



## LAO: Lawmakers should redirect Newsom business relief

By Katy Murphy

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California's nonpartisan Legislative Analyst's Office is recommending that lawmakers reject Gov. Gavin Newsom's proposal to expand the state's economic development incentive program — and that it instead send more help to small businesses.

The incentive program in question, California Competes, offers up to \$180 million in tax credits to businesses annually in exchange for their commitments to invest and grow in the state. As part of his [\\$4.5 billion economic stimulus proposal](#), Newsom has asked the Legislature to boost its available credits — adding \$180 million over the next two fiscal years — and to fund \$250 million in one-time cash grants that would be awarded through the program.

[But the LAO argues that California Competes](#) is not the best avenue for pandemic relief and that the state should steer those funds to segments of the economy that are struggling the most to weather the pandemic-induced recession.

"These proposals would not assist the businesses hit hardest by the pandemic," the LAO wrote.

The report recommends that the Legislature instead boost the size of the state's Main Street Small Business Tax Credit program, which offers income or sales tax credits to small employers that have seen their revenue plunge since the pandemic began. Newsom has proposed \$100 million for the program, but the LAO thinks the state should increase its size before assisting the larger businesses that often benefit from California Competes.

**Key context:** Newsom asked the Legislature to take early action on his economic incentive package. On top of the new tax credits, he wants to add \$575 million to a [Covid-19 relief grant program for small businesses](#) and \$1.5 billion in state incentives for zero-emission cars, buses and trucks, along with other proposals.

But the Legislature has pushed back on some of the governor's earliest-action budget priorities, including a \$2 billion plan for school reopenings.

**Reaction:** Newsom's Governor's Office of Business and Economic Development defended the governor's proposal, noting that last year the department awarded 46 businesses tax credits in exchange for commitments to create more than 15,000 full-time jobs and make \$3.4 billion in capital investments in the next five years.

"As our state recovers from this historic recession, the California Competes Tax Credit and Main Street Hiring Credit programs serve as two sides of the same coin, both helping to spur California's spirit of innovation and growth, creating thousands of jobs along the way," said Kaitlin Lewis, a spokesperson for the department, in a

statement. "... While the immediate need is overwhelming, we cannot lose sight of the future. This program is a critical tool to attract and retain employers that will in turn create good-paying jobs that don't have to stay in California."

John Kabateck, California state director for National Federation of Independent Business, said he was still reviewing the LAO's recommendations but that he hoped the final budget plan would prioritize the millions of small businesses that "need oxygen" to survive as Californians stay home to slow the virus's spread.

"We have always found the California Competes program to have a lot of promise and a very positive intent," he said, "but we also hope that that kind of support and tax credits will really go toward those struggling small employers who are hanging by a thread right now."

**What's next:** The Legislature has been holding multiple budget hearings a week, but it's not yet clear when lawmakers will vote on the governor's early-action proposals.

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