2000-01

Revenue Estimates

California's exceptional economic performance over the past year, coupled with continued strong stock market growth, led to robust revenue growth in fiscal year 1999-00 that is expected to largely continue in 2000-01. Since enactment of the final 1999-00 Governor's Budget, the General Fund revenue forecast over the past and current-year period has increased by $2.9 billion. In addition, total General Fund revenues in 2000-01 are expected to be up $3.1 billion or 4.7 percent from 1999-00, to reach $68.2 billion.

This revenue strength comes on top of unusually strong gains in the current and past year. General Fund collections are expected to increase 11.2 percent on a year-over-year basis in 1999-00, which will bring revenues to $65.2 billion in the current fiscal year. For 1998-99, total revenues were up 6.7 percent or $3.7 billion, to reach $58.6 billion. This growth pattern is particularly impressive given the significant General Fund tax relief enacted over the last three years. The current year's growth in part reflects the fact that 1999-00 is the first year in which California will receive revenue from tobacco company litigation. Over $500 million is expected from this source in 1999-00 and nearly $400 million in 2000-01.

California's remarkable employment and income growth during 1999 were reflected strongly in revenues. At the time the budget was prepared, personal income tax withholding paid in 1999 was over 14 percent above the year earlier. The first three estimated payments for the personal income tax were up over 15 percent. Taxable sales grew at a faster pace in inflation-adjusted terms than any time since the early 1980s.

Much of the State's revenue surge in recent years results from the extraordinary gains in the stock market. Taxpayers have realized record-level capital gains that have grown at year-over-year rates of between 22 and 58 percent for the last four years. In addition, stock options have become an increasingly common component in wage packages—particularly in California's high tech sector. Taxpayers deriving income from retirement saving vehicles, such as Individual Retirement Accounts and 401(k)s, have also benefited from this growth. Together, these factors account for much of the rapid growth in the personal income tax. The stock market has also contributed to a sense of wealth among consumers, resulting in dramatic increases in sales tax revenue.

While this revenue surge has allowed the State to address critical needs such as education, the fact remains that revenues supporting the budget are increasingly dependent upon the stock market. Capital gains alone contribute over 9 percent of total General Fund revenues—up from less than 4 percent as recently as 1994-95. This represents a relatively small portion of the total budget, however it is a very significant fraction of the State's discretionary income. Although the current stock market expansion has been durable, lasting since late 1994, the market remains volatile. In one day alone, it has risen as much as 5 percent or fallen nearly 7 percent, even during this prolonged bull market. On average, the market rises or falls over one-half percent per day. Therefore, its ongoing influence on the General Fund revenues, both positive and negative, must be recognized.

The revenue forecast for 2000-01 reflects continuing, but more modest, growth than in the recent past. Given the volatility of the stock market, this cautionary approach is prudent. While modest growth in equities is assumed to continue throughout the forecast period, the uncertainty of future stock market performance argues against assuming for budget planning purposes that recent outsized growth rates will continue.

The forecast also reflects the following targeted tax proposals, which are discussed in more detail in the section on the New Economy:

- A phased-in increase in the percentage of losses that businesses can carry forward to subsequent years from 50 percent to 60 percent.
- A $500 personal income tax credit for taxpayers who are or who care for elderly or disabled individuals in their homes.
- A state sales tax exemption for qualified investment in rural areas.
- A $1,000 credit for each new employee who is hired by a small employer to perform aerospace work.
- A personal income and bank and corporation tax credit to encourage expansion of biomass generation, effective for the 2001 and 2002 tax years.
- A personal income tax exclusion for graduate school expenses paid by an employer.
- An increase in the alternative incremental research and development credit to 90 percent of the June 30, 1999, federal credit.
- A one-time personal income and bank and corporation tax credit in 2000 for land donated for conservation purposes.
- A permanent increase in the amount of low-income housing credits that can be allocated annually from $35 million to $50 million.

Figure REV-1 provides a summary of the fiscal impact of these proposals.

Figure REV-2 provides a summary of the revenue forecast for 1999-00 and 2000-01, as well as a preliminary report of actual receipts for 1998-99.

Impact of 1999 Tax Reduction

Last year, for the third straight year, significant tax relief measures were enacted. This package of bills provided taxpayers with approximately $300 million in tax savings in both 1999-00 and 2000-01. Figure REV-3 provides additional detail on the 1999 tax relief package.

Revenues in Total

Overall, General Fund revenues and transfers represent over 80 percent of total revenues. The remaining 20 percent are special funds dedicated to specific programs. The three largest revenue sources (personal income, sales, and bank and corporation taxes) account for over 75 percent of total revenues.

Personal Income Tax: $36.319 billion

The personal income tax is the State's largest revenue source and is expected to contribute 53.2 percent of all General Fund revenues in fiscal year 2000-01. Personal income tax revenues are expected to increase by 11.6 percent for 1999-00 and 5.4 percent for 2000-01. The estimate includes the impact of the Governor's tax relief proposals, which are estimated to reduce 2000-01 personal income tax revenues by $107 million. The estimate also incorporates the effect of legislation enacted in 1999 and revenue gains from the Franchise Tax Board's Integrated Nonfiler Compliance program.

The California personal income tax is closely modeled after the federal income tax law. California's tax is imposed on net taxable income, that is, gross income less exclusions and deductions. The tax is progressive, with rates ranging from 1 to 9.3 percent. Personal, dependent, and other credits are allowed against the gross tax liability.

In addition, taxpayers may be subject to an alternative minimum tax (AMT), which is much like the federal AMT. This feature is designed to ensure that excessive use of tax preferences does not reduce taxpayers' liabilities below a minimum level. The AMT is equal to 7 percent of the alternative minimum taxable income that exceeds an exemption amount.

The personal income tax is adjusted annually by the change in the California Consumer Price Index to prevent taxpayers from being pushed into higher tax brackets by inflation only, without a real increase in income.

The difficulty in forecasting personal income tax receipts is increased by the progressive nature of the tax. One dollar of income on a high-income tax return can generate nine times the revenue from a dollar on a low-income return. In addition, very high-income taxpayers usually have considerable discretion over the timing of income and deductions. Thus, substantial changes in the portfolios or tax planning of relatively few high-income taxpayers can have a dramatic impact on state revenues.

In 1997, for example, the top 7.5 percent of state taxpayers' those with adjusted gross incomes of over $100,000, reported 40.2 percent of the total income and paid 65.8 percent of the personal income tax. At the same time, lower income taxpayers, those with adjusted gross incomes of less than $20,000, paid only 0.8 percent of the personal income tax in 1997, yet represented 40.1 percent of all California taxpayers.

The progressivity of California's tax system is demonstrated in Figure REV-4, which displays the percent of total returns and tax paid by adjusted gross income class.

The volatility of capital gains also complicates personal income tax revenue forecasting. Not only are stock and real estate market gains inherently difficult to predict, but holders of capital assets are usually very high-income taxpayers who are subject to the maximum tax rate and can time the realization of gains and the payment of tax to their advantage.

Preliminary data indicate that 1998 was another impressive year for capital gains, increasing over 25 percent from the 1997 tax year. From 1994 to 1998, the level of capital gains has more than tripled. In this forecast, capital gains are expected to climb an additional 22 percent in 1999 from the 1998 level. Based on the assumption of a modestly rising stock market, a moderate 5-percent decline is expected in 2000. The level of capital gains from 1972 through the forecast period is shown in Figure REV-5.

Forecast revenues compared with preliminary 1998-99 collections are:

Personal Income Tax Revenue
(Dollars in Millions)

1998-99 (Preliminary) $30,891
1999-00 (Forecast) 34,461
2000-01 (Forecast) 36,319

Sales Tax: $21.396 billion

Sales and use taxes (the State's second-largest revenue source) are expected to contribute 31.4 percent of all General Fund revenues in fiscal year 2000-01. Sales and use taxes are imposed on the retail sale or use of tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions are provided for certain necessities such as food for home consumption, prescription drugs, and electricity, making the tax more progressive than it would be otherwise. Additional exemptions provide targeted tax relief for a variety of sales ranging from custom computer programs to goods used in space flight.

A summary of the sales and use tax rates currently imposed at the state and local levels is presented in Figure REV-6. Combined state and local tax rates currently imposed in each county are summarized in Figure REV-7.

Taxable sales in 1998 grew 5.2 percent over 1997, following year-over-year increases of 6.7 percent and 6.2 percent in 1996 and 1997, respectively. Preliminary data received for the first three quarters of 1999 suggest that taxable sales are growing strongly; sales for 1999 are expected to be up by 8.8 percent over 1998.

Revenue growth is expected to continue, but at a slower pace during 2000 and 2001, up 5.7 percent and 6.0 percent, respectively, which are still healthy growth rates. Growth in taxable sales is anticipated to be broadly based across many sectors of the economy throughout the forecast period. However, the largest percentage increases are expected in the building, services, specialty goods, and transportation components.

A summary of the forecast for taxable sales growth is presented in Figure REV-8. A breakdown of sales by major component is presented in Figure REV-9.

The sales and use tax revenue forecast is prepared by relating taxable sales by type of goods purchased to economic factors such as income, employment, housing starts, new vehicle sales, and inflation. The forecast is then adjusted for significant legislation and other factors expected to affect sales tax revenues.

Current law specifies that certain state revenues from the sales tax on gasoline and diesel fuel sales be transferred to the Public Transportation Account. The combined transfer to this Account is estimated to be $185 million in 1999-00 and $202 million in 2000-01.

Revenues from state-imposed sales tax rates are shown in Figure REV-10. The table below shows the General Fund sales tax revenue forecast for 1999-00 and 2000-01, compared with preliminary 1998-99 collections:

Sales and Use Tax Revenue
(Dollars in Millions)

1998-99 (Preliminary) $18,957
1999-00 (Forecast) 20,236
2000-01 (Forecast) 21,396

Bank & Corporation Tax: $6.236 billion

Bank and corporation tax revenues are expected to contribute 9.1 percent of all General Fund revenues in fiscal year 2000-01. These revenues are derived from four taxes:

- The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that do not do business in the state but derive income from California sources. An example of this type of out-of-state company would be a corporation that maintains a stock of goods in California from which deliveries are made to fill orders taken by independent dealers or brokers. Corporations that have a limited number of shareholders and meet other requirements to qualify for state Subchapter S status are taxed at a 1.5 percent rate rather than the 8.84 percent imposed on other corporations. (Subchapter S status provides the limited liability of corporate status combined with the tax advantages of partnerships (i.e., the S-corporation's profits and losses flow through to their shareholders and are subject to tax at the appropriate personal income tax rate.)
- Banks and other financial corporations pay an additional 2 percent tax (i.e., "bank tax") on their net income. This tax is in lieu of local personal property taxes and business license taxes, but in addition to the franchise tax.
- The alternative minimum tax is similar to that in federal law. Imposed at a rate of 6.65 percent, the alternative minimum tax ensures that high-income taxpayers do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.
- A minimum franchise tax of $800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. Starting in 2000, new corporations are exempted from the prepayment of minimum tax to the Secretary of State as well as the payment of the second year's minimum franchise tax.

In forecasting the bank and corporation tax, the relationship of California taxable profits to the national corporate tax liability is important. The forecast also involves analysis of the trend in California's non-farm employment level, California's unemployment rate relative to that of the nation's, as well as recent actual cash experience for this tax.

The forecast incorporates the latest economic outlook and the impact of legislation enacted in 1999. Consistent with the economic outlook, taxable profits are estimated to grow at a moderate rate through the forecast period. Preliminary data indicate that while the level of 1997 income-year profits was up 10.2 percent from 1996, the tax liability increased by only 6.7 percent. Credit usage (largely the research and development credit and the Manufacturers' Investment Credit) and S-corporation activity are considered to be the primary reasons for the divergence between profit and liability growth. The utilization of S-corporation status results in a reduced corporate rate, with the income and tax liability on that income shifted to the personal income tax. S-corporations accounted for 23 percent of total taxable profits in 1997. For comparison purposes, their share was 14.7 percent in 1991. This diverging trend between profits and liabilities can be seen in Figure REV-11.

Overall, bank and corporation tax revenues are expected to increase by 6.4 percent in 1999-00 and 2.4 percent in 2000-01. The estimate includes the impact of the Governor's tax relief proposals, the fiscal impact of legislation enacted in 1999, and a proposal to develop an automated return validation, billing, and accounting system for the Franchise Tax Board's limited liability company tax program.

Forecast revenues compared with preliminary 1998-99 collections are:

Bank and Corporation Tax Revenue
(Dollars in Millions)

1998-99 (Preliminary) $5,724
1999-00 (Forecast) 6,092
2000-01 (Forecast) 6,236

Insurance Tax: $1.304 billion

The majority of insurance written in California is 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. The basis of the tax is the amount of "gross premiums" received, less return premiums, upon business done in California.

There are some exceptions. Insurers transacting title insurance are taxed upon all income received in this state, with the exceptions of interest, dividends, rents from real property, profits from the sale or disposition of investments, and income arising out of investments. Ocean marine insurers are taxed upon underwriting profits at a 5 percent rate. Other exceptions to the 2.35 percent rate include certain pension and profit-sharing plans, including qualified annuities, which are taxed at the lesser rate of 0.5 percent and certain specialized lines of insurance that are taxed at 3 percent.

The Department of Finance conducts an annual survey to project insurance premium growth. Responses are obtained from about 300 insurance companies, which account for over two-thirds of the insurance written in California.

Figure REV-12 illustrates the proportion of premiums written by insurance type from which the revenue is derived. For 1998, $56.9 billion in taxable premiums written were reported, an increase of 2.3 percent over 1997. The most recent survey indicates that premiums written will increase by 1.5 percent in 1999 and by 4.8 percent in 2000. Since taxes are deferred on some lines of insurance, others are averaged over several years, and various tax rates are applied, the revenue grows at different rates than premiums written. On a calendar year basis, revenues are expected to grow by 1.7 percent in 1999 and by 3.4 percent in 2000 based on survey responses.

The expectation that premium growth will remain relatively sluggish in 1999 is driven primarily by intense price competition, particularly in the private passenger auto line. The survey's most interesting result is that most respondents expect premium growth to rise, and in some cases surge, in 2000. The premium outlook for next year is being driven by a variety of factors, including the expectation that insurers will gain more leverage in passing through price increases. Continued economic growth is another factor, and also plans for increasing insurable exposure in both personal and commercial lines.

Forecast revenues compared with preliminary 1998-99 collections are:

Insurance Tax Revenue
(Dollars in Millions)

1998-99 (Preliminary) $1,254
1999-00 (Forecast) 1,277
2000-01 (Forecast) 1,304

Estate/Inheritance/Gift Taxes: $984 million

Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The pick-up tax is computed on the basis of the federal "taxable estate," with tax rates that range from 0.8 percent to 16 percent. This tax does not increase the liability of the estate due to the fact that it would otherwise be paid to the federal government.

Forecast revenues compared with preliminary 1998-99 collections are:

Estate, Inheritance, and Gift Tax Revenue
(Dollars in millions)

1998-99 (Preliminary) $890
1999-00 (Forecast) 937
2000-01 (Forecast) 984

Alcoholic Beverage Taxes: $273 million

Taxes on alcoholic beverages are levied on the sale of beer, wine, and distilled spirits. The rates vary with the type of alcoholic beverage. The tax rate per gallon for beer, dry wine, and sweet wine is $0.20. The tax rates per gallon for sparkling wine and distilled spirits are $0.30 and $3.30, respectively.

Alcoholic beverage revenue estimates are based on projections of total and per capita consumption for each type of beverage. Overall, consumption of alcoholic beverages is expected to remain relatively flat over the forecast period.

Forecast revenues compared with preliminary 1998-99 collections are shown in Figure REV-13.

Cigarette Tax: $137 million

Proposition 10 increased the excise tax imposed on distributors selling cigarettes in California to 87 cents per pack effective January 1, 1999. At the same time, this proposition imposed a new excise tax on cigars, chewing tobacco, pipe tobacco, and snuff at a rate equivalent to the tax increase on cigarettes of 50 cents per pack. In addition, the higher excise tax on cigarettes automatically triggered an additional increase in the tax on other tobacco products effective July 1, 1999, with the proceeds going to the Cigarette and Tobacco Products Surtax Fund. Thus, this proposition increased the total excise tax on other tobacco products by an amount equivalent to an increase in the cigarette tax of one dollar per pack.

The state excise tax on cigarettes of 87 cents per pack is allocated as follows:

- Fifty cents of the per-pack tax on cigarettes, and the equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution as specified in Proposition 10.
- Twenty-five cents of the per-pack tax on cigarettes, and the equivalent rates 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.
- Ten cents of the per-pack tax is allocated to the State's General Fund.
- The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Projections of total and per capita consumption of cigarettes provide the basis for the cigarette tax estimate. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, and state anti-smoking campaigns funded by Proposition 99 revenues have all significantly reduced cigarette consumption.

Per capita consumption declined on average 3 percent annually from 1983-84 through 1987-88, and then decreased even more rapidly with the onset of Proposition 99. During 1989-90, per capita consumption was about 123 packs versus 83 packs in 1997-98—a 33 percent decrease over eight years. However, price increases stemming from tobacco litigation, in conjunction with the State's excise tax hike, reduced per capita consumption by approximately 9.6 percent to 75 packs in 1998-99. In combination with the long-term downward trend in consumption, this should reduce cigarette sales on a fiscal year basis in 1999-00 by an additional 10 percent, followed by a smaller decline in 2000-01. The estimated increase in the smoking-age population will somewhat offset the declining per capita consumption in future years.

Wholesale price data provide the basis for the revenue estimate for other tobacco products, which include items such as cigars, chewing tobacco, and snuff. Consumption of cigars and some other tobacco products, which grew steadily from 1993-94 through 1996-97, declined approximately 5 percent in 1997-98 and further declined by 20 percent in 1998-99. Based on recent consumption patterns and the additional excise tax on other tobacco products, the use of other tobacco products is expected to decrease approximately 29 percent in 1999-00, and decline at a slower rate in 2000-01.

Per capita consumption of cigarette packs from 1986-87 through 2000-01 is illustrated in Figure REV-14. Total tobacco tax revenue estimates are shown in Figure REV-15.

Horse Racing Revenue: $1 million

Horse racing revenue is collected primarily from license fees imposed on amounts wagered by the public. The license fee revenue schedule is based upon many factors, including the amount wagered, the location of the track where the wager is placed, the type of horse racing, the type of wager, and whether or not the wager is made on-track or at a satellite facility. Other revenue sources include breakage (the odd cents not paid to winning ticket holders), unclaimed pari-mutuel tickets, occupational license fees, fines, and penalties. Horse racing revenues support several special funds and to a small extent, the General Fund, with the distribution of moneys to each fund specified in statute.

During recent years, satellite wagering has resulted in a shift from on-track to off-track wagering. At present, the public may view horse races by attending live meets or watching and wagering at off-track facilities that receive races televised live via satellite. California also exports its signal to several out-of-state simulcast facilities, where patrons can place bets on California horse races. All three types of bets (on-track, intrastate off-track, and interstate off-track) generate license fees for the State.

State horse racing revenues have declined significantly during the past ten years and are expected to continue their decline through fiscal year 2000-01. Between 1989-90 and 1998-99, General Fund revenues from this source decreased by nearly 80 percent, from $107 million to $24 million. General Fund revenues were further reduced beginning in 1999-00 due to enactment of Chapter 335, Statutes of 1998, which substantially decreased state horseracing license fees, virtually eliminating General Fund horse racing revenues by 1999-00. Horse racing revenues for the Fair and Exposition Fund and the Satellite Wagering Account are expected to decline slightly through 2000-01.

Total horse racing revenues are shown in Figure REV-16.

Special Fund Revenue

The California Constitution, codes, and statutes specify the uses of certain revenues, with receipts accounted for in various special funds. In general, special fund revenues comprise three categories of income:

- Receipts from tax levies that are allocated to specified functions such as motor vehicle taxes and fees.
- Charges for special services provided for specific functions, including such items as business and professional license fees.
- Rental royalties and other receipts designated for particular purposes, for example, oil and gas royalties.

Taxes and fees related to motor vehicles comprise over 50 percent of all special fund revenue. Principal sources are motor vehicle fuel taxes, registration and weight fees, and vehicle license fees. During fiscal year 2000-01, $8.4 billion in revenues will be derived from the ownership or operation of motor vehicles. This is only 1.6 percent above the 1999-00 level, due to tax reductions enacted for vehicle license fees. Approximately 51 percent of this revenue will be returned to local governments. The remaining portion will be available for various state programs related to transportation and services to vehicle owners.

Chapter 85, Statutes of 1991, created the Local Revenue Fund for the purpose of local program realignment. Revenue attributable to a 0.5 percent sales tax rate is transferred to this special fund. During 2000-01, local governments are expected to receive $2.1 billion from this revenue source, up 5.6 percent from 1999-00. In addition to this revenue, approximately 24 percent of all vehicle license fees are transferred to the Local Revenue Fund.

Total vehicle license fee revenues were reduced by $482 million in 1998-99 by the enactment of Chapter 322, Statutes of 1998, which established a vehicle license fee offset program. This legislation is covered in more detail in the discussion on motor vehicle fees. Chapter 74, Statutes of 1999, provided a one-time expansion of the offset program for the 2000 calendar year. For 1999-00 and 2000-01, the offset program is expected to reduce revenues by $1.350 billion and $1.712 billion, respectively. This loss of local revenue is replaced from the State's General Fund.

Funds from the Proposition 99 tobacco-related taxes are allocated to a special fund for distribution to a variety of accounts as determined by the measure. Receipts for this fund are estimated at $401 million in 1999-00 and $394 million in 2000-01. An additional $27.8 million for breast cancer research will be generated in 1999-00 by the 2-cents-per-pack cigarette tax enacted in 1993, while $27.5 million will be generated in 2000-01 for this purpose. The original tax on cigarettes of 10 cents per pack is allocated to the General Fund. In addition, as noted earlier, Proposition 10 approved by the voters in the November 1998 election, provides for an additional tax on cigarettes of 50 cents per pack, with the proceeds going to the California Children and Families First Trust Fund. This Fund is for the support of early childhood development programs and to offset revenue losses to the health education, research, and Breast Cancer Fund programs due to the reduction in cigarette sales caused by increased prices.

Motor Vehicle Fees: $5.199 billion

Motor vehicle fees consist of vehicle license, registration, weight, and driver's license fees, and various other charges related to vehicle operation.

The vehicle license fee (VLF) is imposed for the privilege of operating a vehicle on the 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. All of the revenues from this tax, 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," which is the cost to the purchaser exclusive of sales tax, adjusted by a depreciation schedule. For motor vehicles, the schedule is based on an 11-year depreciation period; an 18-year depreciation period is used for trailer coaches. A 2-percent rate is applied to the depreciated value to determine the fee. Thus, revenue from this source is contingent on the number of vehicles in California, the ages of those vehicles, and their most recent sales prices.

Chapter 322, Statutes of 1998, established a program to offset a portion of the vehicle license fees paid by vehicle owners. This program is referred to as an "offset" rather than a tax credit, because the total amount of VLF due was not changed. The State pays or "offsets" a portion of the amount due and taxpayers pay the remaining balance. Beginning January 1, 1999, a permanent offset of 25 percent of the amount of VLF owed became operative. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. The permanent offset can increase to four higher levels at various future dates, if General Fund revenue projections exceed the Department of Finance's May 1998 revenue forecast by specified amounts. Based on the current revenue forecast, the 35 percent offset established by Chapter 74 will continue for the 2001 calendar year. The amount by which vehicle license fees are reduced is made up by the General Fund to prevent any loss of revenues to local governments. This backfill is expected to total $1.350 billion in 1999-00 and $1.712 billion in fiscal year 2000-01.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those which are installed on permanent foundations (mobile-homes) are subject to either local property taxes or the VLF. Generally, if the mobile home was purchased new prior to July 1, 1980, it is subject to the VLF which, in this instance, is administered by the Department of Housing and Community Development rather than the Department of Motor Vehicles. All other mobile-homes are subject to the local property tax. Chapter 699, Statutes of 1992, provided that all trailer coach license fees that are administered by the Department of Motor Vehicles be deposited in the General Fund. Beginning in 1994-95, all other trailer coach license fees are also deposited into the General Fund.

Allowing for scrappage and for vehicles entering and leaving California, the number of total fee-paid registrations (autos, trucks, trailers, and motorcycles) including a proportional factor for multi-state vehicles, is estimated at 25,820,000 for 1999-00 and 26,457,000 for 2000-01. As can be seen in Figure REV-17, the growth in new vehicle registrations in 1998-99 was at a ten-year high. The forecast for 1999-00 assumes continued above-average growth, while the forecast for 2000-01 assumes growth closer to the long-run average.

Effective August 1, 1991, Chapter 87, Statutes of 1991, revised the vehicle license fee depreciation schedule, imposed a 2.2 percent surcharge on those license fees for a period of one year, and required the Department of Motor Vehicles to reclassify used vehicles based upon their actual purchase price each time the ownership of the vehicle is transferred. All of the revenue from this base change is transferred to local governments.

Motor vehicle fees revenue is summarized in Figure REV-18.

Motor Vehicle Fuel Taxes: $3.170 billion

The motor vehicle fuel license tax (levied on gasoline), diesel fuel tax (levied on diesel), and the use fuel tax (levied on alternative fuels such as liquefied petroleum gas, natural gas, and alcohol fuel) provide the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Just over one-third of these revenues is apportioned to local jurisdictions for street and highway use.

The motor vehicle fuel license tax (gas tax) is imposed on distributors at a rate of 18 cents per gallon. Fuels subject to the gas tax include gasoline, natural gasoline, and specified blends of gasoline and alcohol sold for vehicular use on California public streets and highways.

The Motor Vehicle Fuel License Tax Law also applies an excise tax of 2 cents per gallon on aircraft jet fuel sold at the retail level. Certain sales are exempt from the aircraft jet fuel tax, including those to certified air common carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

Chapter 912, Statutes of 1994, established the Diesel Fuel Tax Law. Prior to the operative date of Chapter 912, diesel fuel had been taxed under the Use Fuel Tax Law. The diesel fuel tax is imposed on distributors at the terminal rack level (i.e., the first point of distribution) and applies to diesel fuel and blended diesel fuel sold for use in propelling highway vehicles. Undyed diesel fuel for highway use is taxed at a rate of 18 cents per gallon. Dyed diesel fuel, which is destined for tax-exempt uses, is not taxed.

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 remain untaxed until they are dispensed into a motor vehicle that is operated on California highways or is suitable for highway operation. Current use fuel tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LNG and LPG, 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 in lieu of the 6 cents per gallon tax.

The Mills-Hayes Act specifies that a fuel tax rate of 1 cent per gallon be levied on fuel used by local transit systems, school and community college districts, and certain common carriers. This excise tax is imposed in lieu of the other fuel taxes described above.

Gasoline consumption has grown slowly over time, as conservation efforts have offset economic-based growth. Gasoline consumption rose 2.4 percent during 1998-99 and is estimated to increase by 3.6 percent in 1999-00 and 2.4 percent in 2000-01.

Because the majority of diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by the general health of the economy. Diesel fuel consumption increased by 4.6 percent in 1998-99 and is expected to rise by 3.8 percent and 3.7 percent in 1999-00 and 2000-01, respectively.

Proposition 111, enacted in June 1990 to generate new transportation funding, increased gasoline and diesel fuel tax rates by 5 cents per gallon each, effective August 1, 1990. Proposition 111 also increased gas and diesel fuel tax rates by an additional 1cent per gallon each January 1 thereafter, until an 18-cent-per-gallon rate became effective January 1, 1994. The rates have remained constant since that time. Revenues raised by Proposition 111 equaled $1.47 billion during 1998-99 and are expected to be $1.50 billion during 1999-00 and $1.54 billion during 2000-01.

Motor vehicle fuel revenues are shown in Figure REV-19.

Figures REV-20-22