

CALTAX YEAR IN REVIEW: 2014 – AN ANTICLIMACTIC ELECTION YEAR ENDS WITH GROWING TALK OF FUTURE ‘TAX REFORMS’

Anticlimactic events were the hallmark of 2014, from the gubernatorial election that took place with almost no campaigning, to the state budget that was approved with little controversy, to the legislative supermajority that came and went without any major impact on California’s public policies.

Still, many changes took place, as scandals caused consternation and turnover in the state Senate, the economy continued its slow recovery, and judges issued decisions – both good and bad – that helped shape the state’s tax policy.

The new year begins with a popular, unpredictable governor entering his record-breaking fourth term in office, many new faces in other key positions, and talk of “tax reform” echoing through the halls of the statehouse.

Low-Key, Low-Turnout Election

The gubernatorial election of 2014 was unlike any in recent memory. From the outset, the media and political pundits treated Governor Jerry Brown’s re-election as a foregone conclusion, and the discussion leading up to the June primary was not whether either of the two leading Republican candidates would win, but rather which one would lose more gracefully, and how their losing campaigns would affect other Republican candidates.

Former state Senator and Lieutenant Governor Abel Maldonado began the year as the most prominent Republican in the race for governor, but he folded his tent early in the year when his campaign failed to gain traction.

Former U.S. Treasury official Neel Kashkari eventually finished ahead of Republican Assemblyman Tim Donnelly in the primary, but had trouble generating interest from the public or campaign contributors, and was unable to fund a traditional campaign.

Governor Brown barely campaigned, and agreed to debate Mr. Kashkari just once, in a one-hour event that was held at the same time as the first game of the National Football League’s new season.

Despite Governor Brown’s support for a major tax-raising initiative during his first term, taxes were barely mentioned in the debate, and, in sharp contrast to the three previous gubernatorial elections, they were not a major campaign issue.

In November, Governor Brown won reelection with 58.7 percent of the vote, and became the first California governor to win four terms in office.

Many voters chose not to participate in the elections. Of those who actually were registered to vote, only 18.4 percent participated in the June primary, and 42.2 percent voted in November.

The Race for Controller

One of the biggest stories from the June primary was State Board of Equalization Member Betty Yee's emergence as the top Democrat in the race for state controller, as she narrowly edged out former Assembly Speaker John Pérez. The race was so close – a difference of 481 votes out of more than 4 million cast – that it took more than a month before a winner was determined, and Mr. Pérez called for a recount in some precincts in an effort to change the result.

Fresno Mayor Ashley Swearengin finished as the top vote-getter in the primary election for controller, and fellow Republican accountant David Evans surprised many observers by finishing less than one percentage point behind Ms. Yee and Mr. Pérez. During the early election night reports, Mr. Evans was in second place, raising the possibility that only Republicans would advance to the general election under the state's new "top-two" primary system.

In November, Ms. Yee defeated Ms. Swearengin by five percentage points.

State Board of Equalization Elections

The first State Board of Equalization elections held in newly drawn districts finished as most observers expected, with BOE Chairman Jerome Horton and BOE Member George Runner winning re-election, and two former lawmakers – Democrat Fiona Ma and Republican Diane Harkey – winning two open seats by wide margins.

With these elections and the election of Ms. Yee as controller, the board will continue to be comprised of three Democrats and two Republicans.

Statewide Ballot Measures

The November election featured six statewide ballot measures, with a water bond and a "rainy day fund" measure topping the list, literally and figuratively.

In August, the Legislature and governor hastily approved legislation replacing an existing \$11 billion water bond measure with a new \$7.5 billion version. In an action intended to improve the measure's odds, the Legislature and governor also specified that the bond would be Proposition 1.

Similarly, Governor Brown and lawmakers replaced an existing measure reforming the state government's "rainy day fund" with a new one that increases the maximum size of the fund and makes it harder to withhold contributions to the reserve, but also contains provisions that may diminish the effectiveness of California's budget reserves. The governor took the rare step of testifying during legislative hearings, but after the public hearings, the governor and Democratic leaders of the Legislature met privately, with some input from Republican leaders, and agreed to the language of the new "rainy day" measure. After the new proposal was placed on the ballot as Proposition 44, they renumbered it Proposition 2 so it would appear higher on the ballot.

The water bond was approved with 66.8 percent of the vote, and the rainy day fund passed with 68.7 percent of the voters in support.

Changes in the Legislature

The make-up of the Legislature was changed by term limits, scandals and election surprises.

With Senate President Pro Tem Darrell Steinberg and Assembly Speaker John Pérez both barred from running for re-election due to term limits, Senator Kevin de León of Los Angeles was elected as the new Senate leader, and Assemblywoman Toni Atkins of San Diego was chosen to serve as speaker. Both are Democrats, and both are from Southern California – a break with the tradition of splitting the leadership posts between the northern and southern parts of the state.

On the other side of the aisle, Assemblywoman Kristin Olsen of Modesto was elected Assembly Republican leader, replacing outgoing Assemblywoman Connie Conway, and Senate Republican Leader Bob Huff was re-elected to his position.

It was a year of scandal in the Senate. In perhaps the most shocking, Senator Leland Yee, a Democrat from San Francisco who previously worked as a child psychologist, was arrested in March and charged with trafficking weapons and accepting bribes. He was suspended with full pay as he prepared to defend himself against the charges, which were filed by the FBI after a long undercover operation, and stayed on the state's payroll until he was termed out in December. (Mr. Yee withdrew as a candidate for secretary of state after the charges were filed, but still received almost 10 percent of the vote in the June primary.)

Senator Ron Calderon, a Democrat from Montebello, also began a leave of absence in March while facing federal corruption charges for allegedly accepting bribes. Like Senator Yee, he remained on the state's payroll, but absent from the Capitol, until his term ended in December.

Meanwhile, Senator Rod Wright, a Democrat from Compton, was convicted in late January of eight felony counts of perjury and voter fraud, as a jury found that he lived outside the district where he won election in 2008. In February, he began a paid leave of absence that lasted until he resigned in late September.

While the three disgraced officials were on leave, the Senate's Democratic leaders took down their Senate websites and removed their names from the house's online roster.

A special election in December filled the vacancy left by Senator Wright, as outgoing Assemblyman Isadore Hall won handily.

Democrats began 2014 with supermajority status in both houses, but the Senate vacancies negated that status during most of the legislative session, and Republicans regained enough seats in November to deny the Democrats a two-thirds supermajority as

the 2015-16 legislative session begins. The Assembly now has 52 Democrats and 28 Republicans, with 54 votes needed to reach the threshold to pass tax increases and other two-thirds-vote measures. The Senate, which has a 27-vote threshold for matters requiring two-thirds support, has 25 Democrats and 12 Republicans, along with three vacancies left by members who were elected to Congress. The vacancies will be filled with special elections early this year, and if there is no change in partisan representation in the three open districts, Democrats will have 26 seats in the upper house.

Perhaps the most surprising legislative race occurred between two Democrats: Assemblyman Raul Bocanegra, running for re-election with a large campaign war chest, and Patty Lopez, a school volunteer who spent roughly \$10,000 on her campaign, and focused attention on door-to-door outreach. Ms. Lopez shocked the political establishment by winning the race, finishing 466 votes ahead of the incumbent. Shortly after Ms. Lopez was sworn in, Mr. Bocanegra formed a campaign committee to raise funds for a rematch in 2016.

Mr. Bocanegra had served as chair of the Assembly Revenue and Taxation Committee – a post that now is held by Assemblyman Phil Ting, former assessor of San Francisco.

In the Senate, incoming Senator (and former Assembly Speaker) Bob Hertzberg of Van Nuys was named chair of the Senate Governance and Finance Committee, replacing Senator Lois Wolk as head of this tax policy committee.

The State Budget

When Governor Brown released his 2014-15 state budget proposal in January 2014, he said: “I don’t think this is the year for new taxes. Proposition 30 was temporary, and we’re going to make sure it stays temporary. We need to live within our means.”

Nancy McFadden, a key advisor to the governor, reaffirmed these statements later in the year during a Public Policy Institute of California forum.

The budget was developed behind closed doors, as Governor Brown met with the Democratic leaders of the Assembly and Senate to negotiate a deal – including significantly more spending than originally proposed by the governor – that eventually was scheduled for votes on Father’s Day, a Sunday, just hours before the Legislature’s deadline for approving a budget bill.

Governor Brown signed the \$156.4 billion budget a few days later, and used his line-item veto to strike \$100 million in special fund spending. The 2014-15 budget calls for spending \$18.1 billion (13.3 percent) more than the budget that passed in June 2013. The final budget was \$5.6 billion larger than the one proposed by the governor at the beginning of the year.

Part of the secret budget negotiations was a controversial provision requiring local school districts to reduce their budget reserves to specified levels.

Revenue Collections Surpass Projections

The state ended the 2013-14 fiscal year with revenue that exceeded the Department of Finance's projections by \$2.1 billion, largely thanks to higher-than-expected personal income tax collections.

Revenue for the first part of the 2014-15 fiscal year also exceeded the state's official estimates by significant margins. For the first four months of the fiscal year, revenue came in \$1.2 billion (4.5 percent) ahead of estimates, and the Legislative Analyst's Office predicted that when the books close at the end of June, 2014-15 revenue will be \$2 billion high than projected.

Other Legislative Activity

One of the biggest tax policy changes proposed in 2014 was [AB 2372](#) (Ammiano and Bocanegra), a two-thirds-vote bill that sought to broaden the definition of "change in ownership" for purposes of property tax reassessments. The bill, initially sponsored by the California Tax Reform Association and supported by CalChamber, progressed through the Legislature until it was sent to the Senate Appropriations Committee's suspense file in August. The measure did not advance from the committee.

The Legislature also considered, but did not approve, seven measures that sought to lower the vote thresholds for local tax measures, and a bill that would have allowed school districts to impose higher taxes on commercial and industrial property than on residential property by making parcel taxes non-uniform ([SB 1021](#), Wolk).

Successful tax-related legislation included: [AB 777](#) (Muratsuchi), exempting space flight property from local personal property taxes; [AB 1393](#) (Perea), conforming state law to the federal one-year extension through 2013 for an income exclusion for discharged debt on a principal residence; [AB 1560](#) (Quirk-Silva), increasing the "California Competes" tax credit; [AB 1839](#) (Gatto and Bocanegra), expanding and extending the state's film and television tax credit program; [AB 2009](#) (Weber), extending the provisions of the BOE's taxpayer-friendly managed audit program to include specified special taxes and fees; [AB 2109](#) (Daly), a CalTax-sponsored parcel tax transparency bill; [AB 2389](#) (Fox), authorizing a \$420 million tax credit designed to keep in California a project to build a special bomber for the U.S. Department of Defense; [SB 718](#) (Roth), expanding the state's aerospace tax credit; and [SB 1131](#) (Walters), providing conformity to the federal rules for limited liability company members by excluding from the definition of employee any member that is treated as a partnership for federal tax purposes.

The governor also signed legislation requiring business entities to file tax returns electronically, starting with the 2014 taxable year ([AB 2754](#), Bocanegra), as well as a bill banning specified plastic bags and requiring a 10-cent charge for specified paper bags ([SB 270](#), Padilla). The latter legislation is the subject of a referendum, and cannot take effect while that effort is pending.

Despite the state's revenue surplus, many new tax proposals were proposed. Outgoing Senate President Pro Tem Steinberg briefly floated the idea of a "carbon tax" that would result in higher gasoline prices ([SB 1156](#)), Senator Noreen Evans introduced a large new tax on California oil production ([SB 1017](#)), and Senator Mark DeSaulnier called for higher taxes on corporations that pay their executives more than the senator deemed adequate ([SB 1372](#)). None of the bills passed the Legislature.

Several Republican legislators also attempted to stave off a hidden tax increase that will kick in this year when the state's cap-and-trade mandates are applied to transportation fuels – a change that will dramatically increase the cost of gasoline for motorists – but their attempts were not successful.

Dynamic Revenue Estimates Urged

The issue of dynamic vs. static revenue estimates also was raised during the legislative session, long before the issue became a partisan one at the federal level. Assembly Speaker Toni Atkins argued during a May committee hearing that her bill to create a tax credit for rehabilitating historic structures would increase tax revenue by prompting the purchase of construction materials and the hiring of construction workers.

Democratic Senator Ted Lieu, who subsequently was elected to Congress, said during a late August session that the state's use of static revenue estimates is "stupidity." He added: "Dynamic scoring is the way of how the world works, it's how we think, and it is reality."

Local Taxes

Even with the improving economy and increasing property values pumping more revenue into local governments, many local jurisdictions put tax increase measures on the June and November ballots. Perhaps influenced by skewed ballot materials prepared by proponents, voters approved 49 sales tax increases, 54 parcel taxes, six hotel taxes, 12 utility users' taxes, eight bonds, and 127 school bonds.

Additionally, 18 jurisdictions implemented sales tax increases that were approved in prior elections.

State Board of Equalization

With the enactment of a partial sales and use tax exemption for equipment used in manufacturing and research and development, CalTax drafted language with the BOE to maximize utilization of the exemption, and to provide clear and inclusive definitions of eligibility and qualification criteria.

CalTax headed the lobbying efforts with BOE members, managed industry's response to interested parties meetings, and led the testimony at BOE hearings to secure approval of these important regulations, which were approved by the Office of Administrative Law in the last weeks of September.

In a move that was welcomed by motorists, the BOE voted to lower the gas tax 3.5 cents per gallon, effective July 1, as part of its annual adjustment required by the “gas tax swap” legislation that exempted gasoline purchases from sales tax.

Moving the BOE’s Sacramento headquarters continued to be a major priority for the board. A new sign of the building’s sad state came in July, when the state Department of General Services announced that it is purchasing scaffolding to replace rented scaffolding surrounding the building. In September, Governor Brown signed legislation ([AB 1656](#), Dickinson) requiring the state to study the building and other state offices, and to identify the three state offices with the most immediate renovation or replacement needs.

In May, the BOE unanimously approved a handbook for assessors that states that remodeling of bathrooms and kitchens can trigger a “new construction” reassessment of property value, potentially leading to an increase in property taxes. CalTax Chief Tax Consultant David R. Doerr testified against adoption of the handbook, expressing concern about routine remodeling triggering reassessments.

Franchise Tax Board

Early in the year, the FTB announced a remedy for erroneously imposing a penalty for late or incomplete limited liability company (LLC) returns on thousands of single-member LLCs since 1997. The FTB said it will refund the wrongly imposed penalty, plus interest, to all those who paid it.

In October, the agency announced another error involving LLCs. The FTB said it erroneously imposed a collection cost recovery fee and filing enforcement fee to almost 9,000 single-member LLCs, and that it will refund the approximately \$1.1 million that was collected.

The agency also acknowledged in 2014 that an FTB processing error resulted in thousands of corporate taxpayers receiving letters citing corporate changes in ownership that didn’t actually take place. Affected taxpayers were notified of the error, and the FTB said its records will be corrected.

CalTax continued to call for changes to reduce the FTB’s large inventory of unresolved audits, protests, refund claims and appeals, and the tax agency said it is trying to address the problems. BOE Chairman Horton, who sits on the three-member FTB, asked FTB staff to delineate which delays are caused by lack of resources, and which are caused by systemic problems.

In August, the FTB issued its first legal ruling in almost two years, on the controversial issue of what constitutes “doing business” in California. Legal Ruling 2014-1 explained the FTB’s view that the agency has far-reaching jurisdiction over business entities that are members of limited liability companies classified as partnerships for tax purposes – an issue that currently is in the courts.

County Assessors

Assessors were elected in all 58 counties, most without much fanfare. In 50 counties, assessors were elected in the June primary, with many running unopposed and others receiving more than 50 percent of the vote, thus avoiding the need for a November run-off.

The Los Angeles County race was the most-watched contest, as the primary election featured 12 candidates seeking to replace scandal-plagued Assessor John Noguez, who spent roughly half of his four-year term on paid leave facing corruption charges. The field was narrowed to two, and in the November election, West Hollywood City Councilman Jeffrey Prang narrowly defeated Deputy District Attorney John Morris, with 50.79 percent of the vote.

In Orange County, former BOE Member Claude Parrish defeated incumbent Assessor Webster Guillory.

Riverside County Assessor Larry Ward completed his one-year term as president of the California Assessors' Association (CAA), and Solano County Assessor Marc Tonnesen was chosen to lead the association in 2015.

In the legislative arena, assessors sought additional funding for their offices. Initially, a budget trailer bill that included the funding also included a requirement that the money be used to generate more property tax revenue. CalTax opposed that provision, noting that it would prohibit assessors from using the new resources to find declines in value, administer exemptions, and perform other important duties that do not result in tax revenue increases. The CAA negotiated changes, and the bill that was signed by the governor ([SB 854](#), Senate Budget and Fiscal Review Committee) allows assessors to use the new funds to decrease property values in several instances.

Assessors reported major growth in assessment rolls up and down the state. The value of county-assessed property increased 6.2 percent, to \$4.8 trillion. The BOE announced that the value of state-assessed property also increased, by 2.7 percent.

There was some confusion early in the year when it appeared that for the first time in many years, California taxpayers lost more assessment appeals than they won in the most recent year for which statistics are available, winning just 35.5 percent of the appeals heard in 2012-13. However, the Los Angeles County Assessor's Office announced that its numbers were off significantly due to a clerical error, and with the corrected figures, it was revealed that taxpayers' statewide win percentage was actually 89.8 percent.

A Busy Year for the Courts

The makeup of the California Supreme Court underwent a significant change, as Justice Joyce Kennard retired in April, and Justice Marvin Baxter announced that he would retire at the end of the 2014, ending his 24-year tenure on the court. Both were nominated by Republican Governor George Deukmejian.

Governor Brown nominated Obama administration lawyer Leondra R. Kruger, 38, to fill the Kennard vacancy, and chose Mariano-Florentino Cuellar, a 41-year-old Stanford law professor, to fill the vacancy left by Justice Baxter's departure.

Some key court decisions in 2014:

- The Nevada Supreme Court ruled in September that the FTB committed fraud against inventor Gilbert Hyatt during residency audits in the 1990s, and must pay damages for fraud and intentional infliction of emotional distress. The court also reversed a jury's award of punitive damages and damages for invasion of privacy. In addition to the Nevada case, there is pending federal litigation between the two parties. In early April, Mr. Hyatt filed a federal civil rights suit alleging that the FTB and the BOE are violating his rights to due process and equal protection by taking more than 20 years without completing the administrative process in his income tax dispute. Mr. Hyatt's legal team in the federal case includes noted constitutional scholar Erwin Chemerinsky.
- In the first Multistate Tax Compact (MTC) apportionment formula election case to be decided by a state's high court, the Michigan Supreme Court ruled in July that the optional MTC three-factor apportionment formula is available to taxpayers paying Michigan's business tax (*International Business Machines Corporation v. Michigan Department of Treasury*, Michigan Supreme Court, No. 146440).
- In May, the California Supreme Court ruled that consumers cannot sue a business for an alleged overcharge of sales tax reimbursement. The case, *Loeffler, et al. v. Target Corporation*, related to a purchase of a cup of coffee.
- A challenge of the state's fire tax – officially dubbed a “fire prevention fee” – continued languishing in the Sacramento County Superior Court, two years after it was filed. Meanwhile, the fire tax rate increased from \$150 to \$152.33 per habitable structure located within a state responsibility area, and affected property owners received two years' worth of fire tax billings in 2014.
- The Fourth District Court of Appeal ruled in August that a hotel tax imposed by the city of San Diego to raise revenue for the city's convention center is illegal because it was not approved by two-thirds of the electorate (*City of San Diego v. Melvin Shapiro*). The city did not appeal the ruling.
- In a little-noticed case, the Second District Court of Appeal held in September that Proposition 13's definition of “change in ownership” triggers the documentary transfer

tax imposed by Los Angeles County, even though the tax increase failed to go to a vote of the people (*926 Ardmore Avenue LLC v. County of Los Angeles*).

- In *Swart Enterprises Inc. v. Franchise Tax Board*, where the taxpayer challenged the FTB's controversial definition of "doing business" in California, a Fresno County Superior Court judge ruled in the taxpayer's favor in the summary judgment phase. The FTB contended that the taxpayer's passive interest in a California LLC was sufficient to trigger the state's minimum franchise tax, but the judge rejected that argument.
- The Second District Court of Appeal ruled that statutes implementing Proposition 13's "change in ownership" provisions do not permit a reassessment of property owned by a legal entity when ownership interests of the entity are sold and no one buyer acquires more than 50 percent ownership interest (*Ocean Avenue LLC v. County of Los Angeles*).

Past and Future Initiatives

Initiatives that were cleared to circulate for signatures in 2014 included proposals to increase taxes on vehicles, tobacco, firearms and marijuana, but none of these tax measures qualified for the ballot.

San Jose Mayor Chuck Reed filed an initiative to allow local governments to modify preexisting and future pension agreements, but in March abandoned the effort, stating that the title and summary prepared by Attorney General Kamala Harris were "unfair," and would doom the measure. Mayor Reed challenged the title and summary in court, but was unsuccessful.

Ron Unz, a Silicon Valley entrepreneur and 1994 Republican candidate for governor, made news by proposing an initiative to set the state's minimum wage at \$12 an hour, but dropped the measure early in the year, citing insufficient fundraising.

State Senator Ted Lieu was successful in getting legislation ([SB 1272](#)) approved to put a non-binding resolution on the November ballot asking voters to urge Congress to amend the U.S. Constitution to overturn a 2010 U.S. Supreme Court ruling that corporations, associations and labor unions may not be limited in how much money they give to independent expenditure committees. However, the state Supreme Court removed the measure from the ballot until the court has a chance to resolve litigation that challenges the legality of placing advisory measures on the ballot.

Another unsuccessful initiative may have set a record for the most ineffective use of campaign funds. Billionaire investor Timothy Draper spent \$5.2 million on a signature-gathering effort for an initiative that would divide California into six new states, but the secretary of state said many of the signatures were invalid, and the measure failed to qualify.

This year is expected to be a busier year for initiatives, as many backers are looking ahead to the November 2016 ballot, when the presidential election is likely to increase

turnout, possibly improving the odds of passing tax increases. Several special interests are considering tax measures, including a split-roll property tax, a tobacco tax hike, an oil severance tax, and extension of the personal income and sales/use tax increases in Proposition 30 of 2012.

Billionaire hedge fund manager Tom Steyer, who gave an estimated \$74 million to “green” candidates and causes in the recent election cycle – often in losing efforts – is expected to provide significant financial backing for initiatives seeking to impose tax increases. Mr. Steyer, sponsor of the 2012 single sales factor initiative (Proposition 39), made headlines during the last week of the 2014 legislative session by reportedly offering \$1 million to support legislative candidates who would be committed to increasing and expanding government regulations on California residents and businesses in the name of environmentalism.

Because the number of signatures needed to qualify an initiative for the ballot is based on voter turnout in the most recent gubernatorial election, the threshold is much lower now that it was for the past four years.

Already qualified for the 2016 ballot is a proposal, backed by the California Dental Association and California Medical Association, relating to state fees imposed on hospitals, and a legislative proposal ([SCA 17](#), Steinberg) allowing the state to suspend a legislator’s pay and benefits during a criminal investigation.

Several changes were made to the initiative process by this year’s passage of [SB 1253](#) (Steinberg), which extends the timeframe for collecting signatures, allows proponents to withdraw an initiative at any time before it qualifies for the ballot, and more.

Cap-and-Trade Auctions Continue

During 2014, there was talk of changing the state’s cap-and-trade requirement that will drive up the cost of gasoline by requiring producers of motor vehicle fuels to participate in the cap-and-trade process beginning this year. However, such a change was not made.

In December, the California Air Resources Board held the first joint cap-and-trade auction between California and the Canadian province of Quebec, and generated \$407 million.

California’s legislative analyst reported in January that the governor’s plan to use \$250 million in cap-and-trade revenue for construction of a high-speed rail line is “unlikely to maximize (greenhouse gas) emission reductions,” and urged the Legislature “to consider the most effective use of the cap-and-trade auction revenue.”

CalTax Parcel Tax Report

In October, the California Tax Foundation, a research organization founded by CalTax in 1980, released the state’s [first comprehensive study](#) of California parcel taxes. The report identified more than \$1.9 billion in parcel taxes imposed annually on property owners.

Questionable Spending at Public Schools

In 2014, newspapers reported many instances of questionable spending in California's public schools, often involving excessive salaries and severance deals for administrators.

Some examples reported during the year:

- Jose Fernandez, superintendent of the Centinela Valley Union High School District in southwest Los Angeles County, received more than \$663,000 in total compensation in 2013, and was fired last year after media reports created public backlash over his pay. An investigation revealed that in addition to the large salary, the school district had been paying Mr. Fernandez approximately \$100,000 to cover premiums on two life insurance policies.
- West Contra Costa Unified School District spent more than \$1.5 million in 2013 on health benefits for former part-time school board members and their dependents; the retiring chancellor of the State Center Community College District, in the Fresno area, will receive \$225,000 in salary plus fringe benefits for one year after she ends her official duties; Morro Bay High School Principal Dan Andrus resigned, but was given a deal that allowed him to continue to be paid \$162,000 in salary and benefits for up to a year; and Kari McVeigh, former superintendent of New Haven Unified School District in Union City, received compensation of more than \$600,000 in 2013, as part of a severance deal after she was fired.
- School districts in the Sacramento area purchased a total of 140 new heating, ventilation and air conditioning units worth more than \$3 million, and then left the equipment sitting idle for years; Porterville High School, in Tulare County, spent \$12,500 in 2007 on two state-of-the-art kilns that now sit in a school district warehouse, unused; and the Castro Valley Unified School District spent \$14,000 on an espresso machine.

California Job Losses

While the Legislature and governor took steps toward improving California's business climate with the California Competes Tax Credit and targeted tax incentives, many Californians lost their jobs in 2014 when their employers relocated or shut down.

Some notable examples:

- In January, the *Sacramento Business Journal* reported that approximately 100 LexisNexis positions in Sacramento would be moved to North Carolina.
- In February, Charles Schwab said 30 percent of the employees at its headquarters in San Francisco will be relocated out of California.

- Toyota Motor Corporation announced in April that after spending 57 years in Southern California, it is moving its U.S. headquarters – and thousands of jobs – to Texas.
- General Mills closed its manufacturing facility in Lodi, where the company had produced breakfast cereal since 1947, putting 430 employees out of work.
- FilmL.A., the nonprofit film office serving the Los Angeles area, reported that California's share of the top 25 live-action films in 2013 was just 8 percent, down from 64 percent 15 years earlier.

There are more people competing for jobs, too, as the state's population grew by nearly 335,000 people from July 1, 2013, to July 1, 2014, and reached 38.5 million in 2014, the California Department of Finance reported in December.

The personal finance firm WalletHub reported that California's state and local tax burden is the second highest in the nation, behind New York's. The Tax Foundation gave California a slightly better ranking, saying the state's state and local tax burden, as a share of state income, is fourth-highest in the United States.

There was some good news for California workers, however. The FTB announced in 2014 that California's statewide median income for all 2012 individual tax returns was 3.5 percent higher than the previous year's mark, and that median income for joint returns was 4.1 percent higher than in the previous year.

Comings and Goings

In memory: Former California Business Roundtable President **William Hauck** died in March after an eight-month battle with brain cancer; former state lawmaker **John Vasconcellos** died in May of kidney failure; former State Treasurer **Bert Betts**, who served two terms in the late 1950s and early 1960s, died in May at the age of 90; well-known tax attorney **Joanne Garvey** passed away in September; and legislative budget staff director **Peter Schaafsma** died in September of esophageal cancer.

Key changes in the tax policy community: **Marcy Jo Mandel**, deputy state controller for taxation under three state controllers, retired from state service at the end of the year, and returned to private practice; **Steve Sims**, longtime taxpayers' right advocate at the FTB, retired at the end of the year and announced that he is joining the accounting firm KPMG; **Jack Stewart**, president of the California Manufacturers & Technology Association since 1997, retired and was succeeded by **Dorothy Rothrock**, who has served as the association's vice president of government relations for many years; **Gayle Miller**, longtime lead consultant for the Senate's tax policy committee, took a position in the Senate Office of Research, and was replaced as lead tax consultant by **Colin Grinnell**; there was a large turnover in the Assembly Republican Caucus' policy team, as longtime Policy Director **Richard Mersereau** was let go after the change in Assembly Republican leaders, and four consultants announced their retirements earlier in the year; **Jaime Garza** left the BOE, where he had served as deputy director of external affairs

since late 2011, and returned to his previous employer, the California Department of Motor Vehicles; and **Gregory Schmidt**, secretary of the Senate for the past 18 years, retired in October.