

STATE OF CALIFORNIA  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 07/17)

Fiscal Year 2018-2019	Business Unit 0220	Department Governor's Office of Business and Economic Development	Priority No. 1
Budget Request Name 0509-001-BCP-2018-GB		Program California Competes Tax Credit	Subprogram N/A

Budget Request Description  
 California Competes Tax Credit Program Extension

**Budget Request Summary**

The Governor's Office of Business and Economic Development (GO-Biz) requests a five-year extension of the California Competes Tax Credit program, tax credit allocation authority of \$180,000,000 per year through fiscal year 2022-23, and \$1,422,000 in budget authority from the General Fund per fiscal year through 2022-23 to maintain the 10 positions associated with administering the program. This proposal also requests to remove provisions of law that reserve a portion of the credit allocation for businesses with gross receipts of less than \$2,000,000.

The requested tax credit allocation authority of \$180,000,000 per fiscal year reflects a redirection of \$20,000,000 (from the historical \$200,000,000 annual allocation level) to provide funding for direct technical assistance to small businesses, which will be discussed in detail under a separate proposal.

Requires Legislation <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed Rev. and Tax Code §§ 23689 and 17059.2	
Does this BCP contain information technology (IT) Components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No.                      Project Approval Document:                      Approval Date:

If proposal affects another department, does other department concur with proposal?       Yes       No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Prepared By Scott Dosick	Date	Reviewed By	Date
Dept. Chief Deputy Director Will Koch <i>WJ</i>	Date 1/8/18	Agency Secretary	Date

**Department of Finance Use Only**

Additional Review:  Capital Outlay     ITCU     FSCU     OSAE     CALSTARS     Dept. of Technology

PPBA	<b>Original Signed by:</b> <b>John Fitzpatrick</b>	Date submitted to the Legislature <b>01.10.18</b>
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## A. Budget Request Summary

The Governor's Office of Business and Economic Development (GO-Biz) requests a five-year extension of the California Competes Tax Credit program, tax credit allocation authority of \$180,000,000 per year through fiscal year 2022-23, and \$1,422,000 in budget authority from the General Fund per fiscal year through 2022-23 to maintain the 10 positions associated with administering the program. This proposal also requests to remove provisions of law that reserve a portion of the credit allocation for businesses with gross receipts of less than \$2,000,000.

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## B. Background/History

GO-Biz was created to serve as California's single point of contact for economic development and job creating efforts. GO-Biz offers a range of services to business owners including: attraction, retention and expansion services, site selection, permit assistance, clearing of regulatory hurdles, small business assistance, international trade development, and assistance with state government. The California Competes program works within GO-Biz and is aimed at furthering the Governor's goal of economic growth for California. On July 11, 2013, Governor Brown signed into law Assembly Bill 93, Chapter 69, Statute of 2013 (AB 93), and Senate Bill 90, Chapter 70, Statute of 2013 (SB 90), now commonly referred to as the Governor's Economic Development Initiative. AB 93 and SB 90 phased out the Enterprise Zone Program and replaced it with three new tax incentives.

The first program of the initiative is a statewide, California Department of Tax and Fee Administration administered, partial sales and use tax exemption applicable to equipment procured by businesses engaged in manufacturing or biotechnology research and development. The second program is a geographically targeted hiring tax credit administered by the Franchise Tax Board. The third program is the California Competes Tax Credit, which is administered by GO-Biz. The purpose of the California Competes program is to attract, expand, and retain businesses in California and stimulate the creation of new high quality full-time jobs.

The credit is negotiated on a case-by-case basis between the California Competes staff and companies that are expanding in, relocating to, or are considering leaving the State. Some of the award criteria are, number of employees to be hired or retained, type of jobs being created or retained, wages and benefits paid to the newly hired employees, whether the company operates in an area of high unemployment or high poverty, and the amount the company will invest in the state. The negotiated credit agreement is then voted on and approved by the five-member California Competes Tax Credit Committee, which is comprised of the Director of GO-Biz, the Director of the Department of Finance, the Treasurer, and one appointee each by the Speaker of the Assembly and Senate Committee on Rules.

In October 2017, the Legislative Analyst's Office (LAO) issued a report on the California Competes Tax Credit Program. The report found that GO-Biz has implemented the program in "good faith" in a manner designed to "fairly balance the stated intent of the Legislature to maximize the effective use of taxpayer dollars with statutory requirement to consider various specific factors." However, the LAO did identify a few concerns with the program, most notably that "15 percent of the total dollar value—went to businesses that sell goods and services very near to them in California. These tax credits provide 'windfall benefits' as they result in no change in the overall level of economic activity in the state. Moreover, these awards inadvertently harm other, equally deserving California businesses—including most of the tens of thousands of California small businesses—because the tax credits awarded to their competitors puts them at a significant competitive disadvantage."

Under existing California Competes Tax Credit law, 25 percent of the total tax credits available is statutorily reserved for businesses with gross receipts of less than \$2,000,000. In many instances, businesses that meet this gross receipts threshold are those that "sell goods and services very near to them in California" and as a result, has led to the above referenced LAO concern. To address this concern, this proposal requests to remove the aforementioned statutory reservation of the credit from current law. As indicated in the summary section, this proposal requests a reduced tax credit allocation authority from the historical \$200,000,000 annual

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allocation level to provide funding for direct technical assistance to small businesses, which will be discussed in detail under a separate proposal.

## Resource History<sup>1</sup>

(Dollars in thousands)

Program Budget	PY - 4	PY - 3	PY - 2	PY - 1	PY
Authorized Expenditures	1,796	3,212	5,069	4,626	5,179
Actual Expenditures	1,271	2,063	2,758	4,626	4,830
Revenues	0	0	0	0	0
Authorized Positions	13.0	29.0	33.0	23.0	22.0
Filled Positions	9.6	15.7	24.0	25.7	20.0
Vacancies	3.4	13.3	9.0	2.7	2.0

## Workload History

Workload Measure	PY - 4	PY - 3	PY - 2	PY - 1	PY	CY <sup>2</sup>
Applications Processed through Phase I	n/a	396	806	896	945	345
Applications Processed through Phase II	n/a	149	556	825	835	305
Total Applications Awarded	n/a	29	212	225	275	90
Applications in Compliance Review <sup>3</sup>	n/a	29	241	500	768	844
Workshops/Webinars	n/a	18	45	54	78	38

### C. State Level Considerations

The effectiveness of the California Competes program is measured by its ability to help businesses create and retain jobs throughout the state. There is no other negotiated tax credit program similar to the California Competes Tax Credit. The program is California's primary economic development program for attracting and retaining high quality employers in the state.

### D. Justification

#### Justification for Extending the California Competes Program:

By the terms of Rev. and Tax Code §§ 23689 and 17059.2, GO-Biz may allocate California Competes Tax Credits only through fiscal year 2017-18. GO-Biz requests an extension of the program to allow it to allocate tax credits through fiscal year 2022-23. There are multiple reasons why the California Competes program should be extended. First, the value of the jobs and investment created under the program will continue to far exceed its requested funding. Second, it helps attract and retain high value employers to the state. Third, the program is more cost effective, accountable, and transparent than the former Enterprise Zone program which it

<sup>1</sup> These numbers are inclusive of GO-Biz as a whole not the California Competes unit alone. The numbers include the California Competes unit, all administration, personnel, legal, information technology, communication, the international unit, and all appointees.

<sup>2</sup> Inputs are current as of November 2017 and are subject to change as the fiscal year progresses. The first application period closed on August 21, 2017, and contracts were awarded on November 16, 2017. The second application period closes on January 22, 2018 and contracts will be awarded on April 12, 2018. The third and final application period for this fiscal year starts March 5, 2018 and contracts will be awarded on June 18, 2018.

<sup>3</sup> Applicants awarded a tax credit are part of an ongoing 5-year contract which holds the businesses to contractual milestones. Since inception of the program, applications in Compliance Review numbers are inclusive of previous year's awardees.

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replaced. Finally, it is a unique, flexible economic development tool that allows California to compete with other states that are actively recruiting employers to relocate or expand outside of California.

While the program does have associated costs, the value of the jobs and investment created under the program far exceed its requested funding. The California Competes program is now in its fourth full fiscal year of operation. Since the inception of the program, GO-Biz has awarded \$624,912,984 in tax credits, in exchange for commitments from business to create a projected 83,412 new full time jobs in California and invest \$16,599,921,165 in the state. As can be seen from the data, the return on investment from the program far exceeds its direct and administrative costs. Additionally, these numbers represent only the direct impact of the California Competes program; they do not take into account the additional indirect, and induced economic impacts created by the vast amount of investment and employment facilitated by the program. If the program is extended as requested in this BCP, then it is expected that the return on investment in future years will continue to exceed the cost of the program to the state. As such, it would be beneficial to the state to extend the program.

The mission of the California Competes program is to attract and retain high value employers in the state and stimulate the creation of new high value full-time jobs. The program has succeeded in this mission, playing a significant role in the decision by many large companies in their decision to locate in California rather than out of state. California Competes awardees include companies such as, Tesla, Amazon, General Motors, Samsung, Proterra, BYD Motors, Hulu, and many others. The California Competes program was instrumental in creating the business environment that allowed the companies to expand in the state. Of paramount importance, the jobs these companies have proposed to create do not have to be in California. The program should be extended to continue to attract high value employers like these.

As noted in the background section, the California Competes Tax Credit was created as part of the repeal of the old Enterprise Zone/ Economic Development Area (EZ/EDA) tax credit programs. The EZ/EDA programs cost the state an estimated \$750,000,000 per year; and, unlike the California Competes program they had few to no measures of effectiveness. In comparison, the California Competes program allocates tax credits through a process that serves as a model of transparency and accountability. The inherent accountability in the California Competes program is due to the fact that the credit is prospective rather than retrospective, meaning that companies must apply for their tax credit in advance of creating the jobs and making investments, and must fulfill their promised hiring and investing before they may claim the benefit of the credit. As a result of this accountability, the state can be assured it will receive the projected 83,412 new full time jobs and \$16,599,921,165 in investment committed to date, or that the credit associated with any short fall will be returned or not claimed on a tax return. With regard to transparency, in the EZ/EDA program, no member of the public knew where any portion of the \$750,000,000 per year went. Under the California Competes program, all contracts allocating credits are publically available on the GO-Biz website and each contract is publically approved at a duly noticed, public committee meeting. Not only is the California Competes program less expensive than the EDA, it is more effective at creating economic benefit and is a model of accountability and transparency.

The California Competes Tax Credit is a unique, flexible economic development tool that is not available in any other state. However, many states do have comprehensive incentive packages to entice companies to relocate or grow in their state. Among the economic development incentives in California, the California Competes Tax Credit is unparalleled; no other tax credit is as unique and as flexible in terms of enabling California to compete for prospective employers as the California Competes Tax Credit. Unlike many credits, the California Competes credit is available to companies of all sizes in all industries. Because there are no sector or geographic limitations, the credit can attract any business. Further, there are no formulas or set requirements for the contracts. Each contract is individually tailored to meet the needs of the company receiving the contract to ensure that they receive the amount of incentive necessary for their particular company to grow in the state. The lack of restriction on the allocation of the credit makes it a uniquely flexible and adaptable economic tool that helps California remain competitive in the market for high quality employers.

### **E. Outcomes and Accountability**

The expected outcome of extending the California Competes program will be the continued growth of California's economy through the use of income tax credits provided to qualified taxpayers. The process will

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continue be transparent and accountable to the public through the open California Competes Tax Credit Committee Hearings, GO-Biz's website and publications.

## Projected Outcomes

Workload Measure	CY	BY	BY+1	BY+2	BY+3	BY+4
Applications Processed Through Phase I	950	950	950	950	950	950
Applications Processed Through Phase II	850	850	850	850	850	850
Applications Awarded	275	275	275	275	275	275
Applications in Compliance Review <sup>4</sup>	1,150	1,455	1,760	2,065	2,341	2,434

## F. Analysis of All Feasible Alternatives

1. Provide tax credit allocation authority of \$180,000,000 per fiscal year and \$1,422,000 in budget authority per fiscal year to extend the California Competes program for an additional five years, and amend the program as requested. This option maintains the exceptional return on investment to the state, ensures that the state retains a valuable tool to attract and retain high value employers, and addresses a principal concern of the LAO relating to the program.
2. Allow the program to sunset, this would have a lower associated cost, however, the California Competes Unit would still need 2-3 staff to wind down the program and continue compliance of existing agreements. The program would need one Staff Services Manager II and one to two Associate Government Program Analyst(s). This option would leave the state with few options to compete with other states for high value employers.
3. Provide tax credit allocation authority of \$180,000,000 per fiscal year for five additional years as requested in this BCP, but provide no budget authority to fund the 10 positions and administrative costs and instead require GO-Biz to redirect its resources to administer the program. This would be \$1,422,000 less than option one. This is not a viable option as GO-Biz is a small organization with very limited resources. This would affect the development and operation of the California Competes program and hinder the other programs and units in GO-Biz.

## G. Implementation Plan

This proposal would extend the California Competes Tax Credit program. Reducing the annual amount available for allocation by \$20 million is not expected to have a measurable impact in the amount of staffing required. Any change in staffing needs from the reduced amount available for allocation will be offset by the increased compliance workload that will grow annually as more tax credit agreements are approved.

## H. Supplemental Information

None needed.

## I. Recommendation

GO-Biz recommends option number 1, implementing the changes as requested in this BCP.

<sup>4</sup> Applicants awarded a tax credit are part of an ongoing 5-year contract which holds the businesses to contractual milestones and a 3-year maintenance period after the end of the 5-year contract. Since inception of the program, applications in compliance review numbers are inclusive of previous year's awardees. Starting in BY+3, and every year thereafter, some awardees will have completed the 5-year contracts and the 3-year maintenance period. When awardees have completed the contract period and maintenance period, they will be removed from compliance review.

## BCP Fiscal Detail Sheet

BCP Title: California Competes Tax Credit Program Extension

BR Name: 0509-001-BCP-2018-GB

### Budget Request Summary

	FY18					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Personal Services						
Positions - Permanent	0.0	10.0	10.0	10.0	10.0	10.0
<b>Total Positions</b>	<b>0.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>
Salaries and Wages						
Earnings - Permanent	0	825	825	825	825	825
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$825</b>	<b>\$825</b>	<b>\$825</b>	<b>\$825</b>	<b>\$825</b>
Total Staff Benefits	0	313	313	313	313	313
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$1,138</b>	<b>\$1,138</b>	<b>\$1,138</b>	<b>\$1,138</b>	<b>\$1,138</b>
Operating Expenses and Equipment						
5301 - General Expense	0	62	62	62	62	62
5320 - Travel: In-State	0	32	32	32	32	32
5324 - Facilities Operation	0	102	102	102	102	102
5340 - Consulting and Professional Services - Interdepartmental	0	60	60	60	60	60
5340 - Consulting and Professional Services - External	0	28	28	28	28	28
<b>Total Operating Expenses and Equipment</b>	<b>\$0</b>	<b>\$284</b>	<b>\$284</b>	<b>\$284</b>	<b>\$284</b>	<b>\$284</b>
<b>Total Budget Request</b>	<b>\$0</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>

### Fund Summary

Fund Source - State Operations						
0001 - General Fund	0	1,422	1,422	1,422	1,422	1,422
<b>Total State Operations Expenditures</b>	<b>\$0</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>
<b>Total All Funds</b>	<b>\$0</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>

### Program Summary

Program Funding						
0220 - Go-Biz	0	1,422	1,422	1,422	1,422	1,422
<b>Total All Programs</b>	<b>\$0</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>	<b>\$1,422</b>

