

7/12/2009 2:10 PM

### **Edley Comments on Keeley's Version of the Blue Proposal**

1. **Rainy Day Fund.** If the Commission agrees that we will offer constitutional amendments, then I support this proposal. I have repeatedly argued that volatility should be addressed in a balanced fashion addressing both revenues and expenditures, but done so in a way that does not amount to a covert reduction in trend-line resources available to support public programs. I have no view on the percentage parameters in the proposal.
2. **Amend PIT for new allocation of Capital Gains Revenue.** Since the DOF can predict capital gains receipts to some extent, this provision is not entirely duplicative of the Rainy Day Fund. I support it as a means of somewhat dampening volatility of PIT receipts used for current expenditures. Technically, because reporting tax year receipts and moving averages might introduce a lag of as much as two years, I support the idea suggested to me by staff of implementing this policy approach using a log-linear regression to forecast trends, rather than a moving average.
3. **Study BNRT.** I cannot support this proposal unless there is a clear and convincing case made by FTB, DOF and COTCE staff that implementation and safeguards are infeasible. In particular, phased implementation with a substantial delegation of rulemaking authority seems entirely plausible. On the policy merits, I find a BNRT significantly preferable to a case-by-case extension of the sales tax to services for a host of reasons. Moreover, the huge and growing tax base of the BNRT would permit raising the needed revenue at rates significantly below the current sales tax rate.
4. **Extend Sales tax to some services; reduce rate.** I do not support this approach, for the reasons I support the BNRT.
5. **Split Roll Property Tax; constitutional amendment.** I would support this proposal if the Commission decides to recommend constitutional changes.
6. **Permit local increase in sales tax by majority referendum.** I support this provision, or an analogous one if the local sales tax is absorbed into the BNRT. I do not consider it central to the Commission's charge, however, and would prefer that it be held outside the principal package.
7. **Corporate Tax Reforms.** I would prefer complete elimination of the Corporate Income Tax, substituting the BNRT as a revenue source.

8. **Fuels Tax/Severance Tax.** I support this idea, without earmarking the revenue for specific expenditures. Within the package as a whole, these added revenues should be used to help preserve progressivity. Overtime, I expect this and other forms of energy taxation to have increasing importance in the State's revenue mix – given the energy and environmental challenges of this century.
9. **Fuel tax “prebate” credit to the PIT.** I do not support putting this in the principal package at this time because I don't see that this will be the substantively or politically optimal “reinvestment” of the Fuel Tax revenues. Specific earmarks or tax expenditures should, I believe, should be held aside in a separate set of supplemental Commission recommendations.
10. **Tax Expenditure transparency.** Some of this is fine, some seems questionable to me. (Performance-based?) In any case, I think it should be considered for the supplementary package.
11. **Create independent, pre-payment tax dispute forum.** I strongly support this, but for consistency, I think it should be in the supplementary package.