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June 19, 2013

Hon. Kamala D. Harris
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

RECEIVED
JUN 19 2013
INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

Attention: Ms. Ashley Johansson
Initiative Coordinator

Dear Attorney General Harris:

Pursuant to Elections Code Section 9005, we have reviewed the proposed statutory initiative concerning business taxation and enterprise zones (A.G. File No. 13-0005, Amdt. #1-NS).

Background

Enterprise Zones. During the last three decades, the state has given certain businesses tax credits and other tax incentives to encourage them to locate, expand, and hire individuals associated with certain geographical areas deemed to be distressed, which are known generally as enterprise zones. The Franchise Tax Board estimates that all of these benefits, collectively, reduce state revenues by around $800 million per year—an amount that is expected to grow in future years. By their nature, these tax benefits may result in some businesses choosing to locate, expand, and/or hire more in certain geographic areas in California, as opposed to others, with resulting positive and negative effects for the revenues of different local governments in the state.

Proposal

Ends Enterprise Zones. This measure repeals the state's enterprise zone law. The measure also includes various changes to other state laws, principally to conform with its repeal of the enterprise zone law.

Fiscal Effects

Increased State Revenues. Upon full implementation, this measure's elimination of enterprise zone business tax incentives would result in increased state revenues of around $1 billion per year. This would likely result in an increase in the constitutionally guaranteed level of funding for schools and community colleges of several hundred million dollars per year and would also provide other additional revenues for the Legislature to use in the annual budget in future years.

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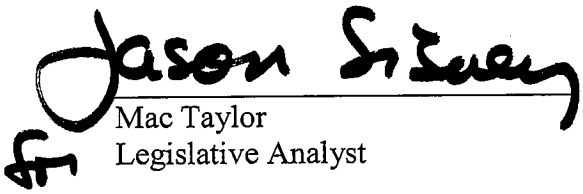
Changes in Local Government Revenues. To the extent that the repeal of the enterprise zone law changes decisions of businesses about where to locate, expand, and hire workers, this measure would result in changes in the finances of some local governments. Specifically, some local governments could see decreases in locally generated revenues (in areas, for example, where existing enterprise zones are eliminated), and other local governments could see increases in revenues (in areas, for example, that see an increase in business activity due to the elimination of a nearby enterprise zone). The net effect of these local government fiscal changes across the state is unknown.

Summary of Fiscal Effects

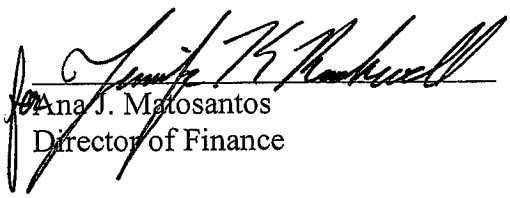
The measure would have the following major fiscal effects:

- Increased state revenues of around $1 billion per year upon full implementation.
- Potential net increases or decreases in revenues of certain local governments depending on how the elimination of enterprise zones affects future decisions of businesses about where to locate, expand, or hire workers.

Sincerely,



Mac Taylor
Legislative Analyst



Ana J. Matosantos
Director of Finance