

## MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

### STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

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<p><b>1. Statement of the need for the proposed major regulation.</b></p> <p>Legislation requires GO-Biz to develop an application process to administer the California Competes Tax Credit (CCTC) and make determinations as to which tax payer will be granted the tax credit based upon a competitive foundation. As required by statute, the process must be open and transparent and candidates must be provided sufficient time to allow for the negotiations between GO-Biz and the applicant. In the 2013-14 fiscal year, thirty million dollars of tax credits were available for distribution. In order to implement the program in fiscal year 2013-14, emergency regulations were implemented on February 20, 2014. The emergency regulations are due to expire on August 20, 2014. GO-Biz is now completing the final permanent regulatory process.</p>		
<p><b>2. The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.</b></p> <p><b>1. Individuals</b></p> <p>The proposed regulations will not directly affect individual consumers. However, to the extent that new jobs are created or investments are made, individuals hired by businesses as a result of the credit may benefit from additional labor income. While there is not a direct cost to consumers, the tax revenue used to fund the CCTC could have been used for other government programs or services.</p> <p><b>2. Businesses</b></p> <p>The proposed regulations have the potential to impact all industries in California with limited exception. The proposed regulations improve the business climate by reducing the tax burden of doing business, allowing companies to invest in innovation and boosting the states competitive advantage. Although this tax credit program does not incur any direct costs to businesses, in some cases applicants hired consultants, attorneys and other third parties to complete their application/credit negotiations.</p>		
<p><b>3. Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).</b></p> <p>The proposed CCTC regulation provides the following economic benefits: (1) supports high wage job creation, (2) contributes to investments made in California, and (3) offers flexibility in the evaluation process to adjust for changes to the business climate. The cost of CCTC regulation is the tax revenue forgone, which could have been allocated to other government programs or given as a tax credit to individuals.</p> <p>Please see the attached addendum for a full quantitative description of all costs and benefits.</p>		
<p><b>4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed \$50 million.</b></p> <p>Assembly Bill 93 and Senate Bill 90 allocated a maximum credit amount over the next five fiscal years for the CCTC program. The final annual credit allocation will be determined by the Department of Finance and based upon combined use of the three incentive programs included in the Governor's Economic Development Initiative. The proposed regulation will likely exceed \$50 million in economic impacts during each fiscal year from 2013-2018. The maximum amount available for allocation each year for CCTC is as follows:</p> <ul style="list-style-type: none"> <li>• 2013-2014 FY: \$30 million</li> <li>• 2014-2015 FY: \$150 million</li> <li>• 2015-2016 FY: \$200 million</li> <li>• 2016-2017 FY: \$200 million</li> <li>• 2017-2018 FY: \$200 million</li> </ul>		

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### 5. Description of the agency's baseline:

Currently, only emergency regulations exist for the CCTC program. If the permanent regulatory process is not completed, there will be no means in which to operate the program. The economic baseline represents the remaining components of the GEDI, the manufacturing equipment sales & use tax exemption and new employment credit. Both of these components have specific eligibility qualifications that are not inclusive to all California businesses. Without the CCTC, businesses that are not located within economic development areas or purchasing manufacturing equipment would have few, if any, other statewide incentive programs available to assist with growth or retention.

### 6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:

- a. All costs and all benefits of the alternative
- b. The reason for rejecting alternative

#### 1. Alternative A.

This alternative would require GO-Biz to develop a software application tool that allows for a comprehensive review of all applicants based upon a weighted scoring system from all data inputs submitted by individual applicants. Weights would be assigned to all quantitative data inputs in the first phase of evaluation. Geographic Information System mapping would be used to grade projects based on their location and regional unemployment level. Applicants with the highest scores would then move into the second phase of evaluation for further qualitative and quantitative assessment.

- a. This alternative would allow GO-Biz to receive all relevant information upfront and decrease the length of the evaluation process. Additionally, the scoring system would increase transparency and decrease the likelihood of applicants manipulating the cost-benefit formula in an effort to reach the second phase of the evaluation.
- b. This alternative is resource intensive and would take a significant amount of time to implement.

#### 2. Alternative B.

The second proposed alternative is to evaluate all quantitative and qualitative factors in the first phase of application evaluation.

- a. This alternative would allow GO-Biz to receive and evaluate all relevant information upfront. This would likely improve the overall assessment of each applicant and could result in a more efficient allocation of tax credits.
- b. This alternative would require additional staff, beyond what was allocated for in the Governor's 2014 budget. It would also require additional time to review applications that, in the majority of cases, would not end up being considered for an award.

### 7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

Staff conducted a series of statewide workshops and meetings to solicit comments from affected stakeholders regarding the development of the CCTC program. These workshops received extensive participation from local leaders, businesses and economic development practitioners. Staff conducted six workshops on draft emergency regulation throughout the state of California.

### 8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

GO-Biz used performance data from the CCTC applicant pool for fiscal year 2013-2014 to forecast the program's impact on the state economy from 2015 to 2018. Using these forecasts, GO-Biz used IMPLAN economic modeling software to estimate the impacts of CCTC on the state's economy. IMPLAN results include direct, indirect, and induced impacts for all employment and investment inputs in terms of the following categories: job creation, labor income and total output. The interpretation of these results both individually and in aggregate are reflected within the addendum.

Agency Signature



Date

8.21.14

Agency Head (Printed)

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