

George C. Halvorson
Chairman and Chief Executive Officer

September 28, 2009

The Honorable Gerald Parsky, Chair, and Commissioners,
California Commission on the 21st Century Economy
c/o State of California Department of Finance
915 L Street, 8th Floor
Sacramento, California 95814

Dear Chairman Parsky and Commissioners:

I commend my fellow Commissioners and the COTCE staff for the many hours of difficult and thoughtful work they undertook, to understand and analyze California's state tax structure, and recommend meaningful, comprehensive reforms.

As I said in the public hearing on September 14, I am very concerned over the elements of this report which would propose elimination of the state tax deductibility of Californians' out-of-pocket medical expenses, and which would also subject all employer-provided health care benefits to state taxation. At a time when we are working across the country to slow the rate of increase of health care and insurance costs, changing the tax treatment of health care costs in California takes our state in the wrong direction. These two provisions would unfairly burden California residents and businesses, and be at odds with the health care reform path being pursued in Washington, DC. For these reasons, I cannot recommend adoption of these proposals, or add my name to the report being sent to the Legislature and Governor.

Those specific concerns notwithstanding, I believe that in the broadest sense, this report should be the beginning of a broader public and policy dialogue on how to achieve greater stability in California's state government revenues, as well as greater equity for California's residents and businesses. Given the complexity of the issues involved, I believe that more work is needed to fully understand and develop these proposals in sufficient detail, including a more complete understanding of the unintended consequences which they may create. Therefore, while I cannot at this time add my name as an endorser of these proposals, I do believe that the Legislature will benefit from considering them, and the issues and thinking they represent.

I hope and expect the state's tax and revenue policy experts in the Legislature and elsewhere will take the results of this work and conduct further analysis and development of the proposals the Commission has provided.

Sincerely,



George C. Halvorson
Chairman and Chief Executive Officer

cc: Governor Arnold Schwarzenegger
Senate pro Tem Darrell Steinberg
Assembly Speaker Karen Bass