August 29, 2022

The Honorable Gavin Newsom
Governor, State of California
1021 O Street, Suite 9000
Sacramento, CA 95814

RE: AB 1951 (Grayson) Sales and use tax: exemptions: manufacturing
As amended August 1, 2022 – REQUEST FOR VETO

Dear Governor Newsom:

The California State Association of Counties, League of California Cities, Rural County Representatives of California, and Urban Counties of California, respectfully request your veto of Assembly Bill 1951 by Assembly Member Grayson, which would place a substantial fiscal burden on cities and counties by exempting the local share of sales tax for manufacturing and research and development tangible personal property for the next five years. Under existing law, manufacturers may receive an exemption for the state share of the sales tax, so they already pay less sales tax than other businesses and can get a full exemption for equipment that will not replace jobs and helps build California's green economy.

$2 Billion in Local Service Cuts
AB 1951 would cost counties and cities well over $2 billion in lost revenue over the five years the exemption would be in effect. This estimate assumes the exemption does not result in increased sales over the five-year period, any increase would in turn increase the estimate proportionately.

The $2 billion loss includes $289 million from the health, behavioral health, and human service programs funded in 1991 Realignment, nearly $289 million from the public safety programs funded by Proposition 172, $722 million from transportation taxes and local discretionary budgets, and $750 million from district taxes, often dedicated to transit, public safety, homeless services, and general budget supports.

The Cuts Are Not Related to the Location of Economic Activity
AB 1951 cuts revenue for emergency response, anti-poverty programs, behavioral health, and other critical local services—even when the manufacturer receiving the exemption is hundreds of miles away. Because 1991 Realignment and Proposition 172 funds are distributed through statewide formulas, every community would experience cuts, regardless of where in the state the manufacturing investments are made. To the extent the exemption results in increased economic activity, the tax benefits would largely be enjoyed by the state General Fund via increased personal income and corporation tax collections. However, reductions in sales and use tax revenue would

not only be borne by the local agencies that provide direct services to the manufacturing facility benefiting from the exemption, but also every county and city in the state.

It is unreasonable at best to cut funding for behavioral health and human services in the middle of behavioral health and homelessness crisis. Counties and cities value the manufacturing sectors of their local economies, but it is unclear why this sector in particular should be exempt from one of the major taxes that funds government services. Doing so leaves businesses in other sectors—like agriculture, health care, the arts, hospitality, and wholesale trade, all of which are likewise heavily dependent on capital investments and provide good-paying jobs—not to mention working families, to pick up the slack. California already has the narrowest sales tax base of any state in the country; narrowing it further makes the tax even less reliable and adds to the pressure to increase the rate.

Many Local Budgets Are Still Struggling After a Record-Long Economic Boom
Finally, while the state enjoys year after year of record revenues, most counties and many cities have less general fund revenue per resident now than they did before the Great Recession, in real dollars. Due to the stark regional differences in revenue growth and the structure of the state's tax system, many communities have been unable to sustain the services they offered 15 years ago, much less meet the moment for the Californians in need of enhanced assistance. Over the same period, the manufacturing sector grew by 78 percent, the state and local government sector overall rose 42 percent and per capita personal income rose 41 percent, all in real dollars.

For these reasons, we respectfully request your veto on AB 1951. If you have any questions about our position, please do not hesitate to contact us.

Sincerely,

Geoff Neill
California State Association of Counties
Legislative Representative
gneill@counties.org

Nick Romo
League of California Cities
Legislative Representative
nromo@calcities.org

Sarah Dukett
Policy Advocate
Rural County Representatives of California
sdukett@rcrcnet.org

Jean Kinney Hurst
Legislative Advocate
Urban Counties of California
jkh@hbeadvocacy.com

cc: The Honorable Timothy S. Grayson, California State Assembly
Angela Pontes, Deputy Legislative Secretary, Office of Governor Newsom
Ronda Paschal, Deputy Legislative Secretary, Office of Governor Newsom