

## LEGISLATIVE UPDATE: GOVERNOR'S ECONOMIC DEVELOPMENT PROPOSAL APPROVED

The governor's economic development proposal [\*\*AB 93\*\*](#) (Assembly Budget Committee), which would shift enterprise zone business tax incentives to a new statewide sales and use tax exemption for purchases of manufacturing and research-and-development equipment, a targeted state hiring tax credit, and an investment incentive tax credit to be administered by the Governor's Office of Business and Economic Development (GO-Biz), was approved by the Legislature this week.

The bill cleared the Senate on a 30-9 vote June 25, just one day after it was given its first hearing (in the Senate Budget and Fiscal Review Committee, where it passed on a 9-5 vote), and as last-minute amendments were making changes to the legislation. The measure was sent to the Assembly Local Government Committee, where it was approved on a 7-0 vote, and immediately went to the Assembly floor. The debate on the floor lasted nearly an hour, with large numbers of lawmakers speaking for and against the proposal. On the initial vote, the bill received 49 votes, falling short of the 54 needed for approval. Lawmakers then caucused, and then returned to the floor and, after a short stalemate – and an announcement by the Assembly speaker that legislators would be called into session over the weekend if voting on important matters was not concluded that day – the Assembly voted 54-16 to send the bill to the governor.

**AB 93** was amended twice on June 24, and then again on June 25.

Supporters in the Assembly argued that the current enterprise zone system is flawed and provides tax breaks that have no incentive effect on hiring, while opponents lauded the system for helping the state create and retain jobs.

Several Republican lawmakers voiced support for the provisions that would create a sales and use tax exemption for manufacturing equipment, and encouraged their colleagues to approve this exemption in a stand-alone bill, rather than combining it with changes in the enterprise zone program. Republicans also argued against the sunset provisions in the bill, stating that a sales tax exemption for manufacturing equipment will not have the desired incentive effect if businesses cannot be sure the exemption will remain in effect for more than a few years.

Floor debate also included discussion of a drafting error that would repeal the sales tax exemption on January 1, 2019, while other provisions in the bill authorize the exemption through June 30, 2021 for those in former enterprise zones and targeted areas. Assemblyman Bob Blumenfield said the error was simply a "typo" that would be fixed by follow-up legislation. Fixing the error in **AB 93** itself, before sending the bill to the governor, would mean the proposal would have to return to the Senate for approval, and Assemblyman Blumenfield indicated that he did not support that course of action.

The Assembly Local Government Committee also approved [\*\*SB 90\*\*](#) (Senate Budget and Fiscal Review Committee), a companion measure to **AB 93**. Specifically, **SB 90** would allow employers hiring CalWORKS recipients to be eligible for the proposed hiring tax

credit, and would disallow nightclubs and strip clubs from eligibility. The committee approved the bill on a 7-0 vote. The bill is pending on the Assembly floor.

Linked [here](#) is CalTax's summary of the major provisions currently contained in **AB 93** and **SB 90** (Senate Budget and Fiscal Review Committee).