



NEWS RELEASE

CALIFORNIA STATE TREASURER BILL LOCKYER

FOR IMMEDIATE RELEASE
September 19, 2008

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Treasurer Lockyer Comments on Plan to End State Budget Stalemate

SACRAMENTO – State Treasurer Bill Lockyer issued the following statement on the 2008-09 State Budget compromise, set to be finalized today by the Legislature:

“This budget doesn’t even kick the can down the road. Instead, it kicks California’s fiscal future into a ditch on the side of the road. It’s compromise in the worst sense: It compromises our ability to give our kids better schools, provide our families better health care and make our communities more livable. It’s the most irresponsible budget of the past half-century.

“The plan contains several elements that constitute fiscal folly. But the most offensive provide multi-billion dollar handouts to big business in the form of permanent tax breaks. This giveaway makes the budget a massive corporate boondoggle that does nothing to fix our structural deficit and, in fact, will make it substantially worse.

“The attempt to strengthen the rainy-day fund is commendable. But the reserve will be a mirage until the structural gap between revenues and expenditures is closed. This budget, by playing year-round Santa Claus to wealthy corporations, pushes that goal further into a dim future. There were alternative, more responsible ways to deal with taxes, ways that wouldn’t bust tomorrow’s budgets. The failure to pursue those options is disheartening and a disservice to the public.”

The first tax break lets corporations, when they lose money in any given year, obtain refunds on taxes they paid in prior years. Businesses often suffer losses when the economy turns sour, just as California’s families do. When the economy’s bad, the resulting revenue decline also puts the State in a fiscal hole.

“So under this budget, the State will be cutting refund checks for corporate behemoths while it’s cutting services for people,” said Lockyer. When fully implemented, this so-called “carry-back” provision – rejected many times by the Legislature – will cost the State more than \$500 million, every year, forever.

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The second provision allows corporations, for the first time ever in California, to transfer state tax credits among affiliates. Currently, businesses receive state tax credits only when they engage in a business activity that the Legislature has decided serves a good public purpose and which is directly associated with the credit. The budget guts this sensible policy. It allows big corporations to transfer tax credits among their affiliates.

Say, for example, an affiliate conducts a credit-eligible activity. But it isn't paying any taxes, so it can't use the credits. Under the budget provisions, this affiliate could transfer the credits to another affiliate, which could use them to reduce its taxes, even though it was not engaged in an activity associated with the credit. Worse, the affiliate could operate a business that is completely contrary to the public interest, like selling cigarettes. "This provision amounts to a giant tax shelter for wealthy corporations," said Lockyer. It easily will cost the State \$385 million to \$600 million every year, and untold billions over the long haul.

These tax provisions also affect enterprise zone tax credits. The Legislature created this program to encourage businesses to locate and create jobs in economically-disadvantaged communities. The budget undermines the entire purpose of the program by allowing enterprise-zone businesses to transfer tax credits they don't use to affiliates outside the zone. Currently, there are \$768 million worth of unused enterprise zone tax credits in California. It's likely a good portion of those credits will be shifted to businesses outside these areas if this budget becomes law. "This is another tax shelter that will drain more revenues and further weaken the state's fiscal health," said Lockyer.

The revenue-loss estimates, Lockyer noted, are based largely on figures provided by the Franchise Tax Board.

Lockyer said it's time political leaders stopped talking about reforming the budget process, and fixing the State's structural deficit, and started doing something about it. "We need to radically change how we budget – how we plan, how we prioritize, how we raise money, how we spend it and how we adopt the budget," said Lockyer. "The words have become hollow. It's time to act."

On another budget-related issue, Lockyer said his office is working with the Department of Finance to get an exact picture of the State's current cash situation, including how much will be needed to make payments delayed because of the budget impasse and how quickly those payments will have to be made. The answers to those questions will help determine the amount, timing and structure of short-term borrowing the State will transact, following the budget's enactment, to meet its cash flow needs.

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