

Date of Hearing: January 13, 2016

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Eduardo Garcia, Chair

AB 1196 (Eduardo Garcia) – As Amended January 4, 2016

SUBJECT: Commission for Economic Development

SUMMARY: Updates the role and authorities of the California Commission on Economic Development (CED) by expanding its membership and duties. More specifically, the bill:

- 1) Modifies the purpose of CED to reflect the integrated roles of the public and private sectors in creating an economic environment that supports job creation and business growth.
- 2) Authorizes specific new CED activities, including:
 - a) Collaborating with statewide and regional organizations on implementing key initiatives; and
 - b) Identifying and supporting California's access to federal programs, services, and initiatives.
- 3) Authorizes the addition of up to three Members of the California U.S Congressional Delegation, who have applied to, and have been appointed by the Governor. The bill further provides that these Members may participate in the activities of the CED only to the extent that such participation is not incompatible with their respective positions as Members of the U.S. Congress.
- 4) Modifies the illustrative list of economic development backgrounds which Members of the CED are required to possess.
- 5) Requires that all studies and reports of the CED be public documents and posted on the Internet website of the Lieutenant Governor for no less than 24 months.
- 6) Limits reimbursement of CED members to the actual travel expenses rather than all costs incurred in the performance of their duties.
- 7) Authorizes meetings to be conducted via teleconference and other electronic means.
- 8) Excludes the taking of testimony and the discussion of issues from the requirement that a quorum of CED members be present. This does not remove the requirement that the taking of testimony and the discussion of issues be undertaken in a public meeting and all related actions taken by the CED continue to require that a quorum to be present.
- 9) Authorizes rather than mandates that advisory committees be formed.
- 10) Reduces the number of mandatory CED meetings from four to three per year.
- 11) Authorizes rather than mandates that the CED study laws and programs of other states.
- 12) Authorizes rather than mandates that the CED make recommendations regarding legislation.

- 13) Adds federal, foreign, and local government entities to those groups that the CED is specifically authorized to work with in achieving its objectives.
- 14) Removes sexist language from the code by replacing chairman with chairperson.
- 15) Makes related technical and conforming changes.

EXISTING LAW:

- 1) Establishes the CED for the purpose of providing bipartisan legislative, executive branch, and private sector support and guidance for the best possible overall economic development of the state.
- 2) Mandates that the CED be comprised of the following 17 Members:
 - a) The Lieutenant Governor, who is mandated to serve as the chair;
 - b) Ten members appointed by the Governor after consulting with business, industry, and labor organizations on potential candidates. No more than six may be from the same political party;
 - c) Three members of the Senate appointed by the Senate Rules Committee of which no more than two can be from the same political party; and
 - d) Three members of the Assembly appointed by the Speaker of the Assembly of which no more than two can be from the same political party.

Members of the Legislature constitute a joint investigating committee on economic development and have the powers and duties imposed upon such committees by the Joint Rules of the Senate and Assembly.

- 3) Specifies that each of the Governor's appointments serve for a term of four years, as specified.
- 4) Requires the CED to appoint advisory committees from outside its membership to represent the aerospace, manufacturing, maritime, tourism, and world trade segments of the state's economy. Other advisory committees may be established as deemed necessary to carry out the purpose of the CED.
- 5) Specifies that members of the CED serve without compensation, but shall be reimbursed for actual necessary expenses incurred in the performance of their duties.

FISCAL EFFECT: Unknown

POLICY ISSUE FRAME: California's \$1.3 trillion economy is comprised of nearly a dozen regional economies, each with their own dominant and emerging industry sectors. Over the past decade, the state's economic growth has been increasingly tied to the state's participation and competitiveness within the global economy. In 2014, \$274 billion in goods were shipped to over 220 markets around the world.

While post-recession California has experienced record setting growth among many industry sectors and certain areas of the state, other geographic regions and certain population groups have not received similar economic benefits. Research shows that these types of regional and demographic disparities often serve as a drag on long-term economic growth. Compounding these impacts are the changing regulatory environment and the increasing competition California businesses and workers face from developed and

emerging markets. As noted in the Governor's 2016-17 proposed budget, the state's infrastructure is in immediate need of rehabilitation and modernization, while business and industry consistently express their concerns about accessing a middle-skilled workforce able to meet their needs.

These and other issues require new and more collaborative economic development methods. Given the size and complexity of the issues facing California, it is highly unusual that the state has no operating board/commission/advisory body that can serve as a convener of the public and private sectors and catalyst for the state's evolving economic agenda.

AB 1196 proposes to remove barriers to the potential re-establishment of the CED and to foster a new stakeholder dialogue on the key economic issues facing the state. This analysis includes background on the CED, related legislation, and the current challenges facing the California economy.

COMMENTS:

- 1) **The California Commission for Economic Development:** The CED was established in 1971, as the statewide, bipartisan advisory body responsible for providing guidance to the legislative and executive branches on economic development issues affecting the California economy.

The commission is chaired by the Lieutenant Governor and consists of 17 members appointed by the Governor and Legislature. The commission is charged with the task of assessing specific local and regional economic development problems, providing a forum for economic development-related conversations between the state and private sectors, and furnishing studies and recommendations to resolve important economic development issues.

Under Lieutenant Governor Garamendi, in 2011, the CED moved key initiatives on sustainable economic growth, career technical education, and workforce development. While the actions of the CED have no direct legislative or administrative power, the CED does provide a valuable policy view on important and current economic development issues.

- 2) **Last CED Meeting:** The last meeting of the CED was in 2013 at which time the Commission discussed the updating of the Lt. Governor's 2011 report "An Economic Growth and Competitiveness Agenda for California."

Guiding principles of the 2011 report include: Governing for Growth and Opportunity; Practice Partnerships; Engage Globally; Build on Industry Strengths; Remove Barriers; Act Regionally; Invest in Performance; Skill Up for Opportunity; Act with Urgency; and Sustain Commitment. Key recommendations from the report focus on preparing for the next economy including taking advantage of the expanding export markets for California goods and services, adopting innovative models from other states and nations; reinvesting in the state's manufacturing base, and accelerating the state's clean technology opportunities.

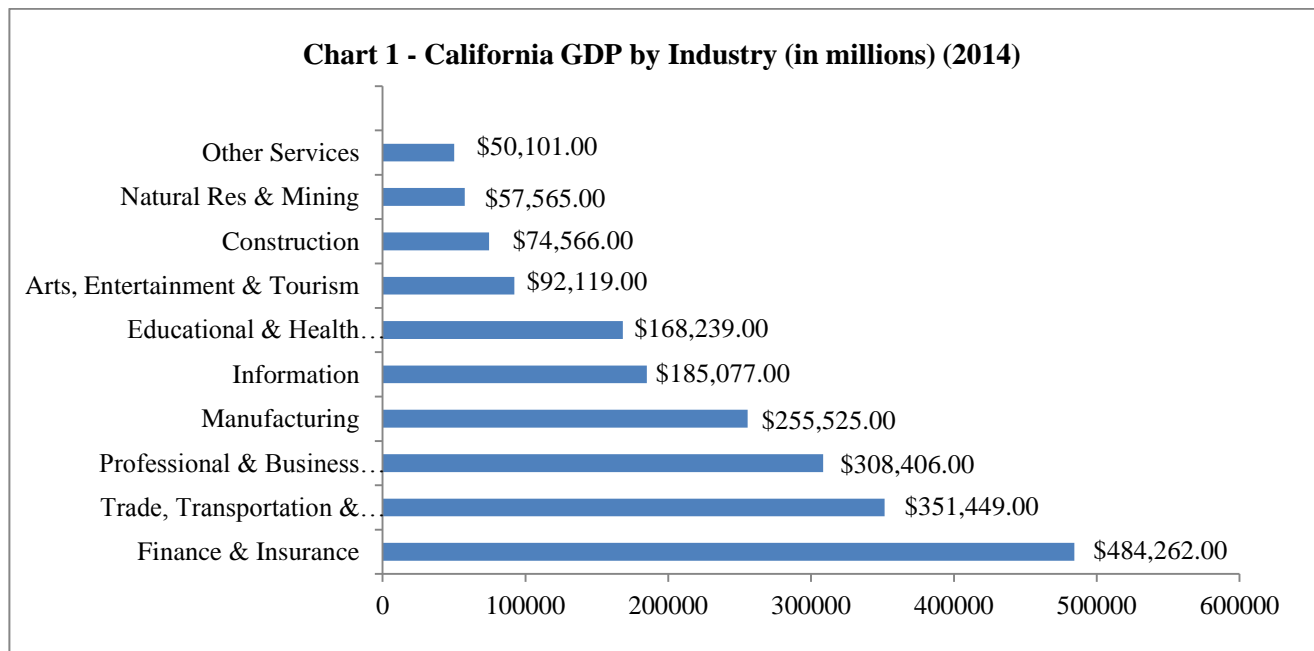
No future meetings can be held due to a lack of CED member appointments. Without new appointments, the CED is unable to reach quorum and conduct its business. The author has proposed AB 1196 to update and add flexibility to the existing CED structure as a means to kick-start the re-establishment of this important economic stakeholder advisory board.

- 3) **The California Economy:** California is one of the largest and most diversified economies in the world, which had a gross domestic product (GDP) of over \$2.3 trillion in 2014. If California were a country, its 2014 GDP would place it 8th among nations, ranking as follows: United States (\$17.41

trillion), China (\$10.38 trillion), Japan (\$4.61 trillion), Germany (\$3.86 trillion), France (\$2.84 trillion), Brazil (\$2.35 trillion), California (\$2.31 trillion); Italy (\$2.14 trillion), India (\$2.05 trillion), and Russia (\$1.85 trillion).

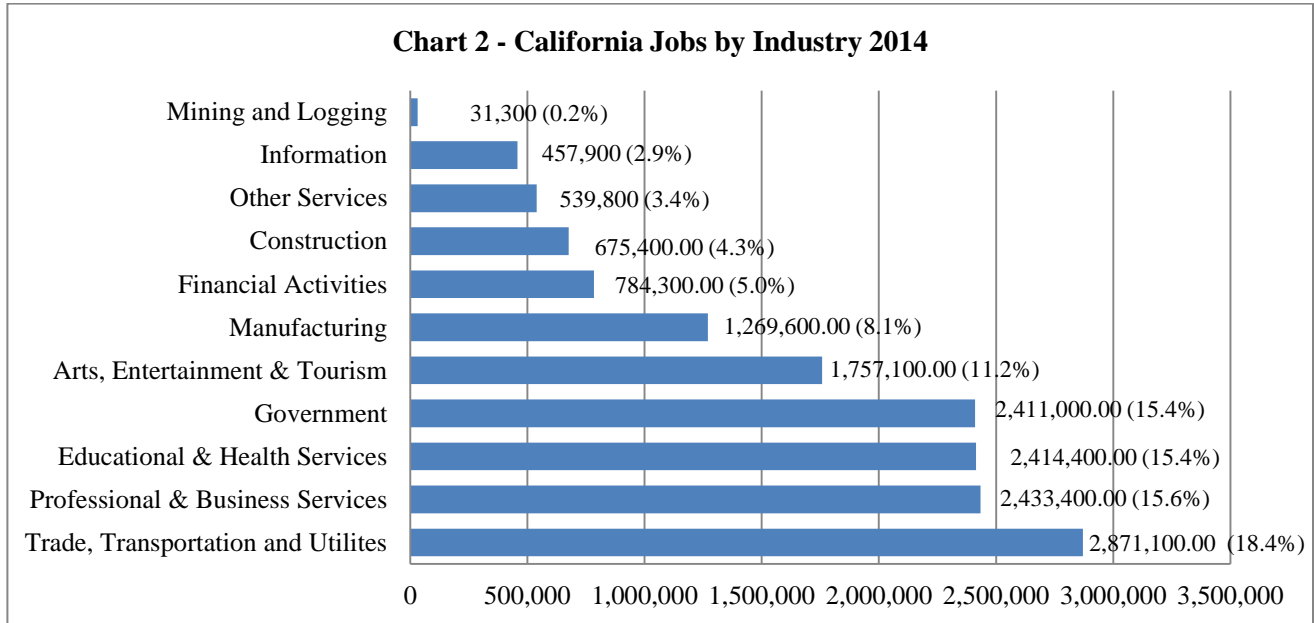
Historically, the state's significance in the global marketplace resulted from a variety of factors, including its strategic west coast location, its economically diverse regional economies, its skilled workforce, and its culture of innovation and entrepreneurship, particularly in the area of technology. California's 29 million working age individuals comprise the single largest workforce in the nation, are comparatively younger, and have an educational achievement level above the national average. As an example, over 30% of the working age population in California holds at least a bachelor's degree.

California's well diversified small business base also provides an economic advantage by meeting the niche needs of the state's dominant and emerging innovation-based industry sectors. **Chart 1** displays information on California's private industry sectors.



In 2014, the finance and insurance sector provided the largest economic contribution to the state's overall GDP, \$484 billion of the \$2.3 trillion. Firms in this industry sector include entities that raise funds, pool risk, and facilitate financial transactions including real estate.

Chart 2, developed using data provided by the California Employment Development Department, shows California's largest industry sectors based on employment. Based on total employment, the trade, transportation, and utilities sector is largest, employing 2.8 million (18.4% of California jobs). Jobs in this sector also support employment in other industry sectors including Manufacturing (8.1%), Professional Services (15.6%), and Financial Activities (5.0%).



Many of the jobs associated with these major industry sectors are also associated with high wages. Manufacturing is considered the "gold standard" for jobs because of its high wages, inclusion of small businesses within its global supply chains, and having a high multiplier effect on related jobs. The Milken Institute estimates that for every job created in manufacturing, 2.5 jobs are created in other sectors. In some industry sectors, such as electronic computer manufacturing, the multiplier effect is 16 to one.

For the past several years, California's overall economic growth and increase in jobs has outpaced the U.S. in general, often ranking the state within the top five states in terms of its economic condition. This success, however, has not been consistent throughout the state with many regions and certain population groups still experiencing recession-related poor economic conditions. According to the U.S. Census Bureau, California has the highest poverty rate in the U.S with nearly a quarter of the children (22.7%) in the state living in households with annual incomes below the federal poverty line. Contributing factors to these poverty rates are stagnate wage rates, an increasing concentration of annual income among the highest income individuals, and differing job opportunities in the post-recession economy.

A review of the most recent unemployment numbers in **Chart 3** is illustrative of the expanding patterns of economic disparity between regions and population groups in California.

Chart 3 - Unemployment November 2015 (not seasonally adjusted)			
	Unemployment Rate		Unemployment Rate
California	5.7%	California	5.7%
Imperial County	20.4%	Blacks	11.0%
Los Angeles County	5.7%	Hispanics	7.7%
Orange County	4.2%	Whites	6.1%

Riverside County	6.2%	16 to 19 year olds	21.2%
San Bernardino County	5.9%	20 to 24 year olds	11.2%
San Mateo County	3.9%	25 to 34 year olds	6.2%
Tulare County	11.1%	Source: California Employment Development Department	
Ventura County	5.4%		

While the state's unemployment rate for November 2015 (not seasonally adjusted) was 5.7%, some areas of the state had lower rates, while others were considerably higher. San Mateo County recorded the lowest at 3.9% and Imperial County experienced the highest unemployment rate at 21.2%. Inland areas generally reported unemployment rates above the statewide average. As the chart above shows, Tulare County's unemployment rate was 11.2% and Riverside County was recorded as 6.2%. Coastal areas overall had lower rates than the state's, with Orange County at 4.2%, and Ventura County at 5.4%. Even densely populated and economically diverse areas like Los Angeles County reported a November 2015 unemployment rate of 5.7% (equal to the state's rate).

Looking more specifically at different population groups, the data also shows the great discrepancies between the statewide rate and key subgroups, including unemployment among Blacks and Hispanics being 11.0% and 7.7% respectively. For the youngest members of the workforce obtaining quality jobs remains a significant issue with unemployment among 16 to 34 years being well above the state average, ranging from 6.2% to 21.2%.

Just as the unemployment data shows the growing economic disparities by geography, race/ethnicity, and age, research also confirms that a greater percentage of total aggregate earnings is going to a smaller group of individuals. According to the World Top Income Database, pretax income among those with the highest 1% of income in California comprised 9.82% of total income in 1980 and 25.31% in 2013. These findings could signal a larger issue in that a growing body of economic studies show that large-scale income disparities correlate to shorter periods of economic growth, whereby societies with lower levels of income disparity have larger and longer-term periods of growth.

Achieving job growth within globally competitive industries and addressing the state's growing income disparities requires new community and economic development methods, as well as more coordinated efforts by industry, labor, nonprofits, and governments on a range of issues, including education, workforce training, infrastructure repair and expansion, entrepreneurship, finance, among others. Entities like the CED could provide a forum for these stakeholders to address California's economic challenges.

Geographic Differences in Economic Growth: In September 2015, the California Employment Development Department released a special labor trends report which highlighted job growth in Coastal and Inland county economies. Among other findings, the report noted that total job growth between 2010 through 2014 was 9.4%, in contrast to the inland counties at only 8.7%. Reflective of the disparity in job growth were the differences in overall business development. Coastal counties added 56,000 new establishments (4.9% increase), while the inland areas had a net loss of 75 businesses during the same term. Of the 1.3 million business establishments in California in 2014,

89.4% were located in the coastal counties with the remaining (roughly) 11% headquartered in an inland county.

Further compounding the impacts of these trends was the significant concentration of inland California growth in five counties, including: Fresno, Kern, Stanislaus, Placer, and Tulare. These five counties out of the 29 classified as inland counties accounted for nearly two out of three of the new inland county jobs (64.6% of 124,000 additional jobs). Job growth in the coastal areas was also concentrated, but not as significantly, with Los Angeles, Santa Clara, and San Diego experiencing 44.8% of the 1.2 million new jobs created in coastal areas.

In 2014, 90.1% of nonfarm payroll was related to jobs in coastal counties and 9.9% in inland counties, 13.9 million and 1.5 million jobs respectively. While this split is partially due to the higher percentage of the population being located in those counties classified as coastal, these number also suggest other demographic and economic shifts.

Among other issues, the special labor trends report highlighted two key factors as contributing to the jobs imbalance including a lack of trade-related infrastructure within the inland counties and different business development patterns. California's coastal areas have three of the nation's busiest sea ports, including Los Angeles, Long Beach, and Oakland. San Diego and Port Hueneme are also important to cars and agriculture respectively. The inland counties have tried for years to develop inland ports and multimodal transportation facilities. Bringing these inland resources to scale will take significant funding and focused public policy attention on upgrading inland California's logistical network. As an example, Ontario Airport has been designated as the Los Angeles World Airport's cargo hub. Yet, Los Angeles International Airport remains better developed and thus significantly busier.

Addressing the challenges raised in the labor trends study and bridging the geographic disparities between California's inland and coastal areas will require a focused effort to remove impediments and leverage resources. California currently has no government sponsored stakeholder engagement that facilitates these types of discussions. In instances where these discussions are being led by private organizations, the state has made no specific commitment to meaningfully participate on a long-term and ongoing basis. AB 1196 proposes that the CED serve as that link and help to ensure that state is formerly part of these private sector-driven dialogues.

6) **Related Legislation:** Below is a list of legislation related to AB 1196.

- a) **AB 680 (Atkins) California Business Marketing Plan:** This bill would have required the Governor's Office of Business and Economic Development to develop a plan to market the business and investment opportunities available in California. Status: Held on Suspense in the Assembly Committee on Appropriations, 2015.
- b) **SB 412 (De León) Biotech and the Commission for Economic Development:** This bill adds the biotechnology industry to the list of segments of the state's economy from which the Commission for Economic Development is required to appoint an advisory committee. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy, two-year bill.

REGISTERED SUPPORT / OPPOSITION:

Support

None Received

Opposition

None Received

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