



## SB 1349 (Gonzalez) Fiscal Transparency and Accountability Act

### SUMMARY

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Senate Bill (SB) 1349, the Fiscal Transparency and Accountability Act, directs the independent Legislative Analyst's Office (LAO) to evaluate the costs and benefits of existing major tax expenditures. The LAO's analysis will make recommendations to the Legislature regarding the major tax expenditures.

### EXISTING LAW

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Existing law establishes a minimum annual funding guarantee of roughly 40% of the general fund for public TK-12 schools and community colleges, known as Proposition 98 (California Constitution, Article XVI, Section 8).

SB 1335 (Leno, Chapter 845, Statutes of 2014) requires every new tax credit to contain specific performance measurement standards.

Existing law requires the Department of Finance (DOF) to provide an annual report to the Legislature on tax expenditures (GOV §13305).

### BACKGROUND/PROBLEM

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California has over 100 existing tax expenditures, including tax credits, tax deductions, sales tax exemptions, and income exclusions, that reduce the amount of tax collected in exchange for an intended public policy objective.

These tax expenditures impact general fund revenue as well as the Proposition 98 minimum annual funding level for TK-12 schools and community colleges. In fiscal year 2025-26, DOF estimated a \$94 billion loss in general fund revenues due to existing tax expenditures.<sup>1</sup>

Tax expenditures enacted before 2014 were not required to include performance measurement standards. Many tax expenditures were created decades ago and have not been subjected to regular evaluation to assess their effectiveness or overall impact.

In 2016, the State Auditor released a report on corporate tax expenditures that concluded that adopting oversight methods used by other states would improve the effectiveness of California's tax expenditures.<sup>2</sup> The Auditor noted multiple tax expenditures lack sufficient evidence to determine whether they are reaching their policy objectives.

While DOF publishes an annual report on tax expenditures, it does not provide the necessary data or rigorous analysis needed to evaluate the costs and benefits of existing tax expenditures.

In the context of the State's projected structural budget deficit over the next several years and the impact of severe federal funding cuts, it is imperative for the state to review major tax expenditures and determine whether they meet California's policy goals.

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<sup>1</sup> <https://dof.ca.gov/media/docs/forecasting/revenue-and-taxation/tax-expenditure-reports/2025-26-Tax-Expenditure-Report.pdf>

<sup>2</sup> <https://information.auditor.ca.gov/reports/2015-127/index.html>

## **SOLUTION**

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SB 1349 will require the LAO to analyze six major tax expenditures, each consisting of a tax credit or exemption costing the state at least \$1 billion total in general fund revenue over the past 10 fiscal years. The LAO's analysis and recommendations will include the extent to which each tax expenditure is cost-effective in achieving its intent, its effect on the General Fund, its effect on employment and the economy, and whether opportunities exist for improvement or repeal.

## **SUPPORT**

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California Teachers Association (Co-Sponsor)  
AFSCME (Co-Sponsor)  
American Federation of State, County and Municipal Employees, AFL-CIO  
California Federation of Labor Unions  
California Federation of Teachers  
California Professional Firefighters  
California State Association of Counties (CSAC)  
California State Council of Service Employees International Union (SEIU California)  
City of Thousand Oaks  
League of California Cities  
Los Angeles Unified School District

## **CONTACT**

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