

AUGUST 10, 2022

**Proposition 30: Provides Funding for Programs to Reduce
Air Pollution and Prevent Wildfires by Increasing Tax on
Personal Income Over \$2 Million. Initiative Statute.**

PRESENTED TO:

Senate Governance and Finance Committee
Hon. Anna Caballero, Chair

Senate Energy, Utilities and Communications
Committee
Hon. Ben Hueso, Chair

Senate Committee on Natural Resources and Water
Hon. Henry Stern, Chair



LEGISLATIVE ANALYST'S OFFICE

LAO Role in the Initiative Process

Fiscal Analysis Prior to Signature Collection

- State law requires our office to work with the Department of Finance to prepare a joint impartial fiscal analysis of each initiative before it can be circulated for signatures. State law requires that this analysis provide an estimate of the measure's fiscal impact on the state and local governments.
- A summary of the estimated fiscal impact is included on petitions that are circulated for signatures.

Analyses for Qualified Measures

- State law requires our office to provide impartial analyses of all statewide ballot propositions for the statewide voter information guide. This analysis includes a description of the proposition and its fiscal effects.



Background

California Personal Income Taxes

- The state collects a personal income tax on income earned within the state. Last year, the personal income tax raised over \$130 billion in revenue. Most of the revenue goes to the General Fund.

Zero-Emission Vehicle Programs

- To help meet state greenhouse gas emission reduction goals, the state has programs that promote “zero-emission vehicles” (ZEVs), such as electric cars and hydrogen fuel cell cars.
- For example, the state requires ride-sharing companies (such as Uber and Lyft) to use an increasing number of ZEVs for their services. The state also gives some funding to help households, businesses, and governmental agencies buy new ZEVs and install fueling infrastructure, such as charging stations for electric cars.

Wildfire Response and Prevention Programs

- **Response.** The state has the main responsibility for wildfire response activities—commonly known as firefighting—on about one-third of California’s land area. Wildfire response activities help limit the spread of large wildfires and stop them from damaging communities and harming residents.
- **Prevention.** The state also runs programs to reduce the chances that wildfires will start and to limit the damage they cause when they do occur—also known as wildfire prevention and mitigation. Some examples of wildfire prevention activities include forest resilience projects (such as conducting prescribed fires and thinning overgrown forests) and creating defensible space.

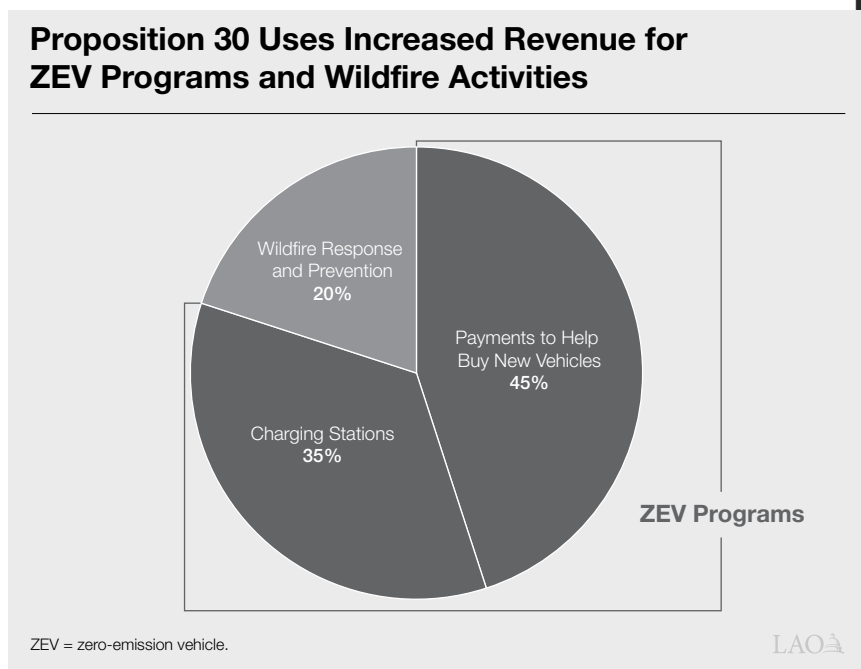


Proposal

Creates a New Tax on High-Income Taxpayers

- Beginning January 2023, Proposition 30 requires taxpayers with incomes above \$2 million annually to pay an additional tax of 1.75 percent on the share of their income above \$2 million. This tax increase would end by January 2043, or earlier if California is able to drop its statewide greenhouse gas emissions to at least 80 percent below 1990 levels for three consecutive calendar years.

Uses Revenue to Expand ZEV Programs and Wildfire Activities



Proposal

(Continued)

- **ZEV Programs (80 percent).** About 80 percent of the total revenue is for two ZEV program categories:
 - **Payments to Help Buy New Vehicles.** Most of this money must be used to help households, businesses, and governments pay for part of the cost of new passenger ZEVs. The rest of the money would be available for other programs, including payments to help buy heavy-duty ZEVs and programs that encourage less driving and improve local air quality.
 - **Charging Stations.** This money would be used to install and operate ZEV charging and fueling stations at places such as apartment buildings, single-family homes, and public locations.
 - For each category above, at least half of the money must be spent on projects that benefit people who live in or near heavily polluted and/or low-income communities.
- **Wildfire Suppression and Prevention (20 Percent).** About 20 percent of total revenue must be spent on wildfire response and prevention activities. In general, the state would have to prioritize spending to hire, train, and retain state firefighters. The rest of the money could be used for other wildfire response and prevention activities.



Fiscal Effects

Increased State Tax Revenues From New Tax for ZEV Programs and Wildfire Activities

- The new tax on high-income taxpayers typically would raise \$3.5 billion to \$5 billion annually, growing over time. Based on the spending requirements in Proposition 30, this funding would support:
 - **ZEV Programs.** The proposition would increase state funding for ZEVs by \$2.8 billion to \$4 billion annually. The state typically spends hundreds of millions of dollars annually on ZEV programs and also recently committed to spending about \$10 billion over a five-year period on these programs.
 - **Wildfire Response and Prevention Activities.** The proposition would increase state funding for wildfire response and prevention activities by \$700 million to \$1 billion annually. The state typically spends about \$2 billion to \$4 billion annually on wildfire activities, mostly on firefighting.

Other Potential Fiscal Effects

- **Potential State and Local Effects From Increased ZEV Spending.** The additional funding for ZEV programs could impact the number of ZEVs, as well as gasoline- or diesel-powered vehicles, being driven in California. If so, it would have a variety of effects on state and local finances, such as changes in gasoline tax revenue. However, the actual effects of Proposition 30 on the number of ZEVs will depend on whether the California Air Resources Board (CARB) approves a requirement that car companies sell an increasing share of ZEVs in future years, also known as a ZEV mandate. If CARB approves the ZEV mandate, then the additional funding from the proposition would not have much effect on the total number of ZEVs driven in California and would not have much effect on state and local finances.



Fiscal Effects

(Continued)

- **Potential Decreased State and Local Costs for Wildfire Response and Recovery.** Proposition 30 could somewhat decrease state and local government costs related to firefighting, clean-up, and recovery if the additional funding for wildfire activities ends up reducing the severity of future wildfires. The size of the potential fiscal effects on state and local governments is unclear.
- **Decreased State Revenue for Other Activities.** Some taxpayers probably would take steps to reduce the amount of income taxes they owe. This would reduce existing state General Fund revenues. The degree to which this would happen and how much revenue the state might lose as a result is unknown.
- **Potential Reductions to Other State Programs to Comply With State Spending Limit.** Some of the spending required by Proposition 30—likely an amount ranging from about \$1.5 billion to \$3 billion annually—would count toward the state appropriations limit. As a result, when state spending is at the limit, the proposition would require the state to reduce an equal amount of spending from other programs to “make room” for the new required spending on ZEV programs and wildfire activities.

