---or just about the same amount of money as our entire state budget this year. Our own experts feel the cost would be closer to $10 billion. Somehow government medical programs always cost more than the initial estimates. This would be funded by a 3 percent payroll tax and a 9 percent tax on the employer.

Using the old math or the new, that amounts to a 12 percent levy on a $10,000 income that comes to about $100 a month as opposed to our $3 a month proposal.

But the big difference is philosophical. We are attempting in our program to meet a part of the medical problem that is not now being solved---the area of the catastrophic illness. The other plan involves having government just take over all medical programs---wiping out a private insurance industry that is meeting the basic health needs of 85 percent of the people and substituting compulsory government insurance at a fantastically higher price.

# # # # # #

(NOTE: Since Governor Reagan speaks from notes, there may be changes in, or additions to, the above quotes. However, the governor will stand by the above quotes).