

Date of Hearing: April 17, 2012

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE
ECONOMY

V. Manuel Pérez, Chair

AB 2012 (John A. Pérez) – As Introduced: February 23, 2012

SUBJECT: Governor's Office of Business and Economic Development

SUMMARY: Transfers the authority for undertaking international trade and foreign investment activities from the Business, Transportation and Housing Agency (BTH) to the Governor's Office of Business and Economic Development (GO-Biz). In addition, the bill transfers the responsibility for establishing an Internet-based permit assistance center from the Secretary of the California Environmental Protection Agency (CalEPA) to GO-Biz.

EXISTING LAW:

- 1) Establishes GO-Biz within the Governor's Office for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. GO-Biz also serves as the administrative oversight for the California Business Investment Service and the Office of the Small Business Advocate.
- 2) Establishes BTH for the purpose, among other things, of overseeing and coordinating the activities of various departments, offices, and economic development programs, with responsibility for maintaining the strength and efficiency of California's infrastructure and financial markets. These programs provide financial and programmatic regulation important to the economic marketplace, community development, and the safe and efficient flow of commerce.
- 3) Directs BTH to undertake international trade and investment activities and, as a condition of that authority, directs the development and implementation of a comprehensive international trade and investment strategy. All international trade and foreign investment activities and funding are required to be consistent with this strategy.
- 4) Requires the Secretary of CalEPA to establish an electronic online permit assistance center for businesses. The center, also known as CALGOLD, is required to have "hyperlinks" and other online resources and tools that could be used by a business to streamline and expedite compliance with specified environmental laws and regulations.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's purpose: According to the author, "AB 2012 is a continuation of work started since 2010, to create a single point of contact for business in California. While the foundation for both the inclusion of foreign trade and permitting was included in prior legislation that was signed into law, the details had not been worked out."

"There is currently an agreement between GO-Biz and CalEPA to allow GO-Biz to be able to maintain the CALGOLD website. This bill codifies that agreement."

"Additionally, prior legislation defined the powers and duties assigned to GO-Biz as the following: "In cooperation with the federal government, foster relationships with overseas entities to improve the state's image as a destination for business investment and expansion. This bill formally transfers the responsibility for foreign trade to GO-Biz."

- 2) Governor's Office of Business and Economic Development: In February 2010, the Little Hoover Commission (LHC) undertook a review of the state's economic and workforce development programs. In its final report, *Making up for Lost Ground: Creating a Governor's Office of Economic Development*, it analyzed the status and effectiveness of current programs since the 2003 demise of the Technology, Trade and Commerce Agency and recommended the creation of a new governmental entity to fill the void left by the dismantled agency.

The report called for a single entity that would promote greater economic development, foster job creation, serve as a policy advisor and deliver specific services (i.e., permitting, tax, regulatory, and other information) directly to the California business community. In April 2010, Governor Schwarzenegger issued Executive Order S-05-10 as a means to operationalize the report recommendations including the creation of the Governor's Office of Economic Development (GOED).

Since its inception, GOED has served over 3,000 businesses, 95% of which are small. The most frequent types of assistance include help with permit streamlining, starting a businesses, relocation and expansion of businesses, and regulatory challenges.

Under the auspices of GOED, a number of state programs and services are administered, including programs related to international trade, permit assistance, the Office of the Small Business Advocate, and innovation. There are 23 positions assigned to GOED in 2011-12 Budget, which are funded through existing state resources and staffed by personnel loaned from state agencies and departments. In October 2011, the Governor signed AB 29 (cited and described below), which effectively codified GOED and changed its name to GO-Biz, effective January 1, 2012.

Among other programs, GO-Biz administers the Innovation Hub (iHUB) program in partnership with the statewide network of Small Business Development Centers. There are currently 12 regional iHUBs located throughout the state. The iHUB program is designed to improve the state's national and global competitiveness by stimulating partnerships, economic development, and job creation around specific research clusters. Key assets and partners of the initiative include technology incubators, research parks, universities, federal laboratories, economic development organizations, business groups, and venture capitalists.

Another key initiative of GO-Biz is the "strike teams" which can be mobilized to help attract and/or retain specific businesses. Strike teams are especially well suited to engage with major employers and have been successfully activated to assist Bayer Healthcare, Jazz Semiconductor, and Baxter Pharmaceutical to locate and/or expand in California.

GO-Biz is also sponsoring a permit streamlining pilot project, which will offer a One-Stop-Shop for state and local permits. The pilot, launched in partnership with the City and County of San Francisco, will allow a business owner to login to a single Web site (24x7) and apply for and pay all necessary city, county and state permits.

- 3) Expansion of GO-Biz and reorganization: In signing AB 29, Governor Brown also issued a letter outlining his continued interest in expanding the role of GO-Biz for the purpose of better focusing the state's multiple economic development activities. The Governor reiterated this policy when he released his proposed 2012-13 budget.

On March 30, 2012, the Governor submitted a reorganization plan to the Little Hoover Commission, which operationalized his earlier statements. Key GO-Biz related elements within the reorganization plan include:

- Dismantling BTH and transferring the following programs to GO-Biz:
 - The Small Business Loan Guarantee Program;
 - The California Travel and Tourism Commission;
 - The California Film Commission;
 - The Film California First Program; and
 - The Infrastructure and Economic Development Bank (I-Bank).
- Locating a Small Business Center program with GO-Biz, which is most likely, refers to the Small Business Development Centers Program (SBDC). The SBDC is currently co-located at GO-Biz.
- Replacing the Secretary of BTH with the Director of GO-Biz as Chair of the California Travel and Tourism Commission and the I-Bank. A newly established Secretary of Transportation replaces the Secretary of State and Consumer Services on the I-Bank board.

The Little Hoover Commission has 30 days to analyze the reorganization plan and submit its recommendations to the Governor and Legislature. The Legislature then has 60 days to consider the plan. The plan goes into effect unless the Legislature takes an action to disapprove the plan with a majority of the Members in each house voting.

Given that the reorganization plan has only been released a few short weeks ago, it is too soon to hear of any issues or concerns. Further, the reorganization plan substantially lays out a new administrative structure consistent with the Governor's proposed budget. Should the reorganization plan be implemented, AB 2012 could be a useful vehicle for making technical and conforming changes.

- 4) Transfer of CalGOLD Program: Existing law requires businesses to obtain various environmental permits prior to undertaking any project with potential environmental impacts. In 1997, the state established a "smart" permit system to aid businesses in complying with these laws and regulations. The system, also known as the CalGOLD, provides "hyperlinks" and other online resources that business can use to identify permit requirements. While statutorily, CalGOLD is directed to be operated through the Secretary of the Environmental

Protection Agency, the site and its related permit assistance activities are being undertaken by GO-Biz through a memorandum of understanding.

- 5) Transfer of the state's trade program: Between 1986 and 2004, the Technology, Trade and Commerce Agency (TTCA) was the responsible government entity for promoting economic development, international trade, and foreign investment in California. When the agency was eliminated due to its poor administrative performance, the authority for all state trade activity was also struck from statute.

Beginning in the 2005-06 session, several legislative measures were introduced to reinstate the state's trade authority. No measures were successful until a compromise was negotiated by the JEDE, SB 1513 [(Romero), Chapter 663, Statutes of 2006]. During deliberations on the re-establishment of the state's trade authority, concerns were repeatedly raised that the state lacked a comprehensive, or even generally understandable, statutory scheme related to trade and foreign relations.

SB 1513 addressed these concerns by first requiring the Business, Transportation and Housing Agency (BTH) to undertake a trade study to determine what role, if any, the state should play in international trade and foreign investment activities. Second, the bill required BTH to establish a business advisory committee to provide California businesses with direct access to the policy making process. Third, the bill required the development of a trade strategy that is consistent with the trade study and acts as the vehicle for implementing the state's trade policy. The first five-year strategy was published in February 2008. The next update is required in February 1, 2013.

- 6) California's trade program: The foundation of the state's overall trade program is the economic assessment that is provided by the international trade study. This approach allows the state to take not only a regional approach, but also an industry sector approach based on the state's core and emerging industries.

By emphasizing the development of deeper economic relationships within core and emerging industry sectors and their trade associations, the strategy better aligns with economic development activities at the local and regional levels. This tighter alignment should result in increasing the impact of the state activities and investments. Dominant and emerging industries from the 2008 study include the following:

Dominant industry clusters include:

- a) Professional business and information services
- b) Diversified manufacturing
- c) Wholesale trade and transportation
- d) High-tech manufacturing

Emerging industry clusters include:

- a) Life science and services
- b) Value-added supply chain manufacturing and logistics
- c) Cleantech and renewable energy
- d) Nanotechnology

Based on these industry clusters, the International Trade and Investment Strategy identified the following five program objectives:

- Leverage existing services to provide export assistance to companies by the state's primary and emerging clusters;

- Develop a foreign direct investment program prioritized by the state's primary and emerging clusters;
- Promote and leverage the California brand;
- Monitor and engage the federal government in regard to U.S. trade policy; and
- Integrate international trade and investment into the state's overall economic development strategy.

The strategy includes a set of specific actions, including timelines, priority levels, and measurable outcomes under each of the program objectives. One example of a recommended action includes facilitating export trade promotion through participation in key industry trade shows and encouraging business match-making activities during visits of foreign trade delegations. The ITI Strategy also strongly relies on coordinated efforts with existing federal and local public and private stakeholders.

AB 2012 proposes to transfer the responsibilities for implementing the International Trade and Investment Strategy to Go-Biz including convening the international trade partnership and updating the strategy prior to February 2013.

- 7) The California economy: Historically, the state's significance in the global marketplace resulted from a variety of factors, including: its strategic west coast location that provides direct access to the growing markets in Asia; its economically diverse regional economies; its large, ethnically diverse population, representing both a ready workforce and significant consumer base; its access to a wide variety of venture and other private capital; its broad base of small- and medium-sized businesses; and its culture of innovation and entrepreneurship, particularly in the area of high technology.

A key driver of the state's \$1.9 trillion economy is international trade and its related goods movement activities. In 2011, exports out of California were valued at \$159 billion while imports into California were valued at \$351 billion. Among the seven major industry sectors, manufacturing is the most closely dependent on international trade, where nearly one-fourth (24%) of the workers directly depend on exports for their jobs. Manufacturing employment is sometimes referred to as the gold standard because it pays high wages (usually with benefits), supports the state's access to the broader global market and provides a key link in the extended network of small and medium sized businesses that participate in the production, distribution and retail supply chain. Overall, manufacturing contributed to 9.3% of the state's GDP in 2010, employing 1.24 million workers (8.9%) and providing an average annual salary of over \$65,000.

Among other advantages, small businesses are crucial to the state's international competitiveness and are an important means for dispersing the positive economic impacts of trade within the California economy. California small businesses comprised 96% of the state's 60,000 exporters in 2009, which accounted for over 44% of total exports in the state. Nationally, small businesses represented only 31.9% of total exports. These numbers include the export of only goods and not services.

If California were a country, it would be the 11th largest exporter in the world. Exports from California accounted for nearly 11% of total U.S. exports in goods, shipping to over 226

foreign destinations in 2011. California's land, sea, and air ports of entry serve as key international commercial gateways for products entering and existing the country.

Chart 1 - 2011 Export from California to the World, provides greater detail into the key components of California's exports. Trade volume in exports continued to increase in 2011, over \$143 billion in 2010 and \$120 billion in 2009. Computers and electronic products were California's top exports valued at \$46 billion (28%). California ranks second among states in the U.S. with Texas exporting \$249.6 billion in exports.

Chart 1 - 2011 Exports From California to the World		
Product	Value (\$ billions)	Percent
334 Computers & Electronic Prod.	\$46.0	28.0 %
336 Transportation Equipment	\$14.9	9.4%
333 Machinery (except electrical)	\$14.7	9.3 %
339 Misc. Manufactures	\$13.0	8.2%
325 Chemical Manufactures	\$ 12.4	7.8 %
111 Agricultural Products	\$ 10.6	6.7%
All Others	\$ 43.3	29.7%
Total	\$159	100 %

Based on origin of movement, Mexico is California's top trading partner, receiving \$26 billion (16.3%) in goods in 2011. The state's second and third largest trading partners are Canada and China with \$17.1 billion (10.7%) and \$14.1 billion (8.8%), respectively. Other top-ranking export destinations include Japan, South Korea, Hong Kong, Taiwan, Germany, Netherlands, and Singapore.

If California were a country it is estimated that it would be the 12th largest importer in the world, with \$351 billion in products being imported to California in 2011. California's top five imports in 2011 were: Computer & Electronic Products (\$107 billion); Transportation Equipment (\$48.8 billion); Oil & Gas (\$30 billion); Miscellaneous Manufactured Commodities (\$19.1 billion); and Apparel & Accessories (\$18.9 billion).

China is the largest source of imports into California; the 2011 value of Chinese imports was \$120 billion. China is followed by Japan (\$39.7 billion); Mexico (\$33.6 billion); Canada (\$20.4 billion); and South Korea (\$11.7 billion).

- 8) Related legislation: The following is a list of bills related to this measure from the current and prior legislative sessions.
- a) AB 29 (John A. Pérez) – Codification of GO-Biz: This bill establishes GO-Biz within the Governor's Office for the purpose of serving as the lead entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
 - b) AB 1137 (V. Manuel Pérez) - Small Business Export Assistance and Attracting Private Investment: This bill facilitates local economic development and job creation by assisting small business to access new export markets for their goods and services, updating the

law relating to free trade zones, and authorizing the use of new federal funds under the Small Business Jobs Act of 2010. Status: Pending in the Senate Committee on Appropriations.

- c) AB 2582 (Mullin): Update of CALGOLD Program: This bill requires the CALGOLD website to be updated periodically to include permitting and regulatory compliance information relevant to emerging and evolving industries. The author was particularly interested in adding online resources for the life sciences industry. Status: Chaptered by Secretary of State - Chapter 283, Statutes of 2006.

- d) SB 1513 (Romero) – New International Trade Program: This bill provided new authority for the BTH to undertake international trade and investment activities, and as a condition of that new authority, directs the development of a comprehensive international trade and investment policy for California. This bill reflects extended bi-partisan discussions between the Senate and the Assembly. Status: Signed by the Governor - Chapter 663, Statutes of 2006.

REGISTERED SUPPORT / OPPOSITION:

Support

None Received

Opposition

None Received

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