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May 20, 2010

Ms. Sherri Wahl  
Acting Deputy Executive Director  
CA Alternative Energy and Advanced  
Transportation Financing Authority  
915 Capitol Mall, Room 457  
Sacramento, CA 95814

**RE: Comments and Recommendations for SB 71 Regulations**  
*Submitted for CAEATFA Hearing Scheduled for May 27, 2010*

Dear Ms. Wahl:

On behalf of the League of California Cities (League) and the California State Association of Counties (CSAC), we respectfully submit the following comments for your consideration as you prepare to issue draft regulations associated with the implementation of SB 71(Padilla), Ch.10, Statutes of 2010.<sup>1</sup>

California cities and counties recognize the importance of attracting new green manufacturing jobs to our state and the many benefits to our economy these new jobs will provide. It is important that California be competitive in the effort to attract and retain these new industries and jobs. Yet, while state officials may look at this program from a macro level, it is important that they pay careful attention to local impacts, because it is at the local level where manufacturing is located. Sales and use taxes are an extremely important local revenue source.

The following comments, therefore, are intended to support the ultimate policy objectives of the legislation by making sure that local impacts of the sales and use tax exclusions are appropriately considered as the Authority develops its regulations. We encourage CAEATFA to incorporate the following principles into its regulations:

**1) Ensure Projects Create New Jobs:** Proponents of this legislation have stated that this measure is aimed at helping California compete for new green technology manufacturing industries and jobs. The language in the legislation, however, is unclear on this point. At a time of great budget difficulty for state and local governments, the regulations drafted by CAEATFA should set a threshold requirement that precious tax dollars are only provided to businesses that demonstrate true need and will create new jobs in California.

**2) Require Local Support:** Project proponents should be required to secure the support of local affected communities. Engaging local communities at the outset is critical. This will allow the affected city or county to work with the proponent to streamline local siting and regulatory issues, and also potentially identify additional local incentives. The project proponent should work with a community on a local cost-benefit analysis that also quantifies the fiscal impact of any requested sales or use tax exclusion. Projects for which the sales or use tax exclusion will create a net negative local economic impact should not receive a subsidy from the state.

**3) Limit Tax Incentives to Initial Investments; Set Minimum Threshold:** The tax incentives authorized by this measure should be prioritized for initial equipment purchases needed to establish or substantially expand new green technology manufacturing. We suggest that for ease of

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<sup>1</sup> The contents of this letter were originally submitted to CAEATFA by the League on April 2, 2010.

administration the credit should apply only to purchases of equipment that exceed a threshold value of perhaps \$10,000, or higher.

**4) Protect Local Governments with “Downstream” Manufacturing:** A concern has been raised by local government officials that SB 71 may cause significant reductions to their tax revenues if products manufactured in their community become subject to the exclusion. In other words, City/County (A) benefits from a plant opening and the associated new jobs, while City/County (B) just loses revenue because it happens to be the location of a manufacturer of a product that becomes subject to an exclusion. In the above example, despite losing revenue, City/County (B) still must provide essential services to that facility including public safety and public works. While all such impacts cannot be avoided, they can be reduced in the following ways:

- Ensuring the project proponent has notified the city or county with products subject to a proposed sales tax exclusion. Once notified, the affected community should be provided an opportunity to comment to CAEATFA about potential local impacts. CAEATFA should be empowered to reduce the scope of an exemption if local impacts are excessive.
- Monitor and address negative cumulative impacts on an affected community. A city or county that is a manufacturing hub should not have to bear an excessive reduction of tax revenues as a result of sales and use tax exclusions granted by CAEATFA. This would not only be inequitable, but would also serve as a disincentive for that community and others to site or expand manufacturing.
- To ensure an effective program, CAEATFA should establish regular lines of communication with city managers, county executives, economic development officials and others from communities that have manufacturing bases. It would be contrary to the stated policy goals of the program if the loss of local tax dollars triggered by this program began to have the unintended effect of discouraging additional local approvals of manufacturing. If such a situation should occur, it would be advisable for the state to consider changes to the program.

**5) Ensure an Open and Transparent Process:** CAEATFA should establish clear criteria for reviewing, ranking and evaluating projects. Meeting times should be scheduled at regular intervals. Agendas and associated materials should be available on Web sites well in advance of meeting times, and ex parte rules should be established related to communication with decision makers.

California cities and counties support the creation of new green technology manufacturing. SB 71 gives the state an additional tool, but it is imperative that the tool be used carefully and judiciously. The League and CSAC encourage CAEATFA to consider the above recommendations which will contribute to a successful program.

If you have any questions, please contact Dan Carrigg with the League at (916) 658-8222 or Jean Hurst with CSAC at (916) 327-7500 Ext. 515.

Sincerely,



Daniel Carrigg  
Legislative Director



Jean Kinney Hurst  
Legislative Representative

Cc: Michael Pro시오, Legislative Affairs Secretary, Governor’s Office  
Ana Matosantos, Director of Finance  
Bill Lockyer, State Treasurer  
John Chiang, State Controller  
Betty Yee, Chair State Board of Equalization  
Karen Douglas, Chairperson, California Energy Commission  
Michael R. Peevey, President, Public Utilities Commission  
Senator Alex Padilla