

September 27, 2012

Proposition 39

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Committee on Revenue and Taxation

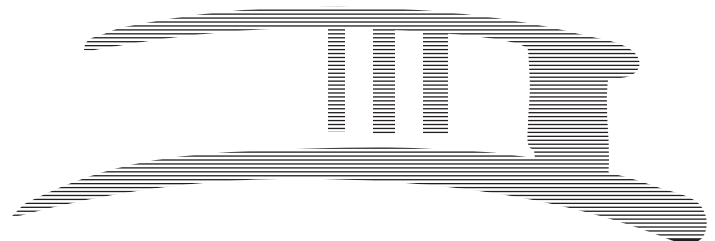
Hon. Felipe Fuentes, Chair

Assembly Committee on Natural Resources

Hon. Wesley Chesbro, Chair

Assembly Committee on Utilities and Commerce

Hon. Steven Bradford, Chair





Background

- ☑ ***Multistate Businesses Currently Choose How Their Taxable Income Is Determined.*** State law allows most multistate businesses to pick one of two methods to determine the amount of their income associated with California and taxable by the state:
 - ***“Three-Factor Method” of Determining Taxable Income.*** This method uses the location of the company’s sales, property, and employees.
 - ***“Single Sales Factor Method” of Determining Taxable Income.*** This method uses only the location of the company’s sales.

- ☑ ***Energy Efficiency Programs.*** There are currently numerous state programs established to reduce energy consumption and reduce the need to build new energy infrastructure.

- ☑ ***School Funding Formula.*** Proposition 98 requires a minimum level of state and local funding each year for public schools and community colleges. The Proposition 98 guarantee can grow with increases in state General Fund revenues.



Major Provisions

- Eliminates Ability of Multistate Businesses to Choose How Taxable Income Is Determined.*** Under this measure, starting in 2013, multistate businesses would no longer be allowed to choose the method for determining their state taxable income and instead would have to use the single sales factor method.

- Provides Funding for Energy Efficiency and Alternative Energy Projects.*** This measure establishes a new state fund, the Clean Energy Job Creation Fund, to support projects intended to improve energy efficiency and expand the use of alternative energy. The Legislature would determine spending from the fund and be required to use the monies for cost-effective programs.



Fiscal Effects

Estimated Effects of Proposition 39 on State Revenues and Spending			
	2012-13	2013-14 Through 2017-18	2018-19 And Beyond
Annual Revenues	\$500 million	\$1 billion, growing over period	Over \$1 billion
Annual Spending			
Amount dedicated to energy projects	None	\$500 million to \$550 million	None
Increase in school funding guarantee	\$200 million to \$500 million	\$200 million to \$500 million, growing over period	\$500 million to over \$1 billion

- Increase in State Revenues.*** This measure would increase state revenues by around \$500 million in 2012-13 and by around \$1 billion annually starting in 2013-14.

- Some Revenues Used for Energy Projects.*** For a five-year period (2013-14 through 2017-18), about half of the additional revenues—\$500 million to \$550 million annually—would be transferred to the Clean Energy Job Creation Fund to support energy efficiency and alternative energy projects.

- School Funding Likely to Rise Due to Additional Revenues.*** Generally, the revenue raised by the measure would be considered in calculating the state's annual Proposition 98 minimum guarantee. The higher revenues likely would increase the minimum guarantee by at least \$200 million for the 2012-13 through 2017-18 period. In some years during this period, however, the effect could be significantly greater.