

**Show Me the Money:
Changing the Inequalities in
California's Tax Policy**

**Sponsored by: CPEHN
Presenter: Kim Klein**

Goals of this presentation

- **Provide brief overview of the economic impact of nonprofits nationally and in California**
- **Provide brief overview of California's revenue streams and the impact on nonprofits**
- **Ask you to take the next step to help fix California's broken tax structure**

The Nonprofit Sector Nationally

- 1.4 million 501(c)3 organizations generate:
- \$1 trillion per year in income from:
 - Government: 30%
 - Earned Income: 50%
 - Private Sector: 20%

(The private sector includes gifts from living individuals, gifts from bequests and gifts and grants from foundations and corporations)

The Nonprofit Sector in California

- **150,000 nonprofits generate:**
 - **\$115 billion per year**
(Sources parallel national sources)
 - **Employ 10% of workforce, or about 1.3 million people**
 - **About 7 out of 10 Californians give away money**

Funding Sources by Type of Organization (Nationally)

- **Human Service Organizations: 52% government funding**
- **Education: 56% earned income**
- **Arts and Culture: 44% private sector contributions (corporate, foundation, individuals)**
- **Religion: 95% contributions (almost entirely individuals)**

Demands, Costs, and Cutbacks

- **58% of organizations report increased demand for services, many reporting a doubling of demand**
- **93% of “lifeline” organizations reported increased demand**
- **53% reported increase operating costs, particularly health benefits**
- **35% reported decreased government support**

Human Services Agency

- **Budget FY 2009: \$1,000,000**
 - **Need: \$500,000 more to meet demand**
 - **Need: \$100,000 more to keep up with rising costs, especially health care**
 - **Losing \$300,000 in state funding**

BOTTOM LINE in November 2009:

You have \$700,000 to meet \$1,600,000 need

Local Arts Organization

- **Budget FY 2009: \$1,000,000**
 - **Need: \$200,000 more to meet requests from local public schools for arts programming**
 - **Need \$100,000 more to meet rising costs**
 - **Losing \$150,000 in corporate and foundation donations**
 - *And, individuals are saying they need to give to human service organizations*
 - *Estimated loss: \$50,000*

BOTTOM LINE in November 2009:

You have \$800,000 to meet \$1,300,000 in need

House of Worship with Food Program

- **Budget: \$1,000,000**
 - **Need \$50,000 plus 50 more volunteers to meet demand for meals**
 - **Losing \$100,000 a year because endowment income is down**
 - **Losing \$50,000 a year because 10% of congregants are unemployed.**

Bottom Line in November 2009:

You have \$850,000 to meet \$1,050,000 in need

All of these Organizations are Impacted by Loss of Tax Revenue

“We are being asked to do more and more with less and less until we will finally be asked to everything with nothing.”

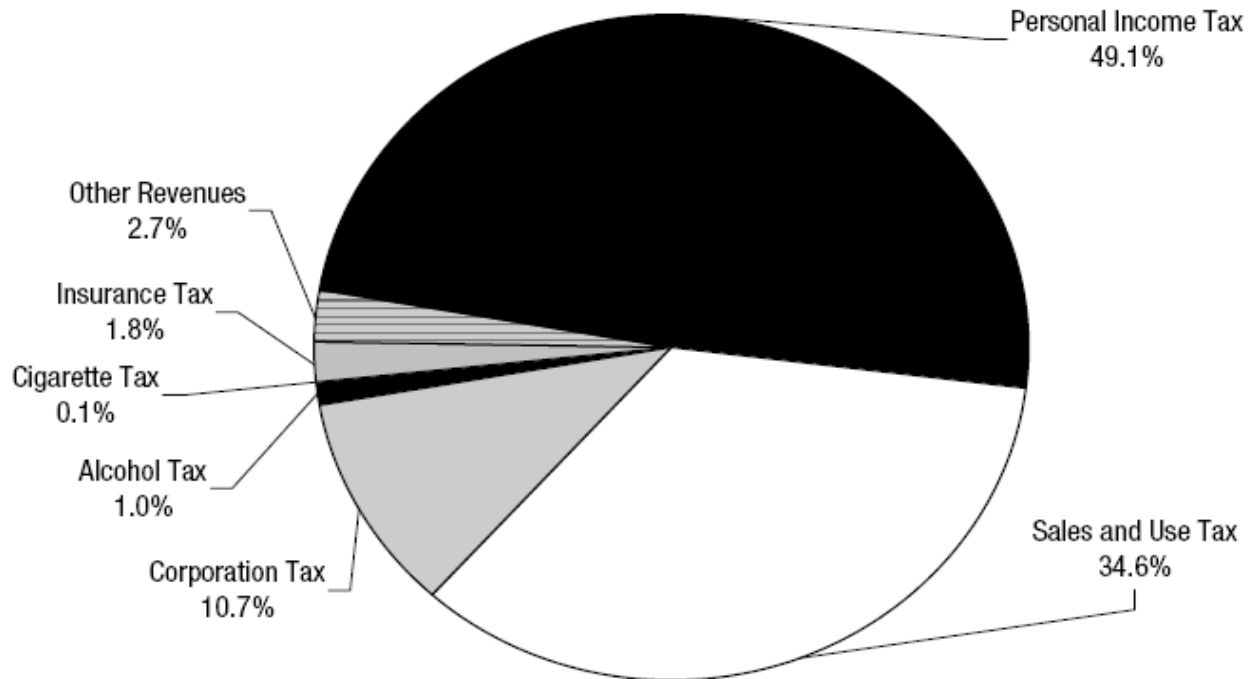
***Rick Cohen
The Nonprofit Quarterly***

A question of distribution

- **California is the world's 6th largest economy (it is larger than 2 of the countries in the G8).**
- **There is plenty of money in this state to have excellent schools, high quality health care, environmental protection, and a strong social safety net for all the people who live here.**

Sources of General Fund Revenue

The Personal Income Tax Provides Nearly Half of 2009-10 General Fund Revenues



Projected 2009-10 General Fund Revenues = \$97.7 Billion

Note: Includes loans and transfers.
Assumes that all of the Governor's proposed 2008-09
and 2009-10 revenue changes are enacted.

Public Service Spending in CA

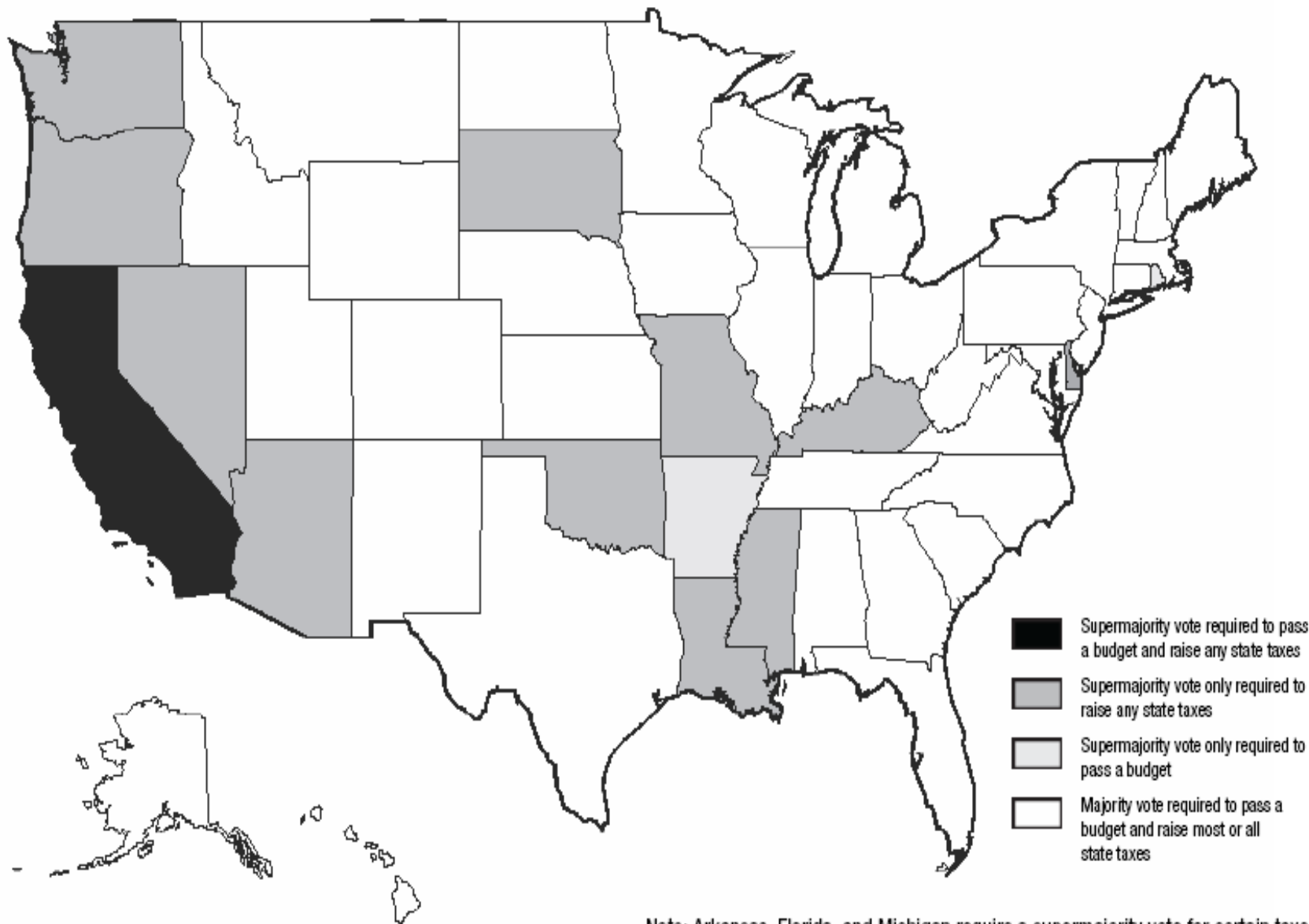
General Fund Spending by Major Program Area (in millions)

Programs	Actual 2007-08	Est. 2008-09	Enacted 2009-10
K-12	\$39,825	\$32,356	\$33,745
Higher Ed	11,823	10,138	10,495
Health	19,906	18,794	16,077
Social Services	9,432	10,009	8,876
Criminal Justice	13,059	12,778	9,032
All Other	8,954	7,472	6,358
Totals	\$103,000	\$91,547	\$84,583

California's tax problems are easy to understand

- In 1933, a proposition passed requiring a 2/3rds “majority” to pass a budget
- In 1978, a proposition passed (Prop 13) requiring 2/3rds “majority” to pass an increase in tax revenue
- We are the only state with TWO 2/3rds rules.
- Prop 13 also held property taxes to their 1978 value, primarily benefitting corporations.

California Is the Only State To Require a Supermajority Vote To Pass Both a Budget and Any State Tax Increase



Note: Arkansas, Florida, and Michigan require a supermajority vote for certain taxes.
Source: National Conference of State Legislatures

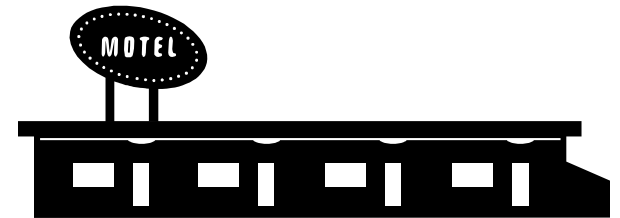
California has MINORITY RULE

- To stop an increase in tax revenue, or to hold up the budget process, you need:
 - 1/3 of the legislature plus 1 vote
- OR**
- 2/3rds of the legislature minus 1 vote

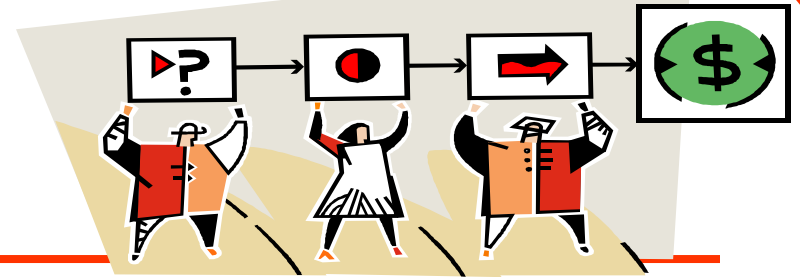
This is UNDEMOCRATIC

Cutting Taxes is Much Easier

- Tax cuts can be made with a simple majority of legislators.
- One person called this “The ROACH MOTEL” approach to tax policy:
“A tax cut can go in, but it can never come out.”
- Example: Vehicle License Fee – 6 Billion a year



Solutions



- Require a true majority for budget and revenue decisions
- Overturn both of the 2/3rds rules
- Seek ways to insure accountability for how taxes are used
- Make sure future tax policies are fair to all

Prop 13 is a Ponzi scheme

- **Whoever comes in last pays for those who got there first.**
- **Those most hurt by Prop 13 are young people who weren't even born when it passed.**
- **Corporations generally don't sell their property so their taxes don't change.**



Solution

- Create a “Split Roll” so that Prop 13 is overturned for corporations, but not for homeowners.
- Conservative estimate of income generated if Prop 13 is not applied to corporations:
 - \$8 billion per year



What Can YOU Do?

FIRST STEP:

- Talk to your staff and board about what is broken in California's tax structure
- Help your staff and board understand the impact of California's tax policies on nonprofits, and the impact of nonprofits on the economic and social health of California
- Don't be intimidated by thinking it is too complex to understand—you don't have to understand everything to start a conversation
- Educate yourself and your staff about the ballot initiatives in 2010 and 2012

What Can WE Do?

SECOND STEP:

- Invite someone from CPEHN to your board or staff meeting to discuss what nonprofits can (and **MUST**) to do address the problems that face us.
- Join our e-mail list to keep informed
- Learn more about local tax initiatives that have an impact on schools, parks, roads, and social services in your community
- Hold elected officials accountable for how they use taxes so we can all feel proud of the taxes we pay

Just Start a Conversation



Keep in mind:

- You don't have to know all the answers or address all the objections
- You can suggest having more discussion later, creating a "tax learning circle," inviting speakers to your organization

The point is to TALK ABOUT TAXES

More Resources

- California Budget Project: www.cpb.org
- California Pan-Ethnic Health Network:
www.cpehn.org
- Building Movement Project:
www.buildingmovement.org
- Alliance for Justice:
www.afj.org
- National Council of Nonprofits:
www.councilofnonprofits.org

About Kim Klein

Kim Klein is a fundraising consultant and author of five books on fundraising, most recently, “Reliable Fundraising in Unreliable Times.”

Kim believes the nonprofit sector has a critical role to play in the creation and maintenance of a democratic society, and that a progressive tax structure, including accountability for the use of tax funding, is fundamental to building healthy communities.

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