

News Release



FOR IMMEDIATE RELEASE
JUNE 10, 2009

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Revenue Solutions for California's Budget Crisis

Children's Advocates Call on Legislators to Place Needs of People before Ideology

Los Angeles, CA—Advocates and families from across the state joined forces in Sacramento Tuesday to ask California's state legislators to be fiscally responsible and maintain programs that will help children and families weather the State's worst recession in its history. Advocates point out that the State can keep billions of dollars circulating through California's economy by raising revenue and taking full advantage of federal stimulus dollars.

"With nearly two million children and families facing the loss of healthcare coverage in California, it's time for our legislators to put aside their no-tax rhetoric and act responsibly," says Lark Galloway-Gilliam, Executive Director of CHC. "This has to include repealing the more than \$420 million in corporate tax breaks adopted by the legislature in the heat of the budget meltdown. If the choice is between healthcare coverage for millions of children and closing tax loopholes, I think Californians would expect the legislature to choose kids."

The Governor has proposed eliminating the Healthy Families Program, which provides affordable health coverage to children in families earning less than \$46,000 for a family of three. Eliminating Healthy Families would make California the only state in the country not to have a Children's Health Insurance Program for low-income children. "With a \$2 for \$1 match from the federal government for every dollar the state spends, this is another example of pound-foolish policy," continues Ms. Galloway-Gilliam.

Among the revenue raising options the Governor and legislators should consider are an Oil Severance Tax, which could raise nearly \$1 billion. California is the only oil-producing state that does not tax oil that is owned, leased, or extracted from private lands in this state. In other states, the tax ranges from 2% to 15%.

Another option is to return to 1991 levels personal income tax rates on the wealthiest 1.5% of Californians. If California were to reinstate an 11% rate on those who earn over \$642,000 and a 10% rate on those over \$321,000, it could generate \$4-6 billion in new revenue.

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More than 63% of Californians support this proposal according to a survey conducted by David Binder Research in May 2009.

A study by the Center for Budget and Policy Priorities also shows states that enacted large tax increases between 2002 and 2004 subsequently experienced stronger than average growth in personal income than states that didn't increase taxes at all. Personal income tax increases have less of an impact on the economy than state spending cuts because they affect higher income Californians, who typically save more and spend only a fraction of their income. Tax cuts generally reduce consumer spending and thus the State's economy by the same amount because they disproportionately affect low-income Californians, who typically spend all or most of their incomes. "Every dollar of cash payments to low-income families that a state cuts reduces the money that families have to spend on rent, groceries, and other goods by an equal amount," says Jean Ross, Executive Director of the California Budget Project. Similarly, every dollar the state cuts in healthcare results in the loss of revenue for hospitals, medical suppliers, etc. and jobs.

The yield from the State's sales tax has also declined over time with shifts in economic activity from goods to services and the rise of internet and mail-order sales that escape taxation. The State would have collected an additional \$16.4 billion in sales tax revenue if taxable purchases were the same percentage of personal income in 2007-08 as they were in 1966-67. One solution would be to expand the narrow sales tax base by including repair services, entertainment and recreation, cable and satellite TV, and digital downloads, which could generate between \$2 and \$4 billion.

Fifty-seven percent of Californian voters have said that it is more important to prevent deep cuts to education and healthcare than it is to prevent all tax increases. Cuts to Healthy Families and Medi-Cal would hurt low-income children and families first, but will impact everyone through dollars that disappear from the economy, higher unemployment, and greater emergency room use. The elimination of healthcare coverage will cause a host of preventable illnesses to turn into critical conditions that require expensive emergency care. And the State will be forced to eventually foot the bill.

Community Health Councils is a non-profit, community-based health promotion, advocacy and policy organization. Established in 1992, CHC's mission is to improve health and increase access to quality healthcare for uninsured, economically-disadvantaged, and underserved populations.

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