



May 14, 2002

To: News Media, Editorial Boards

From: California Taxpayers' Association

Subject: Reaction to State Budget May Revision

Larry McCarthy, president of the California Taxpayers' Association, issued the following statement on Governor Davis' revised state budget for 2002-03, which was released today and contained proposals for significant increases in taxes.

"We are disappointed in more than \$3 billion in tax increases proposed by Governor Davis in his May Revision strategy. The strategy loses sight of these critical facts:

"Increasing taxes during an economic downturn is one of the most damaging actions that California can take. New taxes place an additional drag on the economy. Tax and fee increases will only retard economic recovery. Proposed new taxes are on top of billions of dollars in higher costs employers are being forced to pay for higher workers' compensation and unemployment insurance benefits approved in recent months.

A tax-increase response to this state's budget problem is a serious error, sending a signal that California is a more expensive place to do business. This is not the message this state should want to send to those who would invest here.

"The proposed tax increases should be covered by additional cost reductions and elimination of waste in the 2002-03 budget. This amounts to about 2% in additional cost savings from low-priority spending.

"California has a budget deficit because of unrestrained and poorly managed spending since 1996, not because of insufficient taxes. Taxpayers are paying enough taxes and fees to the state of California. Policy-makers have failed to meet the priority needs of the people by misallocating tax dollars."

*According to the California Legislative Analyst's December 2001 report, spending has grown significantly. Between 1993-94, when an economic recovery began, and 2001-02, total spending more than doubled – from \$39*

billion to \$79 billion – with about one-half of this overall increase occurring in 1999-00 and 2000-01.

Following is the Legislative Analyst's explanation of what happened to the billions of dollars of new revenues that the state's economic boom generated:

- **Workload/Inflation.** About \$15 billion (39 percent)
- **New/Expanded Programs.** About \$17 billion (43 percent)
- **Local Government and Other Programs.** \$4.6 billion (12 percent)
- **Tax Relief.** About \$2.5 billion (6 percent)

McCarthy continued: "An improving California economy is the biggest revenue opportunity for the Legislature, governor and those interested in improving the state's financial position. When the economy improves, tax revenues surge. Profitability of California companies, economic investment, and jobs translate into windfall tax revenue to the state's general fund and to city and county treasuries. This is not a mystery; it happens again and again.

"The question to be answered in the next few weeks is whether the Legislature, the governor, and the spending lobby will encourage an accelerated economic recovery or slow it down with job-killing tax increases."

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