

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

Redondo Beach  
November 19, 2002

Proceedings

## **NOVEMBER 19, 2002; REDONDO BEACH**

√Procedures for 2003  
Roger Dunstan

√Talking Points  
Chairman Bill Rosendahl

√Meeting Minutes

### **√Discussion Of Interim Report**

Christine Rodriguez (call in)

Commissioner Peters (call in)

#### Commissioners Present

- William J. Rosendahl, Chairman
- Sean O. Burton
- Scott Peters
- Glen Rossman
- Marilyn C. Brewer
- William Dombrowski
- Lenny Goldberg
- William Weintraub

#### Ex-Officio Members Representatives Present

- Kimberly Bott for the Honorable Ed Chavez (Chair, Assembly Revenue & Tax Committee)
- Brian Putler for Gerald Goldberg (Executive Officer, Franchise Tax Board)
- Bob Affleck for Michael Bernick (Director, Employment Development Department)
- Steve Kemp for John Chiang (Chair, State Board of Equalization)

CALIFORNIA COMMISSION  
ON TAX POLICY IN THE NEW ECONOMY

Redondo Beach City Council Chambers

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# CALIFORNIA COMMISSION ON TAX POLICY IN THE NEW ECONOMY

Redondo Beach City Council Chambers  
415 Diamond Street  
Redondo Beach, CA 90277

November 19, 2002  
AGENDA

- 9:00 AM Chairman Rosendahl  
Meeting called to order  
Introductions and roll call
- Commissioners Dombrowski and Brewer call in
- 9:05 AM Discussion of Strategy for 2003  
Support from the Governor and Legislature  
Meeting themes  
Subject matter experts  
Meeting formats  
Timetables  
Selecting a leader(s) for drafting final report
- 10:30 AM Review of Interim Report
- 11:15 AM Public Commentary
- 11:20 AM Discussion / approval of minutes from 9/18 meeting in San Diego  
Commissioners  
Members of the public  
Vote
- 11:30 AM Setting dates and locations for 2003 (Christine Rodriguez call in)
- 12:00 PM Review of Strategy for 2003 with Commissioner Peters (call in)
- 12:25 PM Chairman's Concluding Remarks
- 12:30 PM Adjourn

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](mailto:mgraves@commerce.ca.gov)

**MEETING MINUTES**  
**California Commission on Tax Policy in the New Economy**  
San Diego City Council Chambers  
San Diego, California  
September 18, 2002  
10:00 A.M.

**COMMISSIONERS PRESENT**

- William J. Rosendahl, Chairman
- Sean O. Burton
- Scott Peters
- Glen Rossman
- Marilyn C. Brewer
- William Dombrowski
- Lenny Goldberg
- William Weintraub

**COMMISSIONERS ABSENT**

- Lawrence Carr

**EX-OFFICIO MEMBERS REPRESENTATIVES PRESENT**

- Kimberly Bott for the Honorable Ed Chavez (Chair, Assembly Revenue & Tax Committee)
- Brian Putler for Gerald Goldberg (Executive Officer, Franchise Tax Board)
- Bob Affleck for Michael Bernick (Director, Employment Development Department)
- Steve Kemp for John Chiang (Chair, State Board of Equalization)

**CALL TO ORDER**

**Welcoming Remarks and Introductions**

Chairman Rosendahl welcomed everyone to the fifth Commission meeting. He briefly discussed the anticipated content of the Commission's Interim Report, which will be submitted to the Governor and Legislature. Chairman Rosendahl then asked the Commissioners to introduce themselves, which they did.

Commissioner Scott Peters, a San Diego City Councilmember, welcomed the Commissioners and audience to San Diego and briefly discussed how San Diego had been transformed from an economy dependent upon tourism and the military into an economy increasingly focused on high technology enterprises.

## **REMARKS BY CALIFORNIA STATE SENATOR STEVE PEACE**

Senator Peace, whose district includes San Diego, addressed the Commission and offered his views on tax reform. He began by stating California is the largest net donor state in the federal tax system. By this, he indicated California contributes approximately \$30 billion more in federal tax revenue than what it receives in return through federal programs. He described the federal tax system as dysfunctional (and badly in need of reform) because it doesn't account for disparities among the various state economies.

He advised the Commission to first look at the effect of federal taxation on state programs before tackling California specific issues. He offered the following points for the Commission to consider:

- How can the federal tax structure be changed to be more equitable?
- As a result of Proposition 13, the state has become enormously powerful by moving decision making from local control to state control.
- Revenue should be aligned with expenditures
- The capital gains taxation system distorts the incentive to turn over assets.
- The retail sales tax system discriminates against manufacturing and housing in favor of retail outlets. Consequently:
  - Massive tax giveaways are used as incentives to attract “big box” retail centers.
  - Small businesses are dying off, soon to be followed by medium size businesses.
  - Retail sales will become increasingly concentrated in only a few very large retail stores.
  - Large retail outlet profit margins drive consumer goods in the cheapest direction, thereby reducing consumer choice.

Senator Peace summarized his remarks by stating California's present tax structure is headed for a major meltdown and the Commission has a great opportunity to exercise visionary leadership with its mandate.

Senator Peace responded to questions and comments from the Commissioners:

Commissioner Weintraub

Question: What is the Legislature's view and how will it respond to the Commission's work?

Answer (in four parts):

- There is a historical tendency to ignore the work of Commissions
- Term limits sometimes eliminate continuity of sponsorship for Commissions and their work

- Commissions need to be practical. In order to bypass a recalcitrant Legislature they may need to go the route of a Constitutional Amendment
- A Commission's work must enjoy broad support in order to garner a coalition of supporters in the Legislature

Commissioner Rossman

Comments (in four parts):

- The California tax base always grows.
- Revenues are always increased to match expenditures instead of vice versa.
- Private industry quickly reduces expenditures to match declining revenues. Why can't governments do likewise?
- The tax structure places ever-increasing burdens on a disproportionate smaller segment of the population. More and more is taken from fewer and fewer.

Response (in five parts):

Most of the information the public gets regarding taxes and other government functions comes from press releases that have political perspective.

- An increasingly larger percentage of the state budget is on autopilot regarding expenditures.
- Expenditures for schools continue to decline in real terms in spite of public perceptions to the contrary. Control of schools is gravitating toward centralization in the state Capital.
- California is entirely too dependent on taxing the wealthy. We don't tax lower and middle income wage earners enough, and consequently they don't have sufficient buy-in for good governance.
- There is no constituency for a budget reserve or rainy day fund. Political posturing between the major parties with typical mantras destroys efforts toward conciliation, i.e., "Republicans always want tax cuts," "Democrats always want increased spending for welfare programs." Pete Wilson's attempt at establishing a contingency sales tax to be used as a reserve during economic downturns was rejected by the Legislature.

Chairman Rosendahl

Comment: He thanked Senator Peace for his views and asked him to return to the Commission to further expound on his ideas.

## **ADDITIONAL INTRODUCTION**

Chairman Rosendahl introduced Ex-Officio Member, Loretta Lynch, Chair, California Public Utilities Commission, who had recently arrived. She deferred addressing the Commission until later in the day.

## **ROUNDTABLE DISCUSSIONS**

### San Diego's Diversified Economy and Tax Policy

Julie Meier Wright, San Diego Economic Development Corporation

Ms. Wright began her discussion by reiterating Senator Peace's concern that California continues to grow as a net donor state to the federal government. She stated California must become more competitive for the kind of businesses we need. She gave a PowerPoint presentation to the Commissioners (a copy is contained in the Proceedings of this meeting), which highlighted the following points:

- Forbes magazine just proclaimed San Diego to be the number one city in the U.S. for new business starts.
- After experiencing a huge loss of defense dollars in the 1990's, San Diego has become one of the top five cities in the U.S. for venture capital investments.
- She provided a snapshot of the kinds of jobs emerging in the San Diego technology sector
  - biosciences - with a rapid growth in new patent awards
  - communications – San Diego has become the wireless capital of the world
  - defense and space
  - software and computers
  - electronics – San Diego has become the TV manufacturing capital of the world with the growth in manufacturing industries near the international border

Ms Wright summarized her presentation with the following points:

- We need to continue offering tax credits to the emerging biotech companies who have yet to transition from R&D to commercialization of their products.
- Net operating Loss (NOL) tax credits are critical to the survival of the biotech industry where it can take up to ten years to become profitable.
- Manufacturing Investment Credits (MIC) are necessary to help small manufacturing firms remain competitive in the California economy.
- Local / state fiscal relations force local governments to rely on retail sales taxes, which have a detrimental effect on affordable housing and transportation infrastructure development.
- The state's fiscal instability hurts efforts at funding for basic research, education and R&D at UC San Diego.

Ms. Wright responded to questions and comments from the Commissioners:

Commissioner Rossman



Question: I'm puzzled by our net revenue drain to the federal government. Why can't we get more dollars back?

Answer: Wealthy states more and more are supporting poorer states. Perhaps we could look at how to develop better public/private investments that could be tied into federal dollars coming to California. Ms. Wright offered to send Commissioner Rossman specifics identifying the net donor states.

## **CABLE INDUSTRY PERSPECTIVE**

Bill Geppert, Cox Communications

Mr. Geppert gave a PowerPoint presentation to the Commissioners (a copy is contained in the Proceedings of this meeting). He discussed the revolutionary changes occurring in the telecommunication industry and, in particular, the huge investment Cox Cable has been making in infrastructure development in San Diego. He emphasized several key points:

- The intent of deregulation of the industry was to provide increased choice and competition for consumers and provide incentives to offer new services
- Since 1996, Cox Cable has invested more than \$800 million in high speed internet, digital telephone, and digital cable TV services in the San Diego region and pays approximately 8% of the gross revenues for local governments
- Digital Broadcast Service (DBS), which provides satellite access in competition with cable TV services, is exempt from California taxes. Fourteen other states tax DBS ranging from 4% to 13.5%.

He summarized his remarks by suggesting a tax system for the California telecommunication industry should have the following qualities:

- Competitively neutral between service providers
- Predictable burdens for taxpayers
- Stable revenue streams for government
- Encourages further investment and economic growth
- Administratively simple for taxpayers and government

Mr. Geppert responded to questions and comments from the Commissioners:

Commissioner Goldberg

Comment: Cox Cable is ahead of the game. He congratulated Mr. Geppert on a desire for a level playing field for competitors instead of recommending Cox Cable be exempt from taxation, as DBS is currently.

Response: The success rate of Cox Cable is very high which will breed further investment.

Commissioner Burton

Question: Why is DBS not taxed and what is the justification for it (not taxed)?

Answer: There is an opportunity for taxing DBS. Not taxing DBS may be historical in nature in that cable companies obtain rights-of-way over the ground, which have traditionally been assessed possessory interest taxes and fees. DBS operates through the air, which does not have a directly applicable concept of right-of way. Rural states tend to tax DBS so California could also. He reminded Commissioner Burton that if customers switch to DBS in California, local governments lose tax revenues.

Commissioner Rossman

Comment: Why should we tax cable services at all? We should make more effort to reduce federal excise taxes.

Response: Cox Cable does not advocate elimination of taxes, but would like to see equity among competitors.

Comment: Would no taxes create more jobs? It seems state and local governments continue to grow, absorbing resources that could be better spent creating jobs.

Response: Spurring investments is critical to job growth.

Comment: We need to simplify the tax structure. Relieving the tax burden will provide many benefits to society.

## **BIOTECH INDUSTRY PERSPECTIVE**

Joe Panetta, BIOCOCOM San Diego

Mr. Panetta gave a PowerPoint presentation for the Commissioners (a copy is contained in the Proceedings of this meeting). His major points are summarized below:

- The San Diego region has developed a significant biotechnology and biomedical industry represented by 450 companies and 35,000 employees.
- The major challenges to sustaining this technology cluster are raising capital to develop new products, hiring and retaining a skilled workforce, obtaining FDA approval for new pharmaceutical products, and operating within California's challenging business environment.

Mr. Panetta discussed the following tax issues, which have a significant impact on developing (as well as profitable) biotechnology and biomedical companies:

- capital gains taxes on employee and investor stock options
- declaration of employee stock options as an operating cost
- R&D and Net Operating Loss (NOL) tax credits' conformity and utilization

- Workers compensation costs

Mr. Panetta responded to questions and comments from the Commissioners:

Commissioner Goldberg

Question: How much does UC San Diego contribute to the growth of the biotech and biomed industry in san Diego with respect to the investment the state has made in the University?

Answer: UC San Diego is a powerhouse of intellectual capability that has made an enormous contribution to the development of these industries. The Salk Institute and Scripps Institute have helped but UC San Diego is the anchor.

Commissioner Rossman

Question: How does the California tax structure affect the tendency of biotech and biomed companies to locate out of state for manufacturing of their products once commercialization has been obtained?

Answer: The goal of all of these companies is to become profitable through commercialization. In the early stages of commercialization the advantage of retaining manufacturing in California is to be near R&D personnel and resources. However, as manufacturing relocates, the concern is that R&D will eventually follow.

Question: How does the internet affect that? The potential exists to separate manufacturing from R&D while maintaining good communication and organizational control.

Answer: It does make it easier.

Question: Do you see tax incentives as an important tool in keeping biotech and biomed R&D and manufacturing in California?

Answer: Yes. The workforce is not yet fully trained in manufacturing, but can easily be trained overseas in such locations as Puerto Rico.

Question: Can we acquire land here in California for biotech and biomed manufacturing?

Answer: That would be a big help.

## **SOFTWARE INDUSTRY PERSPECTIVE**

Curt Nelson, Silicon Space

Mr. Nelson is the incoming Chair of AEA (American Electronic Association). He did not provide a presentation, but spoke from personal notes. He made the following comments:

- AEA is the largest electronic organization in the world, representing 25,000 companies.
- There are approximately 76,000 high tech jobs in San Diego.
- AEA is committed to helping the Internet flourish but is concerned that unfair taxation of Internet transactions will harm industries that use the internet for business.
- AEA strongly supports the Streamlined Sales Tax Project (SSTP).

Regarding taxation of electronic commerce, Mr. Nelson discussed six major principles endorsed by AEA:

- No greater burden should be placed on electronic commerce than on any other commerce delivered by conventional means.
- The moratorium on Internet tax freedom should be continued.
- Taxation laws should be simplified to be fair and predictable.
- Nexus standards need to be clarified.
- New taxes on Internet transactions should be avoided.
- Tax issues need to be considered in a global context.

Mr. Nelson responded to questions and comments from the Commissioners:

Commissioner Goldberg

Questions: What is your idea of nexus? Should physical nexus be extended to a dot-com arm of a standard brick and mortar company located outside of California?

Answer: It is a very complicated issue, especially when trying to understand the global and multinational implications. The federal government needs to exert leadership. AEA's position is that no matter what the rules end up being, they need to be uniform across the board.

Commissioner Rossman

Comment: Commissioner Rossman indicated he believes nexus issues in California are clear.

Response: Mr. Nelson disagreed.

## **CALIFORNIA PUBLIC UTILITIES COMMISSION PERSPECTIVE**

Loretta Lynch  
Ex-Officio Member

Chair, California Public Utilities Commission

Ms Lynch spoke extemporaneously before the Commission. She began by stating the large increase in energy costs in the past year provided a windfall tax revenue stream to California. The rest of her comments were related to issues concerning the telecommunication industry. She advised the Commissioners to review the presentation of James Prieger, Annette Nellen, and Terri Sexton, which had been previously provided to the Commissioners. Their presentation, "The Taxation of Telecommunications in California", is included in the Proceedings of this meeting.

Ms. Lynch considers state surcharges of telephone service to be vital in supporting telephone and telecommunication access to all Californians, especially when subsidizing access for low income, rural and deaf customers. All the citizens benefit from near universal access (4% of California citizens are still without telephone service). This provides most citizens with access to businesses, government, and information. However, the state must still look at digital divide issues. Funds for mitigation will come from the taxes and fees levied on telephone and telecommunications services. The state's goal is to leave no one behind.

Ms. Lynch agrees in principle with taxation equity but takes issue with the concept to regressively tax basic telephone service. She doesn't believe we should provide some incentives in one community and not in another.

Ms. Lynch responded to questions and comments from the Commissioners:

Commissioner Rossman

Comment: He can't figure out the tax burden on his own telephone bill and doesn't know how the fees are spent. He doesn't understand why it can't be simpler. He suggested bigger pots, but less in number. He also stated the technology of merging digital voice and video is very new.

Response: There are political difficulties taxing new industries after they "emerge" from being new. Should tax exemptions stay? Oftentimes continuing tax exemptions leads to unfairness. The PUC is promoting a Consumer Bill of Rights to make things simpler.

Commissioner Goldberg:

Comment (in response to Commissioner Rossman): If we could devise a system where different pots (fees) were earmarked for specific purposes, how would we know if we are getting good value for our money?

Commissioner Brewer

Question: What recourse does California have in light of today's announcement? (from the PUC stating California consumers were gouged by the energy companies - supply was adequate and there was no reason for the blackouts).

Answer: The independent System Operator (ISO) couldn't function properly. The electric generators were gaming the system. The next stage of investigation is to find out why and examine motives.

## **COMMISSION BUSINESS**

Commissioner Brewer motioned to approve the minutes of the July 29, 2002 meeting in Bakersfield. Commissioner Rossman seconded the motion. The motion was approved by unanimous vote.

## **DISCUSSION OF INTERIM REPORT**

Bill Weintraub, Commissioner

Commissioner Weintraub had previously offered to take a leadership role in the writing of the Interim Report. He spoke briefly on how he thought the Commission should proceed. He reiterated there have been many recurring themes. He suggested the following format (not necessarily in order):

- An outline / table of contents
- A discussion of the major issues presented before the Commission
- A chronological history of the Commission's creation and meetings held
- A documentation (listing only) of all of the presentations before the Commission

Commissioner Weintraub questioned how to deal with Senator Peace's comments, which suggested a possible Constitutional Amendment to make major changes in California's tax structure.

## **TAX BURDENS ON COUNTIES**

Steve Szaley, Executive Director  
California State Association of Counties (CSAC)

Mr. Szaley gave a PowerPoint presentation for the Commissioners (a copy is contained in the Proceedings of this meeting). His major points are summarized below:

- A county is the largest political subdivision of the state having corporate powers, and is required by the Legislature to provide for the safety, health and welfare of the people within its borders.
- In the last 20 years, the 50% increase in California's population has severely strained the ability of counties to provide services for their citizens.

- Federal and state payments now constitute 54% of the total revenues for the counties.
- Since 1992, the state has taken nearly \$4 billion annually from counties to help balance the state's budget.
- The demand for public safety and public assistance services continues to increase while county budgets are remaining stagnant.
- State mandated programs continue unabated but are not fully funded by the state.
- State fiscal policies drive counties towards poor land use strategies in order to increase revenues from sales taxes (i.e., providing incentives for big box retail stores in lieu of affordable housing programs).
- Tax reforms are necessary and long overdue, but the recommendations of seven commissions that have previously reviewed state / local fiscal relationships have been ignored by the Legislature. Perhaps the only viable option is to consider a Constitutional Amendment.
- CSAC strongly supports California's participation in the Streamlined Sales Tax Project (SSTP)

Mr. Szaley responded to questions and comments from the Commissioners:

Commissioner Peters

Comment: Traditionally cities and counties have been adversaries but are now uniting to promote a Constitutional Amendment for tax reform.

Commissioner Rossman

Question: How does the centralization of government to Sacramento and Washington affect counties?

Answer: All federal funds to counties are paid through the state.

Question: How do the counties actually get the money?

Answer: For each fund, the county must provide a share of the cost, ranging from 5% to 35%, depending on the fund. The average is about 20% to 25%. But, remember these are not discretionary county funds. These are mostly required to support mandated programs, for which the county may not have any control.

Question: Where does the county get these matching funds?

Answer: Sales taxes and property taxes (primarily as give backs from the state).

Question: How are these funds distributed?

Answer: 52% is mandated for health and welfare. 35% is mandated for public safety programs. The rest is discretionary.

Commissioner Peters

Question: What is the proper incentive for governments to raise money?

Answer: Currently big box retail stores are the best ways to raise revenues. There isn't much incentive to increase revenues from property taxes since almost all of the property taxes collected are remitted to the state.

## **COMMENTS FROM CHAIRMAN ROSENDAHL**

Chairman Rosendahl prefaced an anticipated dialogue between Commissioners Goldberg and Rossman by indicating it's important to hear personal viewpoints from the Commissioners who all bring a wealth of knowledge and experience to the work of the Commission.

## **PROPERTY TAX ISSUES**

Lenny Goldberg, Commissioner

Proposition 13 was intended to protect homeowners against massive increases in property taxes due to the surging values in home prices. Commercial real estate property owners don't need the same protection, because property values are linked to rate of return on investments, unlike residential properties. There is a need to restore a rational tax structure on income producing property, with appropriate trade-offs to spur investments. At present, new investments in commercial real estate are heavily taxed.

Commissioner Rossman asked Commissioner Goldberg if he had taken into account if property taxes don't keep up with assessments, the higher net incomes from those properties would result in higher taxes, so maybe it's a wash. If rents go up, income taxes go up.

Commissioner Goldberg responded by saying it's not a wash because the portion of the property taxes not surrendered to the state is used locally, whereas, none of the income taxes collected is specifically retained by the counties and cities. It becomes a local vs state issue.

Commissioner Goldberg stated failure to pay for rising infrastructure could hold very high value property off the market because a potential buyer would not want to absorb the assessment charges levied against the investor to pay for infrastructure improvements. As a result the present tax structure gives most benefits to current landowners, because the tax burden on new developments is too high.



Also, Commissioner Goldberg believes there are too many loopholes in change of ownership laws for commercial properties. Public change of ownership in companies is almost never heard of. A Constitutional Amendment is needed to ensure commercial properties are assessed at true market values on a recurring schedule, not tied to change in ownership, and personal property taxes on new equipment purchases need to be eliminated.

Commissioner Goldberg responded to questions and comments from the other Commissioners:

Commissioner Brewer

Question: Does your proposal for a rational tax include publicly traded companies?

Answer: No.

Commissioner Weintraub

Comment: Changes are difficult and can't be made overnight.

Question: Would property tax increases reduce the value of the property and lower income streams?

Answer: Yes, for raw land and speculative land. Values would decrease, i.e., a junkyard in an urban center. It wouldn't matter for other types of land. On the average, assessed values of commercial properties are about 60% of the true market values. Commercial properties could be assessed on a rolling average of one, two, or three years; it really wouldn't make much difference as long as it's done on a regular schedule.

Commissioner Rossman

Question: How big is the disparity? Residential property in his neighborhood keeps changing hands.

Answer: Beginning in the early 1990's property tax burdens began shifting away from businesses to homeowners. Almost 35% of residential property owners are still under proposition 13 protections. In high-tech areas business property taxes represent about 15% of the property taxes collected compared to about 5% of the property taxes collected in other parts of the state.

## **DISCUSSION OF INTERIM REPORT**

Doug Brown, Principal Consultant  
Select Committee on Economic Development  
Senator John Vasconcellos, Chair

Mr. Brown offered suggestions on how the Commission should proceed with its responsibilities. His comments were not limited to content of the Interim Report but included the entire scope of the Commission's work over the next year, leading up to the Final Report.

The Commission should not consider its charge to be solving the budget problem, but it can frame the debate for what should follow. It's important to ensure the stakeholders are heard. The Commission was challenged to be bold and to be sure to address the four tax structures specifically identified in the enacting legislation, which created the Commission.

The Commission should think about what is going on in the economy, identify guiding principles for taxation, and not be intimidated by its broad mandate. The Commission is encouraged to raise the tough questions and not worry about having all of the answers. He closed his comments by asking the Commission to look carefully at the tax structure and "Don't rebuild, reimagine."

Mr. Brown responded to questions and comments from the Commissioners:

Commissioner Rossman

Comment: The economy has changed dramatically in the last few years.

Questions: What is tracked on e-commerce? Has e-commerce caused a great escape of money from the state? Should we look at each of the four taxes and try to simplify them?

Answer(s): Yes. Whether everything of value should be taxed does not have an easy answer. If the Commission wants specific data regarding the effects of e-commerce, it should ask for it and he could help find it.

Comment: Commissioner Rossman believes we are years away from being able to track e-commerce.

Questions: What are the sources of taxes we can find? Is taxing e-commerce counterproductive to Senator Vasconcellos's intent?

Answer: No. A legitimate recommendation could consist of a discussion of the dilemma.

Commissioner Burton

Comment: How does the economy vary? We are moving towards an information economy and haven't had a robust presentation on this issue.

Commissioner Peters

Questions: What is the methodology to identify the “new economy”? Is the Commission disadvantaged?

Answer: The commission can do whatever it wants. Mr. Brown’s comments are suggestions only.

Commissioner Goldberg

Comment: The new economy is the old economy 5-10 years from now. Professor Leamer, from UCLA, identified statistics of the “Internet Push,” which indicates there is change but maybe it’s not so radical. In the last 18 months, the Commission’s perspective has changed. Initially it was narrow in scope on the Internet tax issues, but now it has a bigger picture with a broader sphere to consider. The Commission has done a good job identifying the narrow and broad issues.

Commissioner Dombrowski

Comment: Tax policy is broken. It’s presumptuous to try to address everything. We should focus on the big picture. By staying on the big picture we shouldn’t get bogged down, even if all we do is identify the important questions, such as “where to look, where to go.”

Roger Dunstan, Assistant Director  
California Research Bureau

Mr. Dunstan offered the assistance of his agency. The California Research Bureau is part of the State Library. It is an excellent, non-partisan resource and it can help the Commission with its work, but it can’t do everything. It is pleased to make its staff available to assist the Commission with the drafting of the Interim Report.

Kimberly Bott, Chief Consultant  
Assembly Committee on Revenue and Taxation  
Assemblyman Ed Chavez, Chair

Ms. Bott encouraged Commissioners to think outside the box. She cautioned them to avoid getting embroiled in the current economic situation surrounding the state’s budget crisis, and to focus on the new economy issues.

Bill Weintraub, Commissioner

We must be vigilant to the possible outcomes of our actions. For instance, proposition 13 may have severe unintended consequences not envisioned by its authors. It may be too hard and too challenging for the Commission to think outside the box with its limited resources. We may want to stay in the box and identify what is within our reach to change.

Steve Kemp, Representing John Chiang

Ex-Officio Member  
Chair, State Board of Equalization

There is some empirical data estimating how much revenue could be gained by taxing a variety of services. Echoing Commissioner Weintraub's concerns, any changes to the Quill decision should have to be carefully evaluated to ensure any Commission's recommendations won't have unintended consequences.

**SAN DIEGO REGIONAL CHAMBER OF COMMERCE PERSPECTIVE**

Jessie Knight, Executive Director  
San Diego Regional Chamber of Commerce

Mr. Knight spoke from prepared remarks (a copy is contained in the Proceedings of this meeting). His main point was to emphasize cities and counties need reliable and predictable revenue streams. Substantial investments in infrastructure are vital but difficult to achieve unless tax reform and relief for counties and cities occur.

Mr. Knight reiterated a common theme - the state has mandated many local public services but has shifted the costs of those services to the local jurisdictions for which those services are mandated. The state should use the Chambers of Commerce as partners in formulating and advocating for effective changes in the tax structure.

Jack Thompson, President/CEO  
Consumer Credit Counseling Service of San Diego and Imperial Counties

Mr. Thompson revealed 1000 families a month are losing their jobs in San Diego. Many are in danger of losing their homes, a situation which is exacerbated by the lack of affordable housing in San Diego. When tax money shifts from local governments to the state, assessment districts spring up everywhere to deal with the funding shortfalls for sewers, water, roads and parks. The best solution is to return most of the locally collected taxes to the local governments where the most efficient use of these dollars can take place.

Sandor Shapery, Principal  
Shapery Enterprises

The City and County of San Diego benefit very little from property taxes, therefore there is no incentive to build new housing, not to mention affordable housing. 65% of the revenues available to the counties and cities are devoted to public safety, which doesn't leave much to work with after other mandated programs are funded. If the state doesn't voluntarily return more funds to the local governments in the near future, a wellspring of initiatives and propositions will be forthcoming in attempts to force to state to do so.

Commissioner Peters

Comment: Local governments and businesses are delivering the message.

Commissioner Goldberg

Comment: The three gentlemen were thanked for highlighting the critical issues of infrastructure development and how important good infrastructure is to the quality of life for our citizens.

## **DISCUSSION OF INTERIM REPORT**

Chairman Rosendahl solicited individual viewpoints and perspectives from the Commissioners.

Commissioner Peters

Commissioner Peters emphasized five important principles to consider:

- An understanding of competitive neutrality as discussed by Bill Geppert of Cox Cable.
- A decision on the Streamlined Sales Tax Project (SSTP).
- The need for process reform, especially for tax disputes. Bill Weintraub is the Commission's expert in this area and should be able to provide the best ideas for amelioration.
- The cost of housing is important to businesses. Employees can't be recruited and retained unless affordable housing is available. We need constitutional guarantees of revenues from the state to counties and cities.
- The Commission needs dedicated staff support and professional assistance to fulfill its mandate.

Commissioner Weintraub

Commissioner Weintraub acknowledged tax dispute resolution in California is sorely lacking compared to the federal government's system. It is very difficult to work with the state. The state's system is dysfunctional and badly in need of repair.

Commissioner Burton

Commissioner Burton desires a more robust discussion of the new economy. The first meeting next year should be dedicated to this single topic. The Commission should attempt to offer ways in which the administration of the tax system can be improved. The Commission should adopt an agreed upon set of principles and guidelines.

Commissioner Goldberg

Commissioner Goldberg doesn't agree with some of the declarative statements in the issue paper provided to the Commissioners. He believes the Commission should concentrate on finding where our tax policies are failing and what reforms

would be necessary. Guiding principles are laudable but may be difficult to work with.

**Chairman Rosendahl**

Chairman Rosendahl requested the definition of the new economy to be framed as a series of questions rather than an expository collection of statements. He advised the Commissioners he would call for a vote on the structure of the Interim Report after each Commissioner expressed his ideas.

**Commissioner Brewer**

Commissioner Brewer emphasized the importance of attaining a level playing field for California businesses. She was a strong advocate for the creation of a Tax Court to improve dispute resolution.

**Commissioner Dombrowski**

Commissioner Dombrowski considered the working outline to be acceptable and offered no objections to any of the previous Commissioner's statements.

**Commissioner Rossman**

Commissioner Rossman reiterated California is losing jobs while growth in state and local governments continues unabated. He believes the tax burden is too high and too few people are paying too much tax. He believes tax cuts will spur job creation, thereby returning more money to the state treasury through the taxes paid by the newly hired, than what was lost by reducing the tax rates. He suggested creating a matrix to grade each type of tax on a scale in accordance with the proposal submitted by Annette Nellen from the Joint Venture Network.

**Commissioner Weintraub**

Commissioner Weintraub thanked the staffs of the California Technology, Trade and Commerce Agency and the California Research Bureau for their assistance in preparing the preliminary materials for the Interim Report. He reserved his thoughts about the Interim Report and indicated he would provide a significant input in the near future.

**COMMISSION BUSINESS**

Chairman Rosendahl requested a motion to approve the context of the Interim Report. Commissioner Goldberg so moved. Commissioner Rossman seconded the motion. The motion was approved by unanimous vote.

Chairman Rosendahl solicited additional comments from the Commissioners, representatives of the Ex-Officio members, and members of the public. None was received.

**ADJOURNMENT**

Commissioner Brewer moved to adjourn, which was seconded by Commissioner Weintraub. The motion was approved by unanimous vote and Chairman Rosendahl adjourned the meeting.

# CALIFORNIA STATE LIBRARY

## California Research Bureau

**To:** Jesse Szeto  
Assistant Secretary  
Technology, Trade and Commerce Agency

**From:** Roger Dunstan  
Assistant Director

**Date:** November 18, 2002

**Subject:** Procedures for 2003

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This memo is a result of our meeting last week discussing how we can best help the Tax Commission continue their work and complete their report. We are very interested in helping them as we consider their work quite important. We also appreciate the difficult circumstances that they face. In particular, completing this report without staff and occupying part-time status as commissioners and full-time status in their professions and other responsibilities.

We discussed a process that would comprise the following steps:

- Commissioners submit questions for the next meeting to Marshall Graves at the Technology, Trade and Commerce Agency. We compile these for their discussion. We agreed to suggest to the Commission that there be four meetings around sales tax, income tax, property tax, and telecommunications taxes. Marshall Graves of your staff would remain the conduit for that information.
- We would also write a briefing paper for each meeting on the particular topic that they have chosen. We may rely on published material as well as materials already presented to the Commission.
- At the meeting, the Commission would discuss the questions and give us direction for writing the chapter of the report on the selected topic, e.g. sales tax, income tax, property tax, and telecommunications taxes.
- The chapter would be available for the Commission to discuss at the following meeting.
- The Commission could certainly choose variations of this proposal. For example, we could submit a chapter to a review committee and work with that committee or individual commissioner on the chapter.
- As early as possible, products would be placed on the Commission's web site. This was a suggestion of Doug Brown who works for Senator Vasconcellos.



I would also like to report on our experience writing the interim report.

We based the interim report on the outline that was briefly discussed at the Commission meeting in San Diego. While the Commissioners seemed pleased with the outline, it was, quite honestly, more than a bit vague and general. We were left to supply the details. This presented us with several difficulties:

- The comments from Commissioners were often contradictory, forcing us to try and arbitrate for nine commissioners. For the interim report, we generally opted to remove items that at least one Commissioner questioned. As a result, the report tended to become more vague and less informative. For example, the Commission on Taxation and the New Economy has an interim report that does not define or describe the new economy. On major issues, we did work through the chair, but we will need much more specific direction from the Commission at each meeting.
- Many of the comments we received were past the deadline. As a result, we tended to rewrite the interim report, then rewrite it again as we received additional comments and tried to adhere to the deadlines that the commission had set. For the final report, we propose to incorporate comments until the deadline for each section; then the Commission can discuss the draft, alter it, and then place it on the web. Further revisions can be made in Fall 2003, when the final report is prepared.
- To get the briefing papers to the Commission on time, we will have to adhere strictly to the deadlines. We are not attempting to determine what the Commission can consider or discuss. If we are unable to include a late submittal in the briefing paper, the Commissioner is always free to bring it up at the meeting.
- We received comments that information we had written in the interim report was based on material that was not presented to the Commission or was not in the Commission's record. From my perspective, this is a research commission; hence it should not have a formal record. This commission is more analogous to a legislative committee. A record is usually kept only when a commission is in a quasi-judicial role, such as the Public Utilities Commission. Also as a practical matter, this Commission does not even have a record in that there is no transcript of the remarks made at each meeting. While the Commission has absolute control over what is written in their report, we are very uncomfortable with the notion that the Commission would rely only on the information submitted to them. Although from what I have seen, the Commission had very informative presentations, there is a great deal of additional information that is available. We believe that we can be very helpful to the Commission by informing them and providing additional materials. Since our role is to inform policy makers about policy options and their implications, we would have a difficult time ignoring reputable research in the materials that we prepare for the Commission. I believe the Commission would place itself in an awkward position if the final report did not reflect available information and not just what was presented to them.

Please do not hesitate to contact me at (916) 653-9254 or [rdunstan@library.ca.gov](mailto:rdunstan@library.ca.gov) if I can provide any further assistance

cc: Bill Rosendahl

#### INTERIM REPORT

To view a copy of the Interim Report, please visit the Commission's website at:

[www.caneweconomy.ca.gov](http://www.caneweconomy.ca.gov).

# CALIFORNIA COMMISSION ON TAX POLICY IN THE NEW ECONOMY

Redondo Beach City Council Chambers  
November 19, 2002

## TALKING POINTS FOR CHAIRMAN BILL ROSENDAHL

### Reasons for 2003 meetings at the State Capitol Building:

- The Commission will be better poised to provide input to the current dialogue on taxes and the State's upcoming fiscal deficit.
- The legislative members and their staffers, the Governor's office and his advisors, and other resources including CRB, FTB, BOE, and non-profit organizations focusing on these issues are mainly located in Sacramento.
- Hearing rooms, video capacity, are all available for free.
- Ability for the Commissioners to meet with individual Legislators and with key members of the Governor's staff in order to build support for the Commission's work.

### Responsibilities of Commissioners:

- Attendance at Commission meetings.
- Submission of issues and perspectives for Commissioner Study Guides.
- Active participation in discussions.
- Timely response to deadlines for inputs on draft documents.

### Responsibilities of the Chairman:

- Develop political liaisons with the Governor, Legislature and appropriate staff.
- Ensure the Commission meets its deadlines and that the Commissioners are providing their input to the work product.
- Maintain discipline and enforce Commissioners duties and, in the case of recalcitrance or neglect of duty, asking for a Commissioner's resignation if it is necessary.
- Preside over Commission meetings and provide leadership and conflict resolution for:
  - Consensus building
  - Dissenting viewpoints
  - Voting
  - Minority opinions and reports

### Must be accomplished before adjourning the meeting:

- Discuss CRB memo
- Agree to hold all 2003 meetings in Sacramento
- Agree on meeting formats for 2003
- Agree on meeting dates for 2003
- Agree to adhere to deadlines, with cut-off dates for input