Revenue Estimates

It is projected that the California economy will continue to grow, albeit at a modest rate, through the period covered by the Budget. The modest growth in the economy is augmented by very rapid projected growth in certain segments of the economy —particularly corporate profits and income for high-income taxpayers. This strong growth in narrow segments of the economy tends to cause healthy growth in revenues.

Beyond the natural economic growth, a shift in revenue is expected into 2012-13 from 2013-14, resulting from the sunset of the lower federal tax rates on regular and capital gains income that is scheduled for the end of 2012. The scheduled higher rates in 2013 are expected to cause some taxpayers to shift some of their capital gains, dividend, and wage income from 2013 into 2012.

Figure REV-01 shows the impact of the recession on General Fund revenues. The black line shows the 2007-08 Governor's Budget long-term revenue forecast, prior to the recession. The dashed line shows actual General Fund revenue through fiscal year 2010-11 and projections for revenue through fiscal year 2013-14. The dotted line shows the effect of the Governor's proposed revenue solutions. Between 2007-08 and 2011-12, the major changes have been:

- The lingering effects of the Great Recession. For 2011-12, General Fund revenues remain tens of billions of dollars lower than the amount projected in the 2007-08 Governor's Budget.

- The 2011 Realignment lowered the state General Fund sales tax rate by 1.0625 percent and dedicated an equivalent special fund sales tax rate to local public safety programs.

Figure REV-01
General Fund Revenues

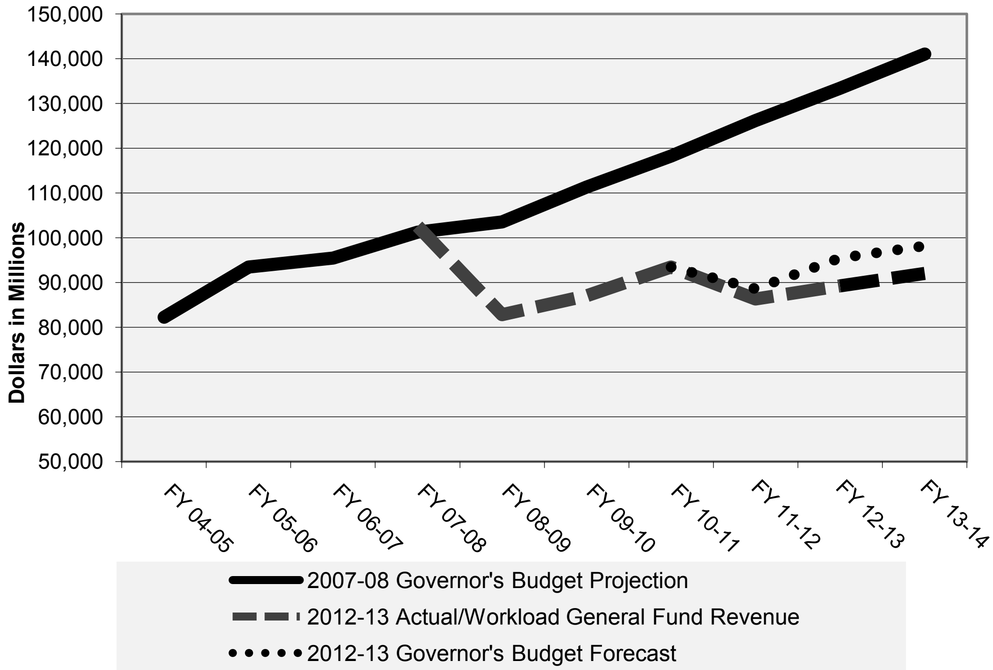


Figure REV-02 displays the forecast changes between the 2011 Budget Act, the 2012 budget baseline (current law) forecast, and the Budget with proposed policy changes. The Budget includes a total of $8.4 billion in revenue solutions within the 2012-13 budget window. Revenue is expected to be $88.6 billion in 2011-12 and $95.4 billion in 2012-13. The drop-off in revenue from 2010-11 to 2011-12 is a result of the reduction in Personal Income Tax, Sales Tax, and Vehicle License Fee rates, and the increase in the dependent exemption credit, following the expiration of temporary increases, as well as the reduction of 1.0625 percent of the Sales and Use Tax associated with 2011 realignment. These changes are projected to reduce General Fund revenues by $7 billion and $5 billion, respectively.

The Budget forecast was prepared in early December, before individuals and corporations made final withholding and estimated payments for the 2011 tax year, and before

Figure REV-02

2012-13 Governor's Budget
General Fund Revenue Forecast
Summary Table
Reconciliation with the 2011-12 Budget Act
(Dollars in Millions)

Source	2011 Budget Act	Governor's Budget Baseline	Change From Budget Act		Proposed	Change From Baseline
Fiscal 10-11						
Personal Income Tax	$50,027	$49,491	-$536	-1.1%	$49,491	$0
Sales & Use Tax	27,140	26,983	-157	-0.6%	26,983	0
Corporation Tax	9,963	9,614	-349	-3.5%	9,614	0
Insurance Tax	2,016	2,077	61	3.0%	2,077	0
Vehicle License Fees	1,360	1,330	-30	-2.2%	1,330	0
Alcoholic Beverage	318	334	16	5.0%	334	0
Cigarette	93	96	3	3.2%	96	0
Other revenues	1,967	2,076	109	5.6%	2,076	0
Transfers	1,897	1,488	-409	-21.6%	1,488	0
Total	**$94,781**	**$93,489**	**-1,292**	**-1.4%**	**$93,489**	**0**
Fiscal 11-12						
Personal Income Tax	$50,408	$51,937	$1,529	3.0%	$54,186	$2,249
Sales & Use Tax (a)	19,009	18,777	-232	-1.2%	18,777	0
Corporation Tax	9,012	9,479	467	5.2%	9,479	0
Insurance Tax	1,893	2,042	149	7.9%	2,042	0
Vehicle License Fees	150	80	-70	-46.7%	80	0
Alcoholic Beverage	326	323	-3	-0.9%	323	0
Cigarette	91	93	2	2.2%	93	0
Other revenues	2,102	2,192	90	4.3%	2,213	21
Transfers	1,465	1,386	-79	-5.4%	1,413	27
Unallocated Revenue Increase	4,000	0	-4,000	-100.0%	0	0
Total	**$88,453**	**$86,309**	**-$2,144**	**-2.4%**	**$88,606**	**$2,297**
Change from Fiscal 10-11	-$6,328	-$7,180			-$4,883	
% Change from Fiscal 10-11	-6.7%	-7.7%			-5.2%	
Fiscal 12-13						
Personal Income Tax	$55,030	$56,025	$995	1.8%	$59,552	$3,527
Sales & Use Tax	20,887	19,595	-1,292	-6.2%	20,769	1,174
Corporation Tax	9,426	9,342	-84	-0.9%	9,342	0
Insurance Tax	2,040	2,179	139	6.8%	2,179	0
Vehicle License Fees	0	5	5	N/A	5	0
Estate Tax (b)	830	45	-785	-94.6%	45	0
Alcoholic Beverage	334	329	-5	-1.5%	329	0
Cigarette	87	90	3	3.4%	90	0
Other revenues	2,125	2,240	115	5.4%	2,237	-3
Transfers	-1,036	-529	507	-48.9%	841	1,370
Total	**$89,723**	**$89,321**	**-$402**	**-0.4%**	**$95,389**	**6,068**
Change from Fiscal 11-12	$1,270	$3,013			$6,784	
% Change from Fiscal 11-12	1.4%	3.5%			7.7%	
Three-Year Total			**-$3,837**			**$8,365**

(a) The Sales and Use Tax revenue for 2011-12 is not directly comparable to the Sales and Use Tax revenue for 2010-11 because of two law changes that took effect on July 1, 2011.

(b) For 2011 and 2012, federal estate tax law is structured such that California will receive none of the "state pick-up" estate tax for those years. However, under current law, starting in January 1, 2013, the federal estate tax will return to its pre-2011 structure and California will, again, begin to receive estate tax payments for estates for which the death occurred on or after January 1, 2013.

Note: Revenues from the Governor's Initiative are not General Fund revenues, and are only available to fund education. As the initiative requires that they are treated as General Fund revenues for the purposes of calculating Proposition 98, they are treated as such.

consumers completed their December purchases. These critical December and January receipts can have a large impact on state revenues. Therefore, this forecast will be revised in early May when these data and April income tax receipts are available.

Temporary Tax Increase

The Budget is based on the assumed passage of the Governor's Constitutional Amendment on the November 2012 ballot. The proposal temporarily increases tax rates on the highest income Californians, and temporarily increases the Sales and Use Tax rate by 0.5 percent. These two provisions result in a revenue increase of $6.9 billion. The proposal will provide revenues to replace some of the revenues lost in the recession as the state's economy slowly recovers.

Figure REV-03 shows the tax brackets and tax rates contained in the Governor's tax initiative. These brackets will be indexed for inflation for the 2013 through 2016 tax years.

Figure REV-03

Temporary Tax Increase Proposal

Filing Status	Income Subject to Higher Rate	Additional Rate
Single	Between $250,000 and $300,000	1 percent
	Between $300,001 and $500,000	1.5 percent
	Over $500,000	2 percent
Joint	Between $500,000 and $600,000	1 percent
	Between $600,001 and $1,000,000	1.5 percent
	Over $1,000,000	2 percent
Head of Household	Between $340,000 and $408,000	1 percent
	Between $408,001 and $680,000	1.5 percent
	Over $680,000	2 percent

A portion of the revenues collected under the measure will be attributable to income earned in 2011-12. Therefore, a portion of the revenue attributed to the personal income tax rate increase for the 2012 tax year is accrued to the 2011-12 fiscal year.

Revenue Proposals

The Budget proposes the following policy changes that will affect General Fund revenue:

- Financial Institution Records Match. The Budget proposes to expand Financial Institutions Record Match to the Employment Development Department (EDD) and the Board of Equalization (BOE) beginning in January 2013. The EDD match program would primarily collect unpaid wage withholding debts, while the BOE match program would primarily collect unpaid sales and use tax debts. This program is expected to generate $4 million General Fund revenue in 2011-12 and $11 million General Fund revenue in 2012-13. In addition, this program is expected to generate local revenue and special fund revenue.
- The Budget proposes to improve the State Controller's Office management of the unclaimed property program. This improvement is expected to generate $21 million in 2011-12 and $57 million in 2012-13.
- The Budget reflects the transfer of an additional $349.5 million in weight fee revenues to the General Fund to be used to offset future debt service costs on transportation bonds.
- The Budget proposes to continue the 2011-12 practice of paying the interest on the loan from the federal government for unemployment insurance payments from the Unemployment Compensation Disability Fund, for revenues of $417 million for 2012-13.
- The Budget proposes to suspend the county share of child support collections in 2012-13 for a revenue gain of $34.5 million.

Figure REV-04 shows the total impact of the changes in revenues, policy decisions, and associated spending on the Budget.

Figure REV-04

Changes in Revenues

(Benefit to General Fund - Dollars in Millions)

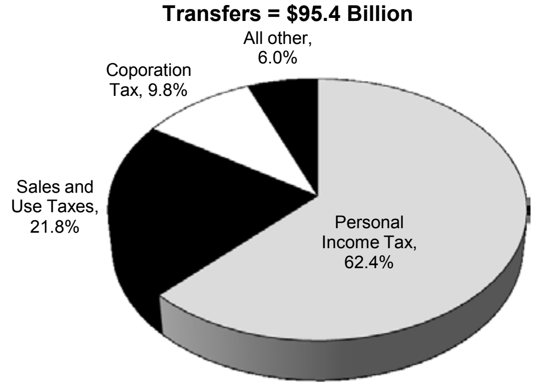
	2011-12	2012-13
Direct General Fund Impact		
Governor's Tax Initiative		
Temporary Additional Rates for High-Income Taxpayers	$2,245	$3,519
Temporary Sales Tax Rate of 0.5 percent	0	1,171
Revenue Driven Increase in Propostion 98 Expenditures		-2,534
Net Impact of Governor's Tax Initiative	$2,245	$2,156
Other Revenue Solutions		
Financial Institutions Records Match (FIRM)	$4	$11
Offsetting Costs Associated with FIRM		-9
Other Revenues	21	98
Fees and Loans	27	1,370
General Fund Revenue Solutions	$2,297	$3,626
Other Special Fund Revenues That Offset General Fund Costs		
Permanently Extend the Managed Care Organization Taxes for Medi-Cal and Healthy Families		$352
Total	$2,297	$3,978

General Fund Revenue

In 2012-13, General Fund revenues and transfers represent 71.7 percent of total revenues reported in the Budget. Figure REV-05 shows the breakdown of General Fund revenues by taxation type. The remaining 28.3 percent consists of special fund revenues dedicated to specific programs. The revenue estimates noted in the following discussion include the impact of the various proposals noted previously in "Revenue Proposals."

Figure REV-05

2012-13 General Fund Revenues and Transfers = $95.4 Billion



Personal Income Tax

The Personal Income Tax (PIT) is the state's largest single revenue source, accounting for 62.4 percent of all General Fund revenues and transfers in 2012-13. These revenue estimates include $2.3 billion in 2011-12 and $3.5 billion in 2012-13 from the assumed addition of three tax brackets for taxable incomes beginning at $250,000 ($500,000 joint) with rates of 10.3 percent, 10.8 percent, and 11.3 percent for five years.

Modeled closely on the federal income tax law, California's PIT is imposed on net taxable income—gross income less exclusions and deductions. The tax rate structure is steeply progressive over much of the income spectrum, with rates ranging from 1 percent to 9.3 percent. For the 2009 and 2010 tax years, the marginal rates ranged from 1.25 percent to 9.55 percent.

Income ranges for all tax rates are adjusted annually by the change in the California Consumer Price Index. This prevents taxpayers from moving into higher tax brackets because of inflation without an increase in real income. For the 2011 tax year, this adjustment increased 2.7 percent, reflecting rising prices for a second consecutive year following a decline in 2009. For the 2012 tax year, the adjustment is projected to be an increase of 1.6 percent. The largest income source for the PIT is wages and salaries. In 2009, taxes attributable to wages and salaries accounted for over 67 percent of PIT revenues. Based on the economic forecast, wages and salaries are expected to rise by an average of 4.8 percent in 2011, followed by 4.9 percent growth in 2012, and 2.3 percent in 2013.

The highest income Californians pay for a disproportionate share of the state's PIT taxes. Changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues. 2009 tax return data reveal that taxpayers with adjusted gross income (AGI) above $200,000 represented only 3.8 percent of total returns for that year, but accounted for 31.4 percent of total AGI. This group accounted for 54.6 percent of 2009 total tax liability. Historically, this income group has also had wage growth rates that differ from those in the AGI group below $200,000. This differential can be exaggerated during periods of economic growth. In 2004 for example, wages for those in the over $200,000 AGI group grew at 24.4 percent. For all others, wages grew at 3.9 percent. Even several years into a recovery period, the growth differential can still be significant. For the 2007 tax year, the above-$200,000 AGI group had wage growth of 12.1 percent, while all others saw 6.3-percent growth. The PIT revenue forecast reflects this historical pattern of differential wage growth rates for different segments of the income distribution.

Another aspect of the PIT system is the significant role played by capital gains. In the period from 2003 to 2007, capital gains realizations saw tremendous growth from $45.6 billion to $132 billion. It dropped sharply in 2008 and again in 2009, when it stood at $28.8 billion. In 2009, this component accounted for 6 percent of the PIT. Gains from that low point are estimated to have increased 90 percent in 2010. Capital gains are expected to see continued growth of 15 percent in 2011, followed by 53 percent in 2012.

Capital gains income, while smaller than wage income, is concentrated in the above-$200,000 AGI group. The concentration of wages and capital gain income among high income earners, coupled with our progressive tax system, results in higher PIT revenue than the aggregate growth in total AGI would suggest.

Consistent with current law, the Budget reflects the potential behavioral impacts of federal tax law changes. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 reduced taxes for dividend income, capital gains, and other income. These tax reductions were set to expire after 2010. However, late in 2010 they were extended through 2012. In addition, a 3.8-percent surtax on specified unearned income will go into effect on January 1, 2013. Similar to what happened in 2010, the Budget estimates assume that in 2012 some taxpayers will respond to the potential rate changes by accelerating 20 percent of 2013 capital gains to 2012. It is also assumed that 10 percent of 2013 dividends and 1.1 percent of wages will be accelerated to 2012. These changes are projected to increase 2012-13 revenues by $1.5 billion and to reduce 2013-14 revenues by a similar amount.

Figure REV-06 shows the portion of General Fund revenues from capital gains. In addition to wages and salaries and capital gains, other major components of AGI include net business and proprietor income.

Figure REV-06

Capital Gains
As a Percent of General Fund Revenues

(Dollars in Billions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 [p]	2011 [e]	2012 [e]
Capital Gains Income	$33.4	$45.6	$75.5	$112.4	$117.9	$132.0	$56.3	$28.8	$54.7	$62.9	$96.0
Capital Gains Tax	$3.0	$4.1	$6.8	$10.1	$10.6	$11.9	$5.1	$2.6	$4.9	$5.7	$8.6
	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13
Total General Fund Revenues and Transfers	$71.3	$74.9	$82.2	$93.5	$95.5	$99.2	$82.8	$87.0	$93.5	$88.6	$95.4
Capital Gains Tax as Percent of General Fund Revenues & Transfers	4.2%	5.5%	8.3%	10.8%	11.1%	12.0%	6.1%	3.0%	5.3%	6.4%	9.1%

[p] Preliminary

[e] Estimated

Note: Totals may not add due to rounding
2002-03 revenues do not include $9.242 billion in economic recovery bonds.
2003-04 revenues do not include $2.012 billion in economic recovery bonds.
2007-08 revenues do not include $3.313 billion in economic recovery bonds.

A portion of PIT revenue is for dedicated purposes and deposited into a special fund instead of the General Fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over $1 million in addition to the 9.3-percent General Fund rate (9.55 percent for tax years 2009 and 2010). Revenue from the surcharge is transferred to the Mental Health Services Fund and used to fund mental health service programs. Revenues of $1 billion are estimated for the 2010-11 fiscal year. Annual revenues of $1.2 billion for 2011-12, and $1.5 billion for 2012-13 are projected. The General Fund and the Mental Health Services Fund shares of PIT revenues for 2010-11 through 2012-13 are shown in Figure REV-07.

Figure REV-07

Personal Income Tax Revenue

(Dollars in Thousands)

	2010-11 Preliminary	**2011-12 Forecast**	**2012-13 Forecast**
General Fund	$49,491,070	$54,186,000	$59,552,000
Mental Health Services Fund	1,017,371	1,151,000	1,469,000
Total	**$50,508,441**	**$55,337,000**	**$61,021,000**

Sales and Use Tax

Since the end of 2010-11, the Sales and Use Tax has been adjusted as follows:

- Reduction of the temporary 1-percent General Fund rate in effect from April 1, 2009, to June 30, 2011, with an annual revenue loss of about $5 billion.
- The General Fund sales tax rate was further lowered from 5 percent to 3.9375 percent to fund 2011 Realignment.
- A Realignment rate of 1.0625 percent was permanently established to fund public safety programs through the Local Revenue Fund 2011.
- The Budget assumes the passage of a Constitutional Amendment that increases the sales tax rate by 0.5 percent from January 1, 2013, to December 31, 2016.

The sales tax is expected to generate General Fund revenues of $18.8 billion in 2011-12 and $20.8 billion in 2012-13. Figure REV-08 displays Sales and Use Tax revenues for the General Fund, as well as special funds, for 2010-11 through 2012-13.

Figure REV-08

Sales Tax Revenue

(Dollars in Thousands)

	2010-11 Preliminary	2011-12 Forecast	2012-13 Forecast
General Fund	$26,983,000	$18,777,000	$20,769,000
Sales and Use Tax-Realignment	2,469,129	2,661,201	2,774,986
Sales and Use Tax-2011 Realignment	0	5,107,000	5,320,000
Public Transportation Account	327,602	589,419	643,393
Economic Recovery Fund	1,216,641	1,311,000	1,394,000
Total	**$30,996,372**	**$28,445,620**	**$30,901,379**

Through the first three quarters of calendar year 2010, the largest contributors to the sales tax base were wholesale trade at 11.3 percent, food services and establishments serving alcoholic beverages at 11.0 percent, and motor vehicle and parts dealers at 10.1 percent. Other significant contributors to the sales tax base include sales by general merchandise stores at 9.1 percent and gasoline stations at 9.6 percent.

Taxable sales, including gas, decreased by 4.4 percent in 2009-10. Based on preliminary data, it is estimated that taxable sales have increased by 7.5 percent in 2010-11. Growth is expected to continue at 6.8 percent in 2011-12 followed by 4 percent in 2012-13.

General Fund revenues beginning in 2010-11 do not include any sales taxes collected from the sale of gasoline because of the fuel tax swap implemented on July 1, 2010, which exempted fuel sales from the General Fund portion of the sales tax (see the section on the Motor Vehicles Fuel Tax).

Approximately two-thirds of the sales tax is related to consumer spending and paid by households. Such purchases are influenced by employment trends and interest rates. Given that much of the sales tax base is comprised of nonessential purchases that can be postponed or cancelled, consumer confidence can have a significant impact on sales tax revenues. The remaining approximately one-third of the sales tax is paid on purchases by businesses. This component, too, is governed by businesses' perceptions of economic conditions and the need for additional equipment acquisitions and other capital purchases. Sales and Use Tax revenues are forecast by relating taxable sales to economic factors such as income, employment, housing starts, new vehicle sales, and inflation.

Receipts from Sales and Use Taxes, the state's second largest revenue source, are expected to contribute 21.8 percent of all General Fund revenues and transfers in 2012-13.

Figure REV-09 displays the individual elements of the state and local sales tax rates. Figure REV-10 shows combined state and local tax rates for each county.

Figure REV-09

2011-12 State and Local Sales and Use Tax Rates

State Rates		
General Fund	3.94%	Pursuant to Sections 6051.3 and 6051.4 of the Revenue and Taxation Code, this rate is 3.94% but may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels.
Local Revenue Fund 2011	1.06%	Pursuant to Sections 6051.15 and 6201.15 of the Revenue and Taxation Code, beginning on July 1, 2011, revenues attributable to a rate of 1.0625 percent collected pursuant to Section 6051 shall be allocated to the Local Revenue Fund 2011.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 state-local realignment.
Economic Recovery Fund	0.25%	Beginning on July 1, 2004, a new temporary 0.25% state sales tax rate was imposed, with a corresponding decrease in the Bradley-Burns rate. These revenues are dedicated to repayment of Economic Recovery Bonds. Once these bonds are repaid, this tax will sunset and the Bradley-Burns rate will return to 1%.
Local Uniform Rates[1]		
Bradley-Burns	0.75%[2]	Imposed by city and county ordinance for general purpose use.[3]
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to cities and counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.
Local Add-on Rates[4]		
Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments[5] up to a combined maximum of 2.00% in any county.[6] Any ordinance authorizing a transactions and use tax requires approval by the local governing board and local voters.

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

[2] The 1 percent rate was temporarily decreased by 0.25 percent on July 1, 2004, and a new temporary 0.25 percent tax imposed to repay Economic Recovery Bonds. Cities and counties will receive additional property tax revenues equal to the 0.25 percent local sales tax reduction.

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

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

[5] Increments imposed at 0.125 percent are only allowed when revenues are dedicated for library purposes.

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

Figure REV-10

Combined State and Local Sales and Use Tax Rates by County

(Rates in Effect on October 1, 2011)

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda [1/]	8.75%	Madera	7.75%	San Joaquin [23/]	7.75%
Alpine	7.25%	Marin [11/]	8.00%	San Luis Obispo [24/]	7.25%
Amador	7.75%	Mariposa	7.75%	San Mateo [25/]	8.25%
Butte	7.25%	Mendocino [12/]	7.25%	Santa Barbara	8.75%
Calaveras	7.25%	Merced [13/]	7.25%	Santa Clara [26/]	8.25%
Colusa [2/]	7.25%	Modoc	7.25%	Santa Cruz [27/]	8.00%
Contra Costa [3/]	8.25%	Mono [14/]	7.25%	Shasta	7.25%
Del Norte	7.25%	Monterey [15/]	7.25%	Sierra	7.25%
El Dorado [4/]	7.25%	Napa	7.75%	Siskiyou [28/]	7.25%
Fresno [5/]	7.975%	Nevada [16/]	7.375%	Solano	7.375%
Glenn	7.25%	Orange [17/]	7.75%	Sonoma [29/]	8.00%
Humboldt [6/]	7.25%	Placer	7.25%	Stanislaus [30/]	7.375%
Imperial [7/]	7.75%	Plumas	7.25%	Sutter	7.25%
Inyo	7.75%	Riverside [18/]	7.75%	Tehama	7.25%
Kern [8/]	7.25%	Sacramento [19/]	7.75%	Trinity	7.25%
Kings	7.25%	San Benito [20/]	7.25%	Tulare [31/]	7.75%
Lake [9/]	7.25%	San Bernardino [21/]	7.75%	Tuolumne [32/]	7.25%
Lassen	7.25%	San Diego [22/]	7.75%	Ventura [33/]	7.25%
Los Angeles [10/]	8.75%	San Francisco	8.50%	Yolo [34/]	7.25%
				Yuba [35/]	7.25%

1/ 9.00% for sales in the City of San Leandro and 9.25% for sales in the City of Union City.
2/ 7.75% for sales in the City of Williams.
3/ 8.75% for sales in the Cities of Richmond, Pinole, and Concord and 9.25% in the City of El Cerrito.
4/ 7.75% for sales in the Cities of Placerville and South Lake Tahoe.
5/ 8.475% for sales in the Cities of Reedley and Selma and 8.725% for sales in the City of Sanger.
6/ 8.00% for sales in the Cities of Eureka, Arcata and Trinidad.
7/ 8.25% for sales in the City of Calexico.
8/ 8.25% for sales in the Cities of Arvin and Delano.
9/ 7.75% for sales in the City of Clearlake and the City of Lakeport.
10/ 9.25% for sales in the Cities of Avalon, El Monte, Inglewood, Santa Monica, and South El Monte and 9.75% for sales in Pico Rivera and South Gate.
11/ 8.50% for sales in the Cities of Novato and San Rafael.
12/ 7.75% for sales in the Cities of Fort Bragg, Point Arena, Ukiah, and Willits.
13/ 7.75% for sales in the Cities of Merced, Los Banos, and Gustine.
14/ 7.75% for sales in the City of Mammoth Lakes.
15/ 7.75% for sales in the Cities of Salinas and Sand City and 8.25% in the Cities of Del Rey Oaks, Marina, Pacific Grove, and Seaside.
16/ 7.875% for sales in the Cities of Truckee and Nevada City.
17/ 8.25% for sales in the City of La Habra.
18/ 8.75% for sales in the City of Cathedral City.
19/ 8.25% for sales in the City of Galt.
20/ 8.00% for sales in the City of San Juan Bautista and 8.25% for sales in the City of Hollister.
21/ 8.00% for sales in the City of Montclair and the City of San Bernardino.
22/ 8.25% for sales in the City of Vista, 8.5% for the City of La Mesa, and 8.75% for sales in the Cities of El Cajon and National City.
23/ 8.00% for sales in the City of Stockton and 8.25% for sales in the Cities of Manteca and Tracy.
24/ 7.75% for sales in the Cities of Arroyo Grande, Morro Bay, Grover Beach, San Luis Obispo, and Pismo Beach.
25/ 8.50% for sales in the Cities of Hillsdale and San Mateo.
26/ 8.50% for sales in the City of Campbell.
27/ 8.25% for sales in the Cities of Watsonville and Capitola and 8.50% for sales in the City of Santa Cruz.
28/ 7.50% for sales in the City of Mount Shasta.
29/ 8.25% for sales in the City of Sebastopol and 8.50% for Cotati, Rohnert Park, and Santa Rosa.
30/ 7.875% for sales in the City of Ceres.
31/ 8.00% for sales in the City of Visalia. 8.25% for sales in the Cities of Farmersville, Porterville, and Tulare. 8.50% for sales in the City of Dinuba.
32/ 7.75% for sales in the City of Sonora.
33/ 7.75% for sales in the Cities of Oxnard and Port Huememe.
34/ 7.75% for sales in the Cities of West Sacramentoand Davis and 8.00% for sales in the City of Woodland.
35/ 7.75% for sales in the City of Wheatland.

Corporation Tax

Corporation Tax revenues are expected to contribute 9.8 percent of all General Fund revenues and transfers in 2012-13. Corporation Tax revenues were $9.6 billion in 2010-11 and are expected to decline by 1.4 percent to $9.5 billion in 2011-12. In 2012-13, they are expected to decline another 1.5 percent to $9.3 billion. This is in part a function of recent policy changes discussed below. Corporation Tax revenues are driven by corporate profits, which generally track the overall business cycle. Further, Corporation Tax revenue over the next several years will be diminished by the recent legislative actions taken in prior budget acts. In particular, the following provisions will tend to weaken the growth of corporation tax revenue:

- The ability of taxpayers to elect single sales factor apportionment, which is operative for tax years beginning on or after January 1, 2011.
- The ability of unitary taxpayers to share tax credits among members of the unitary group, which is operative for tax years beginning on or after January 1, 2010.
- The ability for taxpayers to carry back net operating losses to prior years, which is operative for tax years beginning on or after January 1, 2012.
- The expiration of the temporary limitation of credits to offset no more than 50 percent of pre-credit tax liability, which were operative for tax years beginning after January 1, 2008, but before January 1, 2010.
- The end of the temporary suspension of net operating losses, which is operative for tax years beginning on or after January 1, 2008, but before January 1, 2012.

From 1943 through 1985, Corporation Tax liability as a percentage of profits closely tracked the corporation tax rate. Since 1986, increasing S-corporation activity and use of credits have been contributing to a divergence between profit and tax liability growth. Businesses that elect to form as S-corporations pay a reduced corporate rate, with the income and tax liability on that income passed through to owners and thus shifted to the personal income tax.

Insurance Tax

Most insurance policies written in California are subject to a 2.35-percent gross premiums tax. This premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. In general, the basis of the tax is the amount of "gross premiums" received, less return premiums.

To provide interim funding for the Healthy Families and Medi-Cal programs, Chapter 11, Statutes of 2011, expanded the 2.35-percent gross premiums tax to the Medi-Cal managed care plans through June 30, 2012. The Budget proposes to permanently extend this tax on Medi-Cal managed care plans. All tax receipts collected from this proposed extension would remain in the budget of the Department of Health Care Services.

Figure REV-11 displays the distribution of total Insurance Tax revenues from 2010-11 through 2012-13.

Figure REV-11

Insurance Tax Revenue

(Dollars in Millions)

	2010-11 Preliminary	2011-12 Forecast	2012-13 Forecast
General Fund	$2,076.9	$2,042.0	$2,179.0
Children's Health and Human Services Special Fund	230.1	234.2	352.4
Total	**$2,307.0**	**$2,276.2**	**$2,531.4**

The Department of Finance conducts an annual survey to project insurance premium growth. Responses were received this year from a sample representing about 42 percent of the dollar value of premiums written in California.

In 2010, $114.4 billion in taxable premiums were reported, representing a decrease of 0.1 percent from 2009. The most recent survey indicates that total premiums will increase by 6.5 percent and 3.8 percent in 2011 and 2012, respectively. The estimated yearly growth rates in taxable premiums from workers' compensation insurance are mixed: survey respondents reported a decline of 1.3 percent in 2011 and an increase of 3.8 percent in 2012. The primary reason for the decline in the Insurance Tax revenue estimate from 2010-11 to 2011-12 is refunds that are expected to be paid pursuant to a Board of Equalization decision in the *California Automobile Insurance Company* case. These refunds are also expected to dampen 2012-13 revenue. The California Department of Insurance estimates that the refunds resulting from to this decision are as follows: $2 million in 2010-11, $239 million in 2011-12, and $149 million in 2012-13.

Alcoholic Beverage Taxes

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

Alcoholic beverage revenue estimates are based on projections of total and per capita consumption for each type of beverage. Consumption of alcoholic beverages is expected to decline by about 3 percent in 2011-12 before returning to a 2-percent increase in 2012-13. Revenues from this tax were $334 million in 2010-11 and are forecasted to be $323 million in 2011-12 and $329 million in 2012-13.

Cigarette Tax

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

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

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

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

Annual per capita consumption (based on population ages 18-64) declined from 123 packs in 1989-90 to 84 packs in 1997-98 and 41 packs in 2010-11. This forecast assumes an annual decline in total consumption of approximately 3 percent.

Figure REV-12 shows the distribution of tax revenues for the General Fund and various special funds for 2010-11 through 2012-13.

Figure REV-12

Tobacco Tax Revenue

(Dollars in Millions)

	2010-11 Preliminary	2011-12 Forecast	2012-13 Forecast
General Fund	$96.1	$93.0	$90.0
Cigarette and Tobacco Products Surtax Fund	285.0	277.0	269.0
Breast Cancer Fund	19.2	19.0	18.0
California Children and Families First Trust Fund	505.0	490.0	476.0
Total	**$905.3**	**$879.0**	**$853.0**

Property Taxes

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

Assessed value growth is estimated based on twice-yearly surveys of county assessors and evaluation of real estate trends. Sales volumes and prices of new and used homes and condominiums declined moderately from 2010 to 2011 (with activity in the 2011 calendar year driving fiscal year 2012-13 property tax revenues). These declines were less than in some prior years, however, and will be offset somewhat by reductions in the number of foreclosures and notices of default. Property tax revenues are estimated to increase 0.5 percent from 2010-11 to 2011-12, and increase 0.7 percent from 2011-12 to 2012-13.

Estate/Inheritance/Gift Taxes

Proposition 6, adopted in June 1982, repealed the inheritance and gift taxes and imposed a tax known as "the pick-up tax," because it was designed to pick up the maximum state credit allowed against the federal estate tax without increasing total taxes paid by the estate. The pick-up tax is computed based on the federal "taxable estate," with tax rates ranging from 0.8 percent to 16 percent.

The federal Economic Growth and Tax Relief Reconciliation Act of 2001 phased out the federal estate tax by 2010. This Act reduced the state pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminated it beginning in 2005. The state "pick-up tax" was scheduled to resume in 2011. However, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 made changes to the federal estate tax for 2011 and 2012. One of those changes was an extension of the elimination of the state estate tax credit for 2011 and 2012. This extension effectively eliminates the California estate tax through 2012. Assuming no changes to current federal or state law, California will begin to collect its portion of the federal estate tax on deaths occurring after January 1, 2013. As a result, no revenues are expected from estate tax in 2010-11 and 2011-12. Because of the lag between death and resolution of an estate, the forecasted revenue from estate tax in 2012-13 is $45 million. The estate tax remains an issue of significant interest to both political parties, and there is only a narrow range of federal law under which California would receive any revenue from an estate pick-up tax. Therefore, there is substantial uncertainty as to whether the federal estate tax law will remain or be modified to eliminate or substantially reduce the state pick-up tax.

Other Revenues

Unclaimed Property

The Budget reflects receipts of $254 million in 2010-11, $268 million in 2011-12, and $324 million in 2012-13 from unclaimed property. The 2011-12 amount includes $21 million from audits performed on insurance companies. The 2012-13 amount includes $48.7 million from audits performed on insurance companies and $7.9 million from the Unclaimed Property Fraudulent Claims Prevention and Detection Program.

Indian Gaming

The Budget reflects General Fund revenues from tribal gaming of $360 million annually in 2010-11 through 2012-13. Additionally, since 2009-10, about $100 million has been transferred annually from a special deposit fund to the General Fund for certain transportation programs that would otherwise be funded with revenues from a bond sale yet to occur. Absent a bond sale, the Administration proposes to continue this funding arrangement through 2015-16.

Loans and Transfers from Special Funds

The Budget proposes the following repayments for certain loans previously made from various special funds to the General Fund be deferred until future years, resulting in temporary savings to the General Fund:

- $27 million in 2011-12
- $605.5 million in 2012-13

Special Fund Revenue

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

Total special fund revenues are estimated to be $38.6 billion in 2012-13. Taxes and fees related to motor vehicles are expected to comprise about 30 percent of all special fund revenue in 2012-13. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2012-13, it is expected that about $12 billion in revenues will be derived from the ownership or operation of motor vehicles. About 27 percent of all motor vehicle taxes and fees will be allocated to local governments, and the remaining portion will be used for state transportation programs.

Motor Vehicle Fees

Motor vehicle fees and taxes consist of vehicle license, registration, weight, driver's license, and other charges related to vehicle operation. Figure REV-13 displays revenue from these sources from 2010-11 through 2012-13.

Figure REV-13

Motor Vehicle Fees Special Fund Revenue

(Dollars in Thousands)

	2010-11 Preliminary	2011-12 Forecast	2012-13 Forecast
Vehicle License Fees	$1,838,597	$2,049,577	$2,091,129
Registration, Weight, and Other Fees	3,359,359	3,918,191	3,846,459
Total	**$5,197,956**	**$5,967,768**	**$5,937,588**

The Vehicle License Fee (VLF) is imposed on vehicles that travel on public highways in California. This tax is imposed in lieu of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. Revenues from the 0.65-percent base VLF rate, other than administrative costs and fees on trailer coaches and mobile homes, are constitutionally dedicated to local governments.

The VLF is calculated on the vehicle's "market value," adjusted for depreciation. The motor vehicle schedule is based on an 11-year depreciation period; for trailer coaches, it is an 18-year period. A 0.65-percent rate is applied to the depreciated value to determine the fee.

Chapter 87, Statutes of 1991 revised the VLF depreciation schedule and required the Department of Motor Vehicles to reclassify used vehicles based on their actual purchase price each time ownership is transferred. Revenue from this base change is transferred to the Local Revenue Fund for state-local program realignment.

Chapter 322, Statutes of 1998 established a program to offset a portion of the VLF paid by vehicle owners at the 2-percent rate. The state paid or "offset" a portion of the amount due and taxpayers paid the balance. This General Fund offset gave taxpayers significant tax relief and compensated local governments. A permanent offset of 25 percent of the amount of the VLF owed became operative in 1999. Chapter 74, Statutes of 1999 increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35-percent offset through June 30, 2001, and provided an additional 32.5-percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF was reduced by 67.5 percent. As the amount paid by taxpayers decreased, the amount backfilled by the General Fund increased.

The VLF reduction was suspended for a 141-day period beginning July 1, 2003. Executive Order S-1-03, issued November 17, 2003, rescinded the offset suspension and directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible.

Chapter 211, Statutes of 2004 eliminated the VLF offset and reduced the VLF tax rate to 0.65 percent. Local governments now receive property tax revenues to compensate them for the loss of VLF revenue. In 2004-05 and 2005-06, that replacement revenue was reduced by $1.3 billion to assist the state. In 2012-13, the estimated value of the VLF backfill to local governments is $6 billion. The value of the tax reduction from 2 percent to 0.65 percent is $4.3 billion.

In February 2009, the VLF rate was increased to 1.15 percent from May 19, 2009, through June 30, 2011. Out of the 0.5-percent increase, all of which was deposited into the General Fund, 0.15 percent went towards funding local law enforcement and the remaining 0.35 percent went to the General Fund. It is estimated that an additional $80 million in revenue associated with the 0.5-percent VLF increase will be collected in 2011-12 from customers making late payments. As a result, in 2011-12, local law enforcement is expected to receive an additional $24 million, and the General Fund is expected to receive an additional $56 million. Effective July 1, 2011, the VLF returned to the 0.65-percent rate.

The number of vehicles in the state, the ages of those vehicles, and their most recent sales price affect the amount of VLF collected. The total number of vehicles in California—autos, trucks, trailers, and motorcycles including vehicles registered in multiple states—is estimated to be 29,643,974 in 2011-12 and is expected to decline to 28,483,919 in 2012-13. Consistent with expected increases in national new vehicle sales due to the availability of consumer credit, an improving employment picture, and projected increases to after-tax income, the forecast projects that there will be 1,483,000 new vehicles registered in 2011-12, and this will increase to 1,644,000 new vehicles in 2012-13.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those that are installed on permanent foundations (mobile homes) are subject to either local property taxes or the VLF. Generally, mobile homes purchased new prior to July 1, 1980, are subject to the VLF. All trailer coach license fees are deposited in the General Fund.

In addition to the VLF, commercial truck owners pay a fee based on vehicle weight. Due partly to the expected increase in truck sales reflecting an improving business climate, weight fee revenues are expected to increase by about 2.0 percent in 2011-12 and 2012-13.

Motor Vehicle Fuel Taxes

The Motor Vehicle Fuel Tax, Diesel Fuel Tax, and the Use Fuel Tax are the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Just over one-third of these revenues are apportioned to local jurisdictions for street and highway use.

Gasoline consumption was down 0.5 percent in 2010-11 when compared to the prior fiscal year. Gasoline consumption is expected to decrease 0.6 percent in 2011-12 and then increase 1.9 percent in 2012-13.

Because most diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Diesel fuel consumption fell 1 percent in 2010-11. However, a recovering economy is expected to contribute to growth of 3.8 percent in diesel consumption in 2011-12 followed by 3-percent growth in 2012-13.

Motor Vehicle Fuel Tax collections are shown in Figure REV-14.

Figure REV-14

Motor Vehicle Fuel Tax Revenue

(Dollars in Thousands)

	2010-11 Preliminary	2011-12 Forecast	2012-13 Forecast
Gasoline [1]	$5,231,599	$5,230,507	$5,222,580
Diesel	473,928	378,427	322,436
Total	**$5,705,527**	**$5,608,934**	**$5,545,016**

[1] Does not include jet fuel.

The Motor Vehicle Fuel Tax (gas tax) is collected from distributors when fuel is loaded into ground transportation for transport to retail stations. This fuel is taxed at a rate of 35.7 cents per gallon under current law. Fuels subject to the gas tax include gasoline, natural gas, and blends of gasoline and alcohol sold for use on public streets and highways.

Distributors pay the Diesel Fuel Tax, which applies to both pure diesel fuel and blends, at the fuel terminal. Diesel fuel for highway use is taxed at a rate of 13 cents per gallon in 2011-12. Dyed diesel fuel, which is used for off-highway purposes such as farm equipment, is not taxed.

Beginning in 2010-11, the fuel tax swap eliminated the General Fund portion of the sales tax on gasoline and replaced it with an excise tax of 17.3 cents per gallon. This tax swap is intended to be revenue-neutral. To maintain revenue neutrality, the excise tax rate is adjusted each year. For 2011-12, the rate is set at 35.7 cents per gallon. The Budget forecasts that the excise tax on gasoline will be 35 cents per gallon in 2012-13.

Beginning in 2011-12, the fuel tax swap increased the sales tax on diesel fuel by 1.87 percent, while decreasing the excise tax to maintain revenue neutrality. For 2011-12, the excise tax rate was reduced by 5 cents and is set at 13 cents per gallon. The Budget forecasts that the excise tax on diesel fuel will be set at 10.5 cents per gallon in 2012-13, and the sales tax rate will be increased by 2.17 percent in the same year.

The Use Fuel Tax is levied on sales of kerosene, liquefied petroleum gas (LPG), liquid natural gas (LNG), compressed natural gas (CNG), and alcohol fuel (ethanol and methanol containing 15 percent or less gasoline and diesel fuel). These fuels are taxed only when they are dispensed into motor vehicles used on the highways. Current Use Fuel Tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LPG and LNG, 7 cents per 100 cubic feet for CNG, and 9 cents per gallon for alcohol fuel. Users of LPG, LNG, or CNG may elect to pay a flat rate of tax based on vehicle weight instead of the per-gallon tax.

An excise tax of 2 cents per gallon is levied on aircraft jet fuel sold at the retail level. This tax does not apply to commercial air carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

Local transit systems, school and community college districts, and certain common carriers pay 1 cent per gallon on the fuel they use instead of the tax rates described above.

Summary of State Tax System

The state's tax system is outlined at the end of this section in Figure REV-15. Tax collections per capita and per $100 of personal income are displayed in Schedule 2 in the Appendix. The revenue generated from each state tax from 1970-71 through 2011-12 is displayed in Schedule 3 in the Appendix.

Figure REV-15
Outline of State Tax System
as of January 1, 2012

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes:				
Beer	Gallon	$0.20	Equalization	General
Distilled Spirits	Gallon	$3.30	Equalization	General
Dry Wine/Sweet Wine	Gallon	$0.20	Equalization	General
Sparkling Wine	Gallon	$0.30	Equalization	General
Hard Cider	Gallon	$0.20	Equalization	General
Corporation:				
General Corporation	Net income	8.84% [1]	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	6.65%	Franchise	General
Tobacco:				
Cigarette	Package	$0.87 [2]	Equalization	See below [2]
Other Tobacco Products	Wholesale cost	31.73% [3]	Equalization	See below [3]
Estate	Taxable Fed. Estate	0% [4]	Controller	General
Insurance				
Insurers	Gross Premiums	2.35% [5]	Insurance Dept.	General
Medi-Cal managed care plans	Gross Premiums	2.35%	Health Care Services	See below [6]
Liquor License Fees	Type of license	Various	Alc. Bev. Control	General
Motor Vehicle:				
Vehicle License Fees (VLF)	Market value	0.65%	DMV	Motor VLF, Local Revenue [7]
Fuel—Gasoline	Gallon	$0.357 [8]	Equalization	Motor Vehicle Fuel [9]
Fuel—Diesel	Gallon	$0.13 [10]	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	$69.00	DMV	Motor Vehicle [11]
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway
Personal Income	Taxable income	1.0-9.3% [12]	Franchise	General
Proposition 63 Surcharge	Taxable income > $1 million	1.0%	Franchise	Mental Health Services
Alternative Minimum Tax	Alt. Taxable Income	7.0%	Franchise	General
Retail Sales and Use	Sales or lease of taxable items	7.25% [13]	Equalization	See below [13]

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

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

[3] The surtax rate is determined annually by the BOE and is equivalent to the combined rate of tax applied to cigarettes, with funding for the Cigarette and Tobacco Products Surtax Fund and California Children and Families First Trust Fund. Effective July 1, 2011, through June 30, 2012, the rate is 31.73 percent of the wholesale cost.

[4] Since 2005 and through the end of 2012, federal estate tax law is structured such that California will receive none of the "state pick-up" estate tax for those years. However, under current law, starting in January 1, 2013, the federal estate tax will return to its pre-2011 structure and California will, again, begin to receive estate tax payments for estates for which the death occurred on or after January 1, 2013.

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

[6] Insurance tax on Medi-Cal managed care plans through June 30, 2012, pursuant to Chapter 11, Statutes of 2011 (X1 AB 21), to provide interim funding for the Healthy Families and Medi-Cal programs.

[7] For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

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

[9] For administrative expenses and apportionment to State, counties and cities for highways, airports, and small craft harbors.

[10] As part of the fuel tax swap, this rate will be decreased by an estimated 4.8 cents on July 1, 2011, and will be adjusted each year thereafter to maintain revenue neutrality with the 1.75% increase in sales tax on diesel beginning July 1, 2011.

[11] For support of State Department of Motor Vehicles, California Highway Patrol, other agencies, and motor vehicle related programs.

[12] The Budget assumes passage of the Governor's proposal for a Constitutional Amendment on the November 2012 ballot which would temporarily add three tax brackets for taxable incomes beginning at $250,000 ($500,000 joint) with rates of 10.3 percent, 10.8 percent, and 11.3 percent.

[13] The 7.25 percent rate includes the rates for General Fund, Special Funds, and uniform local rates. Additionally, cities and counties may generally assess up to an additional 2.00 percent to the statewide rate. The Budget assumes passage of the Governor's proposal for a Constitutional Amendment on the November 2012 ballot which would temporarily increase the Sales and Use Tax rate by 0.5 percent.