

Joint Legislative Hearing on The Role of Innovation in California's Post-Recession Economy

Preliminary Recommendations for Further Actions

These preliminary recommendations are designed help Members and the public think through the range of possible follow-up actions. Collectively, these recommendations propose a comprehensive set of actions that support innovation efforts unlocking new private investment, helping prepare workers and entrepreneurs for the 21st Century workplace, and modernizing the state's infrastructure to better serve the needs of its people and businesses.

With trillions of private investment dollars currently sitting out of the market waiting for appropriate projects and firms for deployment, businesses and governments that have bold plans, backed by sound economic principles, will have a strategic advantage in attracting capital. By acting now, California can turn the challenges of the financial crisis into a long term economic opportunity for Californians.

Encouraging New Corporate Investments

1. **Increase California's research and development tax credit** from 20% to 35%. As the state moves out of the recession, steps need to be taken to ensure California's R&D credit remains competitive with new innovation centers, such as Singapore, South Korea and Massachusetts. Proposal modeled after AB 2506 (V. Manuel Pérez) in the 2011-12 Legislative Session.
2. **Authorize the sale of R&D and manufacturing related businesses incentives.** Financial and business markets have demonstrated a great appetite for purchasing potentially unused tax credits. The practice is allowed by other states, placing California start-ups and small businesses at a financial disadvantage in raising capital. Having a new source of capital would also help in the commercialization process of new ideas and products. Proposal modeled after AB 2508 (Arambula) in the 2007-8 Legislative Session.
3. **Exempt manufacturing equipment from state sales and use tax.** As new technologies are developed through increased R&D activities, California needs to retain related manufacturing in California and support the upgrading and innovation of manufacturing processes and facilities. As one of only four states that still imposes sales tax on equipment, California is at a comparative disadvantage to other states. Proposal modeled after AB 2506 (V. Manuel Pérez) in the 2011-12 Legislative Session.

Providing a Skilled Workforce and Enhancing Employee Success

4. **Provide direct technical assistance to businesses bringing production lines back to the U.S.** As federal and state policy makers work to encourage manufacturers to finance new production lines, the role of California's existing one-stop Career Centers should be expanded to include targeted

services to help returning manufacturers set-up shop by streamlining tax and employment registration, offering free training to employer's human relations staff on California laws and regulations, and helping identify and, where possible, train employees to meet specific skill needs. Proposal developed in response to testimony before JEDE Committee.

5. **Authorize a 20% to 40% tax credit for business investments that fund critical employment training needs of workers.** In an economy supportive of ongoing innovation, employers need skilled workers that have reliable access to training and new certifications. California's post-secondary institutions play a key role in the development and deployment of curricula and training programs that increase the employability of California's future workers. New resources are needed to support these collaborative efforts. Proposal modeled after AB 2508 (Arambula) in the 2007-8 Legislative Session.
6. **Establish a nonprofit California Innovation Corporation** to provide a driving force behind educating, retaining, and attracting scientists and engineers which are the human capital necessary to grow California's innovation economy. The Corporation would also serve as a "best practices" catalyst for models that support collaborations between public institution research labs and industries for the purpose of translating public research into products that generate jobs of Californians. Proposal developed from *Innovate 2 Innovation: An Assessment of California's Innovation Ecosystem Phase II Report* (California Council on Science and Technology, 2011).
7. **Fund microenterprise and small business development entities** that offer technical assistance and training to new entrepreneurs. Global economies are driven by expanded supply chains, which rely heavily on small and medium size businesses to meet specialized product and service markets. Maintaining California's historically dominant role within expanded supply chains and innovation networks is crucial to the state's competitiveness. For some of these expenditures, the federal government will match state contributions dollar for dollar. Proposal developed in response to testimony before JEDE.

Supporting Regional Economies

8. **Establish regional Innovation and Jobs Boards**, perhaps in collaboration with the GO-Biz Innovation Hubs. These boards will serve as a forum for business and industry leaders to share best practices across industries, creating efficiencies that ultimately reduce costs and spur growth. Proposal modeled after AB 2506 (V. Manuel Pérez) in the 2011-12 Legislative Session.
9. **Support the development of communities of innovation** through the co-location of federal, state and private science and technology assets. Encouraging new collaborative land use and development models can physically transform the built environment in a space that promotes innovation, entrepreneurship, knowledge transfer. Proposal modeled after recommendations from California Council on Science and Technology, *Innovate 2 Innovation: An Assessment of California's Innovation Ecosystem Phase I Report*, 2011.
10. **Fully integrate microenterprises and small size businesses** within state programs that are designed to support the economy and create individual empowerment. These programs include, but

are not limited to, the Temporary Assistance for Needy Families, the state and local workforce investment board activities and the California Economic and Workforce Development Program at the California Community College System. Proposal modeled after Corporation for Economic Development's policy innovation brief and included within SB 1401 (Lieu) and SB 1402 (Lieu) in the 2011-12 legislative session.

Supporting Industrial Innovation through Government Reforms

11. **Authorize the Legislature to review and make comments on proposed regulatory actions.**
Among the various legislative hearings on economic recovery, the need for regulatory reform has been a consistent comment from businesses and manufacturers. The request is for smarter regulations not lower standards. Proposal modeled after AB 2506 (V. Manuel Pérez) in the 2011-12 Legislative Session.
12. **Modify the existing regulatory review process to include the consideration of alternatives** to compliance that reflect the size and technical capabilities of small businesses, including the simplification and timing of reporting and other compliance requirements. Proposal is consistent with 2010 federal executive actions by President Obama and is included within AB 1409 (V. Manuel Pérez) in the 2011-12 Legislative Session.
13. **Call for a state economic strategy** to help guide resource allocations and development of innovation-friendly policies and activities related to infrastructure, workforce and economic development. Proposal modeled after recommendation in John Kao's *Innovation Nation* and included within AB 2711 (Portantino and V. Manuel Pérez) in the 2008-9 legislative session.
14. **Produce a comprehensive California Science and Technology Index** that will serve as a tool for tracking the state's progress in growing its innovation assets, improving its processes for innovation, and producing better outcomes for its communities. Proposal developed from a recommendation from the California Council on Science and Technology, *Innovate 2 Innovation: An Assessment of California's Innovation Ecosystem Phase I Report*, 2011.