Date: April 8, 2013

To: Members, Senate Governance and Finance Committee

From: Therese Twomey, CalTax Fiscal Policy Director

Subject: OPPOSITION to SCA 4 (Liu), as amended on March 19, 2013

The listed organizations are writing in OPPOSITION to SCA 4, which would allow cities, counties, and school districts to impose, increase or extend local special taxes – including most local taxes i.e., local sales and use tax, transactions tax, etc. – that are earmarked for transportation by a voter approval rate that is lower than that currently mandated by our state's constitution.

A lower voter approval threshold undermines Proposition 13 taxpayer protections.

Article XIIIA of the state constitution unequivocally requires approval of two-thirds of the electorate for local governments to impose special taxes, and intends that a tax imposed on a group of taxpayers, rather than the general public, requires a greater level of voter sanction. This safeguard, along with limits on property taxes, was instituted by Proposition 13 more than 30 years ago to protect taxpayers at large from being overruled by a minority group, and has since been reinforced by the voters with passage of Proposition 218 in 1996, and more recently, Proposition 26 in 2010.

Proposition 13 clearly intended to subject special taxes to a higher degree of voter scrutiny, mandating that "Cities, counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district...," while general taxes may be imposed by a majority vote. These provisions serve a two-fold purpose – to force local governments to justify a clear and critical need for a particular public function or program; and to hold local governments to a higher level of accountability for taxes that are earmarked for specific purposes. The existing voter-approval parameters preserve a government that is of the people, by the people, and for the people.

SCA 4 would undo the safeguards put into place by Proposition 13 that serve to protect taxpayers from ill-advised arbitrary taxes, and that ensure government is responsive to the electorate.

Higher taxes are barriers to job growth and investment.

The most common "special tax" is the local sales and use tax. The current statewide base sales and use tax rate is 7.5 percent, but local governments can tack on local sales/use and transaction taxes of up to 2 percent, and some local jurisdictions are authorized to exceed the 2 percent ceiling. As a result, the current combined state and local sales and use tax rate varies between 7.5 percent in some jurisdictions to as high as 10 percent in others. When compared to other states, California imposes the highest base sales and use tax rate in the country.

In 2011, 254 companies left California, citing the state's high overall tax rates and onerous regulations as their top reasons, according to Spectrum Location Services which tracks the migration of businesses. Nonetheless, California recently increased the sales/use and income tax rates while a number of states – such as Arizona, New Mexico and New York – are offering incentives to draw businesses from other states. A news report released in February 2013 indicated that, after passage of Propositions 30 and 39, CEOs of 24 California companies committed to an Arizona business recruitment council that they will leave California, taking an undisclosed number of jobs out of state.

Infrastructure and equipment represent a significant portion of capital investment for both existing companies and start-ups. With our high sales tax rate and no exemption for business or manufacturing equipment, investment in California may be cost-prohibitive for some employers, and disadvantageous for others. The state is ill-equipped to compete with the 47 other states that outrank California in terms of having a more job-friendly tax climate. Employers looking to initiate or expand operations may forgo California, as higher local sales/use taxes for equipment purchases would compound the effects of the state's high overall taxes, high energy costs, and onerous regulations – potentially accelerating the migration of investment out of state. This situation would produce lower income and franchise tax revenue, as well as lower sales tax revenue for the state over the long run.

Tax increases reduce consumption and slow growth, generating less revenue for public services.

The law of demand states that, if all other factors remain equal, the higher the price of a good, the fewer people will demand that good. The amount of a good that buyers purchase at a higher price is less because as the price of a good goes up, so does the opportunity cost of buying that good. As a result, people naturally will avoid buying a product that will force them to forgo the consumption of something else they value more. Studies also show that there is an inverse relationship between taxes and the demand for certain goods. That is, as taxes are increased on some elastic goods, consumers tend to purchase less of those products because they are more expensive, thus producing less tax revenue.

In 1776, Adam Smith wrote in The Wealth of Nations, "High taxes, sometimes by diminishing the consumption of the taxed commodities, and sometimes by encouraging smuggling, frequently afford a smaller revenue to government than what might be drawn from more moderate taxes." This economic theory has been proven again and again, even with taxes on everyday groceries. A study published by the Alabama Department of Public Health showed that the state's 4-cent sales tax on fresh fruits and vegetables had a negative impact on consumption, as the sales tax increased the cost of these items and was found to be a barrier to consumption.

Although not all consumption will show identical trends, taxed products tend to grow slower than untaxed products. Thus, while the intent of this proposal may be to raise revenue for local governments, it could have the opposite effect and result in less revenue over the long term.

Proposed tax increases disproportionately impact working families and disadvantaged communities.

Sales and use tax currently is imposed on the purchase or use of various everyday essentials, like clothing, shoes, school supplies, etc., whose demand is generally inelastic relative to income. Increasing the sales/use tax creates a more regressive base because the tax requires working families to pay a larger portion of their income for essential goods and products; and runs counter to the basic policy principle that taxes should be based on an individual's ability to pay.

Public agencies also would be affected by a sales tax increase. Unlike many states, California taxes sales made to and by state and local governments. Consequently, schools would see cost increases for textbooks, school supplies, renovation, etc.; transportation projects would become more expensive; and health care costs would rise. Economically disadvantaged communities would be hit the hardest by these taxes.

Proposal lacks reforms to maximize use of transportation funds.

Notwithstanding the need for road and highway improvements, it's questionable whether augmenting transportation funds under the existing regulatory and program structure would produce significant results. A January 2013 survey by the Tax Foundation indicates that California has the second highest gas taxes in the nation, yet "68 percent of California's roads are in poor or mediocre condition", ranking the state as having the 7th worst transportation system in the country, according to the 2013 Report Card on America's Infrastructure.

Currently, a considerable portion of a transportation project's funds are spent on complying with complex and myriad regulatory requirements. Absent reforms to streamline the process, it's uncertain how much of any additional funding would remain for the actual construction and repair of transportation infrastructure.

Ballot-box budgeting restricts options for balancing budgets.

The use of ballot initiatives to lock in specified levels of funding for various programs, also known as ballot-box budgeting, has severely limited the state's ability to reduce spending or redirect resources in hard economic times. This approach typically requires that the state set aside a specified level of funding for a program, and essentially eliminates discretion on how the state spends its general fund revenue. Notwithstanding the potential importance of some of these programs, earmarking funds for specific programs severely limits the government's ability to balance budgets, and gives lawmakers more pretext to push for tax increases.

For the foregoing reasons, the listed organizations must oppose this legislation.

Associated Builders and Contractors of California
California Ambulance Association
California Association of Winegrape Growers
California Business Properties Association
California Chamber of Commerce
California Grocers Association
California Manufacturers and Technology Association
California Retailers Association
California Taxpayers Association
Camarillo Chamber of Commerce
Howard Jarvis Taxpayers Association
National Federation of Independent Business
Western Manufactured Housing Communities

cc: The Honorable Carol Liu

Date: April 8, 2013

To: Members, Senate Governance and Finance Committee

From: Therese Twomey, CalTax Fiscal Policy Director

Subject: OPPOSITION to SCA 8 (Corbett), as introduced on December 14, 2012

The California Taxpayers Association (CalTax) and the listed organizations are writing in OPPOSITION to SCA 8, which would allow cities, counties, and school districts to impose, increase or extend local special taxes – including most local taxes i.e., local sales and use tax, transactions tax, etc. – that are earmarked for transportation by a voter approval rate that is lower than that currently mandated by our state's constitution.

<u>A lower voter approval threshold undermines Proposition 13 taxpayer protections.</u>

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SCA 8 would undo the safeguards put into place by Proposition 13 that serve to protect taxpayers from ill-advised arbitrary taxes, and that ensure government is responsive to the electorate.

Higher taxes are barriers to job growth and investment.

The most common "special tax" is the local sales and use tax. The current statewide base sales and use tax rate is 7.5 percent, but local governments can tack on local sales/use and transaction taxes of up to 2 percent, and some local jurisdictions are authorized to exceed the 2 percent ceiling. As a result, the current combined state and local sales and use tax rate varies between 7.5 percent in some jurisdictions to as high as 10 percent in others. When compared to other states, California imposes the highest base sales and use tax rate in the country.

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For the foregoing reasons, the listed organizations must oppose this legislation.

Sincerely,

Apartment Association of Greater Los Angeles
Associated Builders and Contractors of California
California Ambulance Association
California Association of Winegrape Growers
California Business Properties Association
California Grocers Association
California Manufacturers and Technology Association
California Retailers Association
California Taxpayers Association
Camarillo Chamber of Commerce
Howard Jarvis Taxpayers Association
National Federation of Independent Business
San Diego County Apartment Association
Santa Barbara Rental Property Association
Western Manufactured Housing Communities

cc: The Honorable Ellen Corbett