

California State Assembly



Agenda

Assembly Budget Subcommittee No. 5 on State Administration

Assemblymember Sharon Quirk-Silva, Chair

Tuesday, March 3, 2026

1:30 P.M. – State Capitol, Room 447

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Items To Be Heard

7600 California Department of Tax and Fee Administration

The California Department of Tax and Fee Administration (CDTFA) administers numerous tax and fee programs, including the Sales and Use Tax Program, the Cigarette and Tobacco Products Tax Program, and the Cannabis Taxes Program. The CDTFA also administers the Alcoholic Beverage Tax Program and the Insurance Tax Program pursuant to agreements with the State Board of Equalization (BOE). The Governor's budget proposes a budget of \$745.4 million, of which \$394 million is General Fund, with a total of 4,258.7 positions for CDTFA.

Issue 1: Cannabis and Tobacco Programs

This item includes the three proposals in the Governor's budget for resources related to the cannabis and tobacco programs:

- 1. Cannabis Tax Compliance and Enforcement.** The Governor proposes a \$5.6 million augmentation from the Cannabis Tax Fund in 2026-27 and ongoing to address compliance and enforcement in the Cannabis Tax Program. This would bring the total Cannabis Tax Fund appropriation for this program to \$17.9 million.
- 2. Flavored Tobacco Products.** The Governor proposes augmentations of \$3.8 million in 2026-27, \$3.7 million in 2027-28, \$3.7 million in 2028-29, and \$1.2 million in 2029-30 and ongoing from the Compliance Fund for the Tobacco Licensing Program to enforce AB 3218 and other flavor ban laws. The Governor proposes covering an additional \$2 million of annual flavor ban enforcement costs by using existing Compliance Fund appropriations that the department has not been spending.
- 3. Hemp-Derived Cannabinoids.** The Governor proposes \$3.3 million of augmentations in 2026-27 and ongoing to address enforcement responsibilities stemming from a new law on hemp-derived cannabinoids (Chapter 248 of 2025 [AB 8, Aguiar-Curry]). In 2026-27, \$2.8 million of these appropriations would come from the Compliance Fund to pay for costs in the Tobacco Licensing Program, while \$0.5 million would come from the Cannabis Tax Fund to pay for costs in the Cannabis Tax Program. \$0.2 million of these costs would shift from the Compliance Fund to the Cannabis Tax Fund starting in 2027-28.

Background

Cannabis Tax Program. CDTFA's Cannabis Tax Program administers a 15 percent excise tax on retail sales of cannabis products. Some of the revenues from this tax pay for CDTFA's

administration of the program, including enforcement activities. Most of the revenues pay for child care, environmental protection, and other types of programs. (See *Attachment 1 Cannabis Tax Fund*).

In the past, CDTFA has used General Fund to pay for enforcement actions. This item would instead fund the enforcement activities through the Cannabis Tax Fund. However, the proposal does not include a BCP to give back the General Fund dollars currently used by CDTFA.

Tobacco Tax and Licensing Programs. The department runs three tobacco-focused programs:

- The Cigarette and Tobacco Products Tax Program administers a \$2.87 per pack tax on combustible cigarettes and a 54 percent tax (adjusted annually) on the wholesale cost of other tobacco products, such as e-cigarettes, cigars, and chewing tobacco. Most of these revenues pay for health care or early childhood programs.
- The Cigarette and Tobacco Products Licensing Program (hereafter, “Tobacco Licensing Program”) monitors tobacco retailers for compliance with various state laws. This program is a key element of the Master Settlement Agreement that California and 45 other states reached with the four largest cigarette manufacturers in 1998.
- The California Electronic Cigarette Excise Tax Program administers a 12.5 percent tax on retail sales of e-cigarettes.

Flavor Ban. In a November 2022 referendum, voters approved Chapter 34 of 2020 (SB 793, Hill), which bans most sales of flavored tobacco products. (“Flavored” refers to non-tobacco flavors, such as menthol cigarettes or fruit-flavored e-cigarettes.) This law established a fine for each violation of the ban, but it did not create a clear structure for enforcement.

Unflavored Tobacco List. In the 2023-24 session, the Legislature passed and the Governor signed Chapter 849 (AB 3218, Wood) and Chapter 462 (SB 1230, Rubio). These laws require the Attorney General to establish a list of unflavored tobacco products to simplify enforcement of the flavor ban. The laws also give CDTFA various tools to enforce the flavor ban, such as citations, product seizures, and license suspensions.

2025 Actions on Licensing Funding. Funding for the Tobacco Licensing Program comes from license fees. Revenues from these fees go into the Cigarette and Tobacco Products Compliance Fund (hereafter, “Compliance Fund”). In 2025, the Legislature and the Governor took a couple of actions to align the Compliance Fund more closely with projected program costs under the new flavor ban laws. First, the budget act included a one-year \$3.5 million increase in the appropriation for the Tobacco Licensing Program. Second, the Legislature passed and the Governor signed Chapter 269 (AB 573, Rogers). This law will raise the annual license fee from

\$265 to \$450 on July 1, 2026. It also authorized CDTFA to make further fee adjustments to cover program costs.

Panel

- Jason Mallet, Chief Financial Officer, California Department of Tax and Fee Administration (CDTFA)
- Harry Lucho, Chief, Field Operation Division, CDTFA
- Sandy Barrow, Chief, Tax Policy Division, CDTFA
- Seth Kerstein, Senior Economist, Legislative Analyst's Office (LAO)
- David, Ton, Budget Analyst, Department of Finance (DOF)

LAO Comments

Approach Proposals as Pieces of a Bigger Policy Puzzle. Cannabis and tobacco compliance present an ongoing policy challenge for the Legislature. Accordingly, we recommend that the Legislature approach the Governor's proposals not as one-time workload adjustments, but as components of a broader, more sustained effort to address these policy challenges. To support this sustained effort, we recommend modifying the proposed augmentations for the Tobacco Licensing Program to set up opportunities for the Legislature to revisit program resources in the 2027 and/or 2028 budget processes:

- Going into 2027, a key question is whether CDTFA can hire and retain enough inspectors to carry out the desired level of enforcement. The Legislature may wish to monitor this issue by scheduling some of the proposed funding to expire after 2026-27, requiring CDTFA to report on vacancies in key areas, or some combination of the two.
- Assembly Bill 573 requires our office to publish a report on tobacco retail enforcement by December 1, 2027. If this could lead to budget adjustments, the Legislature may wish to schedule some of the proposed funding to expire after 2027-28.

Direct CDTFA to Stop Spending General Fund on Cannabis Tax Program Immediately. By proposing a Cannabis Tax Fund augmentation for cannabis enforcement costs, the administration acknowledges that spending General Fund for this purpose is not ideal. We recommend that the Legislature adopt this proposal with the following modifications:

- Direct the administration to stop spending General Fund on the Cannabis Tax Program immediately, rather than waiting until 2026-27.

- Direct the administration to use its continuous appropriation authority to augment CDTFA's allocation from the Cannabis Tax Fund by the proposed amount, prorated to cover the remainder of 2025-26.
- Direct the administration to make any future adjustments needed to support the program without spending any money from the General Fund.
- Reduce CDTFA's General Fund appropriation by the amount of the department's annual General Fund spending on the Cannabis Tax Program (as these funds clearly are not needed).

Consider Provisional Language. As discussed earlier, the administration's use of General Fund to support the Cannabis Tax Program raises equity and efficiency concerns, and it does not reflect the Legislature's or voters' intent. This raises some significant questions about the judgment exercised by the administration in its use of the budgetary flexibility granted by the budget act. Accordingly, we recommend that the Legislature consider whether new provisional language is needed to prevent such problems from recurring.

LAO comments on this issue can be found [here](#).

Staff Comments

As outlined by the LAO the two main questions the Subcommittee should ask about these three BCPs are:

1. How much should CDTFA spend on cannabis and tobacco enforcement?
2. How should the state pay for these activities?

Other questions the Subcommittee may wish to consider:

1. Can CDTFA discuss the differences between the Cannabis Tax Fund and the Compliance Fund.
2. Can you explain the rationale for using some General Fund for Cannabis tax enforcement activities?

Enforcement Activity

1. How are enforcement priorities for the Cannabis Tax determined? How much revenue is received?

2. How much money is spent on enforcement actions for licensed versus unlicensed activities? Can the department provide the data for the last 3 years.

Hemp

- Products with a detectable level of THC are banned and subject to existing tax laws. Why is funding being requested in a separate BCP that presumably is covered by the cannabis enforcement BCP and existing law?
- AB 8, which allows for hemp integration into cannabis products, does not take effect until 2028. Why is funding being requested for O&E before January 1, 2028?

Staff Recommendation: Hold Open

Issue 2: Centralized Revenue Opportunity System (CROS) Reappropriation

The Governor's budget includes a request for a reappropriation by CDTFA of \$3.8 million from 2025-26 to 2026-27 for a significant software upgrade of the Centralized Revenue Opportunity System (CROS). Given budget constraints, CDTFA will propose to stay within its previously approved budget request for CROS of \$9.3 million in 2025-26, and \$9.3 million in 2026-27. The reappropriation will reduce expenditures in 2025-26 to \$5.5 million (\$9.3 million less \$3.8 million) and provide \$13.1 million (\$9.3 million plus \$3.8 million) in 2026-27. To fund the upgrade, CDTFA will delay non-urgent system changes (e.g., customized reports) in 2025-26 to 2026-27.

Background

In 2025-2026, CDTFA requested \$9.3 million in 2025-26 and 2026-27. This includes \$6.1 million for maintenance and operations (M&O) services and \$3.2 million for GenTax software licensing. Under the new contract with FAST Enterprises (FAST), CDTFA will continue M&O services and software maintenance while also securing, within the terms of the agreement, a full upgrade of the GenTax software to its most current version, Core 26. CROS operates on an older version of GenTax (Version 11), which was first released in 2018. Although the software maintenance contract grants access to updated versions of GenTax, additional technical resources from FAST are required to complete the upgrade. Postponing the software upgrade would significantly increase the cost, risk, and complexity of ongoing system changes. GenTax Core 26 provides critical operational benefits.

Reappropriating funding allows CDTFA to implement this upgrade within its approved budget, by temporarily delaying non-urgent system changes in 2025-26 and aligning planned work with the upgrade activities in 2026-27. Of approx. 58 clients on GenTax, CDTFA is one of just two FAST customers still on GenTax Version 11.

Panel

- Jason Mallet, Chief Financial Officer, CDTFA
- Scott Capulong, Chief Information Officer, CDTFA
- Seth Kerstein, Senior Economist, LAO
- David, Ton, Budget Analyst, Department of Finance (DOF)

Staff Comments

The Subcommittee may wish to ask the following:

1. The BCP asks for a reappropriation of funds to delay non-urgent system changes, when does CDTFA plan to do those system changes and what is the anticipated costs of those changes. Will that keep the CROS project within budget?

Staff Recommendation: Hold Open

Issue 3: Sales and use taxes: Marketplace Facilitators: Delivery Network Company Trailer Bill Language

The Governor's budget proposes trailer bill language (TBL) to align California with other states by requiring that Delivery Network Companies (DNCs)—third-party delivery services such as DoorDash, Uber Eats, and others, that facilitate orders through a website or mobile app—register as marketplace facilitators if they have at least \$500,000 sales in California through their platform. As a result, these DNCs would be regarded as the sellers for the purposes of tax law and required to collect and remit sales and use tax on behalf of businesses making sales on their online platforms. This change would occur beginning January 1, 2027.

Background

Chapter 5, Statutes of 2019 (AB 147) enacted the Marketplace Facilitator Act, which required businesses operating large online marketplaces to collect and remit sales tax on behalf of third-party sellers operating through their platform. As a result, companies like Amazon and eBay were required to collect and remit sales tax on behalf of all the third-party sellers on their websites. However, AB 147 excluded DNCs from the definition of marketplace facilitators. Chapter 34, Statutes of 2019 (SB 92), made clean-up changes to AB 147 and gave DNCs the option to elect to be treated as a marketplace facilitator, recognizing that some DNCs may prefer to act as the facilitators and calculate and collect tax as a service to sellers on their platform.

As of January 1, 2026, at least 40 of the 45 states that collect sales tax mandate that DNCs register as marketplace facilitators.

According to the DOF, this proposal aligns California with nearly all other states that have a sales tax to increase tax compliance and reduce the sales tax compliance burden on small businesses using the DNC platforms. Tax compliance improves because the sales tax obligation will be centralized on a smaller number of larger DNCs rather than tens of thousands of smaller businesses using the DNC platform. Additionally, smaller businesses will no longer have to track all of their sales on the DNC platforms and calculate sales tax liability, reducing their tax compliance burden.

Fiscal Impact:

This proposal increases state and local revenue by \$22.2 million in 2026-27, including \$10 million General Fund, and \$44.4 million per year beginning in 2027-28, including \$20.1 million General Fund. Fiscal year 2026-27, reflects a half-year revenue impact due to the start date of January 1, 2027.

Revenue Increase (\$ in Millions)	2026-27	2027-28	2028-29	2029-30
General Fund	\$10.0	\$20.1	\$20.1	\$20.1
Local Funds	\$12.2	\$24.3	\$24.3	\$24.3
Total	\$22.2	\$44.4	\$44.4	\$44.4

Panel

- Brad Miller, Chief, Technology and Data Analysis Bureau, CDTFA
- Seth Kerstein, Senior Economist, LAO
- J.T. Creedon, DOF

Staff Comments

The Subcommittee will have to weigh eliminating the confusion under current law and administering tax law consistently against a likely increase of costs that would be passed to consumers with this proposed policy change.

The Subcommittee may wish to ask the following:

1. Under current law DNCs have the option to elect to be treated as a marketplace facilitator. Can the department explain how this election creates inconsistencies and challenges with collecting these taxes, both for CDTFA and small businesses.
2. If we designate large DNCs as retailers for purposes of tax collection, could this result in changes to how local Bradley-Burns taxes are reported? Is it possible large DNCs will start sourcing sales to their corporate headquarters, resulting in lost revenues for other jurisdictions throughout the state?
3. Could DOF explain how the revenue estimate was generated? Are these projected revenues the result of increased compliance with existing law? What revenues, if any, would be generated by the application of existing taxes to DNC service fees?
4. Would this collection requirement work differently for restaurant-based DNCs like DoorDash and more general delivery providers like Instacart?

Staff Recommendation: Hold Open

Issue 4: Sustainable Aviation Fuel Trailer Bill Language

The Governor's Budget includes trailer bill language (TBL) to incentivize production of Sustainable Aviation Fuel (SAF) by providing a credit against diesel excise tax liability of \$1 to \$2 for every gallon of SAF sold for use in California from 2026 through 2035.

Background

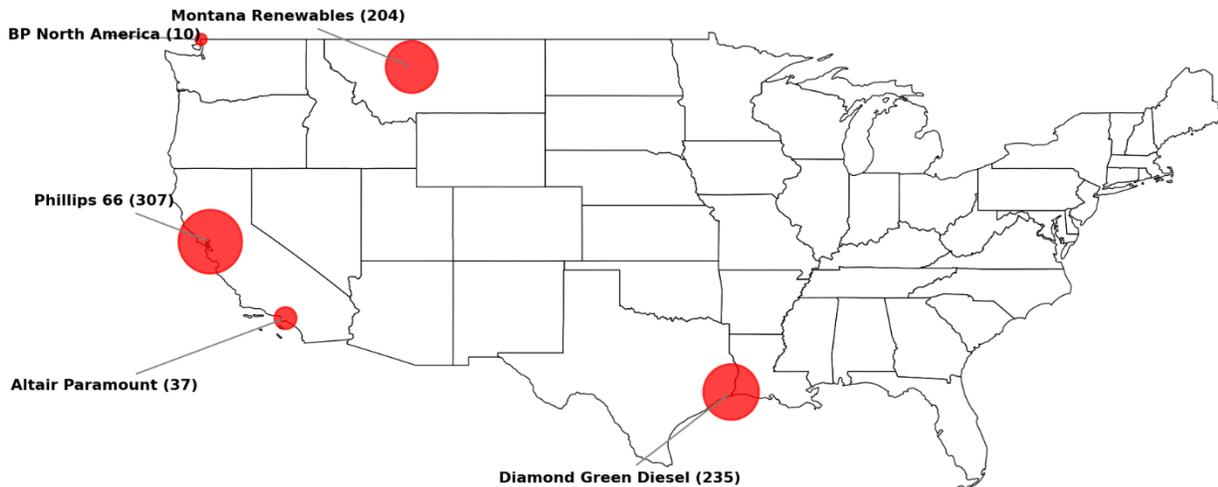
The budget trailer bill would create a new diesel excise tax credit for producers of SAF meeting at least a specified carbon intensity (CI) as calculated by the California Air Resources Board (CARB), with the goal of lowering the state's GHG emissions by encouraging airlines to use more SAF instead of petroleum-based jet fuel. The credit would be worth \$1 to \$2 per gallon of SAF produced for use in California—higher for production that CARB determines to be less carbon intensive—and apply to production between January 2026 and December 2035 (though the credit could not be claimed by taxpayers until November 2027). Producers could only claim the credit if they also have diesel excise tax liability within the state—that is, if they also sell diesel fuel in California. However, the proposal allows for a carryover period wherein producers would be able to claim the credit on any diesel excise tax liability they incurred over a five-year period after producing the SAF. The administration estimates the tax credit would lead to foregone diesel excise tax revenue of as much as \$165 million in 2027-28, potentially climbing to \$300 million annually in the long run.

The state Diesel Excise Tax is a \$0.47 per gallon tax producers pay on diesel when it is sold at the wholesale level. Diesel excise tax revenue is distributed to local governments for transportation programs and to state transportation projects. Approximately \$1.6 billion is collected in diesel excise tax annually.

SAF is a lower-carbon alternative to petroleum-based jet fuel made from renewable non-petroleum feedstocks that reduces air pollution from air transportation. Washington, Minnesota, Nebraska, Illinois, and Iowa offer SAF incentives (primarily tax credits) and numerous other states are considering similar proposals. The federal Inflation Reduction Act in 2022 included a \$1.25 to \$1.75 per gallon tax credit for every gallon of SAF produced in the United States. However, effective for fuel produced after December 31, 2025, the federal H.R.1 enacted in July 2025 reduced this tax credit to a maximum of \$1 per gallon and restricted the federal tax credit to SAF produced entirely with feedstock from the U.S., Canada, or Mexico. The Low Carbon Fuel Standard in California provides an economic incentive for sustainable aviation fuel.

This diagram below shows current SAF capacity:

HEFA SAF Facility Locations



*Numbers represent capacity in millions of gallons per year.
Not shown is the Par Pacific facility in Kapolei, HI, which has 41 million gallon capacity.
Source: farmdoc daily, Jan 2025.*

Source: [High Costs and Few Benefits from California's Proposed Sustainable Aviation Fuel Tax Credit – Energy Institute Blog](#)).

According to the Administration, this new tax credit is intended to reduce greenhouse gas emissions in California's aviation sector and help California meet its long-term carbon-reduction goals. The tax credit will lower production costs for SAF sold for use in California and therefore encourage its production for use in California. SAF is significantly more expensive to produce than traditional jet fuel, and therefore tax credits are necessary to make its production economically viable. The recent changes in federal law substantially reduced the value of the federal tax credit for SAF producers, making state-level tax credits necessary to fill the gap. As a result, multiple states have initiated state-level tax credits or are considering doing so. This new tax credit will help California remain competitive with other states in attracting and retaining SAF production for use within its borders and realizing the associated environmental and air quality benefits from reduced greenhouse gas emissions in the aviation sector.

Fiscal Impact:

The tax credit is estimated to reduce diesel excise tax revenues by approximately \$165 million per year beginning in 2027-28. The LAO estimates this be as high as \$300 million per year.

Revenue Decrease (\$ in Millions)	2026-27	2027-28	2028-29	2029-30
Diesel Excise Taxes (State Funding)	\$0	\$88	\$88	\$88
Diesel Excise Taxes (Local Funding)	\$0	\$77	\$77	\$77
Total	\$0	\$165	\$165	\$165

Panel

- Andrew March, Assistant Program Budget Manager, DOF
- Matt Botill, Chief, Industrial Strategies Division, California Air Resources Board
- Sandy Barrow, Chief, Tax Policy Division, CDTFA
- Helen Kerstein, Principal Fiscal & Policy Analyst, LAO
- Alex Bentz, Economist, LAO
- William Flores-Jones, Finance Budget Analyst, DOF

LAO Comments

The LAO recommends that the Legislature reject the proposed tax credit as it appears to be a relatively expensive approach to reducing greenhouse gases and may not result in the full anticipated environmental benefits. Moreover, the implementation of the proposed tax credit could have negative implications for transportation funding—potentially even larger than those estimated by the administration—and would not be consistent with the spirit of voter-approved restrictions on the use of diesel tax revenues.

LAO comments on this issue can be found [here](#).

Staff Comments

This item also will be heard in Assembly Budget Subcommittee 4 on Wednesday, March 11, 2026, focusing on the merits of using this tax credit as an approach to reduce green housing gas emissions and the assessing whether the tax credit is an appropriate use of diesel tax revenues.

Unlike other tax credits that are presented to this Subcommittee, this tax credit does not have a General Fund impact. Instead, this tax credit would affect transportation programs funded by the diesel excise tax with estimated potential foregone diesel excise tax revenues of \$165-\$300 million per year.

The Subcommittee may wish to discuss the following:

1. How many companies will be eligible for SAF tax credit? How many companies currently would be eligible for this tax credit in California?
2. What is the rationale for paying for this from the diesel tax fund? Were other funds considered?
3. Tax credits enacted by the Legislature have a 5-year sunset, can you explain why this tax credit will extend for 10 years?

Staff Recommendation: Hold Open

0860 Board of Equalization

The State Board of Equalization's (BOE) duties primarily include assessing and allocating the property values of railroads and specified utilities and businesses; adjudicating property tax appeals of taxable government owned property; overseeing the property tax assessment practices of the 58 county assessors; adopting rules to clarify property tax laws; and administering the alcoholic beverage excise tax and the insurance tax, including appeals. The BOE contracts with the California Department of Tax and Fee Administration (CDTFA) to administer the Alcoholic Beverage Tax Program and the Insurance Tax Program. The Governor's budget proposes a budget of \$745.4 million, of which \$37.7 million is General Fund with a total of 190.6 positions.

Issue 5: Information Technology Modernization Project

The Governor's budget includes a request \$3.2 million in 2026–27, and \$3.1 million in 2027-28, from the General Fund for the BOE to implement a cloud-based, fully integrated tax administration system.

Background

Since 1996, BOE's State-Assessed Properties Division (SAPD) has relied on a mainframe system to manage the assessment, valuation, and allocation of property taxes for certain telephone, gas, electric companies, independent power producers, regulated railroads, and intercounty pipelines. Most property in California is assessed locally by County Assessors, BOE is required to directly assess these properties throughout the state. These properties are not subject to Proposition 13 (1978), and BOE must annually determine the property's fair market value, including improvements, personal property, and land. BOE develops the fair market value by considering market conditions, income generated by the property, replacement costs, investments in the property, regulatory climate, depreciation, and other factors as of the January 1 lien date. Each year, the Board sets the values in May and must adopt the annual State-Assessed Property Roll (Board Roll) in July to transmit the information timely to County Auditors.

The current mainframe system is functionally obsolete. Utilizing the aging system has become unsustainable as the availability of staff and those with the knowledge and expertise to support it is diminishing due to retirements. Internal Business Machines Corporation, the company that created the system, no longer supports it. Until now, BOE has experienced numerous occasions where the system reached near failure, demonstrating an elevated and serious risk. Additionally, because the system was created over 35 years ago, it depends heavily on manual data entry, paper-based documentation, and outdated coding practices, which creates even greater risk of human error and causes excessive delays in generating the Board Roll.

The property taxes from the State Assessment Roll are one of the primary sources of revenue for California’s counties, cities, schools, and special districts. In 2025, the Board set the values of state-assessed properties at \$167.2 billion for 2025-26, and California schools and local communities will receive approximately \$2.8 billion in property tax revenue. Local county assessors lack the legal authority to assess state-assessed property. A failure in the current system would mean no assessing entity would be able to backfill the role SAPD provides in the statewide property tax system.

Panel

- Yvette Stowers, Executive Director, Board of Equalization (BOE)
- Jack McCool, Chief, State Assessed Properties Division, Property Tax Department, BOE
- Catherine Taylor, Chief, Board Proceedings & Operations Support Services, BOE
- Alex Bentz, Economist, LAO
- Kaily Yap, Budget Analyst, DOF

Staff Comments

Staff has no concerns with the requested resources for an updated cloud based integrated system.

The Subcommittee may wish to ask how long the cloud-based system is expected to last? Will it have a 35-year life cycle similar to the old system or does BOE expect it will have to be updated more often?

Staff Recommendation: Hold Open

Issue 6: Intergenerational Real Property Transfers (SB 293)

The Governor's budget includes a request by the BOE to implement recently enacted Senate Bill (SB) 293 (Chapter 539, Statutes of 2025). BOE requests \$154,000 in 2026-27. These resources are necessary for the BOE to issue guidance and technical instructions to County Assessors impacted by the change in law, to update public information materials and related resources, to respond to an increase in public and stakeholder inquiries, and to conduct administrative and legal reviews to ensure consistent statewide implementation of the law.

Background

SB 293 extends the current six-month deadline to a three-year deadline, which starts from the date of notice for supplemental assessment under Propositions 58, 193, and 19 for taxpayers to apply an intergenerational change in ownership exclusion when the following circumstances apply:

- The Assessor conducts a disaster reassessment because of the property being damaged or destroyed by the 2025 Palisades Fire, Eaton Fire, Hurst Fire, Lidia Fire, Sunset Fire, or Woodley Fire, for which the Governor proclaimed a state of emergency.
- The Assessor issued a supplemental or escape assessment on or after the date of the state of emergency, because of a transfer or purchase of real property in which no instrument evidencing a change in ownership of the real property was recorded.
- The transferee acquires ownership of the property on or after the date of the state of emergency.
- Deems as timely filed a claim for a homeowner's or disabled veteran's exemption if it is filed within a year of the date of mailing of a notice of supplemental or escape assessment issued because of the transfer of the real property for which the claim is filed.
- Applies its provisions only to claims filed before January 1, 2031.

Implementation of SB 293 will require additional resources for BOE to develop and issue statewide guidance, update publications and web resources, manage increased workload from inquiries and requests for assistance, and support legal and administrative functions.

Panel

- Yvette Stowers, Executive Director, BOE
- David Yeung, Deputy Director, Property Tax Department, BOE
- Lisa Renati, Chief Deputy Director, BOE
- Alex Bentz, Economist, LAO
- Kaily Yap, Budget Analyst, DOF

Staff Comments

The Subcommittee may wish to ask BOE the following:

1. Can you explain the difference in requested costs for implementation included in the BCP from the fiscal analysis included in SB 293 as it moved through the legislative process? Will the work needed to implement this bill only be needed for one year?

Staff Recommendation: Hold Open

7730 Franchise Tax Board

The Franchise Tax Board (FTB) is responsible for collecting personal income tax and corporation tax revenue; operating various collection programs; and conducting field audits for the Fair Political Practices Commission. The Governor's budget proposes a budget of \$1.188 billion, of which \$1.146 billion is General Fund with a total of 6,800.2 positions for the FTB.

Issue 7: Budget Change Proposals

The Franchise Tax Board (FTB) has two budget change proposals for consideration by the committee relating to technology upgrades:

1. **Enterprise Data to Revenue Project Phase 2 (EDR 2):** FTB requests an augmentation of \$59.857 million in 2026-27, \$23.975 million in 2027-28, 17.635 million in 2028-29, \$17.641 million in 2029-30, \$17.637 million in 2030-31, and ongoing, and 20 permanent positions for the sixth-year implementation of the EDR 2 project, which is the second phase of the Tax System Modernization (TSM) plan.
2. **Mainframe Workload Growth:** FTB requests \$13.1 million 2026-27 and \$389,000 in 2027-28 and ongoing, to replace primary and disaster recovery mainframe servers to increase memory and processing capacity, and upgrade software to meet workload growth projections.

Background

1. **EDR 2:** FTB will be entering the sixth year of the EDR2 project implementation. EDR 2 project's Request for Proposal (RFP) was released on April 30, 2019. In May 2020, FTB received the final proposals with proposed solutions from the bidders. Contract Award to the contractor was made in June 2021 and the project began July 1, 2021. Since then, FTB's State and vendor staff have been planning, designing, and implementing various pieces of the multi-year project.

The technology is currently supporting two out of three of FTB's major legacy systems (Accounts Receivable Collection System (ARCS), Integrated Nonfiler Compliance (INC), and Professional Audit Screening and Support System (PASS)), which annually allow FTB to collect over \$4 billion in compliance revenue, are nearing end-of-life and will no longer be supported after December 31, 2025. Replacing these systems before they reach end-of-life will ensure FTB business operations generating significant compliance revenue for the state will not experience any critical failures. Additionally, the EDR2 project will deploy new tools to assist taxpayers in complying with their obligations as well as enhance FTB's compliance activities.

System	Date Implemented	System Age in Years (as of 2025)
ARCS	1999	26
INC	2001	24
PASS	1997	28

2. **Mainframe Workload Growth:** FTB’s primary and disaster recovery mainframe servers have reached End of Market (EOM), necessitating a critical refresh to ensure continued system reliability, performance, and security. As components reach EOM, the availability of new replacement parts diminishes, making it increasingly difficult to maintain and upgrade the systems. The lack of availability of replacement parts and software due to EOM pose the following significant operational risks.

The mainframes servers process data essential to FTB’s tax and not tax applications that support filing, collections, audit, and non-filer processes as well as web self-services. Without this refresh, FTB may not be able to timely process tax returns, payments and issue tax refunds.

The current mainframe server was purchased in 2020-21 and reached EOM on 12/31/2024. FTB frequently monitors capacity and has determined the primary mainframe has adequate capacity until 2026-27. The current disaster recovery mainframe server was purchased in 2019-20 and reached EOM on 9/30/2022. FTB has mitigated risks associated with EOM by extending the disaster recovery mainframe maintenance agreement, allowing it to remain in service until April 2027.

Panel

- Abel Escobar, Director, Financial Management Bureau, Franchise Tax Board
- Roger Lackey, Chief Financial Officer, Franchise Tax Board
- Rowan Isaaks, Economist, LAO
- David Ton, Budget Analyst, DOF

Staff Comments

Staff has no concerns with the resources for the EDR 2 project. The requested resources are part of an annual request for the project and consistent with the California Department of Technology’s Project process.

- The Subcommittee may wish to ask FTB what comes next after EDR 2.

Additionally, staff has no concerns with the resources requested for the replacement of the primary and disaster mainframe servers. The requested resources are needed as these mainframes reach the EOM.

- The Subcommittee may wish to ask how often does the technology change for the mainframes and how often does FTB anticipate they will have to update the mainframes in the future?

Staff Recommendation: Hold Open

**7730 Franchise Tax Board
0509 Governor’s Office of Business and Economic Development**

Issue 8: California Competes Tax Credit

The Governor’s budget proposes trailer bill language to extend the California Competes (CalCompetes) Tax Credit for five years from 2028-29 to 2032-2033.

Background

The CalCompetes Tax Credit was created in 2014 and is administered by the Governor’s Office of Business and Economic Development (GO-Biz). GO-Biz awards tax credits to companies three times per year through a competitive application process where applicants demonstrate that the tax credit is a material factor in deciding to relocate to or expand business operations in California. Companies that receive awards sign a 5-year contract with GO-Biz that includes required levels of job creation and investment. Meeting the annual requirements allows the tax credits to be claimed on a tax return, while not completing those benchmarks results in some or all of the tax credits being recaptured.

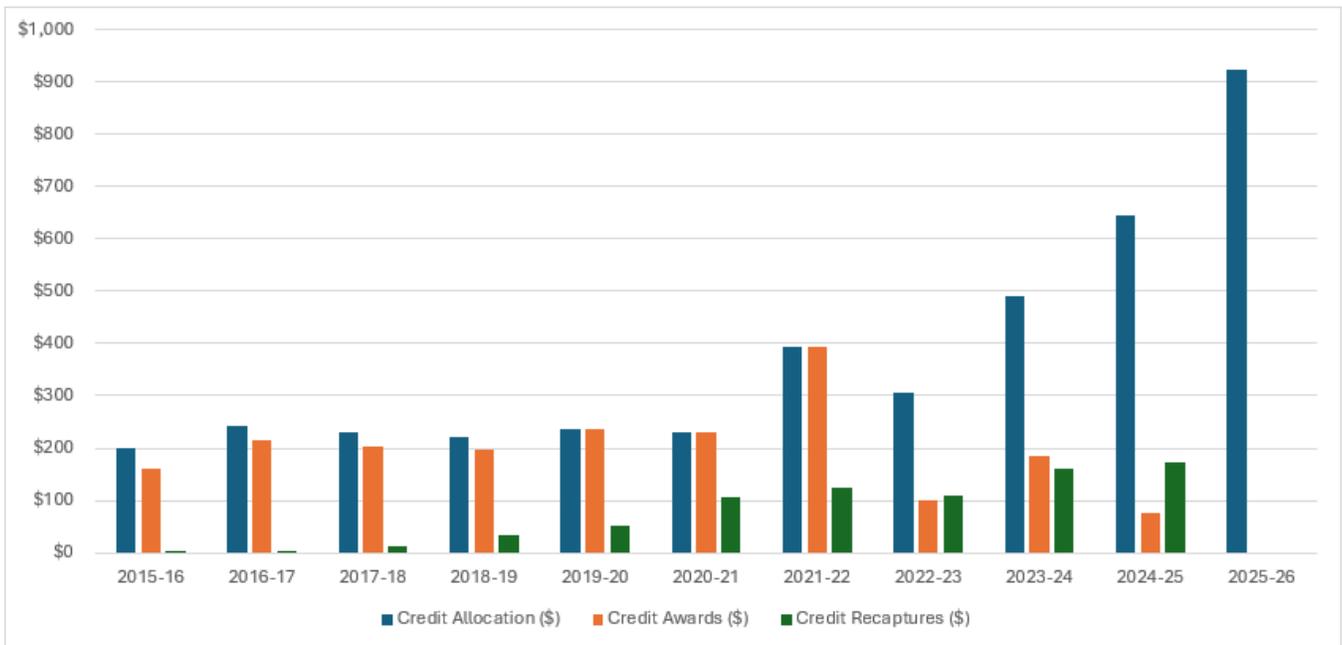
Under current law, the CalCompetes Tax Credit program is authorized to allocate \$180 million in credits per year through 2027-28. In addition, credits that were either not awarded in prior years or were recaptured can be rolled over to subsequent years and made available for new awards.

Fiscal Impact of the Governor’s proposal:

Successful applicants earn tax credits by completing contractual milestones over the lifetime of the contract. Earned credits can then be applied against tax payments and claimed on a tax return. The 5-year extension is projected to decrease corporation tax revenue by \$8 million in 2029-30, with the revenue loss increasing in subsequent years.

Revenue Loss (\$ in Millions)	2026-27	2027-28	2028-29	2029-30
General Fund	-	-	-	-\$8

Historical CalCompetes Data: Credit Allocation, Awards and Recaptures



Fiscal Year	Credit Allocation (\$)	Credit Awards (\$)	Credit Recaptures (\$)
2015-16	\$201	\$161	\$3
2016-17	\$243	\$215	\$2
2017-18	\$230	\$203	\$13
2018-19	\$220	\$196	\$33
2019-20	\$237	\$237	\$51
2020-21	\$231	\$231	\$105
2021-22	\$395	\$395	\$125
2022-23	\$305	\$101	\$108
2023-24	\$492	\$185	\$160
2024-25	\$645	\$75	\$173
2025-26	\$923	-	-

* \$ rounded in millions

The table below reflects the history of the CA Competes Tax Credit number of returns claiming the credit and the amount since the credit became available in 2014. The amounts are combined with Personal Income Tax and Corporation Tax.

**CA Competes Tax Credit
(Account Period Beginning Basis)**

Year	Number of Returns Claiming the Credit	Amount
2014	78	\$2,985,458
2015	302	\$ 12,688,915
2016	490	\$ 20,308,872
2017	764	\$ 24,895,715
2018	861	\$ 63,029,679
2019	749	\$ 67,619,516
2020	527	\$ 53,872,106
2021	631	\$ 58,996,391
2022	442	\$ 117,147,585
2023	21	\$ 44,820,897
2024*	137	\$ 19,384,386

**2024 amounts reflect a partial year and only reflect data available through December 2025.*

Panel

- Scott Dosick, Deputy Director, CalCompetes, Governor’s Office of Business and Economic Development
- Nicholas Thomas, Principal Program Budget Analyst, DOF
- Rowan Isaaks, Economist, LAO

LAO Comments

According to the LAO, recent evidence from academic research has found that the California Competes tax credit is fairly effective at increasing employment and providing an economic benefit to the state, especially relative to other tax expenditure programs in California and elsewhere. There are two features of the program that may contribute to this result. First, a strong mechanism exists for recapturing credits from firms that do not meet their investment and employment milestones. Second, the evaluation process includes a quantitative component that rewards providing more jobs and investment per dollar of credit and a qualitative component where GO-Biz staff can potentially identify proposals that would not occur in California, absent the credit, and filter out those that would occur independent of a credit award.

Staff Comments

The Subcommittee may wish to ask the following:

1. Can staff please explain why the credit allocation has grown from \$180 million annual allocation to \$923 million. What are the top reasons why credits are being recaptured?
2. Would there ever be a time when the state would allocate \$923 million in credits in one year, and how does the state forecast the budget impacts on a moving and growing yearly allocation?

Staff Recommendation: Hold Open

This agenda and other publications are available on the Assembly Budget Committee's website at: [Sub 5 Hearing Agendas | California State Assembly](#). You may contact the Committee at (916) 319-2099. This agenda was prepared by Genevieve Morelos