

From: Fred Keeley
Sent: Wednesday, July 01, 2009 12:23 PM
To: COTCE Commissioners, COTCE Staff
Cc: Arianna Van Meurs
Subject: Contingent Meeting

Gerry,

Thank you very much for your kindness in offering to schedule an additional meeting. Any and all of the times and dates will work (with rearrangement of my schedule).

Additionally, as part of my own due diligence concerning the two packages currently under consideration by the commission, I met with state Senate President Pro Tempore Darrell Steinberg last week. He suggested that I should meet with his staff, and others, to vet the two proposals. In compliance with that request by my appointing authority, I conducted a meeting yesterday in Sacramento with the following individuals:

Participants:

- Fred Keeley: Commissioner, Treasurer, Santa Cruz, Former Assembly Member
- Bill Hauk: Commissioner, President & Chief Executive, CA Business Council
- Christopher Edley Jr: Commissioner, Professor of Law, Boalt Hall School of Law (by telephone)
- Richard Pomp: Commissioner, Alva P. Loiselle Professor of Law at the University of Connecticut (by telephone)
- Joe Bankman: Ralph M. Parsons Professor of Law and Business, Stanford University (by telephone)
- Alan Auerbach: Robert D. Burch Professor of Economics and Law Director, UC Berkeley (by telephone)
- Kirk Stark: Professor of Law, UCLA Law School
- Dan Simmons: Professor of Law, UC Davis Law School
- Pedro Reyes: Tax Consultant, Speaker's Office
- Oksana Jaffe & David Ruff: Consultants, Assembly Revenue & Taxation Committee
- Gayle Miller & Colin Grinnell: Consultants, Senate Revenue & Taxation Committee
- Brian Annis: Consultant, Senate Budget Committee
- Brad Williams: Consultant, Assembly Appropriations Committee
- Mark McKenzie: Consultant, Senate Appropriations Committee
- Dan Rabovsky: Consultant, Assembly Budget Committee
- Martin Helmke: Little Hoover Commissioner, Staff Director, Senate Revenue & Taxation, 1985-2006
- FTB Staff (TBD)
- BOE Staff (TBD)

This meeting was held at the Franchise Tax Board's offices in Sacramento.

The agenda for the meeting was:

Agenda

1. The Governor's Executive Order: explanation of stated objectives.
 - a. Discussion of volatility: is it a budget or revenue problem?
 - b. Revenue neutrality vs. distributional neutrality
2. The Commission's Draft Package: explanation & data
 - a. Net Receipts Tax
 - b. Flattening of Personal Income Tax
 - c. Repeal of Corporate Tax
 - d. Repeal Sales & Use Tax
3. A Discussion of the Component Parts
 - a. Current law vis-à-vis the Commission's proposal
 - b. The impact of federal law and reporting on state requirements
 - c. Transition from existing law
 - d. The impact of the elective Single Sales Factor
 - e. Regressivity/Progressivity in tax law
 - f. Revenue
 - g. Volatility
 - h. Property Tax
 - i. Carbon/Oil severance tax
4. Does it Work?-
 - a. A detailed discussion of how whether the proposed package could be adjusted to meet policy objectives.
 - b. Where does the Data come from and what does E&Y's model assume?
5. Next Meeting?
 - a. Discuss Alternatives

The meeting began at 10:00 a.m., and adjourned at 12:00 noon. Many of the participants raised serious questions about the ability of the State of California to efficiently implement such a broad reaching set of changes, to accurately estimate revenue from the changed system, to expect that such a system would actually be revenue neutral. Additionally, a substantial amount of discussion was directed at the concept of reducing volatility through such a complex proposal, and whether it is good policy to reverse decades of progressive tax policy in order to address the volatility issue. Other issues were also raised concerning whether or not it would be proper to eliminate the Bank and Corporation Tax when such tax allows the State of California to receive revenue from out-of-state tax payers, and it is not clear that the two optional plans would do so.

Following the meeting, I met with Senator Steinberg's chief of staff, Kathy Dressler, to brief her on the meeting and the status of the commission's work. We agreed that it would be best for me to attempt to assemble an alternative plan that, to the degree possible, retains elements of the plan on the table, but also reflects the feedback and analysis of those at the meeting earlier in the day.

Because of the commitment that I have made to you to personally try to work within the context of the basic proposal. I am now working to assemble an alternative plan. That plan will meet the requirements of the Governor's EO. It is my intent to have the package complete and submitted to you on or before the close of business on July 9, 2009.

Such an alternative presented on that date will, I believe, allow the commission to review it at our mid-July meeting, and provide additional analytical direction to our staff.

Again, thank you for your willingness to extend the time for commission consideration, deliberation, and action on this important public policy.

Fred Keeley
Commissioner
Governor's Commission on the 21st Century Economy