



SACRAMENTO UPDATE

May 28, 2010
SU12 -10

Budget Back and Forth Begins

Democrats announced their \$20 billion budget closing package this week. In contrast to the Governor's plan, which called for large program cuts, borrowing and no new taxes, both Senate and Assembly Democrat's released their own proposals this week that contained a combination of program cuts, some borrowing and tax increases.

The Senate Democrat proposal contains the following \$5 billion in revenue increases:

- Suspension and modification of various corporate tax reforms (*\$2.05 Billion*)
 - Delays implementation of the Singles Sales Factor by two years and makes election mandatory to all qualified taxpayers (*\$235 million*)
 - Suspends Net Operating Loss (NOL) for two years (2012) and eliminates the NOL carryback option. (*\$1.5 Billion*)
 - Delays the implementation of the Unitary Group Credit Sharing by two years (2012). (*\$315 million*)
- Extension of some of the temporary tax increases adopted in February 2009 budget (*\$2.6 Billion*)
 - Extends for two-years the .25% income tax surcharge that is scheduled to expire December 31, 2010 (*\$1 Billion*)
 - Extends the reduction in the state's dependent income tax credit that is scheduled to expire December 31, 2010. (*\$430 million*)
 - Raises the Vehicle License Fee on cars by .35% starting July 1 of 2010 (*\$1.2 Billion*)
- Increasing the state alcohol excise tax by an inflation-adjusted amount (*\$210 Million*)

The Assembly Democrat's proposal is titled "The California Jobs Budget." The centerpiece of which is a \$10.1 billion "Jobs and Economic Stability Fund" which is funded by a new borrowing scheme, oil severance tax and a delay of recently adopted corporate tax reforms.

- "Securitization" (of \$8.7 billion from the California Beverage Container Recycling Fund (*\$8.7 Billion*)
 - The proposal hinges on the state's ability to borrow the future funds (securitizing) of the Beverage Container Recycling Fund from Wall Street.

- Imposes an 9.9% oil severance tax on every barrel of oil extracted from the California ground (*\$900 million*)
 - Generates *\$900 million* in the budget year to fund the Jobs and Economic Stability Fund.
 - The severance tax will be tied to a .25% decrease in state sales tax, the rate of which will fluctuate in order to maintain **revenue neutrality, thus triggering passage by a simple majority vote of the legislature.**
- Suspension and modification of various corporate tax reforms. (*\$2.1 Billion*)
 - Delays implementation/suspends Single Sales Factor, Unitary Group Credit Sharing and Net Operating Loss for a period of three years
 - Unlike a similar proposal in the Senate version, the Assembly plan does not call for modifications to the tax reforms
 - Proposal is deemed to be a tax increase and would require 2/3rds vote of the legislature

With this proposal, the Assembly Democrats propose to protect California from having to make significant cuts to social services as proposed by the Governor. Additionally, the proposal provides \$1.1 billion for targeted jobs investment aimed at developing and strengthening California industries, mostly for green and clean tech and provides “a potential funding source” for numerous jobs bills currently moving through the legislative process.

Republican response was predictable; calling the tax increase and borrowing proposals damaging to an already fragile California economy. There is no one taking bets that the budget will completed by the Constitutional (June 15th) and fiscal year deadlines (July 1).

Tax Bill Passed

SB 2060, which is co-sponsored by the **Golden State Builders Exchanges**, was sent to the floor by the Assembly Appropriations Committee on Friday. The bill will be considered next week. SB 2060 pertains to the 1% increase in the state sales tax imposed last year.

Since the passage of the increased sales tax in April 2009, contractors who had entered into fixed price contracts prior to the sales tax increase have been forced to absorb the additional tax because the increase was not anticipated when their contract was entered into. The construction industry sponsored AB 1523 last year which would have provided that during the period of the sales tax increase, materials and supplies purchased or obligated by a fixed price contract entered into prior to the sales tax increase, are exempt from paying the additional tax. AB 1523 was held on the Appropriations Committee suspense file due to cost estimates. AB 2060 takes a similar approach as AB 1523, but only applies to any future state sales tax increase. This measure does not compensate contractors for any increased tax they are currently absorbing based on previously entered fixed price contracts.

