

**California Commission on Tax Policy
in the New Economy**

San Diego
September 18, 2002

Proceedings

SEPTEMBER 18, 2002; SAN DIEGO

Comments on Tax Reform
Senator Steve Peace

San Diego's Diversified Economy and Tax Policy
Julie Meier Wright - San Diego Economic Development Corporation

Cable Industry Perspective on Tax Policy
Bill Geppert - Cox Communications

Biotech Industry Perspective on Tax Policy
Joe Panetta - BIOCOM San Diego

High Tech Industry Perspective on Tax Policy
Curt Nelson - Silicon Space

Impact of Tax Policy on Energy and Telecommunications
Loretta Lynch - Chair, California Public Utilities Commission

Tax Policy Impact on County Governments
Steve Szalay - Executive Director, California State Association of Counties

Taxation Issues on Commercial Property
Commissioner Lenny Goldberg - California Tax Reform Association

Discussion of Interim Report
Doug Brown - Senior Consultant, Senator Vasconcellos
Roger Dunstan - Assistant Director, California Research Bureau
Kimberly Bott - Chief Consultant, California Assembly Revenue and Tax
Committee

Tax Policy Impact on Regional Infrastructure
Jessie Knight - San Diego Regional Chamber of Commerce

Tax Policy Impact on Local Governments
Jack Thompson - President and CEO, Consumer Credit Corporation

Tax Policy Impact on Housing Development
Sandor Shapery - Principal, Shapery Enterprises

CALIFORNIA COMMISSION ON TAX POLICY IN THE NEW ECONOMY

San Diego City Council Chambers
202 C Street, 12th Floor
San Diego, CA 92101

September 18, 2002

AGENDA

- 10:00 AM Chairman Rosendahl
Meeting called to order
Introductions
- 10:05 AM Commissioner Scott Peters, Council member, City of San Diego
Welcoming Remarks
- 10:10 AM Discussion / approval of minutes from 7/29 meeting in Bakersfield
Commissioners
Members of the Public
- 10:15 AM CEO Roundtable

Julie Meier-Wright, San Diego Economic Development Corporation
San Diego's Diversified Economy And Tax Policy
Bill Geppert, Cox Communications
Cable Industry Perspective
Joe Panetta, BIOCUM San Diego
Biotech Industry Perspective
Curt Nelson, Silicon Space
High Tech Industry Perspective
- 11:00 AM Commissioners' dialogue with Roundtable presenters
- 11:15 AM Commissioner Lenny Goldberg
Commissioner Glen Rossman
Tax Policy Perspectives
- 12:00 PM Commissioner Bill Weintraub
Introduce Discussion of Interim Report
- 12:15 PM Lunch Break
- 1:00 PM Commissioners' Work
Deliberation on Interim Report
Public Comment

Vote on Interim Report

- 2:30 PM Steve Szalay, Executive Director, California State Association of Counties
Representative From the County of San Diego
Tax Policy Impact on County Governments
- 3:15 PM Representative From the San Diego Regional Chamber of Commerce Tax
Policy Impact On Business And Infrastructure
- 3:45 PM Commissioners' Work
Next Meeting
Scope Of Work For 2003
- 4:15 PM Public Comment
- 4:25 PM Chairman Rosendahl
Concluding Remarks
- 4:30 PM Adjournment

Note: Agendas for public bodies located within the California Technology, Trade and Commerce Agency, including the California Commission on Tax Policy in the New Economy are available at <http://commerce.ca.gov>. For additional information regarding this notice, please contact Marshall Graves, California Technology, Trade and Commerce Agency, 1102 Q Street, Suite 6000, Sacramento, CA, 95814, (916) 445-7654, mgraves@commerce.ca.gov

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Financing Counties

Making the Case for Fiscal Reform: A Status Report on California's 58 Counties

A Presentation to the Commission on Tax Policy in the New Economy

September 18, 2002 ♦ San Diego, California

Steven C. Szalay, CSAC Executive Director




California State Association of Counties

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County Structure and Function

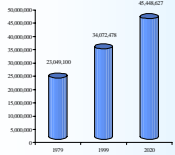
- A county is the largest political subdivision of the state having corporate powers.
- Counties are required by the Legislature to provide for the safety, health, and welfare of the people within their borders.
- All California citizens reside in one of the 58 California counties.




California State Association of Counties

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California Population Growth



- California's population has grown 48 percent in the 20 years between 1979 and 1999 and is expected to grow another 33 percent in the next 20 years.
- Population growth places additional demands on a range of county services, including roads and other transportation services, public safety, social services, public, indigent, and mental health systems, and libraries.


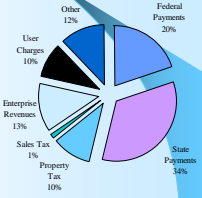


California State Association of Counties

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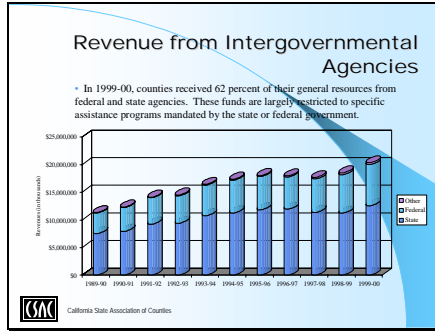
County Revenues

- Payments from federal and state agencies and enterprise revenues are counties' main revenue sources.
- The percentage of revenues derived from property tax has substantially declined in the past decade.

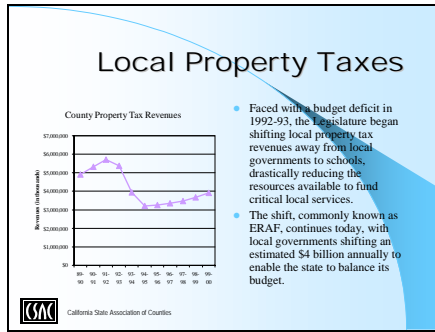


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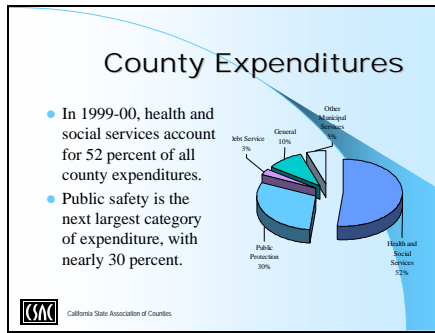
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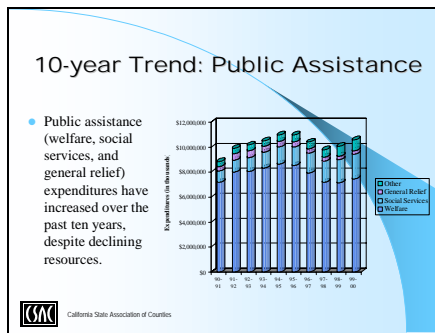
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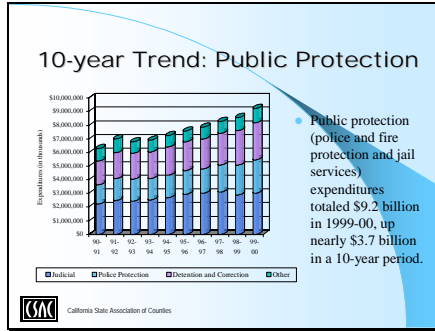
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Why reform?

- The dysfunctional state/local relationship has resulted in:
 - Local governments approving land use developments to receive additional sales tax revenue.
 - State-mandated locally-operated programs that are not adequately funded.
 - A decline of predictable funding for key local services.
- Californians deserve a government system that:
 - Recognizes the multiple roles of counties as providers of state programs, countywide services, and municipal services.
 - Aligns program responsibility with revenue control.
 - Provides a measure of revenue predictability and allows local communities to make choices about new revenues.
 - Establishes clear accountability, while maintaining flexibility.

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If Not Now, When?

- No fewer than seven commissions have reviewed the state/local fiscal relationship. However, the recommendations of these commissions have not yet been implemented.
- Senator Burton has called for a new bipartisan commission to review state and local finance and to make recommendations for statutory and constitutional changes in an attempt to address the state's over-reliance on the personal income tax and the unintended consequences of Proposition 13, among others.

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The Streamlined Sales Tax Project


- CSAC supported efforts towards California's participation in the Streamlined State Sales Tax Project and continues to be engaged in this issue at the federal level.
- As local agencies rely on revenues from the sales tax to fund a number of public services, counties support a nationwide sales tax policy for remote sales to streamline and simplify the collection and allocation of sales tax.

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Counties Are Committed to Reform

- CSAC remains dedicated to the cause of reforming the fiscal structures of both the state and local governments. We appreciate the complexity of the task before the Commission and offer our assistance whenever necessary.



California State Association of Counties

Presentation to the California Commission on Tax Policy in the New Economy
Wednesday, September 18, 2002
By Jessie J. Knight, Jr.
President & CEO, San Diego Regional Chamber of Commerce
402 West Broadway, Suite 1000
San Diego, CA 92101

Good afternoon, Mr. Chairman, and Members of the Commission:

First, on behalf of the San Diego Regional Chamber of Commerce and our 3,400 members, I would like to take this opportunity to thank you for taking on this important subject and investigating possible solutions to overhaul and streamline our current tax system. This is a complex issue, and it is important that every segment of our society get involved to offer solutions and thoughts to make your job easier. Therefore, we appreciate your having this hearing in San Diego today and allowing us to testify.

A special thank-you goes to Councilman Scott Peters and his staff for approaching the Chamber in May and focusing our attention on the efforts of the Commission. Since then, we have formed a small task force to work on this issue and keep our members informed. Our Chamber, together with the San Diego Regional Economic Development Corporation (EDC), also had a very informative dialogue on the need for fiscal reform from Councilman Peters and John Russo and Chris McKenzie from the League of California Cities in early September.

This morning you heard from EDC how taxation affects the “new economy” – high tech, bio tech, telecommunications, electronics. But the new and the “old” economy – infrastructure, schools, public safety – are inextricably linked together, and to keep both economies on an even keel, cities and counties need a reliable revenue stream.

Unfortunately, the current tax system adversely affects our infrastructure needs. When Proposition 13 passed in 1978 to give taxpayers protection from property taxes, local government property tax revenues were cut by 60%. Additionally, a little over ten years ago, the State, in order to balance the budget, further reduced local revenue sources. The result is an accumulated infrastructure deficit of tens of billions of dollars in new investments in public facilities across the State.

A major part of local government finance goes toward maintaining our basic infrastructure of roads, parks, libraries, community colleges, fire and police facilities, sewage and water systems and other public necessities. As our region’s population and business base continue to grow, investment in our infrastructure is vital. We need to make sure that our citizens have housing that is affordable for all income levels, that we have the water, roads and transit systems that make our community go forward. And, in order to accomplish that, our county and cities need to be able to count on a predictable, reliable revenue stream.

We also have the problem that we continuously have to compete against lower-cost regions nationally and internationally. We need to attract companies to our State and region, and our employers need to have the tools to attract a skilled workforce to positively boost our economy. And to continue to do so, we need some relief.

While we do not claim to have the answers as to how a well-balanced tax structure should look like -- and I believe there is no universal agreement -- we are encouraged that your Commission has taken a first step to probe into this complex issue. While you continue your deliberations and narrow down recommendations, we would like to stress our main message points, which we hope you will take into consideration. They are:

- Protect local services
- Do not shift costs
- Use local governments as a partner and have them contribute to a solution
- Be responsive to regional needs

**Presentation to the California Commission on Tax Policy in the New Economy
Wednesday, September 18, 2002**

Jessie J. Knight, Jr.

President and CEO
San Diego Regional Chamber of Commerce
402 West Broadway, Suite 1000
San Diego, CA 92101
(619) 544-1311

Sandor Shapery

Principal, Shapery Enterprises
Member, San Diego Regional Chamber of Commerce
Infrastructure Committee
423 West B Street
San Diego, CA 92101
Phone: (619) 239-4700

Jack A. Thompson

President & CEO
Consumer Credit Counseling Service of
San Diego and Imperial Counties
Member, San Diego Regional Chamber of Commerce Legislative and
Public Policy Committees
1550 Hotel Circle No., Suite 110
San Diego, CA 92108
Phone: (619) 497-0200

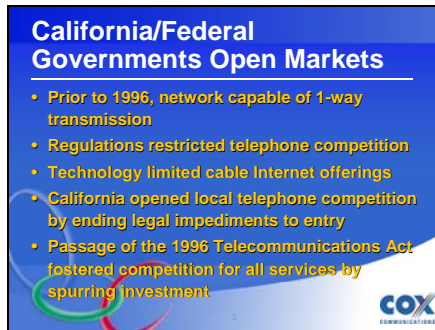
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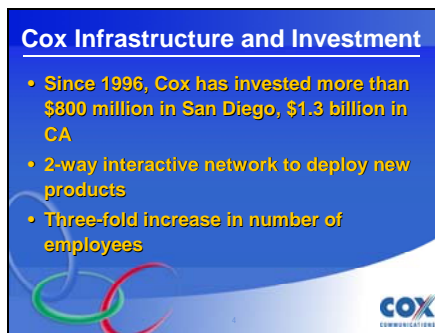
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Network Investment → Choice, Competition, New Services


- **Cox High-Speed Internet – May 1997**
 - ▶ No dial-up, runs on broadband network
 - ▶ Up to 100 times faster
- **Cox Digital Telephone – May 1998**
 - ▶ Runs on broadband network
 - ▶ Customers save 30% on average, all the features
- **Digital Cable TV – February 1999**
 - ▶ 500 channel capability
 - ▶ Deployed to compete against DBS
 - ▶ New services: VOD, ITV, Games



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Tax Framework


Service	Taxes/Fees	Competition
Cable TV	Franchise Fees Possessory Interest Property Taxes Utility User Taxes	DBS
Internet	Exempted by State and Federal Internet Tax Freedom Acts	Dial-up, DSL, Wireless



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Tax Framework - continued


Service	Taxes/Fees	Competition
Telephone	Multiple Federal, State, and local taxes and fees	Wireline Incumbents (e.g., SBC, Verizon), CLECs, Cellular



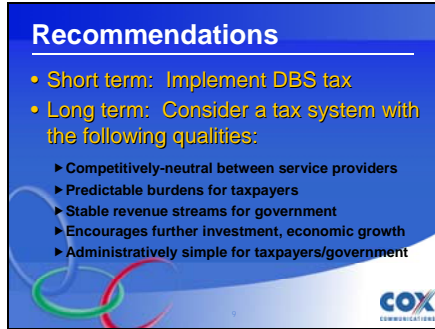
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Tax Gap: Cable TV vs. DBS

- Cable providers pay more than \$300 million annually to local governments in California in the form of franchise fees, property taxes, possessory interest tax and utility user taxes
- On average, cable operators and subscribers pay local governments approximately 8% of gross revenues
- In California, DBS pays no taxes, unlike in 14 states where DBS pays taxes ranging from 4% to 13.5%



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Recommendations

- Short term: Implement DBS tax
- Long term: Consider a tax system with the following qualities:
 - ▶ Competitively-neutral between service providers
 - ▶ Predictable burdens for taxpayers
 - ▶ Stable revenue streams for government
 - ▶ Encourages further investment, economic growth
 - ▶ Administratively simple for taxpayers/government

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***Presentation to the California
Commission on Taxes in the
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