

# **Taking a Balanced Approach Responsible Revenue Options**

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# Shared Responsibility

SEIU recognizes that we are in an economic and fiscal crisis, and that we all need to come together to solve the deficit problem. The Governor's proposed budget doesn't do that. Polling after the Special Election showed that voters do not support the Governor's approach. Sixty-five percent of all voters say they want to take a common sense approach by solving the budget deficit with a mixture of cuts and new taxes; only 29% supported cuts alone.

We all have to make sacrifices to prevent a more severe economic downturn and preserve the California that previous generations built and passed on to us: a state with strong, smart investments in our people to create a dynamic economy and a high quality of life.

We know that there will be spending cuts. However, they must be balanced with an aggressive and creative effort to raise new revenues at the state and federal levels – and to make sure that everyone, including oil companies, tobacco companies, and other large corporations, contributes their fair share.

The following is a menu of revenue options, many of which have been discussed in the legislature and approved in the past. We believe there needs to be a balanced approach that includes revenues to offset the cuts if we are to close a deficit of this magnitude while maintaining a decent quality of life in our state.

## State Revenue Options

### 1. MAJORITY VOTE REVENUES

This list has already been vetted by both houses and pared down from a longer list. There may be other options that have not been brought forward yet. All the estimates are for a full fiscal year, but they could go into effect as soon as enacted, creating current year as well as budget year revenues. These are considered majority vote as long as the tax components are revenue neutral (according to a legislative counsel opinion).

- **\$900 MILLION: RAISING THE LOCAL SALES TAX WITH A MAJORITY VOTE AND DIRECTING AN EQUIVALENT AMOUNT OF PROPERTY TAX TO SCHOOLS, ALLOWING THE STATE GENERAL FUND TO REDUCE ITS SPENDING**  
This is simply raising local revenues (sales tax) with a majority vote and directing an equal amount of local property tax to schools.
- **\$2.2 BILLION: GAS TAX TO FEE EXCHANGE; CHANGING THE EXISTING GAS TAX TO A FEE AND INCREASING REVENUES BY THE SAME AMOUNT**  
This is changing the current gas tax to a fee, which means dedicating the revenue to transportation-related purposes like paying down bond debt and raising another tax to an amount just short of the value of the fee.
- **\$1.7 BILLION: TURN THE PROP 42 TAX TO A FEE IN THE SAME MANNER AS ABOVE.**  
This is the same treatment as the gas tax, above, for the gas tax portion dedicated to Prop 42 transportation funding.
- **\$300 MILLION: ALCOHOL FEE FOR ALCOHOL-RELATED SERVICES, AB 1019 (BEALL)**  
Charging a fee on alcohol that raises \$1.4 billion to relieve state and county obligations for alcohol related services, like those provided by the Department of Alcohol and Drug Programs. \$300 million can be scored against the General Fund.
- **\$200 MILLION: STATE FIRE PROTECTION FEE**  
Requires homeowners in wildfire-prone areas to pay a fee for emergency fire services to offset state costs of fighting fires. Many areas that shouldn't be are exempt under the current fee formulas.
- **\$150 MILLION: "SALES TAX NEXUS:" GETTING THE INTERNET SALES COMPANIES IN CALIFORNIA TO PAY THEIR FAIR SHARE WHEN THEY HAVE AN OPERATION, LIKE A WAREHOUSE, IN CALIFORNIA.**  
Based on a bill by Assemblymember Skinner (AB 178), this proposal would require companies like Amazon that have "affiliate" relationships with California businesses to collect sales taxes.

- **\$35 MILLION: FINANCIAL INSTITUTION DATA MATCH.**

Raises revenue by ensuring companies pay tax on their entire income. Requires banks to match data on tax filers with government agencies. They would share information regarding revenues to make sure companies are reporting all income to all agencies for tax purposes.

- **\$400 MILLION: REQUIRE STIFFER REPORTING FOR BUSINESS LICENSE HOLDERS, AB 711 (CALDERON)**

Reduces non-reporting of sales and income taxes. Requires cities to report business license information to state agencies to track compliance on sales and income tax reporting. This was implemented partially in the city of Los Angeles and raised tens of millions of dollars.

- **\$200 MILLION: INDEPENDENT CONTRACTOR WITHHOLDING**

This is hard to estimate, and varies as acceleration (from withholding what is usually paid later) decreases over the years, while compliance (getting actual unpaid taxes) tends to level out over the years. Generates \$2 billion first year and then \$200 million ongoing.

## **2. UP TO \$1 BILLION: IMPROVED TAX COLLECTIONS AND EFFICIENCIES**

According to audits done by the current Controller, administrative improvements and increased audits by the state's three taxing agencies would produce from "hundreds of millions to over a billion" in additional state revenue. These could be accomplished without changes in tax laws, but would require more upfront expenditures and would produce less revenue in the budget year than in the out-years.

## **3. 2/3rds VOTE TAXES THAT ARE SUPPORTED BY THE PUBLIC.**

- **\$5 BILLION: INCREASE INCOME TAX RATE FOR TOP TWO TAX BRACKETS**

Increase the top bracket of the state income tax from 9.3 percent to 10 percent for families with taxable income over \$272,000 a year and to eleven percent for families with taxable incomes over \$544,000 a year. Restores the 10 and 11 percent rates that expired in 1996.

- **\$1 BILLION: OIL SEVERANCE TAX**

California is the only oil producing state that doesn't tax oil at the well.

- **\$585 MILLION: RAISE TAXES ON ALCOHOLIC BEVERAGES BY A NICKEL A DRINK.**

California's taxation on alcohol is well below the national average.

- **\$800 MILLION: INCREASE TOBACCO TAXES BY FIFTY CENTS PER PACK.**

California's taxation of tobacco products is well below the national average.

- **UP TO \$8 BILLION (ACCORDING TO B.O.E.): BROADEN SALES TAX TO INCLUDE SERVICES**

The amount depends on which services are included, ranging from legal and engineering to haircuts and shoe shines, which are not taxed now in California, but are taxed in many other states

# **Federal Revenue Maximization**

To maximize federal revenue, as other states do, we need to be more aggressive and affirmative in identifying revenue opportunities and then take the legislative and administrative actions needed to secure the additional federal funds.

## **1. CREATE A NEW MANAGED CARE QUALITY FEE: POTENTIAL REVENUE \$300-\$350 MILLION IN FEDERAL FUNDS ANNUALLY**

There is currently a provider tax on managed care plans to help support Medi-Cal. There are ways to update this concept and make it viable going forward, even though the federal government is currently working to phase out the current design.

## **2. CREATE A PROVIDER FEE FOR HOME CARE: POTENTIAL REVENUE \$300-\$400 MILLION IN FEDERAL FUNDS ANNUALLY**

California has had success in creating a nursing home quality fee. Such an approach could be extended to home care.

## **3. CREATE A PERMISSIBLE HOSPITAL PROVIDER TAX: POTENTIAL REVENUE \$1.8 BILLION IN FEDERAL FUNDS ANNUALLY**

While most states have a hospital tax, California does not. The 2005 hospital waiver would need to be amended as it precludes California from implementing such a tax prior to the waiver's 2010 expiration.

## **4. CLAIM THE \$360 MILLION IN INCENTIVE FUNDS FROM THE 2005 HOSPITAL WAIVER: POTENTIAL SAVINGS OF \$360 MILLION IN ONE-TIME STATE FUNDING**

California's 2005 hospital financing waiver included \$360 million in incentive funds the state could receive. The hospital waiver would need to be amended to permit use of these funds. Revenue achieved from this should go towards California's health care programs, not just into the general fund.

## **5. MORE AGGRESSIVE PHARMACY MANAGEMENT: POTENTIAL SAVINGS OF \$75 MILLION IN ANNUAL STATE FUNDING**

While California does operate a preferred drug list ("PDL") program to help maximize rebates from the drug companies; there are areas of possible improvement. A more competitive approach that reduces the number of clinically appropriate drugs in a particular drug class and better promotes generic drug usage has been proven to generate additional savings in other states. A similar proposal has been adopted by the budget conference committee.

## **6. SELECTIVE CONTRACTING: POTENTIAL SAVINGS OF \$50 MILLION IN ANNUAL STATE FUNDING**

Another example of the possible application of commercial insurance concepts to Medi-Cal is to reduce the network of providers for specific services (durable medical equipment, lab services, radiology) in return for price concessions and quality improvements. While some elements may already have been implemented, further efforts may produce additional savings.

## **7. PHYSICIAN UPPER PAYMENT LIMIT ("UPL") PROGRAM: POTENTIAL ADDITIONAL FEDERAL REVENUE BETWEEN \$100-\$200 MILLION PER YEAR**

Medi-Cal does not currently employ a physician UPL program. This program takes existing state funding that goes to UC medical schools that operate a physician practice plan for their clinical faculty and runs those payments through the Medi-Cal program, thereby generating federal matching funds. A conservative estimate is between \$100 and \$200 million in annual additional federal revenue, although we would need practice plan data to verify this.

## **8. FEDERAL MATCHING FUNDS FOR THE STATE'S HIGH RISK POOL: POTENTIAL ADDITIONAL FEDERAL REVENUE OF UP TO \$45 MILLION PER YEAR**

Currently California operates a high risk pool that subsidizes premiums for individuals with high medical risk. It is possible to draw down federal Medicaid matching funds for the pool. In 2008 Governor Schwarzenegger vetoed legislation that would have met the federal requirements for this.

## **9. ASSESSMENT ON WAIVER SERVICES**

At the present time California does not have an assessment on waiver services. A simple 5% assessment could generate \$250 million.