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Arnold Schwarzenegger

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FACT SHEET

10/30/2008

2008 Special Session: Bringing California's Revenue System Into the 21st Century

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Today Governor Schwarzenegger signed Executive Order S-12-08 to create the bipartisan Commission on the 21st Century Economy to re-examine and modernize California's out-of-date revenue-gathering laws that contribute to our feast-or-famine state budget cycles. This 12-member commission to be made up of legislative and gubernatorial appointees will suggest changes that will result in a revenue stream that is more stable and reflective of our economy. This is long-term action that will help avoid the extreme revenue swings that cause crippling deficits while maintaining a tax structure that will ensure our continued competitiveness and attraction to employers and workers.

California's antiquated revenue system is a major contributor to our feast-or-famine budget cycles. Our tax system has not been restructured in over 80 years even though our economy has changed dramatically.

- *50 percent of California's personal income tax revenues come from just 1 percent of residents.* That's fewer than 150,000 taxpayers, and much of their income is based on volatile investment income - so when their income dips the state's tax revenues fall too.
- *When Wall Street sneezes, California catches a cold.* Nearly 15 percent of our revenue comes from capital gains - meaning the turmoil on Wall Street brings pain straight to Main Street, California.
 - In contrast, the state of Washington is projecting a revenue shortfall of less than 1%, while our state may face a shortfall of nearly 10%. The difference is that our state's tax revenues reflect Wall Street's economy more than California's economy.

This annual uncertainty makes it difficult to fund government operations year-to-year. Boom years produce more spending than can be sustained in bust years, putting state services in constant annual jeopardy

- Such a volatile revenue stream is unacceptable for California's 38 million residents who rely on a stable funding for a host of state-funded programs.

We need a revenue system as diverse as our economy. Unlike our budget system, California has one of the most diverse economies in the world. A tax system as diverse as our economy would produce stable revenue.

- An improved revenue-gathering system would decrease the pressure for future tax increases to address revenue shortfalls, which will continue to occur if the volatility of our tax system is not reduced.
- A tax structure that better reflects California's economic strengths could actually grow the economy. For example, reducing the corporate income tax would boost hiring, creating jobs.

Executive Order S-12-08 immediately establishes this bipartisan Commission on the 21st Century Economy to modernize and decrease the volatility in the state's tax system. The Commission will make recommendations to bring our tax system into better alignment with our modern economy and to improve the state's economic competitiveness.

- The commission will have 12 members, six appointed by the Governor, three appointed by the Assembly Speaker and three appointed by the Senate Pro Tempore.
- The commission members will receive no compensation.
- They will create a road map toward a more reliable revenue stream that is more reflective of today's economy - to be unveiled on or before April 15, 2009.

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