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June 20, 2008

The Honorable Jenny Oropeza
California State Senate
State Capitol, Room 4074
Sacramento, CA 95814

RE: AB 2114
CHI Position: Support

Dear Chairwoman Oropeza:

On behalf of the California Healthcare Institute (CHI), whose more than 250 members include our state's premier life science companies and academic research institutions, I am writing to express our strong support for Assembly Bill 2114. This measure would allow core industries committed to California's economy to apportion business income to our state using a hyper-weighted sales factor formula.

As you know, it has been more than a decade since California implemented its current formula for apportioning corporate taxable income. This three-factor model is based on a company's payroll, property, and two times its sales occurring in our state. By heavily relying on the property and payroll factors, California's tax structure discourages corporate investment in our state by imposing an additional tax on new jobs and capital improvements.

Conversely, companies that invest in states that have significantly reduced or completely eliminated the property and payroll factors are rewarded with a decrease in their California tax. To date, many states have made the move toward a model based solely on sales, including California's neighbors and key competitors, such as Oregon, Texas and Arizona. As more and more states adopt tax structures that reduce the disincentive for investment, California will be at an increasingly greater disadvantage.

In order to make California competitive with other states for pending growth and expansion of life science companies, AB 2114 would allow companies to elect one of two tax schemes:

- a. Property and additional payroll above the base year, which would otherwise be included in the property and payroll factor's numerator, would be added to the taxpayer's property and payroll factor denominator only; or
- b. For each \$250 million in qualified expenditures made during any year of the contract period, an electing taxpayer would adjust their formula by adding an additional weighting to the sales factor for that year.

WWW.CHI.ORG

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The corporate income tax system in California today encourages companies with a great deal of property and payroll in California *to expand outside California*. We are look forward to future discussions with you on AB 2114, legislation that will enhance California's competitiveness by providing California-based companies with a strong incentive to create new jobs and expand operations in our state.

Sincerely,

A handwritten signature in black ink, appearing to read "Sandra Pizarro". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Sandra Pizarro
Vice President – State Government Affairs

CC: Assembly Republican Leader, Mike Villines
Members, Senate Revenue and Taxation Committee
Colin Grinnell, Consultant, Senate Revenue and Taxation Committee
Senate Republican Caucus