

Financing Health Coverage: California's Tax Structure and Options

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Outline

- **Introduction**
- **California's revenue system**
- **Options and issues for reform**

The Problem of the Uninsured in CA

- 6.8 million Californians are uninsured, proportionately more than in U.S. overall**
- Recent policy innovations in other states (e.g., Massachusetts) and improved economic conditions have refocused attention on issue**
- Proposed solutions will require new resources**

What Would Coverage Cost?

- **Others have estimated costs of expanding health insurance coverage**
- **Based on these estimates, we will evaluate options to raise:**
 - **\$ 1.5 billion (All kids)**
 - **\$ 3.0 billion (1/2 uninsured)**
 - **\$ 6.0 billion (All uninsured)**

Where might these resources come from?

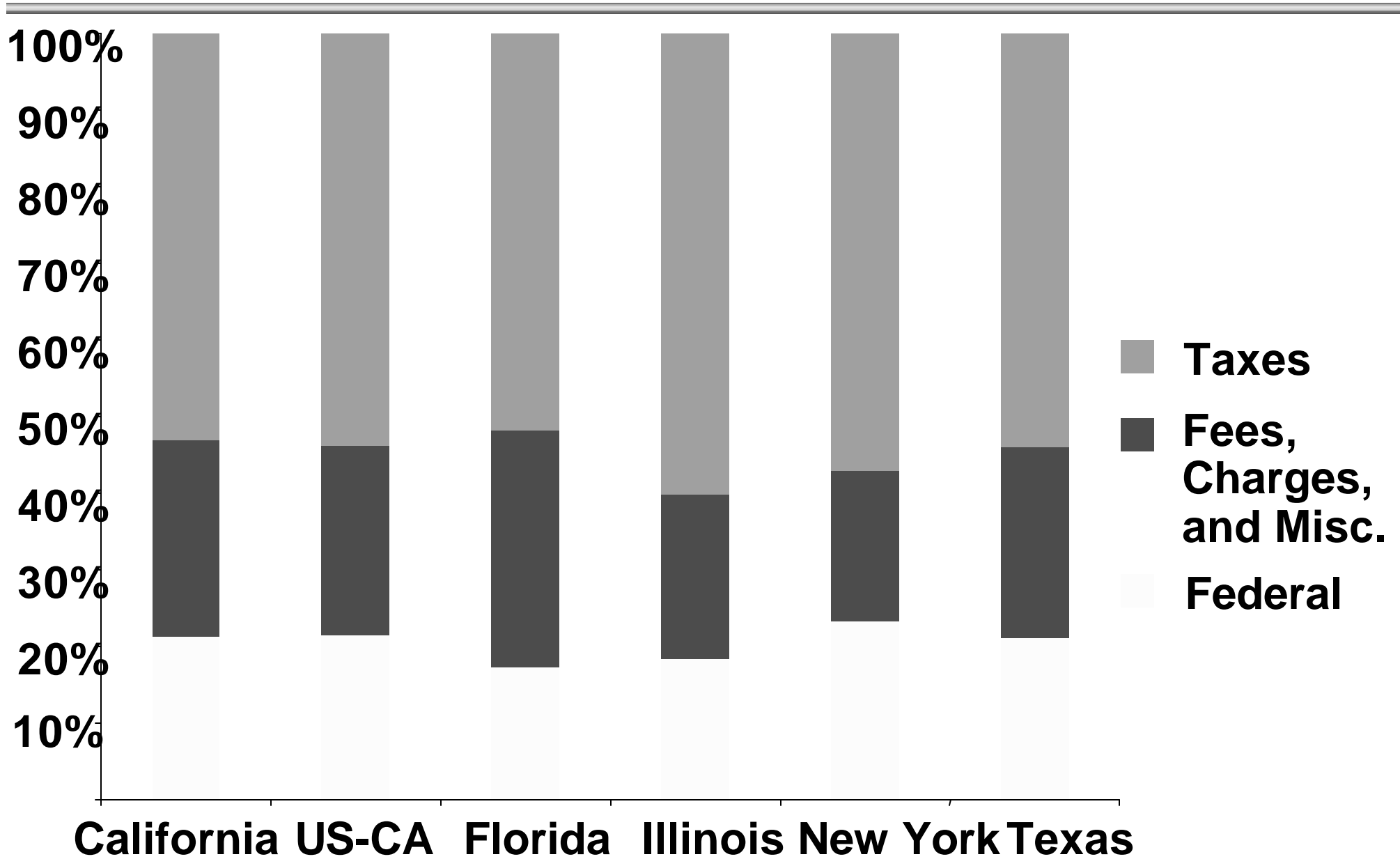
Studies from PPIC and TPC/Boston Fed Shed Light on This Question

- **PPIC forthcoming study compares California revenues and expenditures to rest of the nation and other large states**
 - **Decomposes expenditure differences into workload, cost, and policy factors**
- **TPC/BFR study examines state fiscal capacity**
 - **Abstracts from actual taxes and service levels to show what revenues and expenditures would look like under standard system**
- **Different approaches yield similar results**

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California Relies on Taxes for Just Over Half of All Revenues

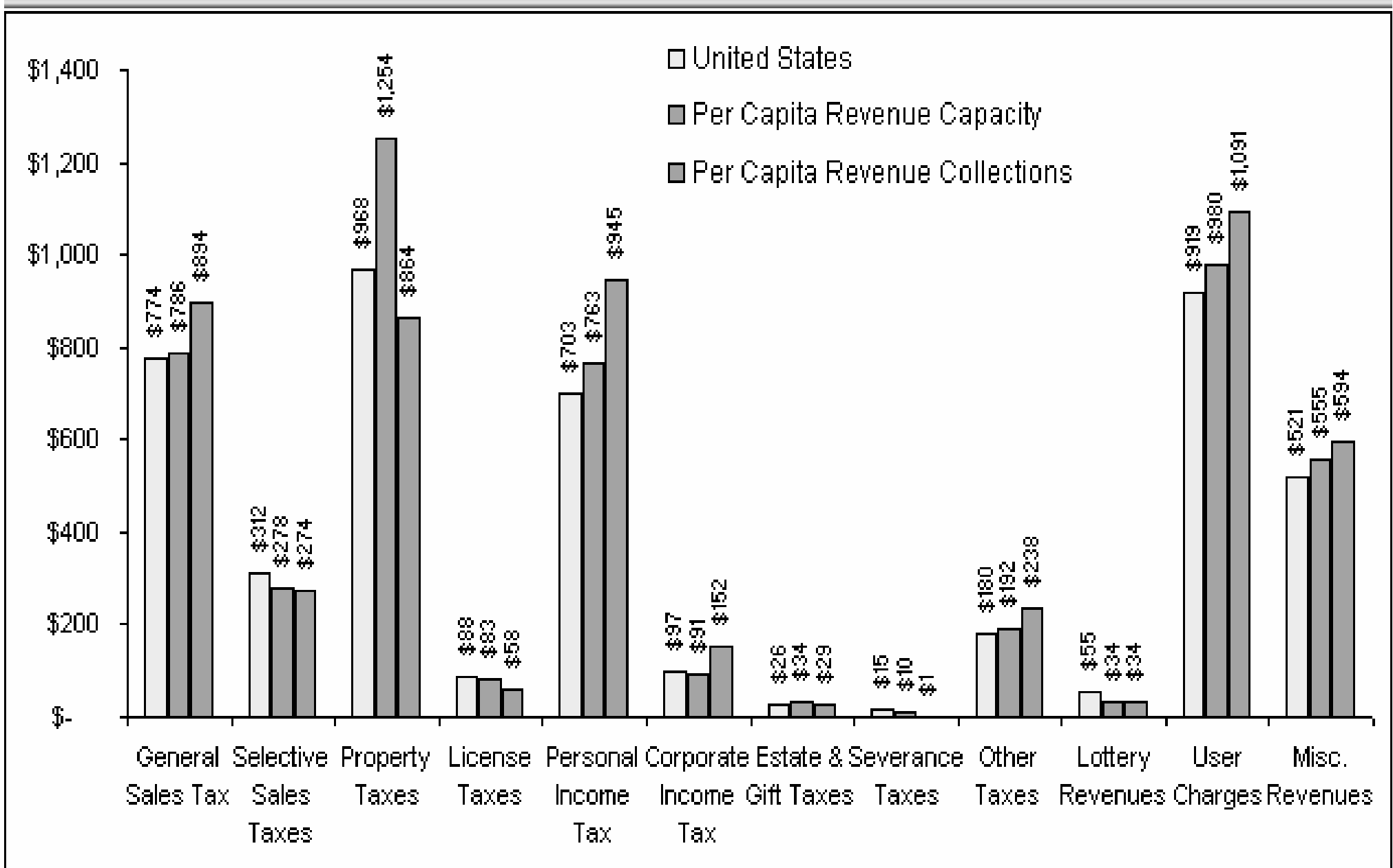


California's Revenue Burden Is Moderate on A Personal Income Basis

California's Fiscal Capacity Is Above the National Average

- **If California had standard tax rates, charges, and expenditure service levels**
 - **Could raise 9% more than national average in per capita revenues**
 - **Would spend 3% more than national average to provide services because of its demographic, economic composition**
- **California actual tax and expenditure effort higher than capacity measures**
- **But revenue mix different**

California Relies More on Personal Income Taxes and User Fees



California's Tax Structure Satisfies Some Principles of a High-Quality System

- **It is broad-based and roughly balanced among several types of revenues**
- **It is generally reliable in keeping pace with the economy and providing needed revenue**
- **It is progressive and minimizes burdens on low-income residents**

There is Also Room for Improvement

- **Highly reliant on volatile personal income tax**
- **Narrow sales tax base**
- **Low reliance on property taxes**

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Proposed Tax Changes to Fund Healthcare Include:

- **Increase taxes on cigarettes**
- **Implement surcharge on high-income earners**
- **Raise payroll taxes**
- **Broaden general sales tax base/raise rates**
- **Undo Prop 13 or change to split roll**
- **Raise VLF**
- **Environmental taxes**

Rough Calculations

- **Double cigarette taxes to \$1.74**
 - If no behavioral effects, raises \$1.1 billion
 - But revenues decline with price and over time
 - If include behavioral effects, will raise <\$1 billion
- **Implement payroll tax – set up program similar to SDI, where revenues are in own fund and rate can adjust**
 - If 0.6% (like SDI in 2007) would raise \$3.1 billion
- **Millionaire's Tax \$<1 billion (assuming no behavioral effects and double 1% tax under Prop.63)**

More Rough Calculations

- **Raise property taxes to rest of U.S. average per \$1,000 \$6.8 billion**
 - **Split property tax roll \$2 to 3.3 billion**
- **Raise selective sales taxes to average for rest of U.S. per \$1,000 \$3.3 billion**
- **Broaden sales tax base to include some services \$2 billion**
- **Double VLF to 1.34% \$2 billion**

These Proposals Have Their Advantages and Costs

- **Some proposals politically feasible but do not raise sufficient revenues and could worsen volatility**
 - **Increase taxes on cigarettes**
 - **Surcharge on high-income earners**
- **Moving toward national norms may raise enough money but appear to be politically unfeasible**
 - **Undo Prop. 13 or split roll**
 - **VLF increase**
- **Other changes would provide enough revenues but increase burdens on low income households**
 - **Payroll taxes**
 - **Broaden sales tax base/raise rates**

A Specific Funding Source is Necessary and Should Satisfy the Following Criterion:

- **Robust to Economic Conditions**
- **Tax borne by those who benefit (broadly if not specifically)**
- **Annual funding stream or tax needed to match program costs**
- **Dedicated funds would avoid other spending requirements and budget rules(e.g. affecting Prop 98 spending)**