

**SB 468 – OPPOSE UNLESS AMENDED**



The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers.

## SB 468 – OPPOSE UNLESS AMENDED



### FLOOR ALERT

Date: May 20, 2019

To: Members, California State Senate

From: Therese Twomey, CalTax Director of State Tax Affairs

Subject: **OPPOSE UNLESS AMENDED, SB 468 (Jackson), as amended on May 7, 2019**

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The listed organizations oppose SB 468, unless it is amended. This measure would create a new body in state government that would direct the Legislative Analyst's Office (LAO) to study "tax expenditures," establish deadlines for completion of the studies, and report findings and recommendations to the Legislature.

While we appreciate the stated intent to promote government accountability, we believe this goal can be achieved without creating a new and potentially costly bureaucracy, through legislative guidance to the LAO and other state agencies, and by expanding the scope of the study to provide a more comprehensive assessment for the Legislature.

**Unnecessary and Potentially Costly New Agency.** This measure would create a bureaucracy that is duplicative of functions currently performed by a number of existing agencies, including the Department of Finance (DOF), the LAO, the State Auditor and others.

For example, SB 468 requires the LAO to annually review tax expenditures and report its findings to the Legislature. This function currently is performed by the DOF. Every year, the DOF identifies all tax expenditures that cost \$5 million or more; estimates the fiscal impact over 5 years; assesses the number of businesses/taxpayers who are affected; and reports many more criteria as required by law. The DOF study includes all tax expenditures targeted by SB 468, many similar evaluation criteria/factors enumerated in SB 468 and comparable notification and transmittal requirements.

Both the LAO and the State Auditor can initiate studies under their own authority or at the specific direction of the Legislature. In 2013, prompted by questions regarding the state's Enterprise Zones (EZ), the LAO and DOF each independently analyzed and made recommendations to the Legislature. Upon finding the EZ program to be less effective than others, the Legislature eliminated EZs and replaced them with three other tax incentives. More recently, the State Auditor conducted an assessment of several of the state's primary tax expenditures and recommended improvements to some, while noting that others appear to be achieving their objects.

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Moreover, numerous state entities are tasked with review, analysis and reporting for their specific tax expenditures, including the California Department of Tax and Fee Administration's annual report on the Manufacturing Exemption, the California Film Commission's evaluation of the Film Tax Credit, the State Treasurer's annual report on the California Alternative Energy and Advanced Transportation Exemption, etc.

If different data on tax expenditures is desired, this can be achieved without adding another bureaucracy and costs by the Legislature's changing of the parameters of existing reports, giving different direction to the LAO or State Auditor, and soliciting stakeholder input as part of legislative hearings. We respectfully request amendments that would delete creation of an unnecessary state agency.

**Lacks Comprehensive Evaluation Metrics.** This bill enumerates evaluation factors intended to ascertain the revenue loss to the state, but lacks critical criteria for measuring the revenue gain from tax incentives and their multiplier effects through the economy.

The PEW Charitable Trusts report in 2017 entitled "How States are Improving Tax Incentives for Jobs and Growth" recommended that states incorporate examination of "multipliers" to fully evaluate tax expenditures.

To provide a more accurate and comprehensive assessment of state revenue impacts, we suggest that any tax expenditure study incorporate "multipliers" and their effects on the economy, including but not limited to:

- Increases to state revenue from jobs, employee wages and business income related to the tax incentive.
- Increases to local property tax revenue from business investment and homeownership, and their funding support to schools.
- Reductions in public assistance spending, and other general fund savings due to greater employment.

Additionally, we believe it is critical to examine California's policies in the context of competitiveness with other areas of the country:

- What incentives are competitor states offering?
- How do other states' jobs climates stack up to ours?
- What will be the loss to our state in terms of jobs and revenue if a California tax incentive is eliminated?

**Tax Uncertainty Discourages Investment.** While it is meritorious for the state to consider the effectiveness of tax policies and programmatic expenditures, this measure would create significant uncertainty with respect to the future of the state's tax structure.

When businesses choose to locate in a state, factors such as the availability of a skilled workforce, infrastructure, regulatory environment, and tax structure all play a significant role, and businesses evaluate whether they can rely on these factors to remain relatively stable and

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consistent in the long term. Furthermore, for capital-intensive industries like manufacturing and research-and-development, investment decisions are made many years into the future. The ability for corporate decision-makers in these industries to anticipate costs over a span of many years is an important factor when determining locations for these investments.

The threat of repeal of tax incentives, in light of our state's already high cost of doing business, poses a significant barrier to jobs, investment and the state's long-term economy.

For the foregoing reasons, we and the signatories listed below must respectfully oppose this legislation unless it is amended as described above.

Sincerely,

California Taxpayers Association  
Advanced Medical Technology Association  
(AdvaMed)  
African American Farmers of California  
Airlines for America  
American Pistachio Growers  
Association of California Life and Health  
Insurance Companies  
Bay Area Council  
Biocom  
Building Owners and Managers Association  
of California  
California Agricultural Aircraft Association  
California Bankers Association  
California Business Properties Association  
California Business Roundtable  
California Cotton Ginners and Growers  
Association  
California Farm Bureau Federation  
California Forestry Association  
California Hotel & Lodging Association  
California Independent Petroleum  
Association  
California League of Food Producers  
California Life Sciences Association  
California Railroads  
California Trucking Association  
Camarillo Chamber of Commerce  
Chambers of Commerce Alliance of Ventura  
& Santa Barbara Counties  
CompTIA  
Contra Costa County Taxpayers  
Association

Council on State Taxation  
Family Business Association of California  
Farwest Equipment Dealers Association  
International Council of Shopping Centers  
Kern County Taxpayers Association  
Maersk Inc.  
NAIOP of California  
Nisei Farmers League  
North Orange County Chamber  
Orange County Business Council  
Orange County Taxpayers Association  
Oxnard Chamber of Commerce  
Plant California Alliance  
Qualcomm  
San Gabriel Valley Economic Partnership  
Santa Maria Valley Chamber of Commerce  
Silicon Valley Leadership Group  
Solano County Taxpayers Association  
Sutter County Taxpayers Association  
TechNet  
Valley Industry and Commerce Association  
West Coast Lumber & Building Material  
Association  
Western Agricultural Processors  
Association  
Western Growers Association  
Western Manufactured Housing  
Communities Association  
Western Plant Health Association  
Western States Petroleum Association  
Wine Institute

cc: Mr. Che Salinas, Chief Deputy Legislative Secretary, Office of Governor Gavin Newsom