

Date of Hearing: June 2, 2020

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez, Chair

AB 2989 (Arambula) – As Amended May 11, 2020

Policy Committee: Revenue and Taxation Vote: 11 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill creates a sales and use tax (SUT) exemption for reagents, chemicals, lab equipment and supplies, as defined, used by a licensed blood bank to perform blood screening tests on donated human blood. This bill also requires the Central California Blood Center and the Stanford Blood Center to provide the California Department of Tax and Fee Administration (CDTFA) data on the number of blood banks that initiate testing and whether any new blood testing facilities are established in California.

FISCAL EFFECT:

- 1) Annual General Fund (GF) revenue loss of \$3.1 million in 2021-22 and \$6.3 million GF each year thereafter.
- 2) Annual General Fund cost pressures of approximately \$385,000 in 2021-22 and \$775,000 million each year thereafter to backfill 2011 Local Revenue Fund.

COMMENTS:

- 1) **Background and purpose.** California is home to two facilities that conduct blood screenings on donated human blood. The Central California Blood Center in Fresno and the Stanford Blood Center in Palo Alto conduct laboratory testing of donated blood to ensure the blood is safe for transfusion. However, the author argues that because these facilities pay sales tax on blood donor testing reagents, equipment and supplies, they are at a disadvantage compared to out-of-state facilities that do not face a comparable tax. According to Stanford Blood Center, this bill will “lower the cost of operation for the two blood centers which would in turn, allow them to hold down the cost of blood fees to hospitals.”
- 2) **Tax expenditures and the COVID-19 emergency.** Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. These features of the tax law are referred to as "expenditures" since they are generally enacted to accomplish some governmental purpose and there is a determinable cost associated with each (in the form of foregone revenues). This bill enacts a new tax expenditure program, in the form of a SUT exemption, to lower the cost of operations for community blood centers.

This committee should be cautious in approving any new tax expenditures. Both the Governor’s revised 2020-21 budget (May revise) and the most recent Legislative Analyst’s Office (LAO) forecast deep declines in revenues due to the COVID-19 pandemic and actions

to slow the spread of the virus. The expected deficit – likely in the tens of billions of dollars – calls for caution and fiscal prudence.

- 3) **2011 Revenue Fund.** One component of California’s 7.25% sales tax rate is a 1.0625% rate to support the 2011 Local Revenue Fund, which provides moneys to local governments for implementing public safety realignment. Proposition 30 of 2012 added additional protections to this fund by ensuring that, in the event the 1.0625% component is reduced or eliminated, local governments receive the same level of funding they would have otherwise received.

This bill does not include provisions to backfill local government as a result of the proposed exemption. This backfill may be done through the normal budget process, but the author may want to consider including a provision seen in in SB 92 (Committee on Budget and Fiscal Review), Chapter 34, Statutes of 2019 that backfilled local governments for the diaper and tampon SUT exemption.

Analysis Prepared by: Luke Reidenbach / APPR. / (916) 319-2081