

Assembly Committee on Jobs, Economic Development, and the Economy

February 28, 2017 Legislative Hearing

Overview of the California Economy:

Supporting Upward Mobility through Economic Growth



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The California Economy: Supporting Upward Mobility through Economic Growth

On Tuesday, February 28, 2017, the Assembly Committee on Jobs, Economic Development and the Economy (JEDE) will be convening the second in a series of informational hearings. These hearings serve as a foundation from which the Members will undertake the committee's primary missions of overseeing current state programs and evaluating legislative proposals.

This memorandum provides general information on the structure of the hearing, the California economy, key policy issues, and recommendations for additional follow-up actions. The appendix includes a number of fact sheets developed by the JEDE staff, as well as information provided by witnesses and other stakeholder organizations.

Overview of the Hearing

The focus of the JEDE Committee hearing is on strategies that support upward mobility. Using a framework of economic growth, the JEDE Committee will examine the factors that support long-term economic security. While many areas of California have recovered and are thriving since the recession, other areas of the state and certain population groups still lag economically. Lower and middle-income families struggle with the cost of education and training, finding safe and affordable housing, and a number of other elements of long-term economic security seem out of reach. At the heart of many of these challenges are the conditions that also drive income inequality and inhibit upward mobility.

The hearing is organized around three central themes: Defining the key elements of today's California economy, breaking barriers to workforce training and employment; and leveraging the power of entrepreneurship and business development to foster upward mobility.

The hearing will begin with brief introductory remarks by the Members of the Committee. **Jason Sisney**, Chief Deputy with the Office of the California's Legislative Analyst, and **Dr. Jerry Nickelsburg**, economist with the UCLA Anderson Forecast, will then open the discussion with an overview of the California economy, including data on the current state of the economy, profile of the private sector, and a forecast of the state's potential economic future. Once framed, Members of the Committee will have an opportunity to further advance the dialogue with the witnesses around key economic and demographic trends.

Pete Weber will be highlighting a successful 18-month job training and placement program in Fresno, which includes wrap-around services for both the workers and family. The Fresno Bridge Academy, which served an estimated 1,500 families in Fresno County, received the 2016 James Irvine Foundation Leadership Award and has plans to expand into San Joaquin, Madera and Napa Counties. Mr. Weber also serves as Co-Chair to California Forward who, along with the CA Stewardship Network, is working with 19 regional organizations, for the purpose of uniting employers, public officials and advocates on state actions that will equip workers with needed job skills, build infrastructure, and modernize regulations. An excerpt of their 2017 Economic Roadmap can be found in Appendix D.

Following these three presentations, the Members will hear from leaders of stakeholder groups on entrepreneurship and other upward mobility strategies. Members of the panel include: **Scott Hauge**, a small business owner of CAL Insurance and Associates, Inc, who also serves as the President of Small Business California; **Malaki Seku-Amen**, the President and CEO of the California Urban Partnership; and **Heidi Pickman**, the policy director for the California Association for Microenterprise Opportunity. Panelists will

begin with short two-minute introductory remarks, followed by questions and discussion with the JEDE Committee Members. *Presenter background materials available at the time of publication can be found in the Appendices.*

The hearing schedule also includes a public comment period, which will allow other stakeholders to engage with the Members of the Committee. Persons interested in providing testimony during the public comment period can either sign-up through the JEDE Committee Office at least 24 hours prior to the hearing matthew.hurley@asm.ca.gov , or on the sign-in sheet at the Sergeants desk during the hearing. Written comments may also be submitted to the JEDE office up until April 7, 2017.

The California Economy

California is home to over 39 million people, providing the state with one of the most diverse populations in the world, often comprising the single largest concentration of nationals outside their native country. In 2015, this diverse group of business owners and workers produced \$2.45 trillion in goods and services, ranking the size of the state economy as sixth largest in the world.

The state's significance in the global marketplace results 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 has the largest workforce in the nation, comprised of 19.3 million people who are comparatively younger and more educated than the national average. As an example, over 30% of the working age population in California holds at least a bachelor's degree.

Many policy makers and economists describe California as having not a single economy, but having a highly integrated network of regional industry clusters that provide access points to other areas of the U.S. and across the world. While biotech has a comparative advantage in some regions, information technology drives growth in others. Driving this economic vitality are both global fortune 250 companies with California headquarters and other facilities, as well as the state's robust small business sector, which employs half of all workers and is comprised of more than 98% of all businesses in the state. 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.

Major Industry Sectors

In 2015, the finance and insurance sector provided the largest economic contribution to the state's overall GDP, \$525,264 billion of \$2.4 trillion. Firms in this industry sector include entities that raise funds, pool risk, and facilitate financial transactions including real estate. **Chart 1**, on the following page, ranks ten largest industry sections, based on 2015 contributions to state GDP.

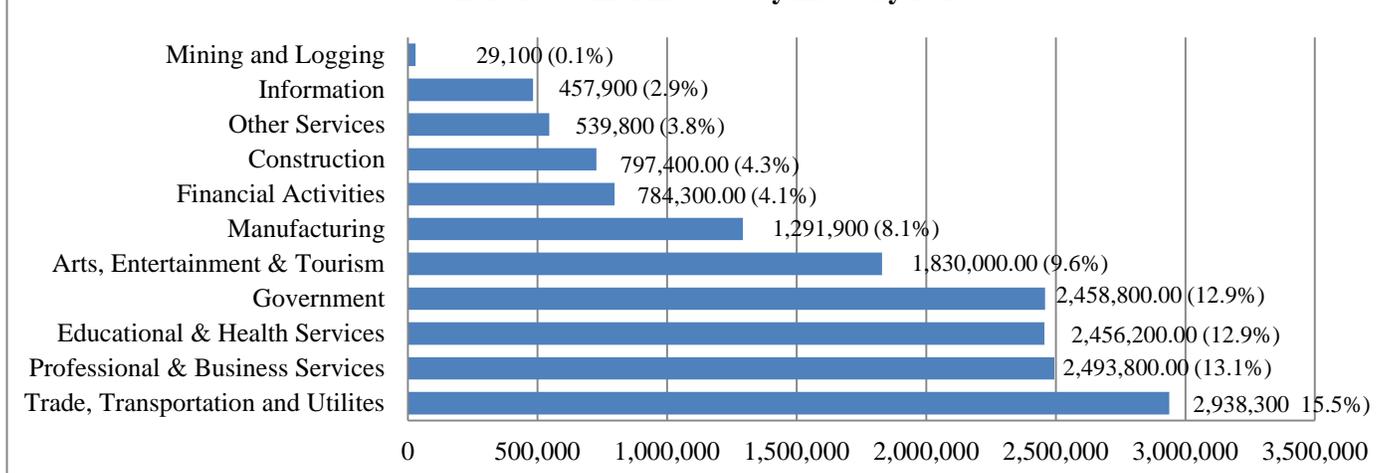
California's next four largest industry sectors, include the trade, transportation, and utility sector (\$361 billion); professional and business services sector (\$327 billion); the manufacturing sector, which includes manufacturing of computers; and biomedical devices (\$255 billion).

Chart 1 - California GDP by Industry (in millions) (2015)



Between 2014 and 2015, 70% of California's industry sectors, based on economic value, outpaced that of the U.S. and five sectors had growth rates below that of the nation overall, including: financial activities (+1.2% v. +1.6%); transportation/ warehousing/ utilities (-1.6% v. +0.8%); construction (-1.0% v. -0.7%); agriculture (-7.3% v. -7.2%); and mining and logging (-11.0% v. +7.2%).

Chart 2 - California Jobs by Industry 2015



California's largest industry sector, based on employment, is the Trade, Transportation, and Utilities sector, employing 2.9 million people and representing 15.5% of all California jobs. Jobs in this sector also support employment in other industry sectors including Manufacturing (8.1% of state employment), Professional Services (13.1% of state employment), and Financial Activities (4.1%).

Chart 2 displays information on state employment within the 10 major industry sectors and government. Many of the jobs associated with several of the state's largest industry sectors pay wages that are generally considered well above the state average. Manufacturing is considered the "gold standard" for jobs because of the higher wages paid to workers, the inclusion of small businesses within its extended supply chains, and the high multiplier effect on their local communities and across the state. The Milken Institute estimates that for every job created in manufacturing, 2.5 jobs are created in other sectors. In some industry subsectors, such as electronic computer manufacturing, the multiplier effect is 16 to 1.

While California has the largest manufacturing sector in the nation, the state is often bypassed for new facilities and the expansion of existing facilities. According to the California Manufacturers and Technology Association, California falls into the lower quartile of states, based on its job growth following the recession. In comparing new and expanding manufacturing activity (January 2010 to October 2016), California ranked 24 out of 32 major manufacturing states. California received only 2.57% of the job growth, as compared to Michigan (32.49%) that generated the most and New Jersey (-4.78%) that had a net loss of jobs over the 16-year period.

One challenge California faces in growing manufacturing jobs is the state's perceived lack of cost competitiveness and the regulated nature of its business environment. These perceptions impact not only decisions about expansions and relocation from other states, but also reshoring decisions. According to one study, California is receiving only about 1% of reshored manufacturing jobs. In recent years, the Legislature and Administration have adopted and funded new initiatives to lower costs for development and expansions of manufacturing and R&D facilities, increase economic analysis of major regulations, and to provide technical assistance to help businesses navigate the state regulatory and permitting environment.

The JEDE Committee will have an opportunity to review the impact of these initiatives in the coming session. The Appendix includes further information on the Legislative Analysts' review of regulations, *Appendix G*, and the Los Angeles Economic Development Corporation's industry cluster development model, *Appendix F*.

Geographic Differences in Economic Growth

While California's overall economy is growing, including jobs, significant areas of the state are not experiencing this prosperity. 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 notes that total job growth between 2010 through 2014 was 9.4%, but the growth within the inland counties was only 8.7%. Further compounding the impact of the lower job growth rate was the significant concentration of that 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 three of the new inland county jobs (64.6% of 124,000 additional jobs). Job growth was also concentrated in the coastal areas with Los Angeles, Santa Clara, and San Diego experiencing 44.8% of the 1.2 million new jobs 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, two key factors may have contributed 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. For more than a decade, inland counties have proposed developing 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.

Business development within the coastal counties increased by 4.9%, adding 56,000 new establishments between 2010 through 2014. The inland counties had a net loss of 75 businesses or 0.1%. 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.

Unemployment Rates Further Underscore Income Disparities in California

In the following charts, unemployment rates by geographic region, race/ethnicity, and age are provided. In difficult economic times and when tracking economic capacity for growth, policy makers often closely track unemployment and poverty rates. In the recession, the state unemployment rate hit a high of 12.4% in February of 2010, which was only the second time since the 1970s that the state rate was above 10%.

In December of 2016, the most recent data available at the time of this report, 18.3 million people were employed, with over 80% being employed in full time work. California’s nonfarm payrolls gained 3,700 jobs in December with the trade, transportation and utilities sector (up 13,400) gaining the most jobs. California reported a seasonally adjusted unemployment rate of 5.2% as compared to the U.S. rate of 4.7% for the period.

The lowest December 2016 unemployment rate among California counties were reported in San Mateo (2.7%), Marin (2.9%), and San Francisco (3%). Thirty-one counties had rates below 6.0% in December 2016. The comparable California rate (not seasonally adjusted) was 5.0%. Thirty-eight counties recorded a decrease in their unemployment rate between November and December 2016. Over the year (December 2015 to December 2016), the unemployment rate decreased in 57 of 58 counties.

While the December 2016 numbers show an expanding economy, many areas of the state, including counties with substantial inland areas, continue to report unemployment numbers significantly above the state average. The highest unemployment rates for the month and throughout the year were recorded for Imperial (18.8% in December 2016) and Colusa (19.5% in December 2016). The comparable California rate (not seasonally adjusted) was 5.3%. **Chart 3** displays additional labor force, employment and unemployment data in selected counties.

Chart 3 - Unemployment December 2016 Selected Metro Areas (not seasonally adjusted)				
<i>Geographic Area</i>	<i>Labor Force</i>	<i>Employment</i>	<i>Unemployment</i>	<i>UI Rate</i>
<i>California</i>	19,192,800	18,228,600	964,200	5.0%
Butte County (Orville Dam location)	102,800	96,400	6,400	5.3%
Colusa County	10,680	8,600	2,090	19.5%
Fresno County	441,200	399,200	42,000	9.5%
Imperial County	77,000	62,500	14,500	18.8%
Los Angeles County	5,071,100	4,831,200	239,900	4.7%
Orange County	1,620,400	1,563,500	56,900	3.5%
Riverside County	1,059,400	1,002,900	56,500	5.3%
Sacramento County	700,100	665,500	34,600	4.9%
San Bernardino County	949,400	901,700	47,700	5.0%
San Diego County	1,579,400	1,513,900	65,600	4.2%
San Mateo County	451,300	439,100	12,200	2.7%
Santa Clara County	1,050,300	1,015,500	34,800	3.3%
Tulare County	200,000	177,500	23,100	11.5%

Source California: California Employment Development Department 2/21/17

Beyond geographic differences, certain demographic groups have unemployment rates disproportionate to the state as a whole. **Chart 4** displays data on California's overall unemployment rate as compared to race, ethnicity, and age. The chart shows how particularly vulnerable the individuals in these groups are to

economic downturns, such as the Great Recession, and how recovery hasn't necessarily brought their unemployment rates in line with the state overall.

Chart 4 – Unemployment by Race, Ethnicity, and Age				
<i>Demographic</i>	<i>December 2016</i>	<i>November 2016</i>	<i>Annual Average 2012*</i>	<i>Annual Average 2010*</i>
California	5.5%	5.5%	10.7%	12.5%
Blacks	8.8%	9.1%	18.9%	21%
Hispanics	6.6%	6.5%	13.3%	15.3%
Whites	5.4%	5.4%	10.4%	12.3%
16 to 19 year olds	17.8%	17.6%	37.9%	36.7%
20 to 24	8.0%	8.0%	17.1%	20.2%

*Source: Calif Employment Development Department - not seasonally adjusted (2/21/17) and *US Bureau of Labor Statistics/2012 and 2010 annual averages*

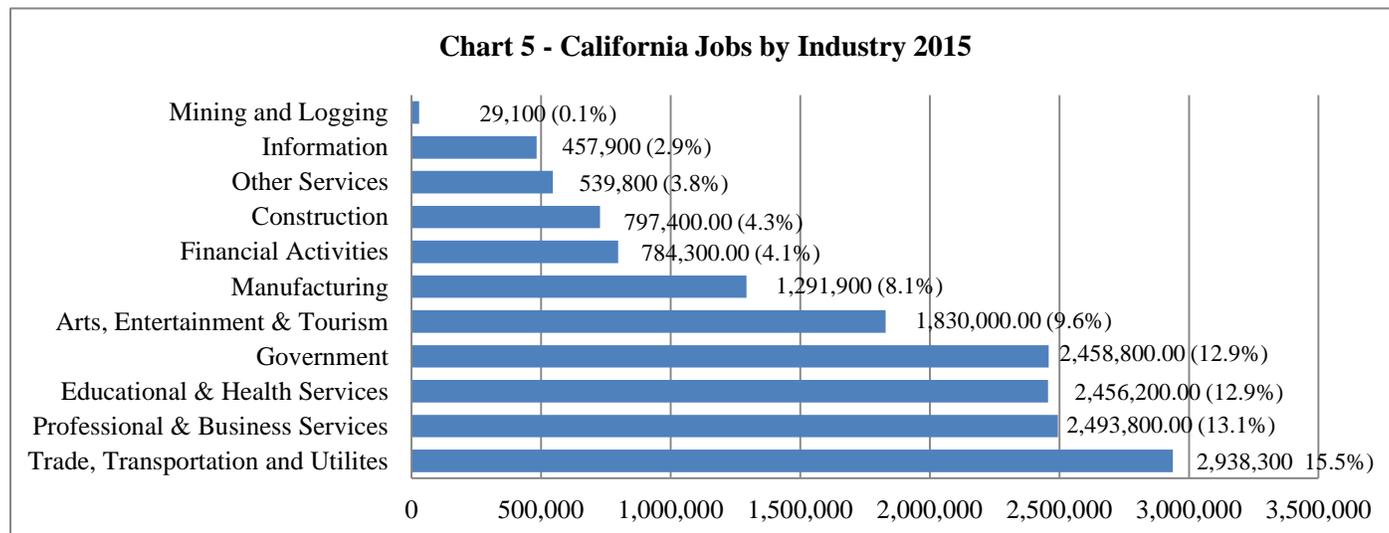
While some of these employment disparities have existed for decades, more recent demographic shifts in the age and race and ethnicity of California's population heightens the economic impact. The U.S. Census Bureau projects that by 2043 a majority of the U.S. population will be comprised of people of color. In 2014, people of color were already the majority in California (61.55), Hawaii (77%), New Mexico (61.1%), and Texas (56.5%), with another nine states which were close to 50%.

2014 also marked the year when Millennials surprised Gen Xers (age 35 to 50 in 2015) as the largest generation in the U.S. labor force. Overall, Millennials are more diverse than prior generations, with 44% being of a race or ethnic group other than non-Hispanic whites. This shift is particularly significant, as the Gen Xers only overtook the Baby Boomers as the largest cohort in the labor force in 2012. For many Gen Xers, this will mean additional stress in the workforce with Boomers remaining in the workforce due to economic reasons and a large and aggressive younger cohort ready to move up.

Future Growth

The Employment Development Department (EDD) has forecasted that California will add 2.6 million nongovernment jobs between 2014 and 2024, which includes 100% recovery of the number of jobs lost during the recession. By 2024, California is expected to have 19.7 million people in the workforce. **Chart 5**, identical to Chart 2, shows California employment in 2015.

Over the 2014-2024 projection period, EDD estimates that California will generate: 2,651,100 new jobs from industry growth and 3,962,200 jobs due to replacement needs. EDD estimates that 71% of the job growth will be concentrated in five industry sections: educational services; health and social services; professional and business services; leisure and hospitality; and construction. Manufacturing is expected to add 17,200



jobs. Appendix E denotes the rapid growth in Advanced Energy Technologies, with almost 550,000 jobs projected in this specific subset as of 2016.

While a significant portion of the growth is in domestic-based services, this projected employment growth is not expected to substantially shift the California economy's reliance on industry sectors that are linked to consumers and supply chains outside the state. The state's international trade strategy notes that over 95% of the world's population and 80% of the world's purchasing power is located outside of the U.S. Helping California businesses leverage the state's strategic geographic location and diverse population requires "strong, forward-leaning state-level leadership to develop a holistic approach to expand international trade and investment which is vital to securing California's economic future and sustainable growth through not only economic-related agencies and policies, but also education and tax policies as well. It will also require state-level leadership to engage and support local and regional partners within the state as well as federal and international partners to build a network and coalition that will provide the foundation to implement a successful international trade and investment strategy."

In 2015, California exported \$165.3 billion in products to 229 foreign countries. Today, four of California's top five exports include component parts, which leave the state to be assembled and/or partially assembled before returning.

Key Policy Questions

In this hearing Members will have the opportunity to hear testimony and engage with expert witnesses on the following:

- What actions can the state take to facilitate more inclusive growth and reduce de facto barriers to community economic development?
- How can inclusive and sustainable development principles be used to enhance global competitiveness and economic integration?
- How can the state best leverage the advantages offered by California's diverse populations?
- Does California have the strategy and willingness to address the current misalignment of policies, programs, and institutions that represent the state's workforce and education systems?
- How can the state support local and regional efforts to catalyze private investments and support entrepreneurship, especially in historically underserved and emerging areas?
- Does the state have an appropriate game plan to attract private capital to meet the state's significant infrastructure needs?
- What economic opportunities do trade-related industries represent and how can the state support local and regional efforts to capitalize on those advantages?

Possible Follow-up Actions

Presentations during the February 28, 2017, JEDE hearing will focus on the California economy and the strategies and models that the state can use to support upward mobility. During the course of the hearing, a variety of issues will be raised and recommendations for future actions discussed. Below is a list of possible recommendations to help focus the discussion and inspire creative, yet practical next steps. The list is not intended to be adopted in total, but rather to offer suggestions about how these issues may be addressed.

1. ***Set an Accountability Standard for New State Investments:*** Engage with Legislative leadership on the importance of addressing income inequality and upward mobility when making significant state investments. Historically, the equity component of sustainability has received minimal attention resulting in mismatched and sometimes ineffective allocations of resources. Introduce legislation to require greater accountability for the impacts of state expenditures, including look-backs on the actual outcomes.
2. ***Infrastructure Finance:*** Introduce legislation to establish new and strengthen existing financial tools for developing infrastructure that supports the state's economic development activities. World-class infrastructure plays a key role in business attraction and expansion and state, regional, and national competitiveness suffers as access to and the quality of infrastructure declines. The Committee could host one or more roundtables to learn more about the structure and finance requirements of private sector infrastructure investors, as well as identifying existing alternative financing models being used by communities to build and maintain community and economic development-related infrastructure.
3. ***Support Smaller Sized Businesses:*** Establish and maintain an open dialogue with small and micro businesses. The Committee could sponsor their own and encourage other members to visit businesses to learn first-hand about their challenges. These business tours can also offer an opportunity to distribute information about local business development resources, including capital, mentoring, and business counseling. Introduce legislation to encourage state agencies to partner with the existing network of federal technical assistance providers including the Small Business Development Centers, Women's Business Centers, and the Veterans Business Outreach Centers. Introduce legislation to provide the State Small Business Advocate with stronger tools for assisting businesses navigate the state regulatory processes. Hold an oversight hearing on the state's use of federal small business finance funds (\$168 million). Introduce legislation to provide a new source of private capital for small businesses in lower income communities. Appendix C includes a further breakdown of economic factors related to small business and feedback from the community on ways to assist.
4. ***Reframe Workforce Development:*** Leverage the implementation of the federal Workforce Innovation and Opportunity Act to deepen regional partnerships among business, education, and community stakeholders. Work in partnership with related Asbly policy and budget subcommittees on how to reframe the education, training, and workforce development systems. Introduce legislation to support the deployment of successful employment training models that address the needs of individuals who face barriers to employment and lead to long-term economic security. Ensure that training and education opportunities are inclusive of the emerging, younger, and more diverse Millennial workforce. Include education and workforce development as central features of the state's court ordered activities to reduce and maintain a lesser number of incarcerated individuals.
5. ***Connect to the Global Economy:*** Closely monitor changes in federal policy that impact international trade and foreign investment, immigrant entrepreneurs, and other issues impacting the California economy. Use the Committee to help facilitate a broader economic development discussion about the strengths and needs of California's trade-related industries, including manufacturing and professional and scientific services. Work collaboratively with policy-related Select Committees on economic development policies and programs that foster foreign trade, global supply chains, and private investment.
6. ***Strengthen Long-Term Economic Security for Vulnerable Populations:*** Enhance, better align, and reduce funding volatility of programs that serve as essential links to promoting economic security and social mobility, including early childhood education, affordable housing, college/career preparation, health care, workforce development, and small business services. Hold an oversight hearing, in

collaboration with related policy committees, on how the state can remove impediments to upward mobility and provide an environment that supports all Californians, including individuals from lower income households and underserved geographic regions.

Reports related to Presentations

1. ***Cal Facts, California State Legislative Analyst (December 2016)***: The report is prepared as a series of charts and tables that illustrate key components of California's economy, state budget, federal funding, state-local finance and demographic trends. Among other findings, the report includes charts that show that economic output varies among regions of the state – with the Bay Area having a significantly higher output than other areas of the state; international trade as an important component of the state economy; top incomes are higher in California than the rest of the nation; poverty and unemployment rates vary significantly throughout the state; high housing costs drives poverty in many coastal areas; Latinos are now the largest population in the state; about 40% of California students speak a primary language other than English at home; and California's low-income students perform significantly below non-low-income students in English language arts. www.lao.ca.gov
2. ***Five-Year Infrastructure Plan, prepared by the Department of Finance (January 2017)***: The report is a five-year infrastructure plan presenting the Governor's proposal for investing \$43 billion in state infrastructure and is in addition to the 10-year \$43 billion proposed through the transportation package . The plan covers key state infrastructure and maintenance expenditures and recognizes a deferred maintenance need of \$78 billion and a state policy goal of including climate resiliency into new infrastructure projects. Due to lower expected General Fund Revenues, the plan relies more on debt than in previous years. The report recommends the allocation of funds for each of the state agencies towards specified projects. Over 90% of the funds (\$39 billion) are targeted for transportation, including High Speed Rail. No new funding is provided for Other projects: More specifically, projects laid out in the plan include, but are not limited to, a new Skilled Nursing facility at the Yountville Veteran's Home, design-build phase of a Consolidated Headquarters Complex project for the California Army National Guard, replacement of the animal health and food safety laboratory in Turlock, highway and rail system maintenance and improvements, high-speed rail segments, seismic retrofits, CHP and DMV office replacements, new water treatment and plant system upgrades, flood control developments, and renovation projects for several California Community Colleges. www.dof.ca.gov
3. ***California's Strategic Workforce Development Plan: Skills Attainment for Upward Mobility; Aligned Services for Shared Prosperity (2016)***: This plan is federally mandated under the Workforce Innovation and Opportunity Act of 2014 and meets the requirements for drawing down federal program dollars. The report outlines a comprehensive four-year strategy for the coordinated investment of federal workforce training and employment services dollars including Title I Adult, Dislocated Worker, and Youth programs, Title II Adult Basic Education and Basic Skills programs, Title III Wagner-Peyser Employment Services programs, and Title IV Vocational Rehabilitation services. The plan also provides a framework for aligning state programs and services with federal funding priorities and requirements. The plan has three policy objectives: (1) Fostering "demand-driven skills attainment;" (2) Enabling upward mobility for all Californians, including populations with barriers to employment; and (3) Aligning, coordinating, and integrating programs and services to economize limited resources and achieve scale and impact. Goals for the plan are as follows: "Between 2017 and 2027, the state will produce a million "middle-skill" industry-valued and recognized postsecondary credentials ... During this time the state will also double the number of people enrolled in apprenticeship programs." California submitted the plan for federal approval on time and it has been approved by the U.S. Department of Labor. http://www.cwdb.ca.gov/WIOA_Unified_Strategic_Workforce_Development%20Plan.htm

4. ***California's Future (February 2015)***: This report, prepared by the Public Policy Institute of California, identifies, assesses, and makes recommendations on California's most significant long-term policy challenges including: climate change, corrections, the economy, health care, higher education, housing, K-12 education, political landscape, population, social safety net, and water. Among other assessments, the report notes the significant regional economic differences with inland California continuing to have higher rates of unemployment. A selection of recommendations include the importance of stimulating business development as a means of supporting a skilled workforce; embracing policies that support a range of industry sectors and not just a handful of currently dominant sectors; promoting economic opportunity through education; an increase in training alternatives to traditional degrees; and continuing to address the state's high prison recidivism rates. A recommendation included within many of the policy areas is the need to collect better data in order to be able to assess the effectiveness of policies and programs. <http://www.ppic.org/main/publication.asp?i=895>
5. ***Career Technical Enhancement Fund Report (March 2015)***: The mandated Supplemental Budget Report was prepared by the Workforce and Economic Development Division of the California Community College System. With the enactment of the 2014-15 Budget Act, \$50 million was appropriated to the California Community Colleges for the purpose of expanding, enhancing, and improving career technical education. Among other things, the money could be used for helping community colleges purchase equipment, align and develop curriculum, and provide professional development training. Funding was awarded to districts based on enrollment related criteria and then further divided between individual community colleges (60%) and regions (40%). Key topics covered in the report include addressing the high cost of career technical training, aligning other resources to create a scale and support regional economies, and making better use of local and regional labor market information. The report also discloses on the use of funds by region and industry sector. The California Community College Chancellor is requesting \$25 million in the 2015-16 budget to continue this work. *Document is not available online. Contact JEDE Committee to request a copy.*
6. ***Equity-based Crowdfunding: Potential Implications for Small Business Capital (2015)***: This issue brief, prepared by the SBA Office of the Advocate, provides general background on the crowd funding provisions contained within the federal Jumpstart Our Business Act of 2012, as well as implementation issues and two examples of the online crowdfunding platforms. The brief also includes an outline of how small businesses may benefit once the federal regulations are released. Among other advantages, equity-based crowdfunding does not require collateral as traditional lending, there is no dilution of ownership as would likely be required by venture capital investors, and should the business fail, there is no requirement to pay the investor back. Further, the investor networks can also provide creditability within their broader business environment. <https://www.sba.gov/advocacy/promising-future-equity-based-crowdfunding>
7. ***Equity, Growth, and Community: What the Nation Can Learn from America's Metro Areas (2016)***: This book examines the impact of social and economic inequality on the vibrancy and success of a community. Most significantly, the researchers looked at how epistemic (or knowledge) communities served as catalysts for helping communities successfully implement strategies that reduce poverty and inequality, while at the same time increase economic growth. The researchers used a combination of qualitative and quantitative methodologies, including 11 case studies, of which one California city participated (Sacramento). <http://www.luminosoa.org/site/books/detail/5/equity-growth-and-community>
8. ***Foundation for a Better California (2015)***: This report, prepared by the California Chamber of Commerce, provides an overview of the California economy noting that the economic recovery has been uneven and that certain industry sectors continue to lag in job recovery. In setting a public policy

platform for moving forward, the report recommends five overarching principles with multiple specific policy actions under each principle. The principles are:

- Keep taxes on new investment and business operations low, fair, stable, and predictable;
- Reduce regulatory and litigation costs of operating a business – especially when hiring and keeping employees;
- Reduce the cost and improve the certainty and stability of investing in new and expanded plants, equipment, and technologies;
- Invest in public and private works that provide the backbone for economic growth; and
- Ensure availability of high-quality skilled employees.

The report also includes extended narrative relative to these recommendations, including international trade, data security, and workforce preparation. Within the workforce preparation sections, the report provides background on the opportunity gap, early childhood education, Common Core, and challenges in the state's higher education system. <http://advocacy.calchamber.com/policy/issues/foundation-for-a-better-california/>

9. ***The Global Competitiveness Report 2015-16 (2015)***: This report, prepared for the World Economic Forum, provides a comprehensive assessment of 140 world economies through the use of over 100 indicators spread out among 12 basic categories. The U.S. ranks third in the world, behind Switzerland and Singapore. The Report questions whether sluggish growth and persistent unemployment are the new normal. Among other findings, the report notes a correlation between competitiveness and an economy's ability to nurture, attract, leverage and support talent. While top-ranking countries do this well, in many countries, too few people have access to high-quality education and training, and labor markets are not flexible enough. <http://reports.weforum.org/global-competitiveness-report-2015-2016/>

10. ***In Search of a Level Playing Field: What Leaders of Small Business Organizations Think About Economic Development Incentives (2015)***: The report, prepared for Good Jobs First, presents the findings from a national survey of leaders from 39 small business organizations (representing over 24,000 members) on issues relating to economic development incentives. Among the key findings, the survey found:

- 92% believe there is a spending bias on incentives toward large businesses (69% strongly agree)
- 85% believe that the state incentives in their state do not effectively address the current needs of small businesses (36% strongly agree)
- 62% believe that incentives like tax credits are less valuable to small businesses than other forms of assistance (31% strongly agree)

Overall, the report states that survey respondents called for greater access to capital and that a higher priority should be placed on broader public investments that benefit all size businesses and grow the local consumer base including workforce development, education, and transportation.

<http://www.goodjobsfirst.org/publications>

Materials in the Appendix

A fact-packed summary of the California economy and copies of other materials related to the presentations are provided in the *appendices*.

- Appendix A - *Agenda for the February 28, 2017 hearing*

- Appendix B – *Fast Facts on the California Economy*
- Appendix C – *Overview of California Small Business*
- Appendix D – *Excerpt from 2017 California Economic Summit Roadmap*
- Appendix E – *Job Growth in Advanced Energy Technologies*
- Appendix F – *Workforce Engagement Model from Los Angeles Economic Development Corporation*
- Appendix G – *PowerPoint Slides from Legislative Analyst presentation*
- Appendix H – *Income Mobility in California across Generations*
- Appendix I- *PowerPoint for UCLA Anderson Forecast*
- Appendix J – *Biographies of the Speakers*

Committee Contact Information

The Assembly Committee on Jobs, Economic Development and the Economy is the committee of the California State Legislature responsible for overseeing issues related to business formation, foreign trade and investment, industrial innovation and research, and state and local economic development activities.

The Committee Office is located in the Legislative Office Building (LOB) at 1020 N Street, Room 359. The phone number to the Committee is 916.319.2090.

Mail should be addressed to: Assembly Committee on Jobs, Economic Development and the Economy; State Capitol; Sacramento, CA, 95814. For security reasons, mail is not received or delivered to the LOB.

Appendices

Appendix A

Hearing Agenda for February 28, 2017

Overview of the California Economy: Supporting Upward Mobility through Economic Growth

The Assembly Committee on Jobs, Economic Development and the Economy is convening its second in a series of informational hearings, which are designed to serve as a foundation which the Member will use in evaluating state programs and legislative proposals in the coming Session. Today's hearing will provide an opportunity for Members to be briefed on the current trends in the California economy, including strategies that support upward mobility.

I. Welcome, Introductions, and Opening Statements

Chair and Members of the Assembly Committee on Jobs, Economic Development, and the Economy will give opening statements and frame the key issues to be examined during the hearing.

II. Overview of the California Economy: The Economic Perspective on Fostering Upward Mobility

- **Jason Sisney**, Chief Deputy Legislative Analyst, Office of the Legislative Analyst
- **Jerry Nickelsburg**, Adjunct Professor of Economics, Anderson School of Management and Senior Economist, UCLA Anderson Forecast

California's \$2.4 trillion economy is one of the largest and most diversified economies in the world. If California were a country, its 2015 GDP would rank it 6th among nations in the world. Many economic factors contribute to the state's economic dominance, which, in turn, drive state revenues. Presentations in the first panel will provide an overview of the California economy including a snapshot of state revenues, federal revenues that pass through the state budget, and identify key issues that may impact the state's economic position.

III. Highlighting One Upward Mobility Model in California

- **Pete Weber**, Director and founder of Fresno Bridge Academy and Co-Chair of California Forward

Fresno business leader Pete Weber and the Fresno Bridge Academy are one of five recipients of the 2016 James Irvine Foundation Leadership Awards. Since 2010, the Bridge Academy has been helping low-income families transition from public assistance to jobs that provide economic independence. Mr. Weber's presentation will highlight their signature 18-month, employment-training program, including lessons learned and opportunities for replicating the model in other areas of the state.

IV. Entrepreneurship and other Strategies for Upward Mobility

- **Scott Hauge**, President and Founder, Small Business California
- **Malaki Seku-Amen**, President and Chief Executive Officer, California Urban Partnership
- **Heidi Pickman**, California Association for Microenterprise Opportunity

Developing policies that support upward mobility of historically overlooked areas of the state and groups of individuals requires both a focus on strengthening the underlying fundamental business environment, as well as creating opportunities for individuals to customize their career pathway to success. In this panel, small business and nonprofit directors will discuss practical ways to assist individuals in achieving their business and community development goals.

V. Public Comment

Anyone interested in addressing the Committee may sign up to speak during the public comment period. A sign-up sheet is located at the back of the hearing room. Written comments may also be submitted.

VI. Closing Remarks

Assemblymembers will make closing remarks and offer recommendations for further actions by the Assembly Committee on Jobs, Economic Development, and the Economy.

Appendix B

Fast Facts on the California Economy

California Gross Domestic Product (GDP)

- California's economy is the sixth largest in the world – larger than Russia, Italy, India, and Canada.ⁱ

- In 2015, California GDP grew from \$2.3 trillion to \$2.4 trillion.ⁱⁱⁱ

California's largest private industry sectors were: Finance, insurance, real estate, rental, and leasing (21.3% of state GDP); trade, transportation, and utilities (14.6% of total GDP); professional and business services (13.3% of state GDP); manufacturing (11.3% of state GDP); information (8.2% of state GDP).^{iv}

Comparison of 2015 GDPs			
Country	GDP	Country	GDP
1 - United States	\$17.94 trillion	9 - Italy	\$1.81 trillion
2 - China	\$10.98 trillion	10 - Brazil	\$1.77 trillion
3 - Japan	\$4.12 trillion	11 - Canada	\$1.55 trillion
4 - Germany	\$3.35 trillion	12 - Korea	\$1.37 trillion
5 - United Kingdom	\$2.84 trillion	13 - Russia	\$1.32 trillion
6 - California*	\$2.45 trillion	14 - Australia	\$1.22 trillion
7 - France	\$2.42 trillion	15 - Spain	\$1.20 trillion
8 - India	\$2.09 trillion		

Source: Department of Financeⁱⁱ

Firms, Employment and Wages

- There were 3,117,591 firms in California that had no employees in 2014, representing 77% of all firms in California (4,007,237 in total). Of firms which have employees (889,646 in total) 50.5% had 1 to 4 employees, 80.5% had less than 20 employees, 92% had less than 100 employees, and 94% had less than 500 employees (federal small business definition). About 2,102 firms in California had 500 employees or more.^v
- There were 19.4 million workers in the California labor force in December 2016 with 18.4 million individuals employed, a month over decrease of 39,000 jobs. This represents a 499,000 (2.8%) increase in jobs over the prior year.^{vi}
- In December 2016, nonfarm employment rose in six industry sectors. The largest job gains were in trade, transportation & utilities (13,400); leisure and hospitality (7,500); educational & health services (3,400); manufacturing (1,500); government (1,000); mining & logging (1,000).^{vii}
- California exported \$165.3 billion in products in 2015 to 229 foreign countries. Mexico (\$26.7 billion) and Canada (\$17.2 billion) are the state's largest export markets.^{viii} California imported \$408.2 billion in products from other countries in 2015, accounting for 18.2% of total U.S. imports in 2015. China (\$143.6 billion) and Mexico (\$45 billion) are the state's largest import markets.^{ix}
- California median household income in 2015 was \$64,500 (\$55,775 for U.S.)^x with 15.3% of individuals in the state (14.7% for U.S.) living on incomes at or below the federal poverty designation.^{xi} Using the federal Supplemental Poverty Measure, which accounts for geographic differences, transfer payments, and out-of-pocket expenses, 20.6% of California residents live in poverty, as compared to 15.1% nationally.^{xii}

Future California Job Market

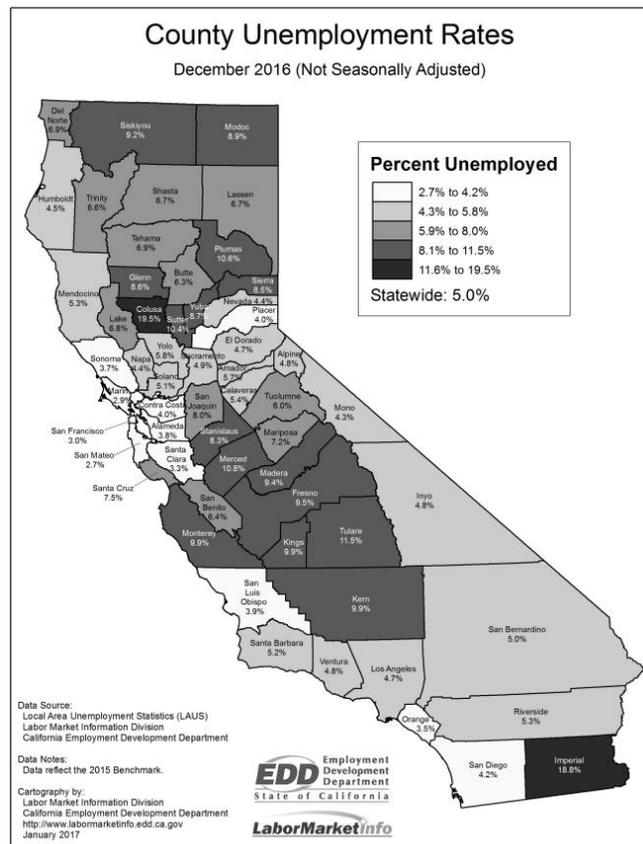
- The Employment Development Department is responsible for accessing future employment needs based on regional industry clusters. *The chart displays employment projections for 2012-2022, including new and replacement jobs.*

Projections for California Employment for 2012-2022					
	Industry Sector	Net Jobs		Industry Sector	Net Jobs
1	Hospitality and Tourism	823,883	6	Professional and Technical Services	350,483
2	Retail	647,468	7	Information and Communication Technologies	317,896
3	Health Care Services	602,228	8	Construction Materials and Services	304,961
4	Business Services	492,658	9	Social Services	271,977
5	Education and Training	467,713	10	Financial Services and Real Estate	246,710

Source: Employment Development Department^{xiii}

December Unemployment

- In December 2016, the California seasonally adjusted unemployment rate was 5.2%, down 0.1% from the prior month and down 0.7% from the prior year. This figure represents over 1 million unemployed workers.^{xiv} Over the same period, the national unemployment rate was 4.7%.^{xv} *The map displays unemployment rate by county.*
- For December 2016, the counties with the highest unemployment were Imperial (18.8%) and Colusa (19.5%) and the county with the lowest unemployment was San Mateo (2.7%). The comparable non-seasonally adjusted state unemployment rate was 5.3%.^{xvi}
- The highest not seasonally adjusted unemployment rates by race and ethnicity were among blacks (8.8%), Hispanics (6.6%), and whites (5.4%).^{xvii}



Most Californians, 80.7% generally worked full time. There were 920,000 persons in California who worked part time involuntarily, comprising 5.1% of all employed workers during the survey week.^{xviii}

By age group, the highest unemployment group was among workers 16 to 19 (17.8%), up 0.2% from the prior month.^{xix} The largest group of unemployed persons, when sorted by duration, were those unemployed for less than 5 weeks, which represented 312,000 persons or 30.1% of all unemployed. These are not seasonally adjusted rates^{xx}

Prepared by: Toni Symonds, Chief Consultant and Matthew Hurley, Committee Secretary.

Appendix C

California Small Businesses

Small businesses play an essential role in California's regional economies and industry sectors, having generated an annual payroll of \$207.8 billion in 2013 (*most recent*). One of the challenges public policy makers have in discussing small businesses is the variety of definitions of small business, which often vary by program and industry. Small businesses are in some cases defined by their number of employees and in other cases they are defined by gross receipts and/or other financial data.

The chart below illustrates, the actual employment size of the greatest number of businesses is very low. Nearly 90% of all businesses have fewer than 20 employees. The 20 employee threshold is also important relative to job creation. Separate research undertaken by the U.S. Census Bureau and the Kauffman Foundation have shown that net new job creation is reported to be highest among businesses with fewer than 20 employees.

2013 Business Profile By Size (excludes non-employer firms)						
Area Description	Employment Size	Number of Firms	Percent of Firms	Employees	Percent of Jobs	Annual Payroll (\$1,000)
United States	Total	5,775,055		118,266,253		\$5,621,697,325
California	Total	711,086	12.3% of U.S. Firms	13,401,863	11.3% of all U.S. Jobs	\$742,523,853
United States	0-4	3,575,290	61.9% of U.S. Firms	5,926,660	5% of U.S. Jobs	\$241,347,624
California	0-4	440,341	61.9% of CA Firms	715,711	5.3% of CA Jobs	\$37,108,705
United States	<20	5,168,122	89.5% of U.S. Firms	20,508,253	17.3% of U.S. Jobs	\$766,673,997
California	<20	631,114	88.8% of CA Firms	2,451,599	18.3% of CA Jobs	\$104,952,422
United States	0-99	5,671,155	98.2% of U.S. Firms	40,205,960	34% of U.S. Jobs	\$1,565,749,147
California	0-99	692,949	97.4% of CA Firms	4,794,863	36% of CA Jobs	\$207,758,893
United States	<500	5,756,419	99.7% of U.S. Firms	56,823,377	48% of U.S. Jobs	\$2,318,163,431
California	<500	705,284	99.2% of CA Firms	6,650,576	49.6% of CA Jobs	\$304,748,094
United States	500+	18,636	0.32% of U.S. Firms	61,442,876	52% of U.S. Jobs	\$3,303,533,894
California	500+	5,802	0.82% of CA Firms	6,751,287	50.4% of CA Jobs	\$437,775,759

Source: U.S. Census <http://www.census.gov/econ/susb/index.html>

Small Business by Industry Sectors

Small businesses play differing roles within industry sectors. The bullets below show the top three industry sectors for California small businesses (employing 0-99 employees) by number of businesses:

- The real estate and rental and leasing sector had the highest percentage of small businesses in California, consisting of 98.1% of the firms in the sector.
- The health care and social assistance sector had the second highest percentage of small businesses in California, consisting of 97.8% of the firms in the sector.
- The professional, scientific, and technical services sector had the third highest percentage of small businesses in California, consisting of 97.7% of the firms in the sector.

Based on the number of employees, the top three industry sectors for California small businesses (employing 0-99 employees) are:

- The accommodation and food services sector, which had the highest number of workers employed by small businesses in California, with a total of 676,837 employees, consisting of 48% of employment in the sector.
- The health care and social assistance sector, which had the second highest number of workers employed by small businesses in California, with a total of 574,968 employees, consisting of 33% of employment in the sector.
- The professional, scientific, and technical services, which had the third highest number of workers employed by small businesses in California, with a total of 488,362 employees, consisting of 43% of employment in the sector.

The 2012 Survey of Business Owners

In August 2015, the U.S. Department of Census published initial data from the 2012 Survey of Business Owners. The last survey was made in 2007. While the data significantly trails real-time, it is the most comprehensive source for tracking trends in entrepreneurship, including ownership by women and individuals of color.

Gender Differences in U.S. Businesses			
	Percent Change 2007 to 2012 Women-Owned Firms	Percent of Change 2007 to 2012 Man and Women-Owned Firms	Percent Change 2007 to 2012 Men-Owned Firms
U.S. Firms	27.5%	-45.8%	7.9%
Receipts from all firms (employer and nonemployer)	35.1%	6.7%	33.8%
Employer Firms	15.7%	-25.8%	5.3%
Receipts from Employer Firms	35.4%	13.2%	34.9%
Employment	19.4%	-11.9%	11.5%
Payroll	35.3%	-0.9%	25.8%

Source: National Women's Business Council

The **Gender Differences in Business Chart** shows selected data from the 2012 Survey of Small Business Owners. Among other findings, the data shows a 27.5% increase in women-owned businesses between 2007 and 2012, as compared to a 7.9% increase in businesses owned by men and a -45.8% decrease in firms

owned equally by men and women. Women-owned businesses also experienced the greatest increase in the number of people they employed and wages paid.

States with the highest percentage of women-owned firms included District of Columbia, Georgia, Maryland, New Mexico, and Florida. Delaware, Alaska, North Dakota, Maine, and New Jersey were the states where women-owned firms collected the highest amount of receipts.

Women entrepreneurs, according to the Ewing Marion Kauffman Foundation, have unique skill sets, which both set them apart from other business owners and make them successful entrepreneurs. Among other advantages, the Kauffman Foundation states that women entrepreneurs have a more nuanced understanding of businesses risk/reward profile. Women are more comfortable with financial risks, but more sensitive about risks that may seem foolhardy. The Kauffman Foundation also believes that there is a correlation between a rise in women entrepreneurs and increased business returns and payout ratios.

In California, business ownership by women was up 13.7%, which was the highest among states with the largest number of women-owned businesses. In Texas, women-owned businesses were up 8.7%; Florida, 8.18%; New York, 7.3%; and Illinois, 4.23%. California also had the highest number of Hispanic and Asian American women-owned firms. For businesses owned by Black women, Georgia had the largest number of firms, California had the fifth largest number.

The Comparison of Business Growth by Race, Ethnicity, and Veterans Chart shows additional information from the 2012 Survey of Business Owners relative to race and ethnicity. The largest percentage changes in business ownership were by Hispanic women, where the number of firms grew by 87.3% between 2007 and from 20012. As a comparison, male Hispanic-owned firms grew by 39.3%.

Comparison of Business Growth by Race, Ethnicity, and Veterans	
Business Ownership	Percent Change 2007 to 2012 Number of all Firms
Asian American Women	44.3%
Asian American Men	25.7%
Black Women	67.5%
Black Men	18.8%
Hispanic Women	87.3%
Hispanic Men	39.3%
White Women	10.1%
Veteran Women	29.6%
Veteran Men	7.7%
<small>Source: 2012 Survey of Business Owners</small>	

Appendix D

Excerpt from 2017 California Economic Summit Playbook



RESTORING UPWARD MOBILITY: A NEW FOCUS IN A NEW ERA

With the country deeply divided over issues of national politics, California finds itself a deep blue state in an increasingly red nation. But while most Californians cast their ballots differently than voters in Middle America, the same economic hardship motivating people there can be found in all of California's regions.

While job growth is steady, so too are concerns about rising income inequality and stubbornly high levels of poverty. For millions of Californians of every age and race and gender, the future is clouded by economic uncertainty, rising costs (especially for housing), and fading hopes for upward mobility.

These issues—and the consequences for the millions of people struggling with them—have always been the urgent, driving force behind the California Economic Summit.

For the last five years, the Summit partnership of public, private, and civic leaders has defined and pursued an ambitious agenda for restoring economic opportunity—one that is neither blue nor red.

The *Roadmap to Shared Prosperity* outlines a non-partisan, inclusive path toward sustainable growth that is right for California—and that may now be a model for the rest of the nation. Grounded in distinct regional perspectives, the Summit has rallied leaders of every political stripe around solutions that meet the high standard of a "triple bottom line"—simultaneously growing the economy, improving environmental quality, and increasing opportunity for all.

Over the last year, the Summit has advanced this work through its One Million Challenges, three ambitious goals that seek to prepare Californians for higher-wage jobs, increase housing affordability, and encourage infrastructure investment.

The 2016 presidential election season brought widespread economic dissatisfaction into stark relief—and reaffirmed the Summit's commitment to its priorities and values. That is why California Forward and its partners in the California Stewardship Network have spent much of the last year probing deeper into the drivers of persistent poverty and stifled mobility—to gauge the *Roadmap's* effectiveness and to understand how it could be bolstered to provide more lasting, more comprehensive solutions.

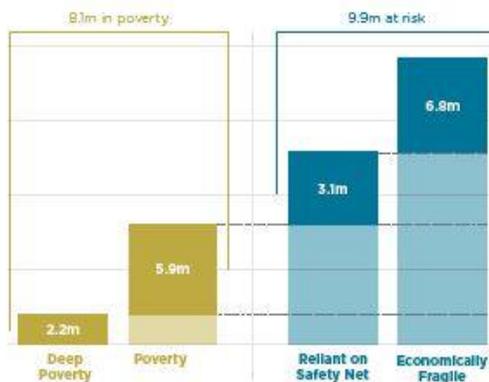
The Summit's analysis scrutinized the drivers of poverty—and offered one startling conclusion:

CALIFORNIA'S AT-RISK POPULATION IS BIGGER THAN IT APPEARS

More Californians live in poverty than any other state—8.1 million people, or 22 percent of the population. But there is an equally large group (3.1 million people) living just above the poverty line who rely on income supports to keep their households functioning—and who are one lost job or health issue away from poverty. An additional 6.8 million people are considered "economically fragile," living in households earning below their area's median income (which varies by region, from \$43,000 a year in the San Joaquin Valley to \$64,000 in the Bay Area). According to a new Real Cost Measure developed in 2015 by the United Way, nearly one in three Californians struggle to meet basic needs, rent, food, and health care.

This expanding economic vulnerability is severely hampering upward mobility. According to new research presented by Stanford economist Raj Chetty at the 2016 California Economic Summit in Sacramento, 92 percent of Americans born in 1940 earned more than their parents. But only half of today's young workers can expect to do better than the generation before them.

MILLIONS OF CALIFORNIANS REMAIN ECONOMICALLY VULNERABLE



Data source: Poverty Measure from Stanford/PPIC data; Middle income from HUD and analysis.

Appendix E

Job Growth in Advanced Energy Technologies



INDUSTRY OVERVIEW

Advanced energy employs over half a million workers in California. The State of California has a significant advanced energy industry, employing over 500,000 workers at nearly 43,000 businesses in 2015. That is three times Motion Pictures, TV, and Radio (145,000), bigger than Agriculture, Forestry, and Fishing (475,000), and approaching Construction (750,000).⁸ (Figure 1.1) Advanced energy employment represents over 3% of California's workforce overall.⁹

Advanced energy generated new jobs at six times the rate of the overall California economy. In 2015, advanced energy added 18% more jobs than 2014, and 23% more than 2013, the first year for which we have data. Meanwhile, overall statewide employment rose by 3% over 2014.¹⁰ The state's advanced energy economy surpassed growth expectations from the 2014 industry report by over 4,500 jobs. Next year, employers expect to increase advanced energy employment by 8%, which would bring total advanced energy employment in California to almost 550,000. (Figure 1.2)

Employment grew fastest in the Advanced Grid segment, which includes smart grid, storage, and electric vehicle charging technologies. The Advanced Grid workforce more than doubled between 2014 and 2015, adding over 11,000 new jobs. The greatest net increase, however, came in Advanced Generation, which grew by 50% over 2014, creating almost 48,000 new jobs in the state. Advanced Transportation also saw impressive growth, adding just under 7,000 new workers to payrolls, 65% more than in 2014. Firms in the already substantial Energy Efficiency segment reported 6% employment growth. This more modest growth rate still translated to a substantial addition of 18,000 new jobs. California's Advanced Fuel

Major Industry Comparisons, 2015

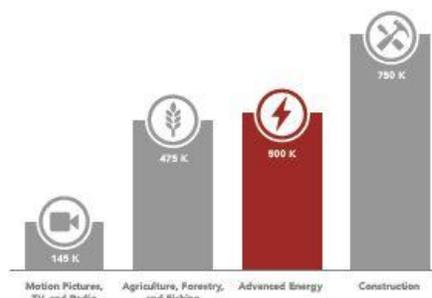


Figure 1.1

Advanced Energy Employment, 2013 - 2016

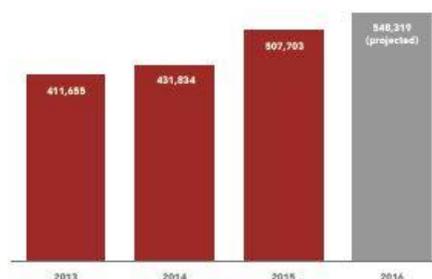


Figure 1.2

8. BLS, Current Employment Statistics State and Area Employment, total nonfarm, Jan. 2016. Industry figures are from Q2 2015, available at http://www.bls.gov/cew/apps/data_views/data_views.htm#tab=Tables. Industry definitions are available at http://www.census.gov/eos/www/naics/2012NAICS/2012_Definition_File.pdf.

9. BLS, Current Employment Statistics State and Area Employment, total nonfarm, Nov. 2014 – Nov. 2015. Available at <http://www.bls.gov/ces/>.

10. BLS, Current Employment Statistics State and Area Employment, total nonfarm, Nov. 2014 – Nov. 2015. Available at <http://www.bls.gov/ces/>.

sector was the only segment of Advanced Energy that did not create additional jobs in 2015. Challenged by several factors including persistently low gasoline prices, Advanced Fuels saw employment decline more than 50% from 2014, resulting in a loss of about 8,300 jobs. (Figure 1.3)

Advanced Energy Employment by Segment, 2014 - 2015

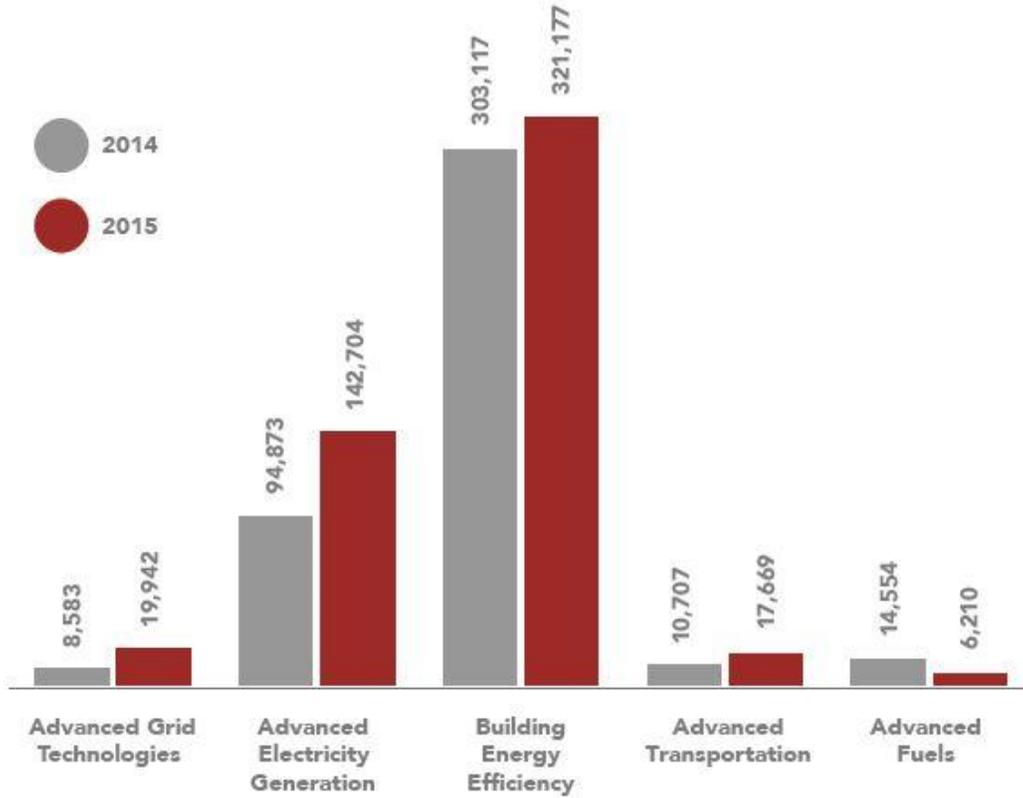


Figure 1.3

About six out of every 10 workers in California’s advanced energy economy are employed in Energy Efficiency, which supports over 321,000 jobs in total. Nearly three in 10, or about 143,000 workers, perform jobs in the Advanced Electricity Generation segment. The remaining 44,000 advanced energy workers are employed in the Advanced Transportation, Advanced Grid, and Advanced Fuel sectors. (Figure 1.4)

Advanced Energy Employment by Segment, 2015

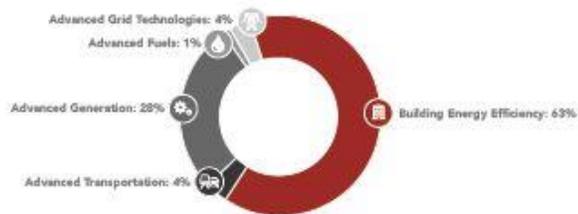


Figure 1.4



Appendix F

LAEDC Cluster Development Model



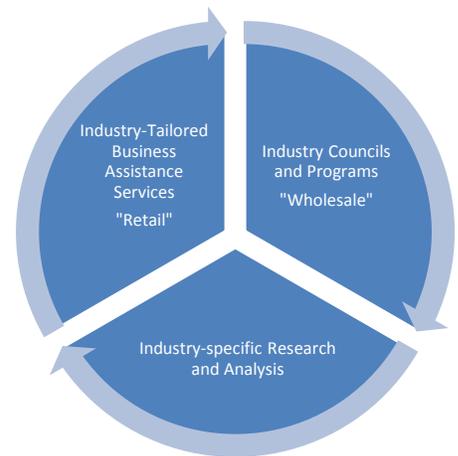
Background: The Challenge of the “New Normal” in Economic Development

We are in the midst of a structural transition that will reshape the regional, national and even global economy, wherein the nature of production, the need for labor, the organization of firms, and the rewards that work now earns will be remarkably different from the current paradigm we are experiencing today. Much like the Industrial Revolution, the technology revolution of recent decades caused a transition from low-tech, routine production to an information-age economy, where economic rewards are earned by the highly skilled and well-educated. We are transitioning at an accelerated pace away from “labor-intensive” production, and towards an economy characterized by capital-intensive industries.

By and large, firms are no longer beholden to certain geographical areas in order to “do business.” Previously, agriculture and even industrialized production, such as mills and factories, needed certain fixtures (a water source, proximity to consumer, etc.) to be most efficient. Today, however, production is not geographically circumscribed, and can take place almost anywhere. With the ability to take production nearly anywhere across the globe, it has become increasingly important for firms to be incentivized, supported, and assisted to maintain, expand, and grow industry within certain regions or states. In California, tomorrow’s winners and losers are being determined today by our ability to ensure longevity of the state’s most important industry clusters.

The LAEDC Model

At the Los Angeles County Economic Development Corporation (“LAEDC”), there are two major focus areas (in addition to our keystone industry-specific research and analysis) that, when combined, provides assistance *today* for firms experiencing business-related challenges, but also delivers support and longevity for the industry *moving forward*. As an analogy, let’s use the framework of retail and wholesale business models. Retail is defined when a manufacturer or producer sells directly to his customers. Selling wholesale means the team sells the product in bulk quantities to a “middle man” who in turn sells it to the consumer (i.e. other retailers).



Retail Approach: First, transactional “on-the-ground” services help firms to navigate the complex California and Los Angeles business environment. LAEDC’s Business Assistance Program (BAP) uses Regional Managers to provide services to companies such as permit assistance, guidance on local and state tax credits and incentives, workforce and training information, site selection, and utility cost mitigation. BAP provides much-needed resources to firms within our industry clusters. These basic services help break down barriers and help allay issues firms face so they can focus on their product, development, growth, and expansion. BAP also serves as a feedback loop to inform the “wholesale” team, or industry cluster development team, of challenges happening in real-time.

Wholesale Approach: The second anchor to the LAEDC approach is a future-oriented method, where “cluster-thinking” orients economic development practices and policies toward groups of firms and away from individual firms because it is more efficient to work with groups of firms on a common problem (and therefore a common solution) than it is to work with individual firms. The process begins with the development of our understanding around a cluster’s economic value, regional strength, and regional asset (and gap) profile. Armed with this data, analysis, and knowledge, LAEDC can shape and direct sector-specific growth strategies that are regularly informed and shaped in our industry councils.

LAEDC Industry Cluster Development combines LAEDC’s strengths in economic research, cluster analysis, public policy analysis, and marketing. By convening diverse stakeholders in sector-specific industry councils, the members create connections and shared goals, and take action on those goals. These sector partnerships and councils create a forum for actively promoting industry growth and vitality and can be a vehicle to shape education and workforce development responses. Our state-of-the-art, regional, sector-based economic development strategy is driven by the very sophisticated and unique needs of each industry sector.

Targeted industry cluster development is founded on and guided by the core principle that in this new innovation-intensive environment, regional economic development success will be shaped increasingly by the nature of a region’s export-oriented industries and the value placed on their workers. Current evidence suggests that focused industry cluster development can unleash incredible growth potential when used as an approach that cuts across the traditional fields and tools of economic and workforce development, helping to enhance their effectiveness.

Case Study: Composite Horizons (Aerospace and Defense)

Composite Horizons is fast-growing design and manufacturing firm that creates high-temperature ceramics and carbon-fiber components for the aerospace industry and has 200 employees with more than \$40 million in annual sales. Composite Horizons were experiencing delays with a City’s permitting process while the clock was ticking on new construction to begin on a facility that would allow them to begin work on more than \$370 million in new contracts that awaited delivery. A BAP regional manager went to work to expedite this process and move critical permits along to complete the firm’s expansion.

Composite Horizons has also been a long-standing member of the Southern California Aerospace Council (SCAC). The Council focuses on supporting and building a robust aerospace and defense industry in Southern California through business development, technological innovation, strategic public policy, and workforce development. With participation of firms like Composite Horizons and many others, the SCAC can defend Southern California’s status as the aerospace capital of the world, and position the region to be a hub for emerging sectors technologies and occupations that will drive the industry in the future. Composite Horizons and other firms have informed the SCAC on issues such as: property tax exemptions for space equipment (AB 777); Revisions to CA Board of Equalization Rule 133 to reclassify equipment used in space travel as “business inventory”; Administrative law recommendations rules to implement the California Competes Tax Credit; How to ensure continued operations of the LA Air Force Base; and many others.

About LAEDC

Los Angeles County Economic Development Corporation (LAEDC) was founded in 1981 as a private, nonprofit, public-benefit organization to harness the power of private sector in collaboration with L.A. County, to guide economic development and create more widely shared prosperity. The LAEDC provides collaborative economic development leadership to promote a globally competitive, prosperous and growing L.A. County economy to improve the health and well-being of our residents and communities and enable those residents to meet their basic human need for a job. We achieve this through objective economic research and analysis, strategic assistance to government and business, and targeted public policy. Our efforts are guided and supported by the expertise and counsel of our business, government and education members and partners

Appendix G

PowerPoint for Legislative Analyst Presentation

California's Economy & State Revenues

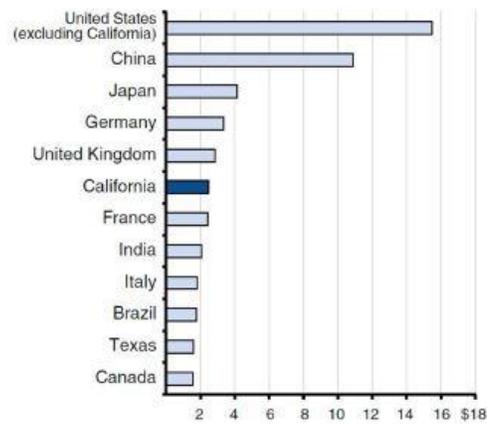
Jason Sisney
Legislative Analyst's Office

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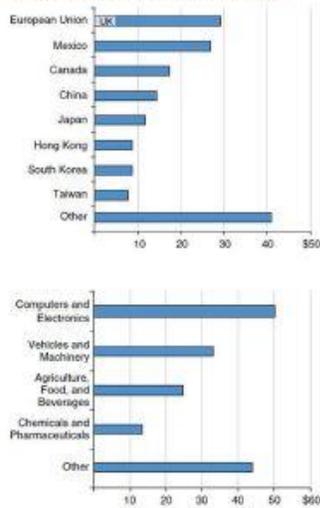
California's Economy...It's Big!

Gross Domestic Product (In Trillions)



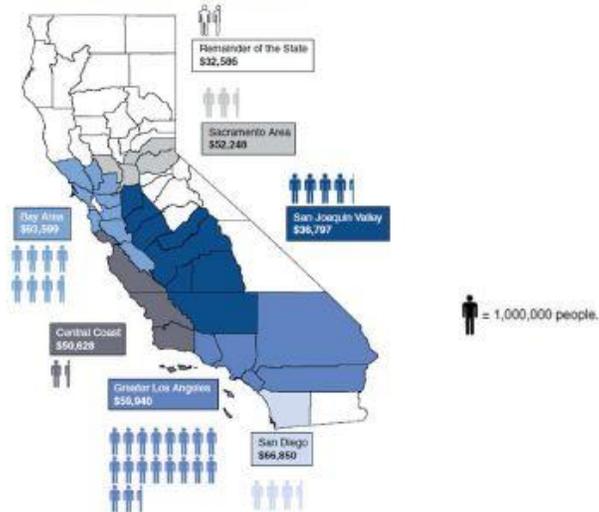
Economy is Connected Globally

2015 International Goods Exports (in Billions)

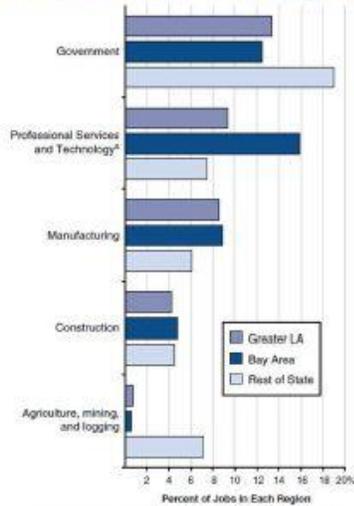


Output Varies Throughout State

Population and Per Capita Gross Domestic Product

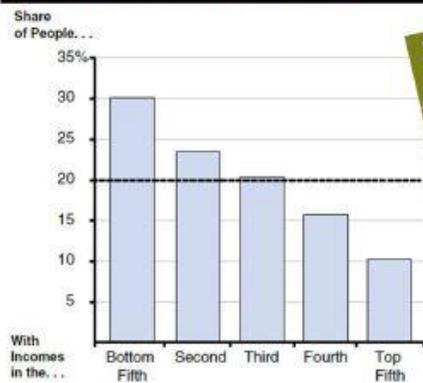


Job Mix Varies Throughout State



Income Mobility

Outcomes Among California Children Born Into Bottom Fifth of Incomes



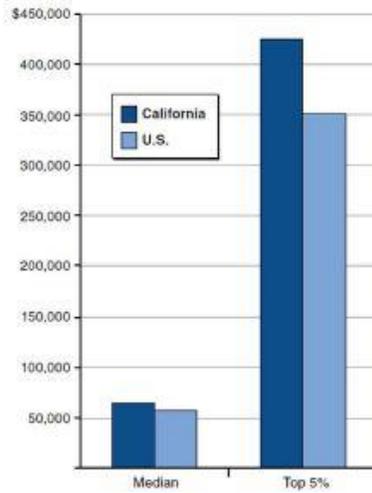
Note: If each child had an equal chance of ending up anywhere in the income distribution, each of these five bars would be 20 percent.



For more information, go to www.lao.ca.gov and search for "Income Mobility in California Across Generations."

Top Incomes Higher Than Elsewhere...

2015 Household Incomes



...With Significant Poverty...

Poverty Rate^a, 2011 Through 2013



^a California Poverty Measure rates.

Source: Public Policy Institute of California and Stanford Center on Poverty and Inequality.

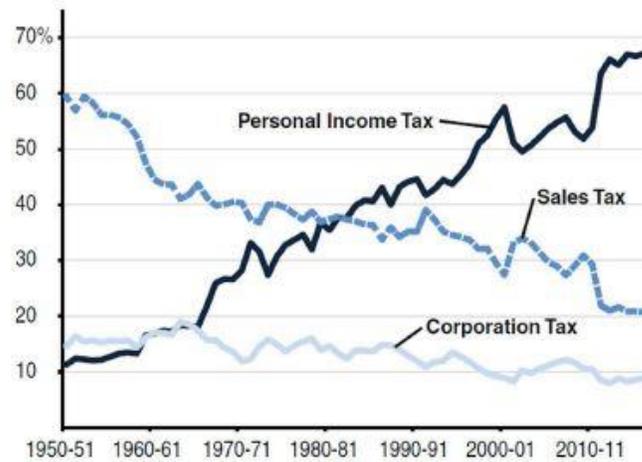
...and Widely Varying Jobless Rates



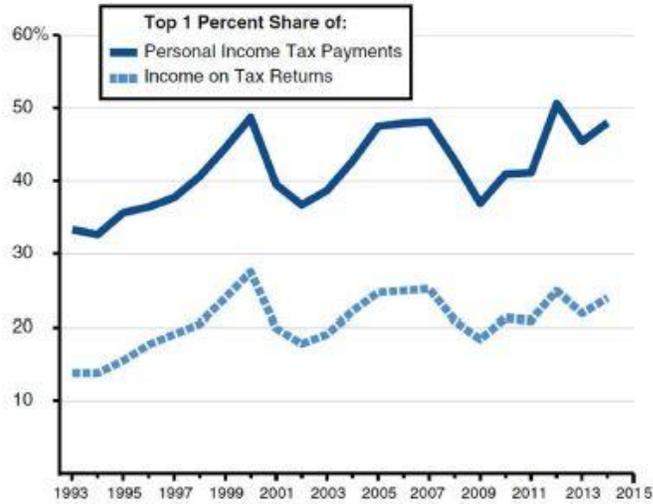
Note: Average unemployment rate in 2015 in Colusa and Imperial counties was 15.5 percent and 24 percent, respectively.

State Government's Key Revenues

Share of General Fund Revenues



Top 1% Pay Up to 1/2 of Income Tax



Bay Area Pays Big Share of Income Tax

2014 Resident Tax Returns

County	2014 Population		Adjusted Gross Income		Personal Income Tax Assessed		
	Number (Millions)	Percent of Statewide Total	Amount (Billions)	Percent of Statewide Total	Amount (Billions)	Percent of Statewide Total	Per Capita (\$)
San Francisco/Oakland/ San Jose MSAs	6.5	16.8%	\$346.2	29.1%	\$22.6	37.0%	\$3,474
Orange County	3.1	8.1	107.3	9.0	5.7	9.3	1,821
Ventura County	0.8	2.2	26.4	2.2	1.2	2.0	1,439
Los Angeles County	10.1	26.1	282.9	23.8	14.5	23.7	1,434
San Diego County	3.2	8.4	97.0	8.2	4.6	7.6	1,425
Central Coast ^a	1.4	3.7	39.1	3.3	1.8	3.0	1,282
Napa, Solano, and Sonoma Counties	1.1	2.7	31.4	2.6	1.3	2.2	1,267
Sacramento MSA	2.2	5.8	58.8	4.9	2.4	3.9	1,063
North State ^b	1.2	3.2	22.4	1.9	0.7	1.2	612
San Joaquin Valley ^c	4.1	10.7	72.1	6.1	2.4	4.0	593
Riverside and San Bernardino Counties	4.4	11.4	81.2	6.8	2.5	4.0	559
Other residents ^d	0.4	1.0	23.5	2.0	1.3	2.1	3,496
Totals	38.7	100.0%	\$1,188.2	100.0%	\$61.2	100.0%	\$1,581^e

^a Includes Monterey, San Luis Obispo, Santa Barbara, and Santa Cruz Counties.

^b Includes all counties north of San Francisco, Napa, Sonoma, Vallejo-Fairfield, and Sacramento MSAs.

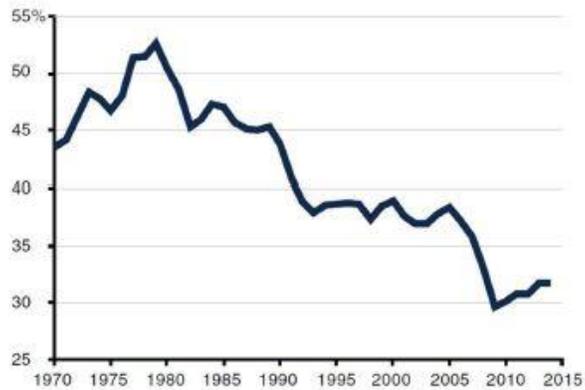
^c Includes Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus, and Tulare Counties.

^d Includes California resident tax returns with (1) an address in another California county or (2) an out-of-state address. Returns with out-of-state addresses collectively had \$1.1 billion of tax assessed, the vast majority of the total shown on this line. Excludes nonresident tax returns, which collectively had \$2.5 billion of tax assessed.

^e Statewide average.

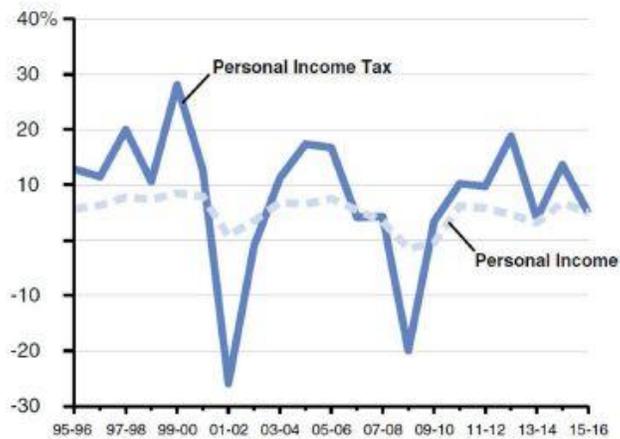
Sales Tax Excludes Services

Consumers Are Spending a Declining Share of Income on Taxable Goods



Income Tax Volatile...

Percent Change From Prior Fiscal Year



...Partly Addressed by New Reserve Requirements

Proposition **2**
State Budget, Budget Stabilization Account, Legislative Constitutional Amendment.

Official Title and Summary

Prepared by the Governor General

- State Budget, Budget Stabilization Account, Legislative Constitutional Amendment.**
- Requires annual transfer of 1.5% of general fund revenues to state budget stabilization account.
 - Requires additional transfer of general capital gains tax revenues exceeding 9% of general fund revenues to budget stabilization account and, under certain conditions, dedicated V-14 school reserve funds.
 - Requires that half the budget stabilization account revenues be used to repay state debts and authorized liabilities.
 - Allows certain use of funds in case of emergency or if there is a state budget deficit.

Governor's Budget: General Fund Condition

(In Millions)

	2015-16 Revised	2016-17 Revised	2017-18 Proposed
Prior-year fund balance	\$3,508	\$5,024	\$1,028
Revenues and transfers	115,500	118,755	124,027
Expenditures	113,983	122,781	122,520
Ending fund balance	\$5,024	\$1,028	\$2,535
Encumbrances	980	980	980
SFEU balance	4,044	48	1,555
Reserves			
SFEU balance	\$4,044	\$48	\$1,555
BSA balance	3,529	6,713	7,869
Total Reserves	\$7,574	\$6,761	\$9,424

SFEU = Special Fund for Economic Uncertainties (the General Fund's traditional budget reserve) and BSA = Budget Stabilization Account.

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Appendix H
Income Mobility in California across Generations

**Income Mobility in California
Across Generations**



MAC TAYLOR • LEGISLATIVE ANALYST • JANUARY 2017

LAO 

EXECUTIVE SUMMARY

Intergenerational Income Mobility. Intergenerational income mobility is the extent to which children move up (or down) in the income distribution relative to their parents. Many factors can affect children’s income mobility. These include geographic factors—like the safety of their neighborhoods or the quality of their schools—their parents’ decisions, and their own characteristics. In this report, we examine intergenerational income mobility in California using estimates published by researchers Raj Chetty, Nathaniel Hendren, and their coauthors.

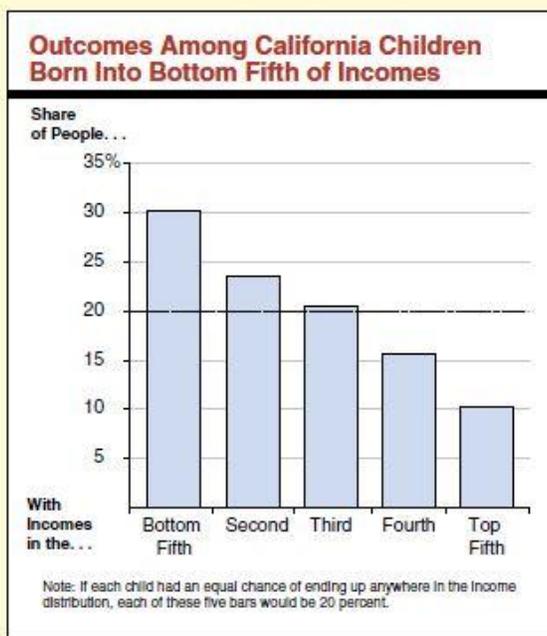
Californians’ Income Mobility Somewhat Higher Than National Average. Rates of intergenerational income mobility in California are somewhat above the national average. This means that, on average, children born to low-income parents in California earn slightly higher incomes as adults than their peers in other states.

Outcomes Among Children Born Into Bottom Fifth of Incomes. The figure below displays outcomes for Californian children born into households in the bottom 20 percent of national incomes. Over half of these children remain in the bottom two-fifths as adults, while about one-fourth end up in the top two-fifths as adults. Compared to their peers nationwide, this group of Californians has greater upward mobility. Nationally, 21 percent of those born in the bottom fifth end up in the top two-fifths.

Californians’ Higher Mobility Not Due to Living in California. The evidence in this report suggests that Californian children have higher rates of income mobility because of their parents’ and their own characteristics, not because growing up in California results in more mobility. On average, growing up in California results in somewhat lower adult earnings for children compared to living elsewhere in the United States.

“Growing up in California” includes all geographic factors that affect a child’s income mobility, including school quality, neighborhood safety, and community interactions. According to the Chetty and Hendren estimates, had these children grown up somewhere else, they would have experienced slightly greater upward income mobility.

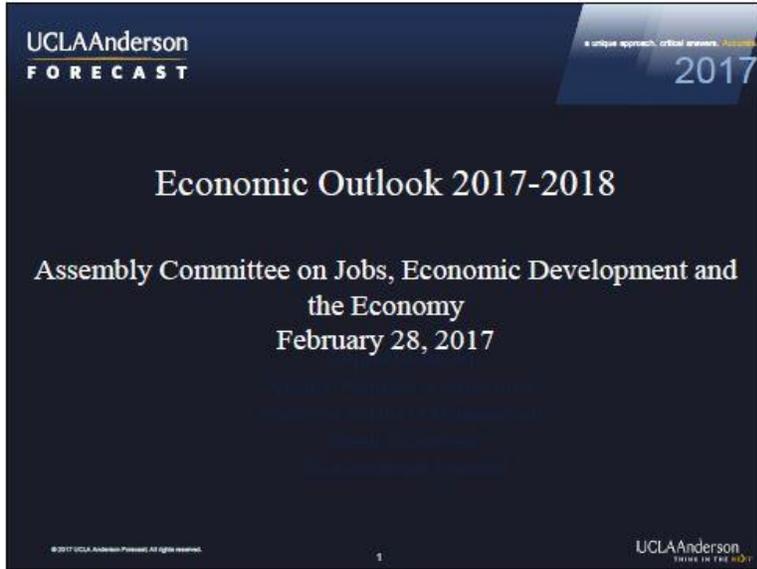
Effects Vary Within California. While growing up in California results in lower future earnings for low-income children *on average*, there is a great deal of variation in these outcomes at a local level. Within California, growing up in a particular county can increase or decrease a child’s future annual income by a couple of thousand dollars.



Traits of Places That Produce More Income Mobility. The fact that different places produce more or less intergenerational income mobility leads to a natural question: What causes these differences? As a first step in answering this difficult question, we highlight some of the characteristics of places that produce more income mobility. These include: lower rates of violent crime, better performance on some school metrics, stronger social networks, higher shares of middle-income households, and larger shares of two-parent households. However, these do not necessarily reflect cause-and-effect relationships.

Appendix I

PowerPoint for UCLA Anderson Forecast



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2017

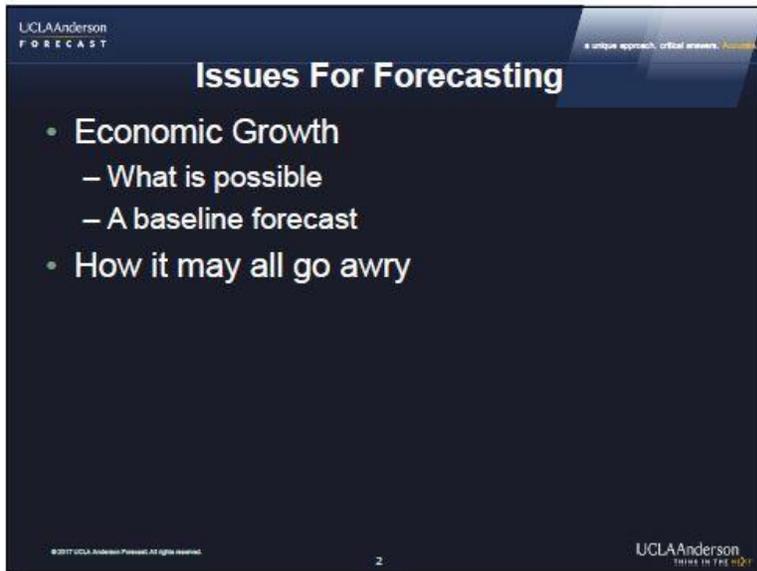
Economic Outlook 2017-2018

Assembly Committee on Jobs, Economic Development and
the Economy
February 28, 2017

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THINK IN THE MIDDLE

1



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Issues For Forecasting

- Economic Growth
 - What is possible
 - A baseline forecast
- How it may all go awry

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THINK IN THE MIDDLE

2

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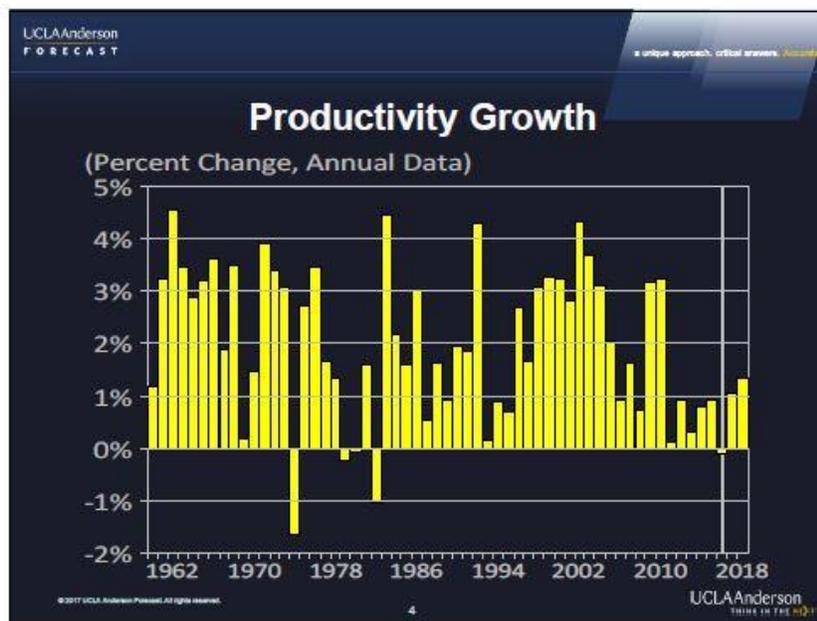
a unique approach, critical answers, *forecast*

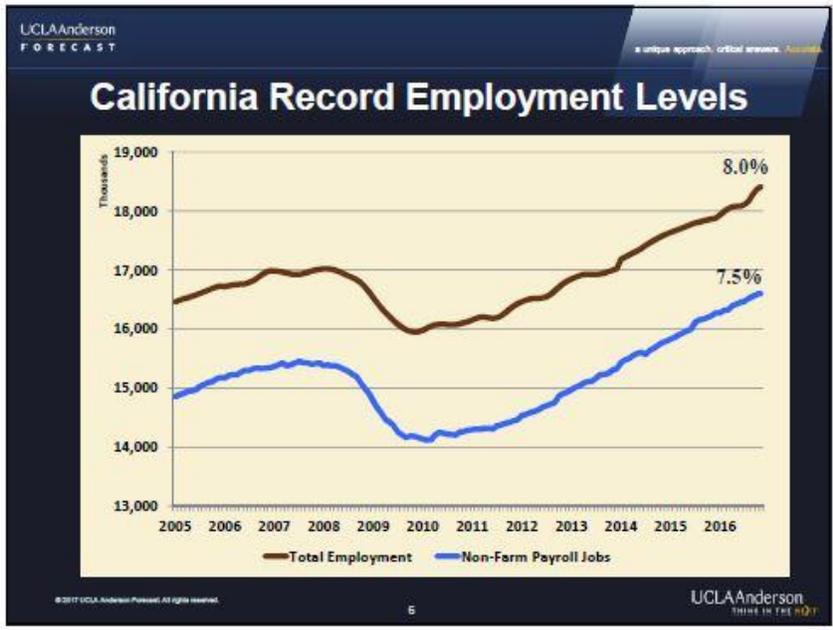
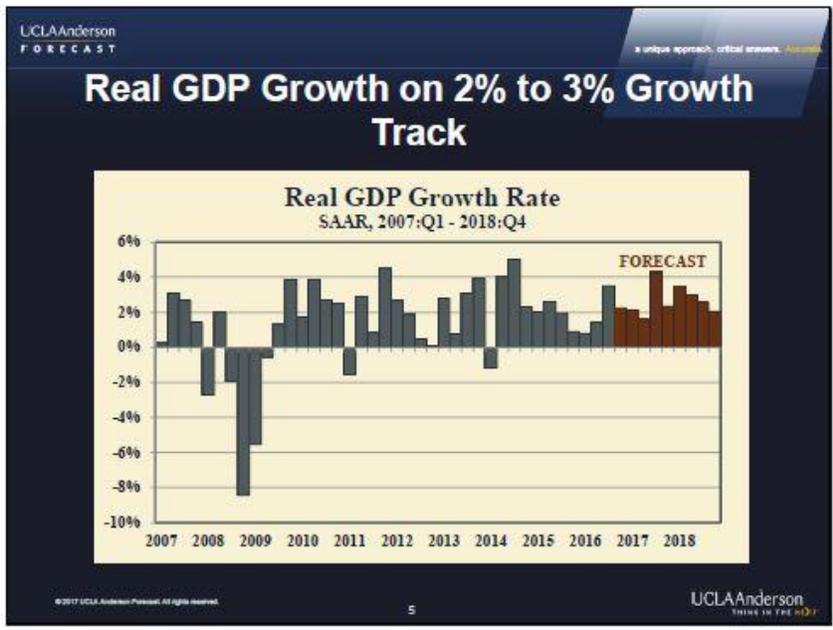
Economic Growth Calculus

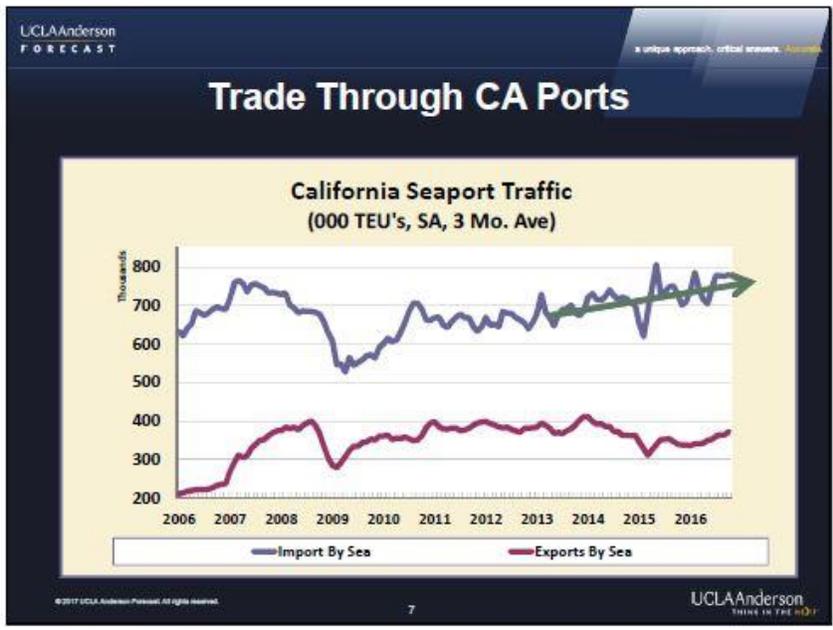
Change in GDP =

-  Change in Labor Force
-  Change in Capital Stock
-  Change in Technology

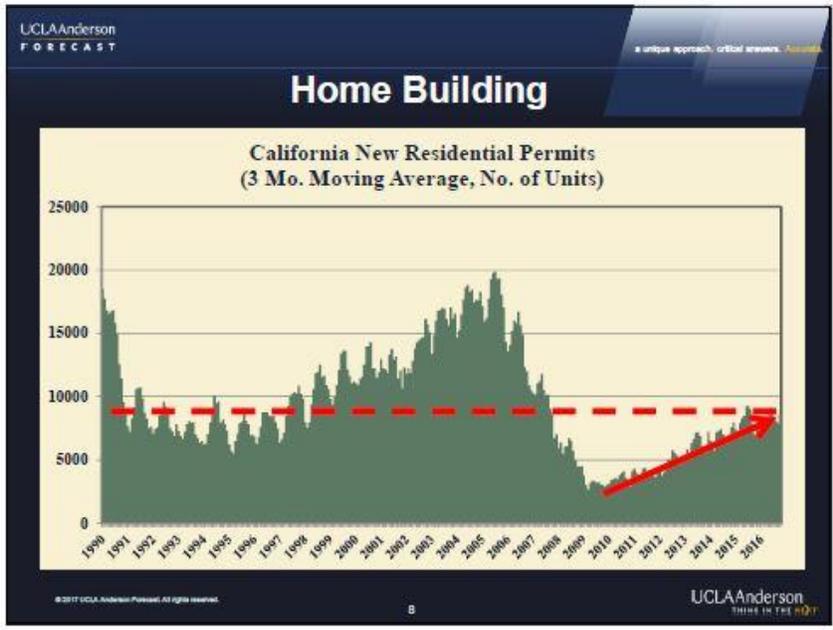
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THINK IN THE BOX



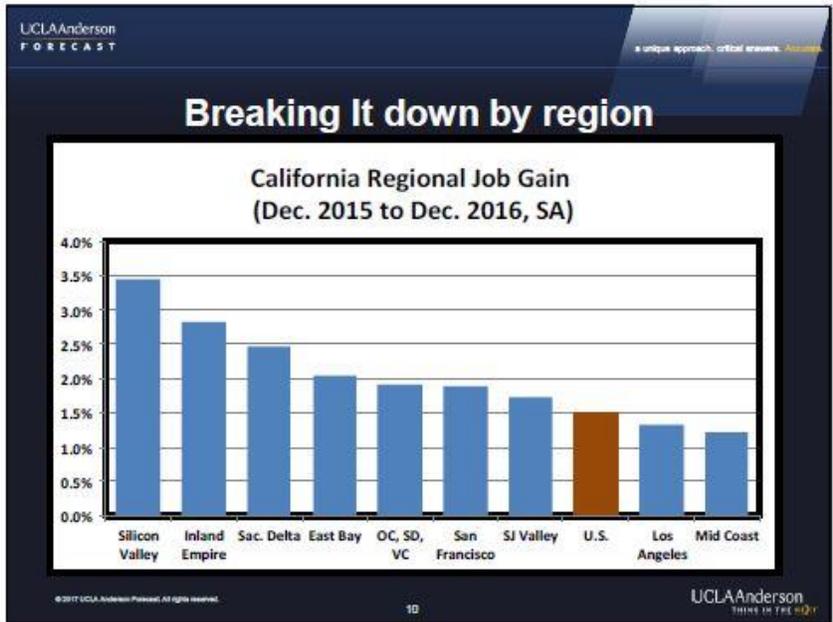
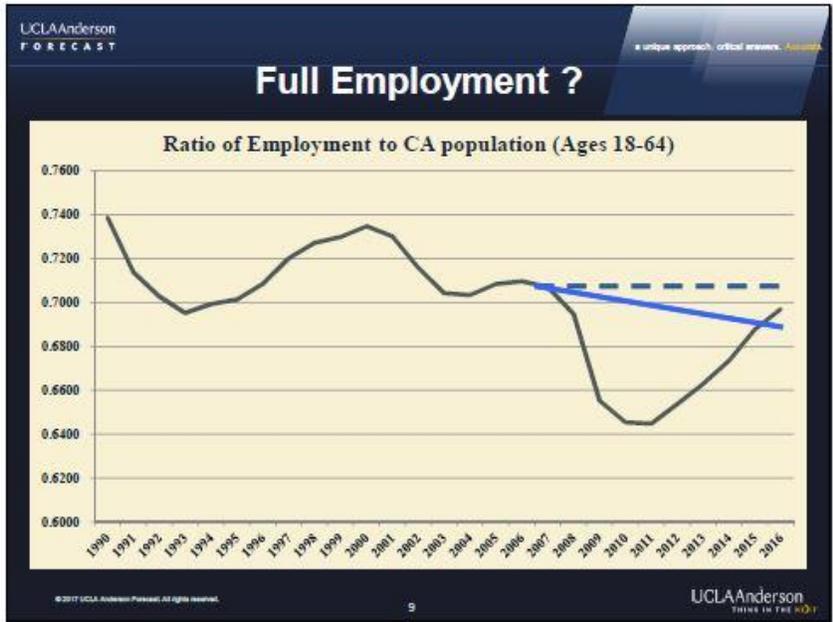


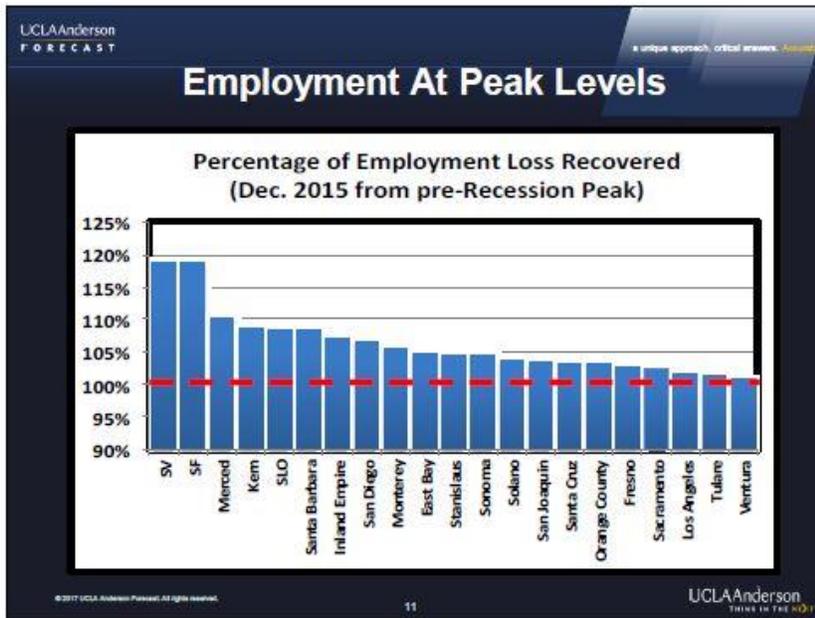


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8





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Deportation

- It can't happen right away & it will be expensive
- It will affect agriculture, meat production, non-durable goods manufacturing
 - Mitigated by
 - Imports
 - Overtime
 - A small increase in domestic labor
- Where have all the gardeners gone?
- Multiplier effects




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Higher Defense Spending

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Higher Defense Spending

- California disproportionately benefits
 - San Diego, OC & LA
 - Silicon Valley
- Where do the people come from?
 - Not in the unemployed
 - Higher wages
 - Re-hire recent retirees
 - Domestic migration

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Other Risks

- Tech run-out
- Sanctuary Cities
- Infrastructure Spending
- Deficit Blowup
- Interest Rates
- Obamacare
- Geopolitical

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Implications

- Full employment: for now
- Slower growth but solid growth in a constrained economy (labor force and housing)
- Considerable risks to the forecast
- Tech boom not abating, though fundamentals should dictate a slowing in employment growth

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BASELINE CA FORECAST

	2016	2017	2018
Payroll Employment	2.6%	1.8%	1.5%
Unemployment	5.4%	5.2%	5.2%
Personal Income (real)	1.9%	3.6%	3.8%
Housing Permits (units)	102.7	118.9	119.5
Population Growth	0.9%	1.0%	1.0%

Appendix J

Biographies of Speakers

Witnesses Biographies (alphabetical order)

Scott Hauge; President and Founder of Small Business California

Scott G. Hauge is the President and owner of CAL Insurance & Associates, Inc. The company was founded in 1927 and currently has 25 employees. Since then, the agency has achieved B Corporation certification while continuing to specialize in providing insurance for small to medium sized businesses.

Mr. Hauge has been a leading advocate in paving the way for small and medium sized businesses. He has introduced government legislation that has affected business on local, state and national levels. He is considered one of the insurance industry's leaders in setting guidelines and has received numerous awards and countless commendations for his efforts. Scott was awarded the 2007 Small Business Advocate of the Year presented by The National Small Business Association (NSBA) and has been named the 2014 Small Business Advocate of the year by the California Association for Micro Enterprise Opportunity (CAMEO).

Mr. Hauge is renowned for his knowledge and how to best protect and serve the business community. He is currently a member of over 20 boards and commissions in San Francisco and California. He is founder and President of Small Business California, a non-profit, non-partisan advocacy and education group for small business in California. It outreaches to 2700 small businesses statewide representing most of the 3.2 million small businesses in California. Mr. Hauge also serves as Co-Founder and Vice President of Clinic by the Bay, and on the Board of Advisors at Insure the Uninsured Project (ITUP). As of 2012, Mr. Hauge has been appointed by Senator Steinberg to be the Vice Chair of the California Commission on Disability Access.

Jerry Nickelsburg; Professor, UCLA Anderson Forecast

Jerry Nickelsburg joined the UCLA Anderson Forecast in 2006 as a Senior Economist. At the Anderson Forecast he plays a key role in the economic modeling and forecasting of the National, and California economies and the Los Angeles, Bay Area and Southern California economies. He has conducted special studies into the future of manufacturing in Los Angeles, the distribution of income, the economic impact of the writer's strike, the aerospace industry, the undocumented construction and manufacturing labor force, the ports of Los Angeles and Long Beach and the garment industry, focusing on the development of new data and the application of economic theory and statistical methods to sectoral issues. His current academic research is on organizational and individual learning in manufacturing, and investment in specific skills. He is a regular presenter at Economic Conferences is regularly cited in the national media including the Financial Times, Wall Street Journal, New York Times, Los Angeles Times, and Reuters.

He received his Ph.D. in economics from the University of Minnesota in 1980 specializing in monetary economics and econometrics. He was formerly a professor of Economics at the University of Southern California and has held executive positions with McDonnell Douglas, Flight Safety International, and Flight Safety Boeing during a fifteen year span in the aviation business. He also held a position with the Federal Reserve Board of Governors developing forecasting tools, and has advised banks, investors and financial institutions.

From 2000 to 2006, he was the Managing Principal of Deep Blue Economics, a consulting firm he founded. He has been the recipient of the Korda Fellowship, USC Outstanding Teacher, India Chamber of Commerce

Jubilee Lecturer and is a Fulbright Scholar. He has published over 100 articles on monetary economics, economic forecasts and analysis, labor economics, and industrial organization and he is the author of two books on monetary economics and exchange rates.

Heidi Pickman; Communications & Policy; California Association for Microenterprise Opportunity

Heidi Pickman joined CAMEO in 2011 to develop and manage CAMEO's communication and advocacy activities. Before joining CAMEO, she directed earned media activities for two California ballot initiatives and campaigned successfully to include clean energy provisions in the economic stimulus package of 2009. In her former career as a radio journalist, she produced national public radio programs including Weekend America and Marketplace Morning Report. She has a B.A. and M.A. in Economics from Tufts University and a C. Phil. in Economics from UCLA. She loves anything to do with Spain and dabbles in the fire arts.

Malaki Seku-Amen; President & Chief Executive Officer

Malaki Seku-Amen (pronounced "mal-luck-eye / say-coo awe-men") has been in the vanguard of community economic development for 25 years. He has lived and told the stories of troubled neighborhoods as a journalist, pioneered innovative business support programs, steered policy in the executive and legislative branches of state government and advised Fortune 500 corporations in high stakes public affairs issues.

One of Malaki's first career-defining success stories was coordinating a chamber of commerce's congressional lobbying efforts in 1990, which aimed to promote regional business incubation as a response to local military base closures. After producing Sacramento's first (and award-winning) directory of Black businesses, professionals and community resources, he then co-authored grant proposals securing over \$1.5 million in local and federal funding for the rehab of an abandoned 75,000 square foot commercial facility to house the Al Geiger Center for Business Incubation, and, a business development and technology skills training program with micro-loan fund serving low income residents in Sacramento. In 1993, Malaki joined the Center's staff as the training program coordinator.

In roles as partner of a public affairs and visual media firm (intermittently since 1995), Governor's appointee and staffer in California's Legislature (2001 to 2007), and state lobbyist for the nation's oldest and largest civil rights organization (2008 to 2011), Malaki wrote business plans, analyzed public policies, built coalitions, developed successful marketing, media and fundraising strategies, managed budgets and staff/volunteers, organized major conferences and events, chaired committees, reported to governing boards and much more. This includes having held management responsibilities in operating a California Technology, Trade and Commerce Agency division's business and community support programs responsible for awarding \$72 million in grants, which created and retained over 18,000 jobs.

From 2005 to 2012, Malaki served as an appointed Member of the California Economic Strategy Panel, which advised the Governor and the Legislature on economic strategies to guide public policy. This afforded him an opportunity to research critical issues, engage stakeholders and develop policy recommendations in many areas of economic development; namely, technology commercialization, the state's regional industry cluster eco-system, infrastructure, regulations, workforce development, capital formation, government program evaluation, supporting entrepreneurs and startups, and addressing income inequality.

From the practice of business development, to the field of public policy, Malaki's work has been driven by an intimate understanding of how to successfully navigate California's diverse communities, political environment and economic opportunities. In 2006 – with support from legislative, industry and community leaders - Malaki completed a fellowship at Harvard University's Institute for Community Economic Development, resulting in his development of a community action plan for neighborhood revitalization in

low-income urban areas in California (the Economic Opportunity Initiative – EOI). The California Legislative Black Caucus adopted the EOI as legislation and a major policy recommendation linked to its 2007 State of Black California report. Governor Arnold Schwarzenegger also adopted the EOI, which became his basis for establishing through Executive Order, the California Partnership for Urban Communities (a community organization assistance pilot project), within the California Business, Transportation & Housing Agency.

Ultimately, a continued passion for community innovation, investment and equity led to Malaki’s current role as president and chief executive officer of the California Urban Partnership – a 501 c 3 nonprofit organization he founded in 2010.

Jason Sisney; Chief Deputy Legislative Analyst, State and Local Finance

Jason Sisney is the chief deputy legislative analyst at the LAO. He heads the LAO unit that tracks the California economy and tax revenues and considers other issues like housing, public employee compensation, and pensions. He joined the LAO in 2005 following 10 years at a bond rating agency (Fitch Ratings) in New York, where he worked on bond ratings for states, colleges, and local governments. Previously, he worked for the Governor's Office in his native state of West Virginia. His degrees are from the University of Virginia and the Maxwell School of Syracuse University.

Pete Weber; Director and founder of Fresno Bridge Academy and Co-Chair of California Forward

Peter Weber is a retired corporate executive, having served as Vice-President of FMC Corporation, a diversified Fortune 500 company; CEO of Teknowledge, Inc., a publicly traded artificial intelligence software and services company; and CEO of Riverbend International, a publicly traded agribusiness company.

Mr. Weber retired in 2001 to dedicate himself to community and economic development activities in the San Joaquin Valley. He currently serves on the boards of the California Partnership for the San Joaquin Valley; the Fresno Regional Jobs Initiative; the Fresno Citizen Corp; the Fresno Business Council; the Lyles Center for Innovation and Entrepreneurship; The Fresno Bridge Academy; and Fresno Citizens for Good Government.

Mr. Weber was an advisor to former Fresno Mayor Alan Autry and produced the 2002 strategic plan for the City of Fresno, “Meeting the Challenge.” He currently is an advisor to Fresno Mayor Ashley Swearengin. Mr. Weber also served as co-chair of the Superintendent’s Advisory Task Force for Fresno Unified School District, and was the principal author for the District’s turn-around plan, “Choosing our Future.” In 2009, Mr. Weber authored a policy paper for California Forward titled “Growing California’s Regional Economies: An Economic Growth Strategy for the State of California.”

Mr. Weber is a former director of Riverbend International; Teknowledge Inc; Waterman Industries; RealWorld Schools; The Council of the Americas; the Mercosur Enterprise Council; the Stanford Institute for Manufacturing and Automation; the International Student Exchange Program at the University of Illinois; and the San Jose Museum of Art. He also is a former member of U.S. Trade, the Chicago Council on Foreign Relations, and the Mexico-U.S. Business Committee.

Mr. Weber, a native of Peru, received a bachelor’s degree in industrial engineering from the University of California at Berkeley and is a graduate of the Executive Program at the Stanford University Business School. He and his wife Laurie reside in Fresno.

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