Revenue Estimates

California's economy continues to grow and is expected to see ongoing improvement over the next few years. General Fund revenue will benefit from the growing economy, with high levels of capital gains and strong growth in wages, particularly for high-income taxpayers. As a result, before accounting for transfers such as to the Rainy Day Fund, General Fund revenue is higher than the 2015 Budget Act projections by $3.5 billion in 2015-16 and $2.4 billion in 2016-17.

Figure REV-01 compares the revenue forecasts, by source, in the 2015 Budget Act and the Governor's Budget. Revenue, including transfers, is expected to be $118 billion in 2015-16 and $121 billion in 2016-17. The projected increases are due primarily to a higher forecast for the personal income tax—up $700 million in 2014-15, $3.7 billion in 2015-16, and $2.2 billion in 2016-17.

The improved revenue forecast for personal income tax is driven by higher capital gains and increased tax receipts from wages. The upward revision in capital gains is based on preliminary 2014 tax year data from the Franchise Tax Board showing more 2014 capital gains than anticipated, along with robust growth in estimated payments through November 2015. In addition to capital gains increases, the Budget forecasts personal income tax on wages to be significantly higher than anticipated for the 2015 Budget Act. The wage forecast is up modestly for 2015 and significantly for 2016 and 2017. Wage withholding through November was nearly 8 percent above 2014 levels. With growth in withholding higher than overall wage growth, increases in wages are likely more concentrated among high-income taxpayers who pay higher marginal tax rates.

Figure REV-01

2016-17 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2015 Budget Act
(Dollars in Millions)

Source	2015 Budget Act	Governor's Budget	Change From Budget Act Forecast	
Fiscal 2014-15: Preliminary				
Personal Income Tax	$75,384	$76,079	$694	0.9%
Sales & Use Tax	23,684	23,709	25	0.1%
Corporation Tax	9,809	9,007	-802	-8.2%
Insurance Tax	2,486	2,445	-41	-1.7%
Alcoholic Beverage	353	357	4	1.1%
Cigarette	84	86	2	2.3%
Pooled Money Interest	19	21	1	7.4%
Other Revenues	1,537	1,594	57	3.7%
Subtotal	$113,357	$113,298	-$60	
Transfers[1]	-2,050	-1,980	70	-3.4%
Total	**$111,307**	**$111,318**	**$11**	0.0%
Fiscal 2015-16				
Personal Income Tax	$77,700	$81,354	$3,654	4.7%
Sales & Use Tax	25,240	25,246	6	0.0%
Corporation Tax	10,342	10,304	-38	-0.4%
Insurance Tax	2,556	2,493	-64	-2.5%
Alcoholic Beverage	360	366	6	1.7%
Cigarette	82	84	2	2.1%
Pooled Money Interest	37	36	-1	-3.6%
Other Revenues	1,615	1,583	-32	-2.0%
Subtotal	$117,931	$121,465	$3,534	3.0%
Transfers[1]	-2,899	-3,929	-1,030	35.5%
Total	**$115,033**	**$117,537**	**$2,505**	2.2%
Fiscal 2016-17				
Personal Income Tax	$81,652	$83,841	$2,189	2.7%
Sales & Use Tax	25,761	25,942	181	0.7%
Corporation Tax	11,073	10,956	-117	-1.1%
Insurance Tax	2,635	2,549	-86	-3.3%
Alcoholic Beverage	367	373	6	1.7%
Cigarette	80	81	1	1.9%
Pooled Money Interest	95	89	-7	-7.0%
Other Revenues	1,027	1,247	220	21.5%
Subtotal	$122,690	$125,078	$2,388	
Transfers[1]	-2,434	-4,445	-2,011	82.6%
Total	**$120,256**	**$120,633**	**$377**	0.3%
Three-Year Total			**$2,893**	

Totals may not add because of rounding.

[1] Includes transfers to Budget Stabilization Account for each year.

The corporation tax forecast is almost $1 billion below the 2015 Budget Act forecast due primarily to higher refunds affecting 2014-15. The sales tax forecast is $200 million higher over the budget window than the 2015 Budget Act forecast. While taxable sales were revised modestly downward, lower utilization of the manufacturer's equipment sales tax exemption results in an overall increase to the forecast.

At the 2015 Budget Act, capital gains realizations for 2014 were expected to be $120 billion, an increase of over 50 percent relative to 2013. The Budget forecasts 2014 capital gains to be $130 billion, an increase of 63 percent relative to 2013. The year-to-year increase reflects, in part, the estimated shift of capital gains from 2013 to 2012 because of federal tax rate changes. At the 2015 Budget Act, capital gains for 2015 were expected to be $116 billion. The Budget forecast expects 2015 capital gains to continue to grow to $135 billion. Although the stock market is expected to yield slow growth in the coming years, the strong performance of the stock market over the past several years is expected to lead to continued above-normal capital gains through 2017. The Budget forecasts 2016 capital gains to be $125 billion.

Figure REV-02 shows revenue from capital gains as a percentage of total General Fund tax revenue. As seen from this table, the amount of revenue the General Fund derived from capital gains can vary greatly from year to year. For instance, in 2007, capital gains contributed $10.9 billion to the General Fund. By 2009, the contribution from capital gains had dropped to $2.3 billion. For 2015, capital gains are expected to contribute nearly $13.7 billion to General Fund revenue — the highest amount ever.

Figure REV-02

Capital Gains Revenue
As a Percent of General Fund Tax Revenues

(Dollars in Billions)

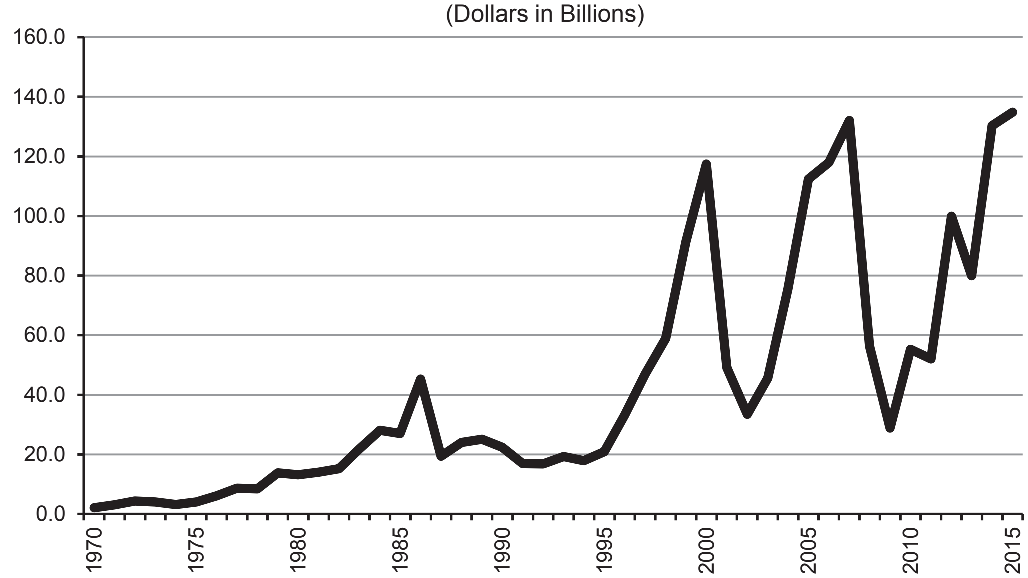
Annual Values	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 [e]	2015 [e]	2016 [e]
Capital Gains Realizations	$75.5	$112.4	$117.9	$132.0	$56.3	$28.8	$55.3	$52.1	$99.9	$79.9	$130.3	$134.9	$124.8
Tax Revenues from Capital Gains	$6.1	$9.2	$9.6	$10.9	$4.6	$2.3	$4.7	$4.2	$10.4	$7.6	$13.1	$13.7	$12.7

Fiscal Year Values	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Tax Revenues from Capital Gains	$7.0	$9.3	$10.0	$9.0	$3.9	$3.0	$4.5	$6.0	$9.6	$9.3	$13.3	$13.4	$12.4
Total General Fund Tax Revenues	$80.4	$91.0	$93.8	$95.8	$79.5	$84.6	$90.1	$83.3	$96.3	$101.5	$112.0	$120.2	$124.2
Percentage	8.8%	10.3%	10.7%	9.4%	4.9%	3.5%	5.0%	7.2%	9.9%	9.1%	11.9%	11.1%	10.0%

[e] Estimated

Figure REV-03 shows capital gains reported on California tax returns from 1970 through projections for 2015. Although the level of capital gains has grown significantly since 1970 (along with the economy and total personal income tax revenue), capital gains volatility has been a constant. History suggests that above-normal levels of capital gains eventually drop off.

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



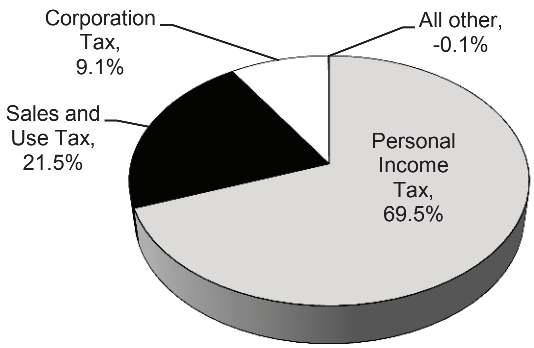
The highest-income Californians pay a large share of the state's personal income tax. For the 2013 tax year, the top 1 percent of income earners paid over 45 percent of personal income taxes. This percentage has been greater than 40 percent for nine of the past eleven years. The share of total adjusted gross income from the top 1 percent of income earners has increased from 13.8 percent in 1993 to almost 22 percent in 2013. This number has exceeded 20 percent in nine of the past eleven years. Consequently, changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues.

These two related phenomena—significant reliance of the General Fund on capital gains and on taxes paid by a small portion of the population—underscore the difficulty of forecasting personal income tax revenue. The Rainy Day Fund will help address some level of volatility. Under Proposition 2, when capital gains revenue is projected to be greater than 8 percent of General Fund tax revenue, that windfall revenue will be used to pay off General Fund debts and build up a reserve for future downturns.

General Fund Revenue

Figure REV-04 shows the breakdown of General Fund revenues by taxation type. Personal income tax contributes 69.5 percent of the total.

Figure REV-04
2016-17 General Fund Revenues and Transfers = $120.6 Billion



Long-Term Forecast

Figure REV-05 shows the forecast for the three largest General Fund revenues from 2014-15 through 2019-20. Total General Fund revenue from these sources is expected to grow from $108.8 billion in 2014-15 to $128 billion in 2019-20. The average year-over-year growth rate for this period is 3.3 percent.

Figure REV-05
Long-Term Revenue Forecast - Three Largest Sources
(General Fund Revenue - Dollars in Billions)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Average Year-Over-Year Growth
Personal Income Tax	$76.1	$81.4	$83.8	$86.4	$84.5	$86.4	2.6%
Sales and Use Tax	23.7	25.2	25.9	26.4	27.6	28.9	4.1%
Corporation Tax	9.0	10.3	11.0	11.6	12.1	12.7	7.2%
Total	**$108.8**	**$116.9**	**$120.7**	**$124.4**	**$124.2**	**$128.0**	3.3%
Growth	10.7%	7.5%	3.3%	3.0%	-0.1%	3.0%	

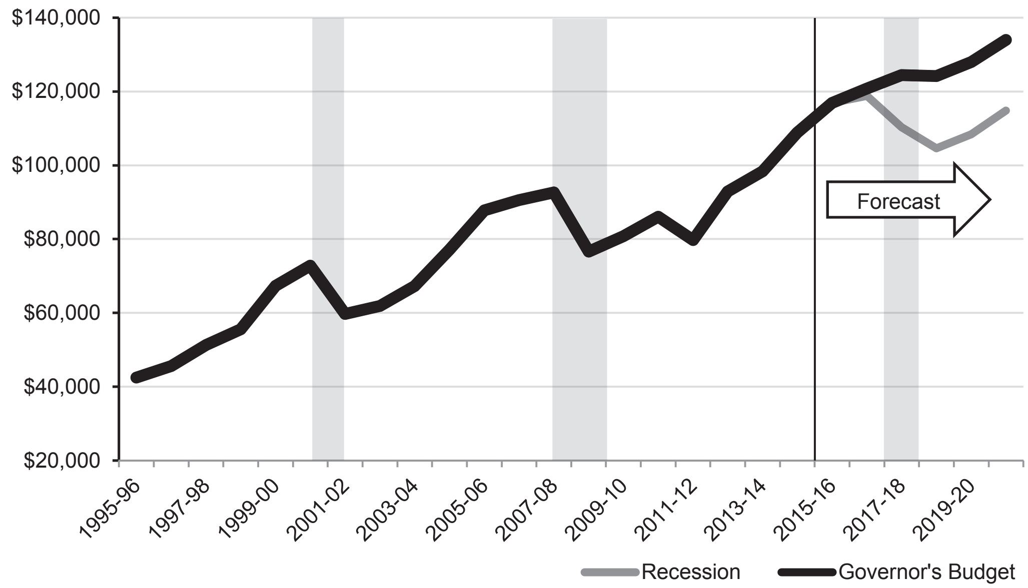
Note: Numbers may not add due to rounding.

The economic forecast reflects robust growth through 2017 and slower but steady growth through 2020. The projected average growth rate in Gross Domestic Product over this period is less than 3 percent, a slightly slower rate than normal for an economic expansion. The long-term revenue forecast reflects the sunset of the 0.25-cent Proposition 30 sales tax increase halfway through 2016-17 and the elimination of the top three personal income tax brackets at the end of 2018.

Planning for the Next Recession

Economic growth is forecast to continue over the next few years. However, a recession during this period is possible, particularly in light of the length of the current expansion. Even in a moderate recession, revenue declines could be significant. Figure REV-06

Figure REV-06
Annual Revenue Could Drop by $20 Billion in a Recession
(Dollars in Millions)



shows a history of California's largest three revenue sources—personal income tax, sales tax, and corporation tax—along with revenue projections for the budget forecast and a moderate one-year recession in 2017-18. Under this scenario, revenue losses result from a decline in wages of over $100 billion compared to forecast and by a drop in capital gain realizations due to a 25-percent stock market correction. The shaded areas in this figure show the timing of the 2001 recession, the 2007 recession, and the forecasted recession. Note that while the actual revenue declines in the past two recessions were significant (as shown in this figure), tax law changes temporarily increased revenues to lessen the declines. Revenue losses in this recession forecast would approach $20 billion per year for several years and lead to a permanently lower revenue base compared to the current forecast.

Personal Income Tax

The personal income tax is the state's largest single revenue source and is expected to generate $76.1 billion in 2014-15, $81.4 billion in 2015-16, and $83.8 billion in 2016-17. These figures reflect a reduction of $380 million per year in 2015-16 and 2016-17 for the state's new earned income tax credit.

Modeled closely on federal income tax law, California's personal income tax is imposed on net taxable income—gross income less exclusions and deductions. The tax rate structure is progressive over much of the income spectrum. For the 2012 tax year, the marginal rates ranged from 1 percent to 12.3 percent. Proposition 30 created three additional income tax brackets for families with rates of 10.3 percent for taxable income above $500,000, 11.3 percent for taxable income above $600,000, and 12.3 percent for taxable income above $1,000,000. These tax brackets are in effect for seven years—tax years 2012 to 2018.

The largest income source for the personal income tax is wages and salaries. Although the year-over-year growth rate for wages tends to be less volatile than other income sources, wages and salaries include some unpredictable types of compensation such as stock grants, restricted stock units, stock options, and bonus payments. In 2013, taxes attributable to wages and salaries accounted for over 60.7 percent of personal income tax revenues. Based on the economic forecast, wages and salaries are expected to increase 5.9 percent in 2015, 6.1 percent in 2016, and 5.3 percent in 2017.

Strong stock market growth for several previous years is expected to result in capital gains that are significantly above normal levels through 2017. Forecasting capital gains is difficult since capital gains realizations are heavily dependent upon stock market performance. This forecast assumed that the S&P 500 ended 2015 at 2,075 and will grow at around 2 percent per year for the next several years. This is expected to lead to capital gains declining from their forecasted peak level in 2015 of $135 billion to

$107 billion by 2018. The 2018 level of capital gains equates to 4.5 percent of personal income in 2018, which is considered a normal level for capital gains.

A portion of personal income tax revenue is deposited into a special fund instead of the General Fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over $1 million. Revenue from the surcharge is transferred to the Mental Health Services Fund and used to fund mental health programs. Revenues of $1.9 billion are estimated for 2014-15. Annual revenues of $2 billion for 2015-16 and $2.1 billion for 2016-17 are projected. The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2014-15 through 2016-17 are shown in Figure REV-07.

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

	2014-15 Preliminary	2015-16 Forecast	2016-17 Forecast
General Fund	$76,078,551	$81,354,261	$83,840,558
Mental Health Services Fund	1,851,000	2,028,000	2,051,000
Total	**$77,929,551**	**$83,382,261**	**$85,891,558**

Sales and Use Tax

The sales and use tax (sales tax) is generally applied to the sale of merchandise, including vehicles, in the state. Sales tax revenues are forecast by relating taxable sales to economic factors such as income and housing starts. The sales tax is expected to generate General Fund revenue of $25.2 billion in 2015-16 and $25.9 billion in 2016-17. Receipts from the sales tax, the state's second largest revenue source, are expected to contribute 21.5 percent of all General Fund revenues and transfers in 2016-17. Revenue in 2016-17 only grows slightly because the temporary 0.25-cent Proposition 30 increase expires at end of 2016, halfway through the fiscal year.

Figure REV-08 displays total sales tax revenues for the General Fund and various special funds for 2014-15 through 2016-17. Beginning on July 1, 2004, a temporary 0.25-cent state sales tax rate was imposed with revenues dedicated to the repayment of Economic Recovery Bonds. The total sales tax rate did not increase, however, as there was a concurrent 0.25-cent drop in the Bradley-Burns rate for local governments. These bonds were repaid in July 2015 and the rate adjustments ended on January 1, 2016.

Figure REV-08

State Sales Tax Revenue

(Dollars in Thousands)

	2014-15 Preliminary	2015-16 Forecast	2016-17 Forecast
General Fund	$23,708,959	$25,245,880	$25,941,601
Sales and Use Tax-1991 Realignment	3,175,400	3,316,147	3,491,033
Sales and Use Tax-2011 Realignment	6,210,946	6,566,098	6,948,008
Economic Recovery Fund[1]	1,584,475	999,000	-
Public Transportation Account	610,124	477,187	502,015
Total	**$35,289,904**	**$36,604,312**	**$36,882,657**

[1] Economic Recovery Bonds were repaid in July 2015.

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

Figure REV-09

2016-17 State and Local Sales and Use Tax Rates (as of January 1, 2016)

State Rates		
General Fund	3.94%	The permanent rate of 3.94% may be temporarily reduced by 0.25% if General Fund operating reserves exceed specified levels.
Local Revenue Fund 2011	1.06%	Revenues attributable to a rate of 1.0625 percent are dedicated to the Local Revenue Fund 2011 for realignment.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 state-local realignment.
Economic Recovery Fund	0.25%	Beginning on July 1, 2004, a temporary 0.25% state sales tax rate was imposed, with a corresponding decrease in the Bradley-Burns rate. These revenues are dedicated to repayment of Economic Recovery Bonds. Once these bonds are repaid, this tax will sunset and the Bradley-Burns rate will return to 1%. This is expected to occur in January of 2016.
Local Uniform Rates[1]		
Bradley-Burns	1.00%	Imposed by city and county ordinance for general purpose use.[2]
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to cities and counties for public safety purposes by Proposition 172.
Local Add-on Rates[3]		
Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments[4] up to a combined maximum of 2.00% in any county.[5] Any ordinance authorizing a transactions and use tax requires approval by the local governing board and local voters.

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

[2] The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area.

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

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

[5] Alameda, Contra Costa, and Los Angeles counties may impose up to 2.5 percent transactions and use tax.

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

Figure REV-10

Combined State and Local Sales and Use Tax Rates by County

(*city rate provided if different from the county rate*)

Rates in Effect on January 1, 2016

County	Tax Rate
Alameda	9.50%
Albany, Hayward, San Leandro, Union City	10.00%
Alpine	7.50%
Amador	8.00%
Butte	7.50%
Paradise	8.00%
Calaveras	7.50%
Colusa	7.50%
Williams	8.00%
Contra Costa	8.50%
Antioch, Concord, Hercules, Orinda, Pittsburg	9.00%
San Pablo	9.25%
Moraga, Pinole, Richmond	9.50%
El Cerrito	10.00%
Del Norte	7.75%
El Dorado	7.50%
Placerville, South Lake Tahoe	8.00%
Fresno	8.225%
Reedley, Selma	8.725%
Sanger	8.975%
Huron	9.225%
Glenn	7.50%
Humboldt	8.00%
Arcata, Eureka, Trinidad	8.75%
Rio Dell	9.00%
Imperial	8.00%
Calexico	8.50%
Inyo	8.00%
Kern	7.50%
Ridgecrest	8.25%
Arvin, Delano	8.50%
Kings	7.50%
Lake	7.50%
Clearlake, Lakeport	8.00%
Lassen	7.50%
Los Angeles	9.00%
Avalon, Commerce, Culver City, El Monte, Inglewood, San Fernando, Santa Monica, South El Monte	9.50%
La Mirada, Pico Rivera, South Gate	10.00%
Madera	8.00%
Marin	8.50%
Corte Madera, Fairfax, Larkspur, Novato, San Anselmo, Sausalito	9.00%
San Rafael	9.25%
Mariposa	8.00%
Mendocino	7.625%
Point Arena, Ukiah, Willits	8.125%
Fort Bragg	8.625%
Merced	7.50%
Atwater, Gustine Los Banos, Merced	8.00%
Modoc	7.50%
Mono	7.50%
Mammoth Lakes	8.00%
Monterey	7.625%
Gonzales, King City	8.125%
Carmel-by-the-Sea, Greenfield, Marina, Monterey, Pacific Grove, Sand City, Seaside, Soledad	8.625%
Del Rey Oaks, Salinas	9.125%
Napa	8.00%
Nevada	7.625%
Grass Valley	8.125%
Truckee	8.375%
Nevada City	8.50%
Orange	8.00%
La Habra	8.50%
Stanton	9.00%
Placer	7.50%
Plumas	7.50%
Riverside	8.00%
Cathedral City, Coachella, Palm Springs	9.00%
Sacramento	8.00%
Galt, Rancho Cordova, Sacramento	8.50%
San Benito	7.50%
San Juan Bautista	8.25%
Hollister	8.50%
San Bernardino	8.00%
Montclair, San Bernardino	8.25%
San Diego	8.00%
El Cajon, Vista	8.50%
La Mesa	8.75%
National City	9.00%
San Francisco	8.75%
San Joaquin	8.00%
Manteca, Tracy	8.50%
Lathrop, Stockton	9.00%
San Luis Obispo	7.50%
Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach, San Luis Obispo	8.00%
San Mateo	9.00%
San Mateo	9.25%
Half Moon Bay	9.50%
Santa Barbara	8.00%
Guadalupe, Santa Maria	8.25%
Santa Clara	8.75%
Campbell	9.00%
Santa Cruz	8.25%
Capitola, Santa Cruz, Scotts Valley	8.75%
Watsonville	9.00%
Shasta	7.50%
Anderson	8.00%
Sierra	7.50%
Siskiyou	7.50%
Mount Shasta, Weed	7.75%
Solano	7.625%
Vacaville	7.875%
Rio Vista	8.375%
Benecia, Fairfield, Vallejo	8.625%
Sonoma	8.25%
Healdsburg, Rohnert Park, Santa Rosa, Sonoma	8.75%
Sebastopol	9.00%
Cotati	9.25%
Stanislaus	7.625%
Ceres, Oakdale	8.125%
Sutter	7.50%
Tehama	7.50%
Red Bluff	7.75%
Trinity	7.50%
Tulare	8.00%
Visalia	8.25%
Farmersville, Porterville, Tulare	8.50%
Dinuba	8.75%
Tuolumne	7.50%
Sonora	8.00%
Ventura	7.50%
Oxnard, Port Hueneme	8.00%
Yolo	7.50%
West Sacramento	8.00%
Woodland	8.25%
Davis	8.50%
Yuba	7.50%
Wheatland	8.00%

Over the last few years, wholesale trade has been the largest contributor to the sales tax base. However, through the first three quarters of 2014, motor vehicle and parts dealer taxable sales were the largest contributor to the sales tax base due to strong growth in automobile sales. Another significant contributor to the sales tax base is sales from food service, which includes full-service restaurants and food contractors and caterers.

Beginning on July 1, 2010, the General Fund portion of the sales tax no longer applies to gasoline. Taxable sales, excluding gasoline, increased by 5.5 percent in 2013-14. Based on preliminary data, it is estimated that taxable sales increased by 6.1 percent in 2014-15. Growth is expected to continue at 5.7 percent in 2015-16, followed by 5.8 percent in 2016-17.

A General Fund sales tax exemption for manufacturing equipment commenced July 1, 2014. The sales tax exemption applies to purchases of manufacturing or biotech research and development equipment, valued at up to $200 million in qualifying purchases per business, per year. Utilization of this exemption is forecast to be $160 million in 2015-16 and $180 million in 2016-17.

Corporation Tax

Corporation tax revenues are expected to contribute 9.1 percent of all General Fund revenues and transfers in 2016-17. Corporation tax revenues were $9 billion in 2014-15 and are expected to increase by 14.4 percent to $10.3 billion in 2015-16. In 2016-17, they are expected to increase by 6.3 percent to $11 billion. Revenue growth from 2014-15 to 2015-16 is inflated by a large number of refunds paid in 2015-16. Refunds are generally accrued back one year; therefore, nearly all refunds paid in 2015-16 reduce 2014-15 revenues, affecting the year-over-year growth rate.

Although economic data are generally positive and corporate payments related to current year liabilities are in line with the Budget Act forecast, corporation tax revenues are expected to be lower than the Budget Act forecast by $802 million in 2014-15, $38 million in 2015-16, and $117 million in 2016-17 due primarily to refunds related to prior tax years. These types of refunds occur when tax disputes are resolved and can fluctuate significantly from year to year. There has been an unusually high level of refunds in the first part of this fiscal year, which is expected to continue for the remainder of the fiscal year. Since nearly all these refunds are accrued back one year, 2014-15 revenues decrease. The forecast assumes that refunds will return to levels more in line with historical averages in 2016-17.

Insurance Tax

Most insurance policies written in California are subject to a 2.35-percent gross premiums tax. This tax takes the place of all other state and local taxes on insurance companies except those on real property and motor vehicles. In general, the basis of the tax is the amount of "gross premiums" received, less returned premiums. The insurance tax is expected to generate General Fund revenues of $2.5 billion in both 2015-16 and 2016-17.

The Department of Finance conducts an annual survey to project insurance premium growth. This year's sample represents about 48 percent of the dollar value of premiums written in California. Based on this year's survey, growth in insurance tax revenue will be only around 2 percent beginning in 2015-16.

Alcoholic Beverage Taxes

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

Alcoholic beverage revenue estimates are based on projections of total per capita consumption and population growth for each type of beverage. Overall, consumption of alcoholic beverages is expected to grow by about 2.4 percent and 1.8 percent in 2015-16 and 2016-17, respectively. Revenues from this tax were $357 million in 2014-15 and are forecasted to be $366 million in 2015-16 and $373 million in 2016-17.

Cigarette Tax

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

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

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

Projections of cigarette tax revenues are based on projected per capita consumption of cigarettes and population growth, while revenue estimates for other tobacco products also rely on wholesale price data. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, anti-smoking campaigns (including state campaigns funded by Proposition 99 Tobacco Tax and Health Protection Act revenues and revenues from the Master Tobacco Settlement), and the 2009 federal cigarette tax rate increase have reduced cigarette consumption considerably. This declining trend is expected to continue. Annual per capita consumption (based on population ages 18-64) was 123 packs in 1989-90, 84 packs in 1997-98, and 35 packs in 2014-15. This forecast assumes an annual decline in total consumption of approximately 2.8 percent.

Figure REV-11 shows the distribution of tobacco tax revenues for the General Fund and various special funds for 2014-15 through 2016-17.

Figure REV-11

Tobacco Tax Revenue

(Dollars in Millions)

	2014-15 Preliminary	2015-16 Forecast	2016-17 Forecast
General Fund	$86.3	$83.8	$81.5
Cigarette and Tobacco Products Surtax Fund	267.9	262.3	255.0
Breast Cancer Fund	17.2	15.9	15.5
California Children and Families First Trust Fund	461.0	451.1	438.5
Total	**$832.4**	**$813.2**	**$790.5**

Other Revenues

Unclaimed Property

The Budget reflects receipts of $419 million in 2015-16 and $431 million in 2016-17. These numbers reflect continuation of program outreach efforts to increase property holder awareness and compliance with Unclaimed Property Law.

Indian Gaming

The Budget reflects General Fund revenues from tribal gaming of $320 million in 2014-15, $325 million in 2015-16, and $227 million in 2016-17.

Loan Repayments to Special Funds

The Budget reflects the repayment of loans to special funds based on the operational needs of the programs requiring these repayments. Total repayments are projected to be $1.4 billion and $891 million in 2015-16 and 2016-17, respectively.

Property Taxes

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

Assessed value growth is estimated based on statistical modeling and evaluations of real estate trends. The median sales price of existing single-family homes rose by 10 percent in 2014 (with activity in the 2014 calendar year driving fiscal year 2015-16 assessed valuations for property tax purposes). This is lower than the almost 27-percent increase in median sales prices that occurred in 2013. While both median prices and sales volumes in 2014 were less than they were in 2013, property tax revenues will continue to show positive growth. This will occur as moderating home prices and rising personal incomes increase sales volume, and as homes whose values were reassessed downward during the 2007-2009 housing slump are reassessed to their prior valuations.

Statewide property tax revenues are estimated to increase 5.6 percent in both 2015-16 and 2016-17. Roughly 29 percent ($18 billion) of 2016-17 property tax revenues will go to K-14 schools. While this amount includes $1 billion that schools are expected to receive in 2016-17 pursuant to the dissolution of the redevelopment agencies, it excludes the $7.6 billion shifted to cities and counties to replace Vehicle License Fee (VLF) revenue losses stemming from the reduced VLF rate of 0.65 percent. This figure also reflects the end in 2015-16 of the shift of property tax revenues from schools to backfill sales and use tax revenues redirected from cities and counties to repay the Economic Recovery Bonds.

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 $49.9 billion in 2016-17, which includes revenues related to the Governor's transportation package. Taxes and fees related to motor vehicles are expected to comprise about 25 percent of all special fund revenue in 2016-17. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2016-17, it is expected that about $12.6 billion in revenues will be derived from the ownership or operation of motor vehicles.

Motor Vehicle Fees

Motor vehicle fees and taxes consist of vehicle license, registration, weight, driver license, and other charges related to vehicle operation, including the new road improvement charge related to the Governor's transportation package. Figure REV-12 displays revenue from these sources from 2014-15 through 2016-17.

The Vehicle License Fee (VLF) is imposed on vehicles that travel on public highways in California. The current VLF tax rate is 0.65 percent. This tax is imposed in lieu of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. The number of vehicles in the state, the ages of those vehicles, and their most recent sales price affect the amount of VLF collected. The total number of vehicles in California—autos, trucks, trailers, and motorcycles, including vehicles registered in multiple states—is estimated to be 31.3 million in 2015-16 and is expected to increase to 32.5 million in 2016-17. Consistent with expected increases in national new vehicle sales due to the availability of consumer credit, an improving employment picture, and projected

Figure REV-12

Motor Vehicle Fees Special Fund Revenue

(Dollars in Thousands)

	2014-15 Preliminary	2015-16 Forecast	2016-17 Forecast
Vehicle License Fees	$2,287,785	$2,357,441	$2,437,178
Registration, Weight, and Other Fees	4,201,663	4,262,474	4,350,177
Road Improvement Charge	0	0	1,056,055
Total	**$6,489,448**	**$6,619,915**	**$7,843,410**

increases to after-tax income, the forecast projects that there will be 2.4 million new vehicles registered in 2015-16, increasing to 2.5 million in 2016-17.

In addition to the VLF, truck owners pay a fee based on vehicle weight. Due partly to the expected increase in truck sales reflecting an improving business climate, weight fee revenues are expected to be $1 billion in 2015-16 and increase 2.2 percent to $1.1 billion in 2016-17.

Motor Vehicle Fuel Taxes

The motor vehicle fuel tax, diesel fuel tax, and use fuel tax are the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Over one-third of these revenues are apportioned to local jurisdictions for a broad range of local road projects, including both maintenance of existing roads and construction of new roads. In addition, some jurisdictions choose to spend a portion of their allocation on improvements to the state highway system in their region to decrease traffic congestion. Motor vehicle fuel tax collections are shown in Figure REV-13.

Figure REV-13

Motor Vehicle Fuel Tax Revenue

(Dollars in Thousands)

	2014-15 Preliminary	**2015-16 Forecast**	**2016-17 Forecast**
Gasoline [1]	$5,345,526	$4,525,632	$4,213,246
Diesel	365,634	430,367	516,431
Total	**$5,711,160**	**$4,955,999**	**$4,729,677**

[1] Does not include jet fuel.

Gasoline consumption increased 2 percent in 2014-15 when compared to the prior fiscal year. While continued gains in the average fuel economy of cars and trucks on the road are expected to support long-term declines in gasoline consumption, lower gasoline prices are likely to lead to modest increases in gasoline consumption through 2016-17. Gasoline consumption is expected to increase 1.5 percent in 2015-16 and 0.5 percent in 2016-17.

Because most diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. A solid economy is expected to contribute to growth of 2.3 percent in diesel consumption in 2015-16 and 1 percent in 2016-17.

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 30 cents per gallon under current law. The excise rate is adjusted annually so that the total amount of tax revenue generated is equal to what it would have been when gasoline was subject to the state sales tax rate. The Budget forecasts that the excise tax on gasoline will be 27.8 cents per gallon in 2016-17. 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 2015-16. The excise rate is adjusted annually so that the total amount of tax revenue generated is neutral given the changes to the sales tax add-on for diesel fuel. Under current law, the sales tax rate add-on will remain 1.75 percent in 2016-17, and the Budget forecasts that the excise tax on diesel fuel will be adjusted to 15.9 cents per gallon in 2016-17. Dyed diesel fuel, which is used for off-highway purposes such as farm equipment, is not taxed.

Summary of State Tax System

The state's tax system is outlined at the end of this section in Figure REV-14.
Tax collections per capita and per $100 of personal income are displayed in Schedule 2 in the Appendix. The revenue generated from each state tax from 1970-71 through 2016-17 is displayed in Schedule 3 in the Appendix.

Figure REV-14
Outline of State Tax System as of January 1, 2016

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	28.13% [3]	Equalization	See below[3]
Insurance				
Insurers	Gross Premiums	2.35% [4]	Insurance Dept.	General
Liquor License Fees	Type of license	Various	Alc. Bev. Control	General
Motor Vehicle				
Vehicle License Fees (VLF)	Market value	0.65%	DMV	VLF, Local Revenue[5]
Fuel—Gasoline	Gallon	$0.30 [6]	Equalization	Motor Vehicle Fuel[7]
Fuel—Diesel	Gallon	$0.13 [8]	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	$46.00	DMV	Motor Vehicle[9]
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway
Personal Income	Taxable income	1.0-12.3% [10]	Franchise	General
Proposition 63 Surcharge	Taxable income > $1 million	1.0%	Franchise	Mental Health Services
Alternative Minimum Tax	Alt. Taxable Income	7.0%	Franchise	General
Retail Sales and Use	Sales or lease of taxable items	7.50% [11]	Equalization	See below[11]
Medi-Cal Managed Care Plans	Gross Receipts	3.94% [12]	Equalization	Children's Health and Human Services Special Fund

[1] Minimum Tax is $800 per year for existing corporations. New corporations are exempt for their first taxable year.

[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, 2015, through June 30, 2016, the rate is 28.13 percent of the wholesale cost.

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

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

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

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

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

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

[10] Proposition 30 was passed by the California voters in November 2012. Proposition 30, for tax years 2012 through 2018, created three new income tax brackets with rates of 10.3 percent for taxable income over $250,000, 11.3 percent for taxable income over $300,000, and 12.3 percent for taxable income over $500,000.

[11] The 7.50-percent rate includes the rates for General Fund, Special Funds, and uniform local rates. Additionally, cities and counties may generally assess up to an additional 2.00 percent to the statewide rate. This rate includes a 0.25 percent rate due to the passage of Proposition 30, effective beginning January 1, 2013. This 0.25-percent rate expires on December 31, 2016.

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