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State Budget:

October and November Revenue Was Nearly 40 Percent Below Projections

State revenue was \$25.2 billion below projections for October and November – a 39.9 percent shortfall – due to a steep decline in personal income and corporate tax revenue, the Department of Finance [reported December 18](#).

The department's final revenue update of 2023 illustrates the magnitude of the budget problem that Governor Gavin Newsom's 2024-25 budget proposal, which must be submitted next week, will attempt to solve.

Newsom is required to send a budget to the Legislature by January 10, and the Legislature has a June 15 deadline for approving a budget bill. Negotiations typically heat up after the governor issues a revised budget in May to account for updated revenue and spending figures, but this year's process is likely to take on extra urgency due to a budget deficit estimated by the legislative analyst to be \$68 billion.

The department had anticipated that a bulk of California's 2023-24 revenue would be collected in October and November due to the postponed income tax filing and payment deadline for most residents.

"The 2023 Budget Act forecast assumed around \$42 billion in PIT and corporation tax receipts would shift from January through September to October due to the

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initial extension of various payments and filing deadlines for most Californians to October 16,” the department stated. “Cash results through the end of November, which capture all shifted payments, indicate the size of the actual shift was much smaller than assumed in the 2023 Budget Act forecast. Since April when the Budget Act revenue forecast was finalized, General Fund agency cash receipts were cumulatively \$23.338 billion below the 2023 Budget Act forecast.”

For the “big three” sources of revenue, the department reported:

- Personal income tax revenue was \$18.3 billion below the forecast of \$42.8 billion, with non-withholding payments “in October and November combined and down \$17.559 billion cumulatively since April, reflecting weakness in payments related to tax years 2022 and 2023.” Refunds were \$1.8 billion higher than projected in October and November.
- Corporation tax revenue was \$8.1 billion below the forecast of \$14.1 billion in October and November. “Pass-Through Entity Elective Tax (PTET) payments were \$4.489 billion below forecast in October and November combined and were \$2.008 billion lower than projected cumulatively since April,” the department reported. Excluding PTET payments, corporation tax revenue was down \$3.6 billion in October and November and \$4.5 billion short since April. Additionally, corporate tax refunds were \$394 million higher than projected.
- Sales and use tax revenue was \$787 million above the forecast of \$5.1 billion for October and November. However, the department noted that sales and use tax collections exceeding projections is likely “related to timing and will be offset in December as actual processing of transactions is faster than assumed in the Budget Act forecast.”

Newsom recently directed state agencies to “take immediate action to reduce current-year General Fund expenditures” to address the budget shortfall.

Year in Review:

Budget Deficit and High Cost of Living Threatened California’s Prosperity in 2023

The past year will be remembered for the unraveling of the state budget after years of major spending growth, coupled with growing concerns that California’s high taxes and cost of living threaten the economy’s ability to bounce back.

In June, Governor Gavin Newsom and the Legislature approved the largest budget in state history, but within months, the [legislative analyst warned](#) of a projected \$68 billion deficit – also the largest in state history. As the year progressed, Newsom cited cost concerns when vetoing bills, then ordered a state spending freeze.

As 2023 came to a close, some special-interest groups and elected officials were calling for tax increases, while CalTax and others warned that higher taxes would only compound the budget problem.

Under the current tax structure, costs already are going up for individuals and businesses. The state increased income taxes for many residents effective the first day of 2024 by removing the cap on the State Disability Insurance payroll tax (a 1.1 percent tax increase on compensation over \$153,164 for this year), increased the gasoline excise tax 4 cents per gallon in July (with another increase slated for this year), extended a tax on managed care organizations, allowed employment taxes to increase by failing to repay unemployment insurance debt, imposed a new tax on firearms and

ammunition, and drove up consumer prices by raising the minimum wage (to \$16 per hour for most employers, \$20 for fast-food workers and \$25 for healthcare workers – although some local mandates are even higher).

Voters also approved 15 local tax and bond measures in 2023, representing a cumulative increase of more than \$19 million in direct taxes and \$3.6 million in bond debt to be repaid with property tax increases.

The taxes contribute to a cost of living so high that \$104,000 was “low income” in parts of California in 2023, according to the California Department of Housing and Community Development.

More local tax hikes are likely, as laws approved in 2023 will allow more local governments to levy sales tax in excess of the state’s 2 percent cap on local add-on taxes – meaning nearly half of Californians now live in areas authorized to exceed the cap.

In keeping with our annual tradition, we begin the new year with a recap of the one that just ended ...

The State Budget

Continuing a recent trend, most budget negotiations took place privately between the governor and a handful of legislators, with the final product then rushed through the Legislature.

Also continuing a trend, the 2023-24 budget was approved in piecemeal fashion – more justifiable in 2023 because the income tax deadline was extended twice, so revenue figures were largely unknown until nearly five months into the fiscal year.

When the budget process started in January, days after the governor began his second term, Newsom proposed reducing spending roughly \$10 billion from the 2022-23 fiscal year. Among other things, he proposed repealing the 2022 budget agreement to pay off \$750 million in debt in the unemployment insurance fund.

Assembly Speaker Anthony Rendon pushed for using reserves to avoid any reductions, the Senate’s Democratic leadership proposed a package of tax increases aimed primarily at businesses, and a coalition of labor and progressive activist groups lobbied for tax hikes on businesses and high-earning individuals. Newsom didn’t support any of these proposals, and none were enacted.

“How do you raise taxes when you’re enjoying a \$177 billion operating surplus in the last 24 months and you just sent \$18.1 billion in tax rebates, and look people in the eye?” Newsom commented.

Newsom’s statement was in line with public opinion, as 70 percent of Californians believe they are paying too much in state and local taxes, according to a [Public Policy Institute of California \(PPIC\) poll](#) released in February. In June, another [PPIC poll](#) found that a corporate tax increase is opposed by a majority of Californians (although the result was within the 3.2 percent margin of error) and 56 percent of respondents oppose increasing local parcel taxes to provide more funds for the public schools.

Still, some taxes were approved. The nonpartisan California Tax Foundation’s [Tax and Fee Report](#) noted that of the 93 proposals introduced in 2023 containing higher taxes or fees, 46 became law, representing \$10 billion in higher taxes and fees. Approximately 80 percent of the total comes from the managed care organizations tax, which is tied to the receipt of federal dollars.

After approving several “early action budget bills” in May – including one that had no budget impact but changed farm worker union elections – lawmakers approved the main budget bill on June 15, the deadline to approve a budget or forfeit their pay. Legislative leaders acknowledged that the \$311.7 billion budget was a placeholder that would be amended heavily. The subsequent amendments reduced the total spending to \$310.8 billion.

Months later, during the closing weeks of the legislative session, lawmakers amended several “budget trailer bills” to make spending augmentations and enact policy changes, some of which had no relation to the budget.

Future budgets will face a new challenge, as the governor signed legislation that gradually increases the health care industry minimum wage to \$25 per hour – a change that will increase state spending approximately \$4 billion a year to start, with the federal government covering \$2 billion and the state general fund paying the rest. Near the end of the year, Newsom indicated he plans to address the cost by proposing changes negotiated with labor leaders.

Throughout 2023, the legislative analyst and the Newsom administration released reports indicating that revenue was not meeting projections, and the year ended with the analyst issuing the dire warning of the \$68 billion deficit.

“Windfall Profits Tax” Morphs Into Regulatory Sanctions on Earnings

In early 2023, the governor altered his 2022 proposal for a “windfall profits tax” on oil companies to instead create a division within the California Energy Commission to investigate any alleged price manipulation. The commission also was authorized to use its regulatory powers to set a threshold above which profits will be penalized. The legislation ([SBX1-2](#), Skinner) was signed in March, and was the only legislation acted upon during the special session called by the governor to address gas prices.

Lawmakers Attempt New Method of Taxing Businesses

A group of lawmakers led by Assembly Member Buffy Wicks introduced [AB 886](#), which would require internet platforms to enter into arbitration agreements with journalists when a platform links to their content, and would subject the platform to a government-mandated exaction.

CalTax urged taxpayers to express their opposition to this tax, noting that the arbitration requirements constituted a tax under the provisions of the federal Internet Tax Freedom Act. Wicks put the bill on hold in 2023, but said she plans to pursue the bill again this year.

Legislature Paves Way for Local Tax Hikes

During the final week of the legislative session, lawmakers placed two measures on the November 2024 ballot to pave the way for local tax increases: [ACA 1](#) (Aguiar-Curry), to lower the vote needed to pass affordable housing-related local bonds and special taxes, stripping taxpayers of the two-thirds vote requirement established by Proposition 13; and [ACA 13](#) (Ward), to require any statewide initiative that changes vote requirements to receive the same votes in support as the highest vote threshold specified in the initiative.

ACA 13 was introduced in response to an initiative qualified for the November 2024 ballot, the [Taxpayer Protection and Government Accountability Act](#), which would restore the two-thirds vote requirement for all local special tax increases, among other things.

Signatures and Vetoes

Newsom signed 890 bills and vetoed 156 in 2023, for a veto rate of 14.9 percent – on par with historical trends.

One of the highest-profile vetoes was for [SB 799](#) (Portantino), which would have authorized workers on strike for more than two weeks to claim unemployment insurance benefits. The governor agreed with CalTax and other opponents who noted that the legislation would contribute to the UI fund’s insolvency.

Newsom issued 64 veto messages citing the deficit as his reason for rejecting additional spending. He wrote that the Legislature “approved bills outside of this budget process that, if all enacted, would add nearly \$19 billion of unaccounted costs in the budget, of which \$11 billion would be ongoing.”

Two tax policy improvements were signed into law: [AB 543](#) (Gipson), extending a sales and use tax exemption for fuel sold to shipping vessels; and [SB 798](#) (Glazer), requiring the estimated tax rate statement for local bonds to be expressed in a way that makes it easier for taxpayers to determine their potential tax burden.

New Legislative Leaders

Assembly Speaker Robert Rivas took the gavel June 30 and made several committee changes, including appointing Assembly Member Jesse Gabriel to replace Assembly Member Phil Ting as chair of the Assembly Budget Committee.

In the upper house, Senator Mike McGuire, former chair of the Senate’s tax policy committee, was chosen to take over the house’s top leadership position next month, succeeding Senate President Pro Tem Toni Atkins, who has served in the position since 2018.

Republican Senator Scott Wilk and Democratic Senator Josh Newman were named co-chairs of the Legislative Problem Solvers Caucus.

Local Taxes

While voters approved the majority of tax and bond measures on local ballots in 2023, they rejected a CalTax-opposed business license tax in the city of Perris (Measure A) that would have imposed a discriminatory tax against certain businesses. The proposed tax on distribution facilities fell far short of the two-thirds vote necessary for passage, receiving just 52 percent of the vote.

Voters are likely to decide the fate of hundreds of local tax and bond measures this year, as local governments typically place such measures on the ballot in presidential election years.

Previously approved local taxes also were in the news in 2023, as celebrities in Los Angeles rushed to sell expensive properties before a new real estate transactions tax took effect April 1, and San Francisco Mayor London Breed launched a campaign to reform San Francisco’s business taxes to improve the tax climate and attract employers.

Statewide Ballot Measures

The Taxpayer Protection and Government Accountability Act [qualified for the November 2024 ballot](#) in early 2023 after elections officials conducted [a full check of signatures](#). Among other things, [Initiative 21-0042A1](#) would expand the definition of “tax,” require voter approval for state and local taxes (with the same vote thresholds regardless of whether

the measures were proposed by governmental bodies or via local initiatives), and require state and local tax measures to identify the type, rate, and duration of every proposed tax.

Opponents include Newsom, the Democratic leaders of the Legislature, and former California Democratic Party Chair John Burton, who jointly asked the California Supreme Court to block the measure from appearing on the ballot, alleging it would be an unconstitutional revision of the California Constitution. The court is expected to hear arguments after February 14.

The November ballot will include a tax increase on high-income earners to fund pandemic-related research and a [referendum of a new law restricting California oil production](#).

Among the many measures still circulating for signatures is the Howard Jarvis Taxpayers Association’s “Repeal the Death Tax” initiative to restore the right of parents to transfer their home and some other types of property to their children without reassessment to market value.

While November is the focus of most of the ballot measure activity, one measure – Proposition 1 – will appear on the March primary ballot. The measure was placed on the ballot by the governor and Legislature to authorize a \$6.38 billion bond and allow revenue from the 1 percent tax on income above \$1 million to be used to treat substance use disorders and construct housing and treatment facilities for homeless Californians.

The Courts

There was significant activity in the Court of Appeal on tax-related disputes, but a noticeable lack of activity in the California Supreme Court, which continued its practice of declining to review significant tax cases.

Under the leadership of new California Chief Justice Patricia Guerrero, the high court denied review of these notable cases and others:

- [Alliance San Diego v. City of San Diego](#), a Fourth District Court of Appeal ruling that a special tax in San Diego is legal despite not receiving the two-thirds vote that ballot materials said was necessary for passage.
- [Leland Traiman v. Alameda Unified School District](#), a First District Court of Appeal opinion that a parcel tax imposed by the Alameda Unified School District meets the legal standard of applying “uniformly to all taxpayers or all real property” despite being based on each property’s square footage.
- [Howard Jarvis Taxpayers Association v. Bay Area Toll Authority](#), a First District Court of Appeal ruling that the 2017 ballot measure that increased tolls on the San Francisco Bay Area’s toll bridges and dedicated funds for transportation projects was not a special tax that needed a two-thirds vote for passage.

Meanwhile, state and federal suits were filed challenging the legality of Measure ULA, a documentary transfer tax measure that appeared on the November 2022 ballot in Los Angeles and was deemed approved with 57.77 percent of the vote. The suits note that the revenue from the “Mansion Tax” is earmarked for affordable housing and tenant assistance programs, making it a special tax that needed a two-thirds vote.

Tax Administration and Appeals Agencies

Several times in 2023, CalTax reached out to the **California Department of Tax and Fee Administration** to address regulatory changes, seek collaborative changes, and ensure that the agency acted within its statutory authority.

One example involved the CDTFA’s adoption of amendments to Sales and Use Tax Regulation 1684.5, “Marketplace Sales,” over the objection of CalTax and others who noted that the amendments expand the definition of a “marketplace facilitator” beyond that in the legislation the regulation purports to implement.

Similarly, the CDTFA moved forward with amendments to Audit Manual Chapter 13, “Statistical Sampling,” and Chapter 4, “General Audit Procedures,” despite taxpayers’ objections. Former State Board of Equalization Member Dean Andal challenged the changes as underground regulations, and the agency eventually said it would not attempt to enforce the changes unless they are adopted pursuant to the Administrative Procedure Act or an appropriate exemption has been identified, but there were signs that auditors had been using the new rules for existing sales tax audits.

Late in the year, the CDTFA was sued by a taxpayer over its refusal to issue a refund ordered by the Office of Tax Appeals. After a dispute that lasted more than seven years, the OTA concluded the [Appeal of Starbuzz International Inc.](#) by stating that the taxpayer’s claims for refunds of more than \$2.8 million in erroneously imposed tobacco excise taxes “are granted in full.” The CDTFA responded by seeking a reaudit on an issue it had not raised previously, prompting the taxpayer to pursue a court order for the refund. The case is scheduled to be heard next month in Sacramento County Superior Court.

At the **Office of Tax Appeals**, one of the biggest issues of 2023 was the agency’s jurisdiction.

Although the OTA succeeded to the authority of the BOE, which ruled on the validity of regulations in multiple cases – including in the *Save Mart Supermarkets* case on the validity of the FTB’s regulations concerning the manufacturers’ investment tax credit – the OTA opined that it lacks the authority to invalidate regulations. The BOE members “as elected officials, possess significantly different responsibilities, powers, and duties than members of OTA tax appeals panels who are civil service employees of an executive state agency,” the OTA wrote in one opinion.

The OTA launched a regulatory proposal that formalized this position, but after pushback from taxpayers, the agency put the proposal on hold and asked Attorney General Rob Bonta to issue an opinion on whether the OTA can declare regulations promulgated by the Franchise Tax Board to be invalid.

CalTax and others noted that the result of the OTA’s proposal would be that a taxpayer would have to go to court to challenge any tax-related regulation, unnecessarily adding expense and time to the challenge. The tax agencies supported the OTA’s position.

At the **Franchise Tax Board**, staff had a busy year managing the twice-postponed income tax deadline and also faced criticism from several state lawmakers.

Early in the year, the Legislature directed the state auditor to audit the FTB’s handling of the Middle-Class Tax Refund program, with lawmakers expressing concern “about reports from constituents and the media regarding fraudulently stolen funds and a lack of responsiveness by the FTB.” The FTB also was criticized during a legislative hearing where Robert Stern, a coauthor of the Political Reform Act, said the agency has been “derelict of its duty” to audit lobbying organizations.

The three-member board met three times in 2023, rather than quarterly, as the board canceled its September meeting roughly 17 hours before it was scheduled to begin, without disclosing a reason.

At the **State Board of Equalization**, Antonio Vazquez chaired the board in 2023 and Sally Lieber was elected to chair in 2024, when she also will serve as an ex officio member of the FTB (along with State Controller Malia Cohen and

Department of Finance Director Joe Stephenshaw). Lieber is running for a seat on the Santa Clara County Board of Supervisors this year, and if elected, she will leave the BOE with 11 months left in her term.

In addition to hearing appeals of state-assessed property values and conducting informational hearings on property tax issues, the BOE made a large step toward simplifying tax administration by unveiling its first form that can be electronically filed and signed, and is working to expand its e-filing options.

The BOE also survived a renewed attempt by Assembly Member Phil Ting to abolish the agency, as Ting's [ACA 11](#) failed to gain traction in the Legislature.

Property Tax Revenue Increases

Property tax revenue increased 4 percent (\$3.2 billion) statewide from 2021 to 2022, growing to \$83.1 billion in local property tax revenue that supports schools and local government, the BOE reported in April with the release of its [2021-22 Annual Report](#). Schools receive 53.7 cents of every property tax dollar, the BOE noted.

The increases continued in 2023, as assessors throughout the state reported assessment roll growth. In Los Angeles County, the state's most populous, the assessment roll increased 5.91 percent from 2022 to 2023, marking the 13th consecutive year of growth.

The Race for Governor Begins and Other Elections Take Shape

The next gubernatorial election isn't until 2026, when the seat will be open, as term limits bar Newsom from running for a third term, but several candidates launched campaigns in 2023.

Lieutenant Governor Eleni Kounalakis, former State Controller Betty Yee, state Superintendent of Public Instruction Tony Thurmond, and FFA Secretary Jesse Perez threw their hats in the ring, while Attorney General Rob Bonta, former Los Angeles Mayor Antonio Villaraigosa, state Senator Toni Atkins, and Los Angeles developer Rick Caruso publicly expressed interest in running.

Other potential candidates include Los Angeles Mayor Karen Bass, U.S. Senator Laphonza Butler, and Vice President Kamala Harris.

Democrats are heavily favored, as 46.8 percent of the state's voters are registered as Democrats, while 23.9 percent are Republicans, and 22.2 percent are registered without a party preference.

In the race to succeed the late Senator Dianne Feinstein in the U.S. Senate, Democratic Representatives Adam Schiff, Katie Porter, and Barbara Lee spent much of 2023 campaigning. Butler announced she will not run after her term as Feinstein's appointed replacement ends, and former professional baseball player Steve Garvey threw his cap in the ring as the main Republican candidate.

More Businesses Leave California or Close Their Doors

California's ability to compete for jobs with other states took a hit on the very first day of 2023, when 11 states reduced their personal income tax rates, five states reduced their corporate income tax rates, and three states reduced both. The Washington, D.C.-based Tax Foundation [reported in October](#) that California maintains its longstanding position of having a business tax climate worse than 47 other states (only New York and New Jersey are worse than California).

Headlines in 2023 reflected the competitiveness problem, and San Francisco was the epicenter of the activity – in part because, as the [San Francisco Business Times](#) reported, “San Francisco’s large companies are shouldering a tax burden that is more than double that of the Bay Area city with the next-highest tax burden on big businesses.”

San Francisco’s store and venue closures announced in 2023 included: Alexander Book Co., Amazon Go, Anthropologie, Arc'teryx, AT&T, Athleta, Banana Republic, CB2, Cinemark, Coco Republic, Cole Hardware, Container Store, Crate & Barrel, CVS, Disney, DSW, Fog City News, Gap, H&M, Lego, Marshalls, McDonald’s, Nordstrom, Office Depot, Old Navy, The RealReal Inc., Saks, Target, T-Mobile, 24 Hour Fitness, Uniqlo, Walgreens, and Whole Foods Market.

Additionally, the hosts of several of San Francisco’s largest conferences moved the events elsewhere. These included a software conference sponsored by Red Hat Inc., the Meta Business Group Summit 2024 and VMware Explore.

Other areas of the state also experienced job losses: Golden Gate Fields stopped hosting horse races after doing so since 1941; Le Cheval, a restaurant described as “an Oakland institution,” shut down after more than 38 years in business, citing rampant crime in the neighborhood; the Oakland Athletics baseball team moved forward with its plan to relocate to Las Vegas; Rivian, a manufacturer of electric vehicles, laid off 479 workers in California while maintaining assembly-line jobs in Illinois; Leer Group, which manufactures pickup truck caps and covers, shut its Woodland facility, cut 216 jobs, and moved the work to Mexico; and Ruiz Food Products Inc. moved its headquarters from Dinuba to Texas.

On the bright side, Tesla announced it is moving its global engineering headquarters back to California, roughly two years after leaving for a location in Texas. A Palo Alto facility will serve as the company’s engineering headquarters, while the corporate headquarters will remain in Austin.

Local Government Scandals

Scandals rocked several local governments in 2023, primarily in the state’s largest city.

Los Angeles City Council Member **Mark Ridley-Thomas** was convicted of federal bribery charges relating to a scheme in which he promised to steer contracts to the University of Southern California if his son – former Assembly Member **Sebastian Ridley-Thomas** – received a scholarship and teaching job. He was sentenced to 3½ years in federal prison and ordered to pay a \$30,000 fine.

Los Angeles City Council Member **Curren Price** was charged with five counts of embezzlement of government funds, three counts of perjury and two counts of conflict of interest.

The Los Angeles City Ethics Commission accused Los Angeles City Council Member **John Lee** of violating several ethics laws dating back to 2016.

San Diego County Supervisor **Nathan Fletcher**, a former Assembly member, resigned from office, ended his campaign for the state Senate, admitted to having an extramarital affair, and checked himself into rehab as a former county employee accused him of sexual harassment and retaliation. He delayed his departure from office so he could continue receiving a taxpayer-funded salary and medical benefits for nearly two months.

Chula Vista City Council Member **Andrea Cardenas** and her brother, **Jesus Cardenas**, were charged with felonies for allegedly defrauding the federal Paycheck Protection Program out of more than \$176,000.

History Is Made

In March, CalTax presented the inaugural **David R. Doerr Medal for Excellence in Tax Policy**, named in honor of the legendary policy expert and taxpayer advocate who served as CalTax’s chief tax consultant from 1987 until his passing in 2022. The award was presented during CalTax’s 97th Annual Meeting to **Teresa Casazza** in recognition of her role in helping promote high-tech tax policy and as the first woman to lead a major business association in California – serving as CalTax’s president from 2007 through her retirement at the end of 2018 – after previously leading advocacy efforts on technology issues for the American Electronics Association from 1992 to 2003.

For just the second time in California history, a Senate leader serving as acting governor signed a bill into law. This occurred July 6 when Senate President Pro Tem **Toni Atkins**, serving as acting governor while Newsom and the lieutenant governor were out of the state, signed three bills. (Senate President Pro Tem **James Mills** was the first Senate leader to sign legislation, in 1976.)

A “first” in the sporting world increased the amount of tax revenue collected by the state and local governments: for the first time in National Basketball Association history, all four California teams were in the playoffs at the same time.

January 22, 2023, marked the first time that California celebrated Lunar New Year as an official state holiday (but not a paid holiday for state employees), under legislation signed into law in 2022.

Government Waste and Mismanagement Continue

A [Public Policy Institute of California poll](#) released in February found that 91 percent of Californians think the state government wastes tax dollars and 95 percent believe the federal government wastes their tax money. Audits and news reports from 2023 indicated that this belief is accurate, and waste isn’t confined to the state and federal levels of government:

- An unidentified state agency paid an analyst \$114,000 “to stay home and perform no work during the COVID-19 pandemic,” the state auditor [reported in May](#).
- The California State University system found a faculty member guilty of sexual harassment but took no action for five years – missing the deadline for imposing disciplinary action beyond a letter of reprimand – the auditor [reported in July](#).
- San Diego taxpayers are paying \$1 million annually for surveillance equipment that hasn’t been in operation for years, the *Voice of San Diego* [reported in June](#).
- California’s food benefit and cash welfare programs are plagued by fraud, *KCRA News* [reported in June](#), in large part because the state does not use a security chip on benefit cards. In one example, a ring of 15 people was found to have committed fraud totaling nearly \$40 million.
- San Francisco supervisors accepted \$1.7 million in state money that will pay for “a whopping two toilets,” *San Francisco Chronicle* columnist Heather Knight [wrote in April](#).
- The San Francisco Unified School District spent \$30 million on a payroll system that doesn’t work, and continues to approve millions in additional spending to try to fix it, the *San Francisco Examiner* [reported in March](#).

Additionally, the state auditor labeled the Employment Development Department a “high-risk” agency due to its inability to stop fraud in the unemployment insurance system.

Odds and Ends

The Capitol Annex, built from 1949 to 1952 to create offices for the governor, lieutenant governor, legislators, and other state officials, was torn down to make room for a new structure that will serve the same purposes. The new annex is scheduled to be completed by June 2026.

A recount that concluded in early 2023 confirmed that Senator Melissa Hurtado won the November 2022 election to represent Senate District 13 in Bakersfield, but her margin of victory shrunk from 22 votes to 13.

The Employment Development Department projected that the state’s unemployment insurance fund would owe the federal government \$19.7 billion at the end of 2023, and that the debt – which triggers higher payroll taxes for employers – would grow to \$20.3 billion by the end of 2024.

The governor issued a proclamation February 28 terminating the state’s COVID-19 state of emergency and roughly a week later, he tested positive for COVID. During the nearly three years the state of emergency was in place, Newsom used his expanded authority to issue 596 orders, including stay-at-home orders, the postponement of various tax deadlines, and orders that some lawmakers said usurped the role of the legislative branch.

The governor made a major break with tradition by delivering his constitutionally mandated State of the State Address [in writing](#) rather than in a speech to the Legislature, and he held events in various parts of the state to make major policy announcements that typically would have been included in the speech.

The Senate held its April 13 floor session away from the Capitol after the California Highway Patrol warned lawmakers of a “credible threat” to lawmakers and staff in the statehouse (involving threats made by a man wanted for firing a weapon from his vehicle in Sacramento suburbs the previous night).

New Roles and Retirements

CalTax President **Robert Gutierrez** was elected to lead the National Taxpayers Conference, a professional organization representing the executive staff of tax and fiscal policy organizations throughout the country, for the 2024-25 term.

Hasib Emran was appointed by **Controller Malia Cohen** as deputy controller for taxation, representing her on the BOE and the FTB; **Sacramento County Assessor Christina Wynn** was elected president of the California Assessors’ Association for 2024, succeeding **Kings County Assessor Kristine Lee**, and **Los Angeles County Assessor Jeffrey Prang** was chosen to be president in 2025; former State Controller **John Chiang** and Western Growers President **Dave Puglia** joined the Public Policy Institute of California Board of Directors; **Ana Matosantos**, a former cabinet secretary and former director of the Department of Finance, was reappointed to the State Personnel Board; former Los Angeles Mayor **Eric Garcetti** was confirmed by the U.S. Senate to serve as President Joe Biden’s ambassador to India, capping a 614-day nomination process;

Longtime tax agency employee **Claudette Yang** was hired as the California Department of Tax and Fee Administration’s taxpayers’ rights advocate and small business liaison; former Franchise Tax Board auditor **Judy Leid** was named the FTB’s new trade media and tax practitioner liaison, succeeding **Victoria Ramirez**, who was promoted to a position in the

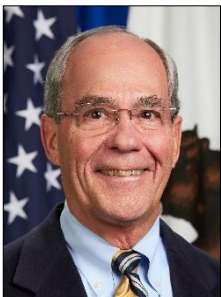
agency's Legislative Services Bureau; longtime FTB employee **Angela Jones** was appointed as the agency's taxpayers' rights advocate;

In Memory

Several major figures in California tax policy and government passed away in 2023, including: **Phil Christensen**, a retired Union Pacific Railroad executive and former chair of the CalTax Board of Directors; **Warren Townsend**, longtime senior director of specialty tax at Walmart, a former member of the CalTax Board of Directors, and the first president of the Business Advisory Council for the Streamlined Sales Tax Project; former California Chamber of Commerce President **Allan Zaremborg**; former California Business Properties Association President **Rex Hime**; **Jeremy Merz**, a former tax policy advocate for the California Chamber of Commerce and vice president of state government relations for the American Property Casualty Insurance Association; U.S. Senator **Dianne Feinstein**, California's senior senator for more than three decades; Fresno photographer **Mike Reynolds**, the driving force behind the "three strikes" criminal sentencing law approved in 1994; **Lloyd Edwards**, co-founder the Lew Edwards Group, which has been active in numerous local tax measure campaigns since 1997; former Los Angeles Mayor **Richard Riordan**; **Cindy Montanez**, a former San Fernando City Council member and member of the state Assembly; **Phil Isenberg**, a former Sacramento mayor who served in the Assembly from 1982 to 1996; and former Los Angeles County Supervisor **Gloria Molina**.

Guest Commentary:

Immediate Action Needed to Address the State's Budget Deficit



By Senator Roger Niello

The Legislative Analyst's Office (LAO) last month outlined a grim reality regarding our state's fiscal status. We're facing a \$68 billion budget deficit.

Despite having a substantial surplus of \$100 billion just two years ago, state lawmakers refused to exercise caution. Irresponsible spending inflated the state's budget to unprecedented levels, something that was never sustainable in the event of an economic downturn.

In addition, [there seems to be increasing evidence](#) that recent trends in migration between California and other states have resulted in the significant out-migration of higher-educated and higher-income people. With California's heavy reliance on income tax from high-income earners, one could easily conclude this will negatively impact budget revenue.

In November 2022, [the LAO warned us](#) of the possibility of lower revenue and a substantial deficit. The LAO recommended then that the state reassess spending. In January 2023, Senate Republicans agreed and [sent a letter to the Legislature's leadership](#) with budget priorities and support for the Legislature to adopt the LAO's recommendations.

Despite these warnings, the majority party knowingly passed a budget that was unsustainable with multibillion-dollar deficits built into the forecast even before revenue took a dive. Now, compounded by the revenue shortfall, we are looking at a \$68 billion budget deficit. This frightening outcome resulted from a one-party-rule budget process of no transparency and no accountability.

I explained to the governor in [a letter I sent last month](#) with Senate Minority Leader Brian Jones that making prudent adjustments to the current year's general fund budget would help prevent the fiscal condition of the state's finances from

getting worse. Failing to act now will lead to increased instability in future budgets and will impact the functions and services the state provides.

I hope that the governor’s budget proposal next week includes accelerated action proposals to help the state minimize the instability. Senate Republicans are ready to work with our legislative colleagues and the administration on a solution.

One thing is certain: When faced with a deficit, the sooner the problem is addressed, the less pain it will cause.

We need to bring spending in line with revenue and ensure the efficiency of every dollar spent while minimizing potential reductions in critical areas including education, public safety, health, and natural disaster and wildfire prevention.

This state’s fiscal recovery demands immediate, disciplined action. Californians deserve nothing less.

State Senator Roger Niello, vice chair of the Senate Budget and Fiscal Review Committee, is a Republican who represents Senate District 6, which includes Roseville, Rancho Cordova, and Yuba City. Click [here](#) to watch his video presentation on budget issues.

Local Elections: Long Beach Measure Proposes Minimum Wage of Nearly \$30 an Hour for Hotel Workers

Voters in Long Beach will decide in March whether to set the city’s minimum wage for hotel workers to nearly \$30 per hour.

In September, the Long Beach City Council unanimously voted to have city staff draft a ballot measure to increase the minimum wage for hotels with 100 or more rooms to \$23 per hour in 2024, increasing to \$29.50 per hour by 2028. The minimum wage hike – which would amount to a 68 percent wage increase by 2028 from the current \$17.55 minimum wage set in 2012 and would be the highest minimum wage in the United States – was described by council members as a “middle of the road” proposal to support workers.

“We’re not done, but I know we’re going to win this,” City Council Member Suely Saro told Unite Here Local 11, a union representing hotel workers, after the vote. “We’re going to make sure that this goes through. I stand with you to the very end, until we get it passed.”

If approved by voters, the minimum wage could be altered by the City Council at any time without public input.

It is not clear how the minimum wage increase would impact the city. In July, the City Council requested a market study of the impacts of the wage increase but was unable to find a firm to produce the report before the vote. City staff told the council before the vote that the potential impact would be substantially higher hotel prices, lower tax revenue, and layoffs of hotel workers.

Observers noted that the minimum wage ordinance likely is an attempt by the City Council to insert itself into an ongoing labor dispute between hotel operators and Unite Here Local 11. The union, which represents 32,000 Southern Californians employed by hotels and restaurants, has been leading strikes and efforts to increase the minimum wage.

“I think it’s important to show that the council is standing with workers, that they believe wages should increase and that people should live where they work,” Unite Here Local 11 Co-President Ada Briceno said.

The [Long Beach Business Journal](#) reported that City Council members “have, combined, received hundreds of thousands of dollars in campaign contributions from various unions and union-supported political action committees, or PACs, including the Los Angeles County Federation of Labor, which includes Unite Here Local 11.”

“It is likely that some or all of these elected officials will receive additional contributions in the future,” the newspaper added.

Long Beach business leaders noted that the city was selectively increasing the wages of workers in certain industries, while the minimum wage for Long Beach municipal employees is far below \$30 per hour.

“Why are Long Beach City Council Members introducing a new hotel minimum wage law and not taking care of their employees first?” Pete Hillan of the Hotel Association of Los Angeles asked the council. “The City of Long Beach doesn’t even pay its own employees a \$30 minimum wage. ... The City Council should advocate for all workers rather than spending taxpayer money to insert the city into the collective bargaining process.”

Voters will decide the fate of the minimum wage proposal during the March 5 presidential primary. Similar ordinances to selectively increase the minimum wage have failed in other parts of the state, including an attempt in Anaheim to raise the minimum wage to \$25 per hour for certain employees.

New Legislation:

Recently Introduced Legislation of Interest

Spot Bill Relating to Candidacy for Multiple Offices. [AB 1784](#) (Pellerin) states the intent of the Legislature to enact laws prohibiting a person from filing nomination documents for more than one office in the same election. Vote: Majority.

Prohibition on Running for Multiple Offices in Same Election. [AB 1795](#) (Wendy Carrillo) prohibits candidates from filing nomination documents for more than one office during the same primary election unless certain conditions are met, including a filing extension being granted because an incumbent did not file to run for re-election. Vote: Majority.

Changes to Taxing Authority of Sonoma-Marin Transit District. [SB 904](#) (Dodd) authorizes special taxes for the Sonoma-Marin Area Rail Transit District to be placed on the ballot via a qualified voter initiative. Additionally, the bill requires the boards of supervisors for Marin and Sonoma counties to call a special election for transit district taxes qualified for the ballot by voter initiative. Vote: Majority.

New Wine in Old Bottles:

Recently Amended Legislation of Interest

Authorizes Governor to Suspend Fuel Tax Increase. [AB 16](#) (Dixon), previously authorizing the governor, on or before January 10 of the year, to suspend an adjustment to the motor vehicle fuel tax if increasing the rate would put an undue burden on low- and middle-income families – and requiring the Department of Finance to submit a proposal to the Legislature that would maintain the same level of transportation funding – was amended January 3 to authorize the governor to suspend the adjustment on or after July 1, 2025. Vote: Majority. (**CalTax:** The state’s excise tax on gasoline is adjusted for inflation by the California Department of Tax and Fee Administration every July 1 under legislation approved in 2017.)

Suspension of Funding for High-Speed Rail. [AB 501](#) (Vince Fong), previously suspending appropriations for the High-Speed Rail Authority for the 2024-25 and 2025-26 fiscal years, transferring \$2.4 billion to the High-Speed Passenger Train Bond Fund to continue the minimum scope of work, and transferring the remaining money appropriated to the High-Speed Rail Authority to the general fund and making this money available for water infrastructure funding, was amended January 3 to suspend appropriations for the High Speed Rail Authority for the 2025-26 and 2026-27 fiscal years, and to make the funds available for rural road safety rather than water infrastructure. Vote: Majority.

Candy Tax. [AB 657](#) (Jackson), previously imposing a tax of \$0.05 on the distribution of untaxed candy – with the tax imposed on candy distributors, not retail sales – was amended January 3 to remove provisions authorizing a tax on candy distributors and instead require tax returns filed with the California Department of Tax and Fee Administration to specify gross sales attributable to the sale of candy on a separate form prescribed by the department. The bill additionally establishes a Candy Tax Fund that would provide payments to eligible recipients, and specifies that it would become active only upon voter approval of an unspecified constitutional amendment. Vote: Two-Thirds (Appropriation).

Carbon Emissions Tax Credit Now Provides Income Exclusion for Student Loan Discharges. [AB 769](#) (Bauer-Kahan), previously authorizing businesses to utilize a credit in an amount equal to \$800 per ton of air pollutant reduced beyond the requirements set by the federal Clean Air Act, was gutted and amended January 3 to instead provide an income exclusion for qualified discharges of student loan debt or medical debt by a nonprofit organization for tax years 2024 through 2028. Vote: Majority.

Tax Exemption for Low-Value Property Possessory Interests. [AB 1553](#) (Lowenthal), previously providing that possessory interests in publicly owned affordable housing projects are not subject to property tax, was gutted and amended January 3 to authorize a county board of supervisors to exempt possessory interests held by a tenant of publicly owned property from property taxes if the property’s value is so low that the cost of assessing and collecting taxes would result in a net loss for the government. The bill additionally establishes procedures for granting and denying these exemptions. Vote: Two-Thirds (Property Tax Exemption).

SUT Exemption for Snow Removal Vehicles. [SB 546](#) (Alvarado-Gil), previously providing a sales and use tax exemption for the purchase, storage, or use of a public safety first responder vehicle purchased by a local public agency, was gutted and amended to instead provide a sales and use tax exemption for the purchase, storage, or use of a dedicated snow removal vehicle until January 1, 2030. Vote: Majority.

Changes to Initiatives Placed on Ballot by Legislature. [SB 863](#) (Allen), previously making nonsubstantive changes to the termination of residential tenancies, was gutted and amended January 3 to authorize the Legislature to place a constitutional amendment, bond measure, or other legislative measure on any election ballot that occurs at least 131 days after adoption of the proposal (current law requires the initiative to be placed on the closest election ballot). Vote: Majority.

Waste, Fraud & Mismanagement:

Expensive Los Angeles Police Helicopters Spend Majority of Time on Low-Priority Incidents, City Controller Says

The Los Angeles Police Department’s Air Support Division – established in the 1970s and now consisting of 17 helicopters and more than 90 employees – costs taxpayers an average of \$46.6 million per year and spends the majority of its time responding to low-priority incidents, Los Angeles City Controller Kenneth Mejia [reported December 11](#).

The controller said the audit was launched “in response to calls from community members and organizations who requested more information regarding the costs and performance of LAPD helicopters.”

“The audit’s findings strongly suggest that the LAPD’s current use of helicopters causes significant harm to the community without meaningful or reliable assessment of the benefits it may or may not deliver,” Mejia added, noting that there are 14 city departments whose annual budgets are lower than the annual cost of the helicopter program.

The audit, which covered fiscal years 2018 through 2022, found:

- The city “operates its helicopter fleet on an almost continuous basis,” and typically “there are two helicopters flying for 20 hours every day of the year ... at a cost of \$2,916 per flight hour.”
- Only 39 percent of flight time was dedicated to “high-priority crime types,” while the remaining 61 percent was dedicated to “activities not associated with the highest priority incidents, such as transportation flights, general patrol time, and ceremonial flights.”
- “Some transportation and ceremonial flights were an inefficient, inappropriate use of city funds, (including passenger shuttle flights for a ‘Chili Fly-In,’ a fly-by at a golf tournament, and a roundtrip helicopter transport of two high-ranking LAPD officials” from the LAPD headquarters in downtown Los Angeles to a meeting at the Harbor Community police station).
- There were 783 ceremonial fly-by activities, including flights over academy graduations, retirement ceremonies, police station events, community events, and golf tournaments. For at least 161 of the fly-by activities, “there was not enough information to determine what category of activity took place,” the controller stated.
- “Helicopters spend a disproportionate amount of time in certain communities when compared to other areas and levels of alleged crime.”
- “There is no persuasive empirical evidence that shows a clear link between helicopter patrols and crime reduction, and the LAPD has not done the work to collect necessary data to test such claims.”
- The helicopters burn approximately 761,600 gallons of fuel per year and release carbon dioxide equivalent to more than 19 million miles driven by gasoline-powered passenger cars.
- The pilots “flout best practices for mitigating nuisance noise by flying below the recommended distance above ground level,” subjecting residents in some areas to long-term noise exposure that can lead to a variety of health problems.
- “LAPD does not have a formal contract with its flight log application vendor, raising ethical, legal, and other concerns. Without a contract, flight-related data may be accessed by unauthorized persons and can be misused or withheld from the LAPD.”

The audit includes several recommendations and urged city officials “to determine whether an airborne program this big, this costly, and this damaging to its environment is necessary.”

Unreliable Data Makes it “Nearly Impossible to Find Available Shelter Beds” in Los Angeles, City Controller Says.

Unreliable data is severely hindering efforts by the city of Los Angeles to help homeless residents and ensure compliance with a federal court ruling, Los Angeles City Controller Kenneth Mejia [reported December 5](#).

In his first full audit of the city's interim housing and shelter bed data, Mejia reviewed the efforts by the Los Angeles Housing Authority (LAHSA) to gather, use, and improve housing data.

"Due to the extremely limited amount of interim housing beds within city limits, it is vital that we maximize their use and ensure that providers know, on an up-to-date and day-to-day basis, when beds become available," Mejia said. "Achieving this requires good quality data and a high level of coordination between outreach workers, program operators, and others to place participants into a shelter. Right now, as documented by our office's audit, the systems and data are lacking."

The audit found:

- Data-entry problems related to participant enrollments and exits, and bed usage.
- The LAHSA's system for tracking bed availability is so unreliable that the agency relies on daily census emails to track bed availability, rather than the reservation system.
- The LAHSA "did not follow up with interim housing providers on their point-in-time sheltered homeless count data, despite red flags indicating potential data quality issues."
- A significant number of shelters reported low bed utilization rates, indicating that "available beds may not be used efficiently."
- The LAHSA attempted to develop a public shelter bed availability system (Find-a-Shelter) in the past, but low participation rates by providers and inaccurate data limited the usefulness of the system.

"These data quality issues make it next to impossible for the city to have an accurate picture of how many beds we actually have available, and how many are being utilized in the city at any given time," Mejia concluded.

The controller noted that flaky data can be especially problematic because the city needs to be able to prove it is adhering to a federal court's ruling in *Martin v. Boise*, which states that Los Angeles and other jurisdictions in several western states cannot enforce local laws restricting camping in public spaces if they don't have sufficient shelter beds available.

"To illustrate what our city needs, our team is launching an interim housing bed availability map that, while incomplete, serves as an example of what we could accomplish with more coordinated efforts across relevant stakeholders," the controller said. "The goal of this project is to centralize data on interim housing to make the landscape of resources more accessible and easier to understand."

Potpourri:

Tax Evader Sentenced to 32 Months in Prison

Los Angeles tobacco distributor Sadiq Mohammed, who pleaded guilty to running a \$3 million tax evasion scheme, has been sentenced to 32 months in prison and ordered to pay restitution, the California Department of Justice reported December 22.

The state's investigation, conducted by the Tax Recovery in the Underground Economy Task Force (TRUE), found that in 2017 and 2018, Mohammed filed tax returns that underreported sales from L.A. Trading and Distribution Inc., his tobacco distribution business located in the Los Angeles area. Mohammed imported tobacco products from Florida and Illinois

and falsely claimed they were interstate sales to evade California’s excise taxes, which are required for out-of-state products, prosecutors said.

As a result of the investigation, the state secured a warrant for Mohammed’s arrest in 2022. He was arrested in November 2022 by the U.S. Customs and Border Protection department, and pleaded guilty to tobacco excise tax evasion on September 23, 2023. He was sentenced in late December after being in custody since the 2022 arrest.

Tax Trivia:

What Musician Talked to the Tax Man About Poetry?

“Talking to the Tax Man About Poetry” is the title of an album released in 1986 by what English singer/songwriter/political activist, perhaps best known in the United States for collaborating with Natalie Merchant and Wilco on more recent albums that set folk artist Woody Guthrie’s unrecorded lyrics to music? (Answer below.)

Blast From the Past:

Democrats and Republicans Have High Hopes for a 1956 Tax Cut

“President Eisenhower said today the budget will be in balance this fiscal year and next. He declared, however, a tax cut would be justifiable only if it would not put the government into the red again. ... In his annual State of the Union message, Eisenhower ... said ‘We will not talk about any reductions ... until we have begun to make some modest payments’ on the debt. ... Comments from both Democrats and Republicans made it plain that hopes for a tax cut were still riding high.”

- *The Associated Press*, January 5, 1956. The budget approved that year did not include significant tax reductions, and the 1956 federal legislative session is best known for the passage of the National Interstate and Defense Highways Act, which established an interstate highway system in the United States.

Tax Trivia Answer: Billy Bragg. The album title is based on “Conversation With A Tax Collector About Poetry,” written in 1926 by Russian poet Vladimir Mayakovsky.

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