Exhibit C

TAX FOUNDATION Since 1937

BACKGROUND PAPER

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2014 State Business Tax Climate Index

by Scott Drenkard & Joseph Henchman

The Tax Foundation's 2014 edition of the *State Business Tax Climate Index* enables business leaders, government policymakers, and taxpayers to gauge how their states' tax systems compare.

The 10 best states in this year's *Index* are:

1. Wyoming
2. South Dakota
3. Nevada
4. Alaska
5. Florida
6. Washington
7. Montana
8. New Hampshire
9. Utah
10. Indiana

The absence of a major tax is a dominant factor in vaulting many of these ten states to the top of the rankings. Property taxes and unemployment insurance taxes are levied in every state, but there are several states that do without one or more of the major taxes: the corporate tax, the individual income tax, or the sales tax. Wyoming, Nevada, and South Dakota have no corporate or individual income tax; Alaska has no individual income or state-level sales tax; Florida has no individual income tax; and New Hampshire and Montana have no sales tax.

But this does not mean that a state cannot rank in the top ten while still levying all the major taxes. Indiana, which ousted Texas from the top ten this year (see p. 5), and Utah have all the major tax types, but levy them with low rates on broad bases.

The 10 lowest ranked, or worst, states in this year's *Index* are:

41. Maryland
42. Connecticut
43. Wisconsin
44. North Carolina
45. Vermont
46. Rhode Island
47. Minnesota
48. California
49. New Jersey
50. New York

The states in the bottom 10 suffer from the same afflictions: complex, non-neutral taxes with comparatively high rates.

While not reflected in this year's edition, a great testament to the *Index*'s value is its use as a success metric for comprehensive reforms passed this year in North Carolina. While the state remains ranked 44th for this edition, it will move to as high as 17th as these reforms take effect in coming years.

Minnesota, by contrast, enacted a package of tax changes that reduce the state's competitiveness, including a retroactive hike in the individual income tax rate. Since last year, they have dropped from 45th to 47th place. New York and New Jersey are in a virtual tie for last place, and any change next year could change their positions. Other major changes are noted in the blue boxes throughout this report.

The 2014 *Index* represents the tax climate of each state as of July 1, 2013, the first day of the standard 2014 state fiscal year.

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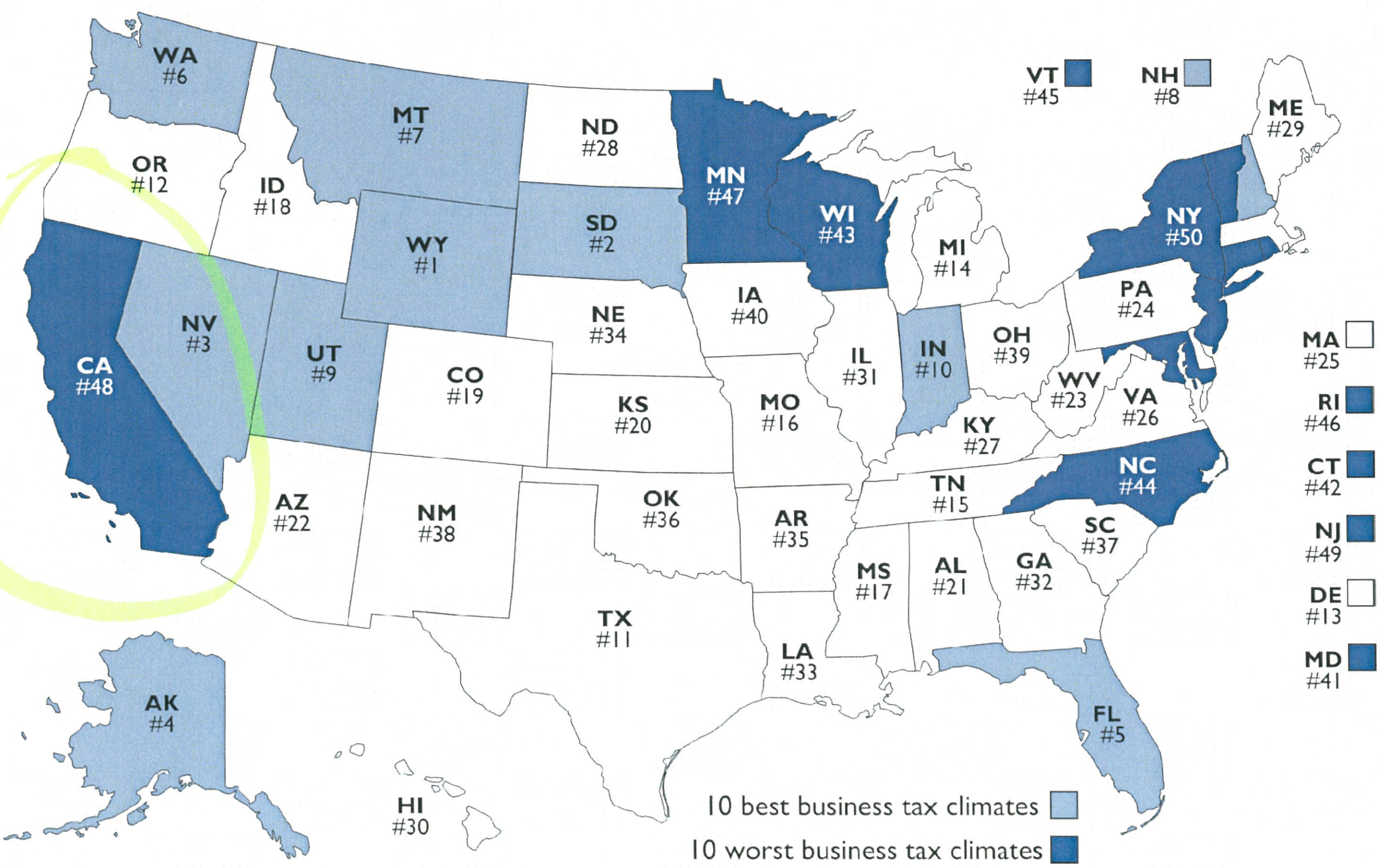
Introduction

While taxes are a fact of life, not all tax systems are created equal. One measure, total taxes paid, is relevant but other elements of a state tax system can also enhance or harm the competitiveness of a state's business environment. This reduces many complex considerations to an easy-to-use ranking. (Our report looks at tax burdens in states.)

The modern market is characterized by mobile capital and labor, with all types of business, small and large, tending to locate where they have the greatest competitive advantage. The evidence shows that states with the best tax systems will be the most competitive in attracting new businesses and most effective at generating economic and employment growth. It is true that taxes are but one factor in business decision-making. Other concerns, such as raw materials or infrastructure or a skilled labor pool, matter, but a simple, sensible tax system can positively impact business operations with regard to these very resources. Furthermore, unlike changes to a state's health-care, transportation, or education systems which can take decades to implement changes to the tax code can quickly improve a state's business climate.

It is important to remember that even in our global economy, states' stiffest and most direct competition often comes from other states. The Department of Labor reports that most mass job relocations are from one U.S. state to another, rather than to a foreign location.[1] Certainly job creation is rapid overseas, as previously underdeveloped nations enter the world economy without facing the highest corporate tax rate in the world, as U.S. businesses do. State lawmakers are right to be concerned about how their states rank in the global competition for jobs and capital, but they need to be more concerned with companies

Figure 1. State Business Tax Climate Index, Fiscal Year 2014



1 U.S. Department of Labor, *Extended Mass Layoffs in the First Quarter of 2007*, Aug. 9, 2007, http://www.bls.gov/opub/ted/2007/may/wk2/art04.htm ("In the 61 actions where employers were able to provide more complete separations information, 84 percent of relocations (51 out of 61) occurred among establishments within the same company. In 64 percent of these relocations, the work activities were reassigned to place elsewhere in the U.S. Thirty six percent of the movement-of-work relocations involved out-of-country moves (22 out of 50).").

moving from Detroit, MI, to Dayton, OH, rather than from Detroit to New Delhi. This means that state lawmakers must be aware of how their states' business climates match up to their immediate neighbors and to other states within their regions.

Anecdotes about the impact of state tax systems on business investment are plentiful. In Illinois early last decade, hundreds of millions of dollars of capital investments were delayed when then-Governor Rod Blagojevich proposed a hefty gross receipts tax. Only when the legislature resoundingly defeated the bill did the investment resume. In 2005, California-based Intel decided to build a multi-billion dollar chip-making facility in Arizona due to its favorable corporate income tax system. In 2010, Northrup Grumman chose to move its headquarters to Virginia over Maryland, citing the better business tax climate.[2] Anecdotes such as these reinforce what we know from economic theory: taxes matter to businesses, and those places with the most competitive tax systems will reap the benefits of business-friendly tax climates.

Tax competition is an unpleasant reality for state revenue and budget officials, but it is an effective restraint on state and local taxes. It also helps to more efficiently allocate resources because businesses can locate in the states where they receive the services they need at the lowest cost. When a state imposes higher taxes than a neighboring state, businesses will cross the border to some extent. Therefore, states with more competitive tax systems score well in the *Index* because they are best suited to generate economic growth.

State lawmakers are always mindful of their states' business tax climates but they are often tempted to lure business with lucrative tax incentives and subsidies instead of broad-based tax reform. This can be a dangerous proposition, as the example of Dell Computers and North Carolina illustrates. North Carolina agreed to $240 million worth of incentives to lure Dell to the state. Many of the incentives came in the form of tax credits from the state and local governments. Unfortunately, Dell announced in 2009 that it would be closing the plant after only four years of operations.[3] A 2007 *USA Today* article chronicled similar problems other states are having with companies that receive generous tax incentives.[4]

Lawmakers create these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for a woeful

Table 1

2014 State Business Tax Climate Index Ranks and Component Tax Ranks

State	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unemployment Insurance Tax Rank	Property Tax Rank
Alabama	21	19	22	37	15	10
Alaska	4	28	1	5	29	25
Arizona	22	26	18	49	1	6
Arkansas	35	39	26	42	11	19
California	48	31	50	41	16	14
Colorado	19	21	15	44	28	22
Connecticut	42	35	33	32	23	49
Delaware	13	50	28	2	2	13
Florida	5	13	1	18	6	16
Georgia	32	8	41	12	24	31
Hawaii	30	4	35	16	38	12
Idaho	18	18	23	23	47	3
Illinois	31	47	11	33	43	44
Indiana	10	24	10	11	13	5
Iowa	40	49	32	24	36	38
Kansas	20	37	17	31	12	29
Kentucky	27	27	29	10	48	17
Louisiana	33	17	25	50	4	24
Maine	29	45	21	9	33	40
Maryland	41	15	46	8	40	41
Massachusetts	25	34	13	17	49	47
Michigan	14	9	14	7	44	28
Minnesota	47	44	47	35	41	33
Mississippi	17	11	20	28	5	32
Missouri	16	7	27	26	9	7
Montana	7	16	19	3	21	8
Nebraska	34	36	30	29	8	39
Nevada	3	1	1	40	42	9
New Hampshire	8	48	9	1	46	42
New Jersey	49	41	48	46	32	50
New Mexico	38	40	34	45	17	1
New York	50	25	49	38	45	45
North Carolina	44	29	42	47	7	30
North Dakota	28	22	38	21	19	2
Ohio	39	23	44	30	10	20
Oklahoma	36	12	39	39	3	11
Oregon	12	32	31	4	34	15
Pennsylvania	24	46	16	19	39	43
Rhode Island	46	43	36	27	50	46
South Carolina	37	10	40	22	30	21
South Dakota	2	1	1	34	37	18
Tennessee	15	14	8	43	27	37
Texas	11	38	7	36	14	35
Utah	9	5	12	20	18	4
Vermont	45	42	45	13	22	48
Virginia	26	6	37	6	35	26
Washington	6	30	1	48	20	23
West Virginia	23	20	24	25	26	27
Wisconsin	43	33	43	15	25	36
Wyoming	1	1	1	14	31	34
Dist. of Columbia	*44*	*35*	*34*	*41*	*26*	*44*

Note: A rank of 1 is more favorable for business than a rank of 50. Rankings do not average to total. States without a tax rank equally as 1. D.C. score and rank do not affect other states. Report shows tax systems as of July 1, 2013 (the beginning of Fiscal Year 2014).

Source: Tax Foundation.

2 Dana Hedgpeth & Rosalind Helderman, *Northrop Grumman decides to move headquarters to Northern Virginia*, Washington Post, Apr. 27, 2010.

3 Austin Mondine, *Dell cuts North Carolina plant despite $280m sweetener*, The Register, Oct. 8, 2009.

4 Dennis Cauchon, *Business Incentives Lose Luster for States*, USA Today, Aug. 22, 2007.

business tax climate. A far more effective approach is to systematically improve the business tax climate for the long term so as to improve the state's competitiveness. When assessing which changes to make, lawmakers need to remember two rules:

Table 2

State Business Tax Climate Index, 2012 – 2014

State	2014 Rank	2014 Score	2013 Rank	2013 Score	2012 Rank	2012 Score	Change from 2013 to 2014 Rank	Change from 2013 to 2014 Score
Alabama	21	5.21	20	5.22	20	5.22	-1	-0.01
Alaska	4	7.24	4	7.30	4	7.35	0	-0.06
Arizona	22	5.20	27	5.10	27	5.12	5	0.10
Arkansas	35	4.89	32	4.93	30	4.97	-3	-0.04
California	48	3.76	48	3.68	48	3.77	0	0.08
Colorado	19	5.27	19	5.31	17	5.39	0	-0.04
Connecticut	42	4.47	43	4.44	41	4.49	1	0.03
Delaware	13	5.75	13	5.75	12	5.75	0	-0.01
Florida	5	6.91	5	6.84	5	6.88	0	0.07
Georgia	32	4.92	35	4.91	32	4.95	3	0.01
Hawaii	30	5.02	31	4.94	34	4.91	1	0.09
Idaho	18	5.31	18	5.31	18	5.27	0	0.00
Illinois	31	5.00	30	4.97	28	5.03	-1	0.03
Indiana	10	5.99	11	5.86	11	5.89	1	0.13
Iowa	40	4.55	40	4.54	40	4.52	0	0.00
Kansas	20	5.22	26	5.11	25	5.15	6	0.11
Kentucky	27	5.08	25	5.12	26	5.14	-2	-0.04
Louisiana	33	4.90	33	4.92	33	4.95	0	-0.02
Maine	29	5.04	29	5.02	37	4.78	0	0.01
Maryland	41	4.49	41	4.49	43	4.40	0	0.00
Massachusetts	25	5.09	24	5.12	23	5.16	-1	-0.02
Michigan	14	5.73	14	5.71	19	5.24	0	0.02
Minnesota	47	4.06	45	4.26	45	4.25	-2	-0.19
Mississippi	17	5.36	17	5.36	16	5.40	0	0.01
Missouri	16	5.47	16	5.46	15	5.48	0	0.01
Montana	7	6.24	7	6.26	7	6.28	0	-0.01
Nebraska	34	4.89	34	4.92	35	4.90	0	-0.02
Nevada	3	7.46	3	7.42	3	7.44	0	0.05
New Hampshire	8	6.08	8	6.12	8	6.27	0	-0.04
New Jersey	49	3.45	49	3.51	50	3.46	0	-0.05
New Mexico	38	4.72	38	4.72	38	4.74	0	0.00
New York	50	3.45	50	3.43	49	3.49	0	0.02
North Carolina	44	4.35	44	4.29	44	4.27	0	0.06
North Dakota	28	5.05	28	5.05	29	5.01	0	0.00
Ohio	39	4.58	39	4.55	39	4.53	0	0.03
Oklahoma	36	4.88	36	4.88	31	4.95	0	0.00
Oregon	12	5.75	12	5.79	14	5.64	0	-0.04
Pennsylvania	24	5.11	22	5.15	21	5.18	-2	-0.04
Rhode Island	46	4.14	47	4.16	46	4.21	1	-0.02
South Carolina	37	4.86	37	4.88	36	4.86	0	-0.02
South Dakota	2	7.52	2	7.53	2	7.52	0	-0.01
Tennessee	15	5.59	15	5.60	13	5.65	0	-0.01
Texas	11	5.91	10	5.91	10	6.03	-1	-0.01
Utah	9	6.01	9	5.99	9	6.04	0	0.02
Vermont	45	4.14	46	4.20	47	4.17	1	-0.06
Virginia	26	5.09	23	5.13	24	5.15	-3	-0.04
Washington	6	6.32	6	6.33	6	6.34	0	-0.01
West Virginia	23	5.19	21	5.18	22	5.18	-2	0.01
Wisconsin	43	4.43	42	4.47	42	4.44	-1	-0.03
Wyoming	1	7.58	1	7.64	1	7.66	0	-0.05
Dist. of Columbia	*44*	*4.37*	*44*	*4.34*	*41*	*4.52*	*0*	*0.03*

Note: A rank of 1 is more favorable for business than a rank of 50. A score of 10 is more favorable for business than a score of 0. All scores are for fiscal years. D.C. score and rank do not affect other states.

Source: Tax Foundation.

1. Taxes matter to business. Business taxes affect business decisions, job creation and retention, plant location, competitiveness, the transparency of the tax system, and the long-term health of a state's economy. Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to either consumers (through higher prices), employees (through lower wages or fewer jobs), or shareholders (through lower dividends or share value). Thus, a state with lower tax costs will be more attractive to business investment, and more likely to experience economic growth.
2. States do not enact tax changes (increases or cuts) in a vacuum. Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its geographic region, and even globally. Ultimately, it will affect the state's national standing as a place to live and to do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of high-tax states.

In reality, tax-induced economic distortions are a fact of life, so a more realistic goal is to maximize the occasions when businesses and individuals are guided by business principles and minimize those cases where economic decisions are influenced, micromanaged, or even dictated by a tax system. The more riddled a tax system is with politically motivated preferences, the less likely it is that business decisions will be made in response to market forces. The *Index* rewards those states that apply these principles.

Ranking the competitiveness of fifty very different tax systems presents many challenges, especially when a state dispenses with a major tax entirely. Should Indiana's tax system, which includes three relatively neutral taxes on sales, individual income and corporate income, be considered more or less competitive than Alaska's tax system, which includes a particularly burdensome corporate income tax but no statewide tax on individual income or sales?

The *Index* deals with such questions by comparing the states on over 100 different variables in the five important areas of taxation (major business taxes, individual income taxes, sales taxes, unemployment insurance taxes, and property taxes) and then adding the results up to a final, overall ranking. This approach rewards states on particularly strong aspects of their tax systems (or penalizing them on particularly weak aspects) while also measuring the general competitiveness of their overall tax systems. The result is a score that can be compared to other states' scores.Ultimately, both Alaska and Indiana score well.

Exhibit D

CFCE

California Foundation
for Commerce & Education

The Cost of Doing Business in California

Prepared by:

Andrew Chang & Company, LLC

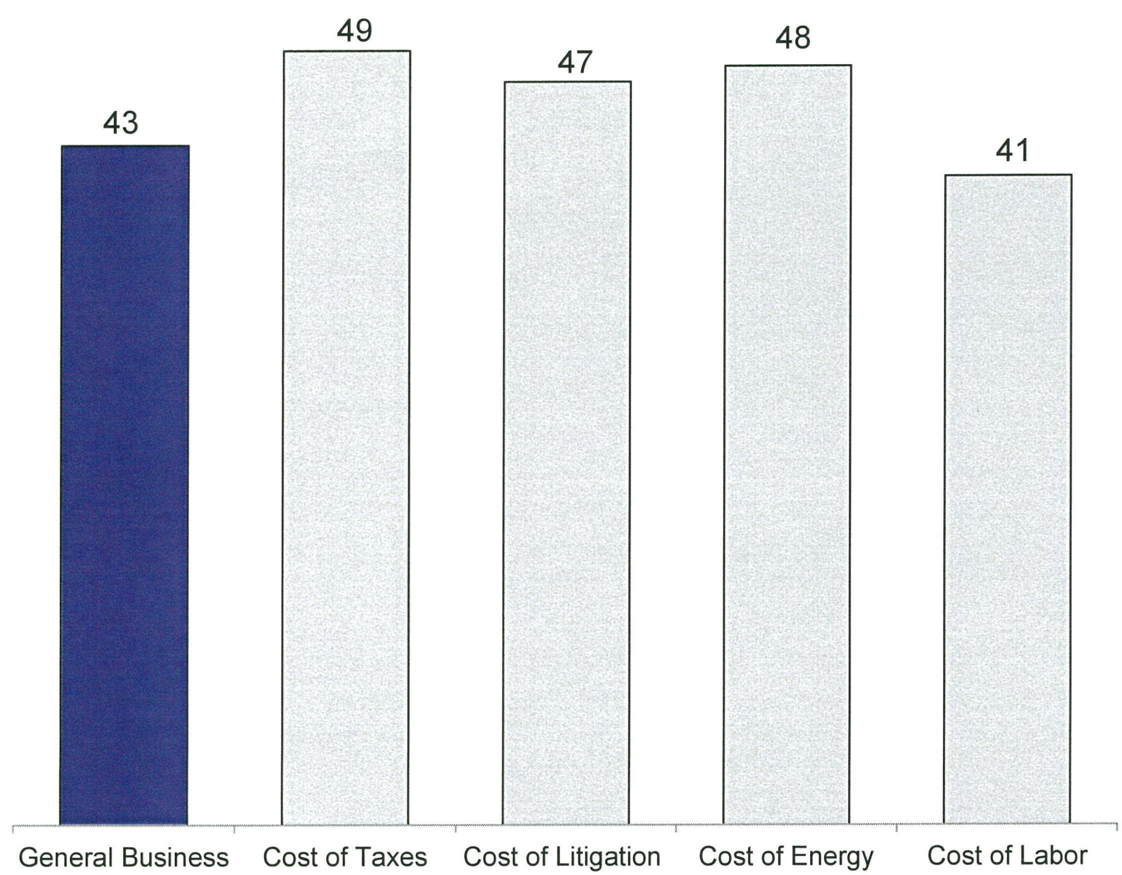
August 12, 2014

Our current situation

- There have been numerous studies published in recent years indicating that the cost of doing business in California is already substantially higher than the national average and compared to other competitor states, such as large states or states in the western United States. These studies have for the most part demonstrated higher costs by taking significant business cost factors such as Unemployment Insurance, taxes, workers compensation, energy, healthcare, regulations and litigation costs and comparing them on a state by state basis. There has been little work that has consolidated these studies.
- The California Foundation for Commerce and Education (CFCE) anticipates that key policy makers may pose new policy initiatives in the coming legislative session that may strive to make California more business unfriendly. In order to inform policy decision makers about the relatively high cost of doing business in the state, CFCE is seeking to commission a study that reviews currently available studies and synthesizes them in a clear and credible manner. The study should compare California to other comparable states (either western or large states) and should be comprehensive to the extent possible.
- Andrew Chang & Company was retained to assess how California's cost of doing business compares to other states and examining existing estimates for insight and public data and estimates for specific costs. Specifically, we were charged with incorporating the costs of:
  - Labor costs, including average wages, unemployment insurance, workers compensation insurance;
  - Energy costs, including electricity, natural gas and transportation fuel;
  - Litigation costs; and
  - Taxes

California compares poorly in national rankings to other states in the issues of business friendliness and taxes, legal, energy and labor costs

Median Ranking (Best to Worst)



Source: Literature Review (see appendix)

Key Observations

- We reviewed current state rankings from various trade associations, news agencies, and research organizations in the categories of general business, taxes, legal, energy and labor costs. Thought there were some variations, taken in whole, we found that the California is generally considered to be an unfriendly business climate