Date of Hearing: April 12, 2011

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
V. Manuel Pérez, Chair
AB 894 (V. Manuel Perez) – As Introduced: February 17, 2011

SUBJECT: California Manufacturing Competitiveness Act of 2011

SUMMARY: Establishes the California Manufacturing Competitiveness Act of 2011 for the purpose of supporting the retooling and expansion of California's manufacturing facilities, enhancing the state's logistics network, and retaining and creating jobs. Specifically, this bill:

1) Authorizes the California Industrial Development Financing Advisory Commission (CIDFAC) to establish the California Manufacturing Competitiveness Loan and Loan Guarantee Program for the purpose of attracting, retaining and expanding manufacturing facilities.

2) Provides that the objective of the program shall be to:

   a) Encourage the development of the state's long-term manufacturing capacity;
   b) Create quality jobs through the support of retooling and expansion of manufacturing facilities;
   c) Allow manufacturers to access funds under terms and conditions which would not otherwise be available in the private market;
   d) Strengthens the supply chain of small businesses that support the state's manufacturing competitiveness; and
   e) Assist manufacturers to cost effectively respond to energy efficiency regulations and new technologies.

3) Requires CIDFAC to develop and administer the application, review and evaluation process including the eligibility standards, rating and ranking criteria and other appropriate policies and procedures, subject to, among other things, the following:

   a) The facility or facilities where the moneys will be expended are located in the state;
   b) Applicants are required to demonstrate that they have the ability to repay the loans;
   c) Applicants must demonstrate they are in compliance with applicable federal, state, and local laws and regulations, or that the project for which they are requesting funding will bring them into compliance;
   d) All applicants must agree to annually report to the CIDFAC on total capital investments made by the company and total employment, as specified;
   e) Wages for employees in California are, on average, equal to or more than the average monthly wage rate for similar workers in the same industry sub-sector;
   f) The applicant's turnover rate has not exceeded 20% annually at any facility where moneys obtained through the program will be used;
   g) Loans must be paid in full six months prior to relocation of a facility outside of California. If the loan or loan guarantee included a subsidized amount, that amount must also be repaid subject to a sliding scale, as specified;

h) Evaluation criteria includes, but is not limited to, whether the funds will expand total employment at the facility, wages rates are consistent with industry standards, health benefits are provided to workers; raw materials will be purchased from California-based companies; and funding will be used to make conservation improvements, upgrade building(s) to environmental certified standards, and/or install renewable energy equipment; and
i) Priority assistance will be provided for applications that demonstrate financing will create the greatest number of jobs, have the greatest positive economic impact on the state and local economies, and are jointly submitted by management and the union at the facility, as specified . Priority will also be provided in cases where the closure or out-of-state relocation of the manufacturer would cause significant negative impact on state and local economies.

4) Establishes the Manufacturing Program Account, within the existing Industrial Development Fund at the Treasurer's Office, for the purpose of receiving and holding moneys to implement the program. Program moneys may also, with the approval of the Department of Finance, be held in an account in a private financial institution.

5) Requires CIDFAC, beginning October 1, 2013, to annually provide specified information on the program's activities and impact on the manufacturing industry and on the state's economy, including, at a minimum, the:

   a) Total beginning and ending balances in the Manufacturing Program Account;
   b) Number of projects funded and the number of manufacturers assisted;
   c) Number of jobs created and the number of jobs retained through program assistance in each of the fiscal years;
   d) Amount of investments made by the manufacturer in the year prior to the assistance, as well as for the following two years; and
   e) Amount of federal, state, and local taxes paid by the businesses in aggregate. Information on publicly held companies shall also be reported separately.

6) Prohibits the CIDFAC from commencing operation of the program until there is sufficient moneys in the Manufacturing Program Account to pay for the cost of implementation and oversight of the program.

7) Sunsets the provisions of the bill on January 1, 2017.

<u>EXISTING LAW:</u>

1) Contains legislative findings that it is necessary and essential that the state, in cooperation with the federal government, use all practical means to promote and enhance economic development and increase opportunities for employment, especially in areas where workers have been displaced due to industrial failures.

2) Establishes the CIDFAC with a number of duties, including, but not limited to:

   a) Assisting industrial development authorities and state agencies in the preparation, marketing, and sale of bonds;

b) Collecting and providing impact data of specified industrial development activities, including financial, economic, governmental, and social data, as specified;
c) Maintaining contact with municipal bond underwriters, credit rating agencies, investors, and others to improve the market for local government debt issues; and
d) Undertaking or commissioning studies on methods to reduce the costs of state and local issues.

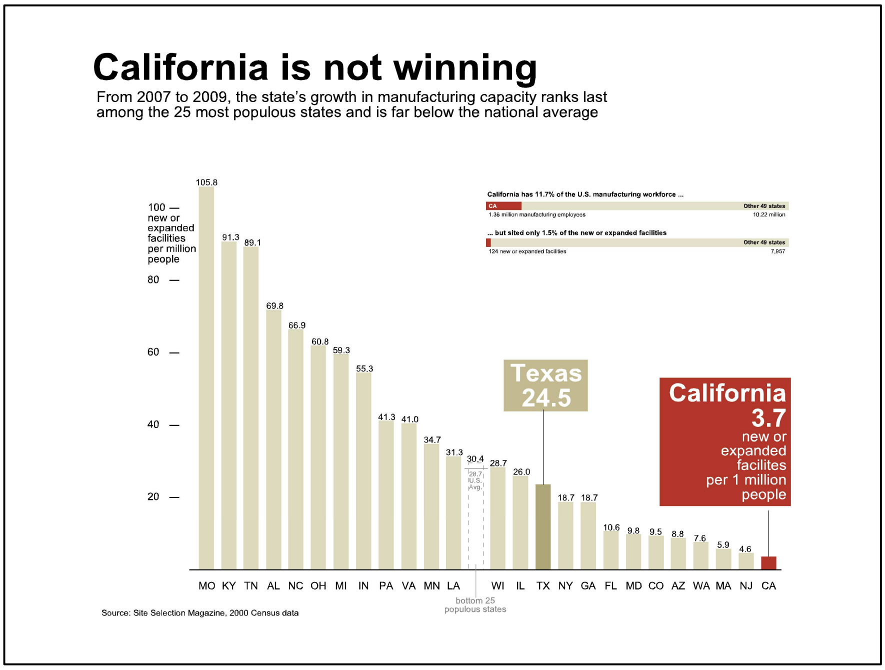
FISCAL EFFECT: Unknown

COMMENTS:

1) Purpose: According to the author, "historically, the state's economic strategy has been to aggressively seize new ideas, operationalize the idea and birth a new industry or transform an old industry. Today, however, California manufacturing faces increased competition from other states and nations, which requires policy makers to help rethink, retool, and rebuild the state's manufacturing sector.

With potentially hundreds of millions of dollars becoming available from federal science, technology and industrial development programs, California needs to prepare itself to most effectively compete for these moneys. Approval of AB 894 can be one piece in overall strategy to regain the state's manufacturing dominance."

2) Manufacturing Report: According to a June 2010 report by the Milken Institute, "Manufacturing 2.0: A more Prosperous California," the challenges in the manufacturing industry serve as an early warning of the challenges facing the state's economy as a whole. The report finds that while manufacturing still drives the state's economy, California's competitive position is losing ground to other states and nations based on its regulatory climate, tax burden and reputation as a difficult and costly place to do business.



One of the report's key findings, as illustrated in the **graph to the right**, California is losing a larger share of manufacturing employment at a faster rate than other states. In addressing these challenges, the report recommends the state develop a new cooperative relationship that undertakes the following:

- Streamlining regulatory procedures for manufacturers and increase transparency and accountability in the regulatory process;
- Enhancing public incentives through better planning, coordination across government agencies and partnering with the public sector;
- Launching an industry-led campaign to encourage Californians to pursue careers in manufacturing;
- Creating a state-wide network of training, research and business incubation to assist entrepreneurs start manufacturing businesses; and
- Creating a public-private initiative to conduct research, develop new technologies and commercialize more efficient and environmentally sustainable manufacturing practices .

AB 894 proposes to addresses several of these recommendations by providing a financing program that supports public and private development, commercialization of new technologies, as well as providing gap financing for environmental upgrades.

3) Manufacturing incentives in other states: California communities are in competition to attract and retain manufacturers. Below are five nationally recognized state and regional initiatives that target manufacturing and business development.

a) *Chickasaw Trail Economic Development Compact (MS/TN)*: The purpose of this compact is to promote the development of an undeveloped rural area of Marshall County, Miss., and Fayette County, Tenn. It creates a development authority which incorporates public and private partnerships to facilitate the economic growth of such areas by providing developed sites for the location and construction of manufacturing plants, distribution facilities, research facilities, regional and national offices with supportive services and facilities, and to establish a joint interstate authority to assist in these efforts.

b) *Michigan Smart Zones*: The program consists of collaborations among universities, industry, research organizations, government and other local institutions and resulted in regionally based high-tech zones which target growth in a specific economic sector that fits the geographic region’s strengths and needs, creating clusters of high-skilled, high-paying jobs.

c) *Ohio Business Gateway*: This program is a web-based filing and payment system that allows business taxpayers to file and pay various state level taxes to different state agencies electronically at one web site for free. The program is designed to provide a "one-stop shop" for businesses to comply with a variety of state agency tax and reporting requirements, including sales tax, employer withholding, worker's compensation, unemployment compensation and unclaimed funds.

d) *Arizona Clean Technology Credit*: The goal of the new program (enacted in 2009) is to encourage business investment that will produce high quality employment opportunities and enhance Arizona’s position as a center for production and use of renewable energy products. The program offers two benefits: up to a 10% refundable income tax credit and up to a 75% reduction on real and personal property taxes, for companies that are primarily engaged in the manufacturing of or headquarters for producing systems and components that are used or useful in manufacturing renewable energy equipment. The company must also be expanding or locating in Arizona; create fulltime employment positions of which at least 51% are paid a minimum of 125% of the state's annual median wage (currently $30,940); offer to pay at least 80% of health insurance costs for all net new fulltime employment positions; and spend at least $250,000 in qualifying investments during each twelve-month period.

e) *Missouri Life Science Trust Fund*: In 2007, Missouri's General Assembly approved the $13.4 million funding of the Missouri Life Sciences Research Trust Fund to enhance research capacity and transform research into commercial life science technology. In conjunction with Missouri's universities and industry, $10.5 million was awarded for research grants and $2.6 million for commercialization grants. This Trust Fund is in addition to the $15 million the state earmarked to the Missouri Technology Corporation for various programs designed to improve commercialization of Missouri technologies.

4) Federal funding for manufacturing: The Obama Administration is continuing to move forward on new manufacturing initiatives in 2011, following the 2009 release of the President's "Framework for Revitalizing American Manufacturing." In 2010 the Administration initiated the $130 million Energy Innovation Hubs for the purpose of spurring regional economic growth through energy efficiency upgrades. Seven federal agencies issued the $130 million combined funding announcement to create a single regional research center to develop and commercialize new building efficiency technologies. Similar Innovation Hub announcements are expected for other innovative technologies.

The proposed 2012 federal budget continues to reflect the President's science and technology priorities with key federal agencies receiving increases, as follows:

- Entrepreneurship, cluster and regional innovation: Startup America is a $7.4 billion multi-year competitive initiative supported with targeted funding from the Small Business Administration, the Department of Commerce, Department of Energy and Treasury. Business and investors will be looking for effective means for drawing down bonds and leveraging new market tax credits.

- The Economic Development Administration's budget will increase by 11.4% in program assistance for $284 million including a Sustainable Economic Development Climate Change Mitigation Incentive Fund.

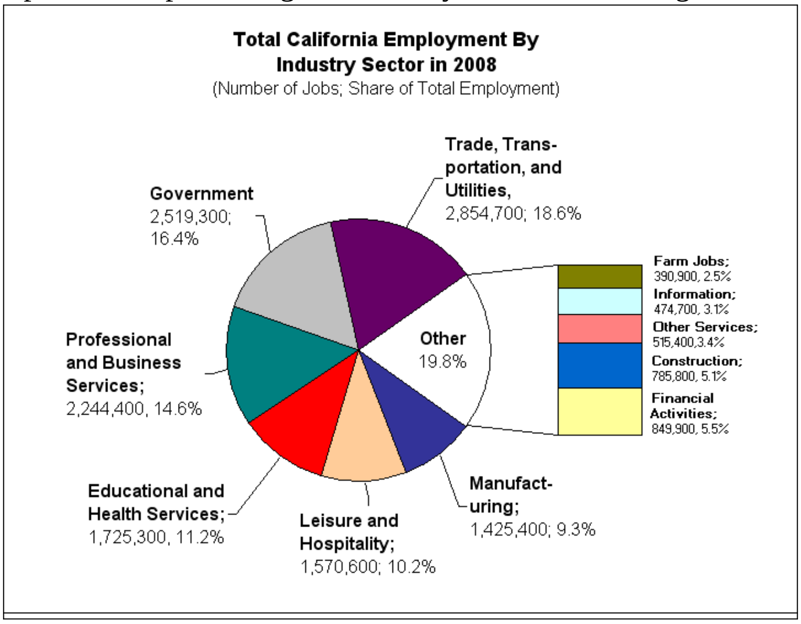
- The Hollingsworth Manufacturing Extension Partnership is proposed for a 14.1% increase for a total of $142.6 million budget for the purpose of reinventing domestic manufacturing and creating jobs.

While Congress has been engaged with other issues in the last few months, it is expected that the Senator Sherrod Brown's (D-OH) IMPACT Act will be reintroduced. Among other things, the IMPACT Act would to create clean energy jobs by supporting manufacturers' transition to the clean energy economy. A total of $30 billion would be distributed to states to establish revolving loan funds to assist small and medium-sized firms in retooling, expanding or establishing domestic clean energy manufacturing operations, and in becoming more energy efficient.

AB 894 proposes to proactively design a flexible state program in order to maximize the ability of manufacturers and the state to access federal funds. The bill precludes the establishment of the program prior to moneys becoming available. Under the American Recovery and Reinvestment Act, many of the state-level applications had only a six-week turn around, which resulted in funding proposals that were not necessarily reflective of the state's highest priorities.

5) The California economy and manufacturing: California is one of the largest and most diversified economies in the world with a state gross domestic product (GDP) of nearly $1.9 trillion in 2009. For comparison, global GDP was $53.3 trillion, with the U.S. ($13.8 trillion) having the highest GDP of any individual nation, followed by Japan ($5.0 trillion), Germany ($4.9 trillion), China ($3.3 trillion), France ($2.7 trillion), the United Kingdom ($2.2 trillion), Italy ($2.1 trillion), Brazil ($1.6 trillion), Spain ($1.5 trillion), and Canada ($1.3 trillion). Based on these figures from the International Monetary Fund, if California were an independent nation it would rank as the eighth largest economy in the world.

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



The **chart to the left**, prepared by the California Employment Development Department, provides detail on California's largest industry sectors in 2008 including the total number of jobs and percentage to state employment. Manufacturing is one of the top five private industry sectors, responsible for employing 1.28 million workers (9.1%) and contributing over $180 billion to the state's $1.9 trillion GDP.

A robust manufacturing sector has many benefits, including high wage jobs and a multiplier effect on other industries and businesses. As an example, the Milken Institute estimates that every job created in manufacturing supports 2.5 jobs in other sectors. In some industry sectors, such as the electronic computer manufacturing, the multiplier effect is 16 to one.

Manufacturing is California’s most export-intensive activity. Overall, manufacturing exports represent 9.4% ($120 billion in goods) of California’s GDP, and computers and electronic products constitute 29.3% of the state's total manufacturing exports. More than one-fifth (21.9%) of all manufacturing workers in California directly depend on exports for their jobs.

Manufacturing in California, however, even prior to the current economic recession, faced many challenges maintaining global and domestic competitiveness, including providing a skilled workforce to support the changing needs of manufacturing and goods movement and maintaining cost-effective productivity in the face of lower safety and wage standards in emerging foreign markets.

The **chart below** provides an illustration of the change in job growth between certain industry sectors and the relevance of those shifts to worker wage rates.

Using slightly more current data that includes 2010, the California Manufacturers and Technology Association estimates that California lost 633,000 manufacturing jobs from its peak in January 2001 to November 2010. While part of this reduction reflects the loss of high-tech jobs in 2001 and 2002 and the current recession, the industry as a whole is suffering. California's loss of manufacturing jobs is not unusual among Western states. It is, however, more severe. As the chart below illustrates, California has lost the highest percentage of manufacturing jobs among Western states.

Loss of Manufacturing Jobs – Comparison of Western States
(2001-2010 seasonally adjusted)

Arizona	California	Nevada	Oregon	Texas
-30%	-34%	-12%	-29%	-21%

Source: CMTA, based on data from US Bureau of Labor Statistics and California Employment Development Department

Significant drops in consumer spending have led to workforce reductions and business bankruptcies across the state. For much of 2009, the number of unemployed workers rose 40 to 60,000 per month, and 2010 ended with a seasonally adjusted unemployment rate of 12.5%, representing 2.25 million people officially identified as unemployed (excludes those that have stopped looking for work, among others). The number of persons unemployed 27 weeks or more increased by 230,000 since February of 2010 – representing a 28.6% increase and over 1 million workers.

Most economic forecasters believe that unemployment will remain above 10% throughout 2011 and 2012. Jobs are forecast to recover to their pre-recession peak by the first half of 2013, however, unemployment rates are likely to remain above 8% through much of 2014. State GDP is expected to average a modest 2.8% in 2011.

Manufacturing, construction, and retail experienced the greatest decline over the past year, with each of these sectors shedding over 100,000 jobs across the state. Forecasters at the University of the Pacific Business Forecasting Center state that while California will add 255,000 jobs in 2011, increases in the manufacturing sector are not expected until 2012.

6) The post-recession economy: As California moves slowly out of the recession, growth will need to take place within a post-recession economy that will likely be more resource and capital constrained. In addition, some analysts believe the global economy will transition through a great "rebalancing of economic power," whereby the U.S.' dominant economic position will be challenged by other large economies like those in Japan, China and the European Union.

In fact, the U.S. has slipped to third place among G-20 nations in terms of clean energy sector investments according to the Clean Edge News. Until 2008, the U.S. had been the world leader, which is now held by China. Globally, 2010 clean-energy finance and investments grew by 30% to a record $243 billion. The United States received $34 billion in equity last year, a 51% increase from 2009. However, the gap with China, which attracted a record $54.4 billion, continues to widen. Germany also attracted more money than the U.S. with $41.2 billion, claiming the number two spot, up from third the previous year.

The Brookings Metropolitan Policy Program has published its own assessment of how this rebalancing will be experienced in the U.S. and has noted four key trends to watch in the post-recession economy. The first trend is that the economy will be more export oriented and second, it will be fueled by new, lower-carbon energy sources. The third trend identified is that the next economy will be based on a higher level of global innovation, which will require "a relentless pace of innovation, adaptation, and embracement of new markets and processes." The fourth key trend is that next economy will be led by major metropolitan areas – not nations and not states. While California's historical dominance in innovation-based industries, networked global supply chains and strong regional economies should give instate manufacturer's certain advantages in the post-recession economy, other components of the California economy are not as strong and could limit manufacturing's success and the state's overall economic growth.

A February 2011 report released by McKinsey & Company (M&C), "Growth and Renewal in the United States: Retooling America's Economic Engine" underscores the importance of policy makers addressing the challenges to creating environments supportive of innovation-based business models as a means for achieving increased productivity.

In its report, M&C notes that between 2000 and 2008, increased productivity contributed 80% of the U.S. annual GDP growth and that the loss of its large and skilled labor force represented by the retirement of the Baby Boomer generation could jeopardize the U.S.' economic growth unless productivity is significantly increased among remaining workers.

Over the next decade, M&C predicts the U.S. could face a shortfall of 1.9 million technical and analytical workers.

While some policy makers have previously expressed concern that higher productivity, especially through the use of technology and innovation, was a code meaning there would be a need for fewer workers, M&C's research shows that actually the opposite is true. Since 1929, U.S. jobs and productivity have grown in tandem for each 10-year measurement period, except the ten years encompassing WWII, and that the "trade off" between aggregate employment and productivity is a short-term phenomenon.

M&C notes that accelerated productivity growth must include both efficiency gains and increases in the value and quality of goods and services produced. Adopting best practices more widely among businesses is estimated to bring one-quarter of the necessary productivity acceleration. Another key area is in enterprise-wide application of the next wave of innovation. M&C believes that economy-wide productivity gains can result from smaller company-level changes that in combination can produce large aggregate results.

These innovations will require access to capital, which could be provided through implementation of new funding and guarantee programs, such as the one proposed in AB 894.

The federal government has recognized its own role in intentionally setting the U.S. on the fast track to the next economy. As discussed in other comments below, federal funds, such as those from the Economic Development Administration, have become available for states and metropolitan areas to help make the transition to a more export-oriented, lower-carbon, innovation-fueled economy.

7) Defining a revolving loan fund: AB 894 proposes to establish a revolving loan fund (RLF) for larger size tangible and intangible manufacturing businesses, administered by the State Treasurer's Office through its financing authority dedicated to the promotion of industrial development.

The RLF is a gap financing model that is designed as a self-replenishing pool of money; utilizing interest and principal payments on old loans to issue new ones. Historically used for the development and expansion of small businesses, some states are now looking to use the RLF model to support larger size businesses that seek alternative ways to access capital in these difficult financial times.

The state has been administering a RLF through the Department of Housing and Community Development (HCD) for more than a decade. Loans from the HCD program serve small size businesses in small and rural communities.

Access to a RLF can be an important step toward obtaining conventional private financial sources. Often the RLF is a bridge between the amount the borrower can obtain on the private market and the amount needed to start or sustain a business. For example, a borrower may obtain 60 to 80% of project financing from other sources.

Typical uses for RLF loans include operating capital, acquisition of land and buildings, new construction, facade and building renovation, landscape and property improvements, and machinery and equipment.

According to the Council of Development Financial Institutions, capitalization for a RLF program usually comes from a combination of public sources, such as the local, state, and federal governments, and private ones like financial institutions and philanthropic organizations. Funding acquired for capitalization is usually the equivalent of a grant, i.e. it does not need to be paid back. State and local governments often use one or a combination of funding sources to capitalize a RLF including, but not limited to, tax set-asides, general obligation bonds, and direct appropriation from the state legislature. The federal government is another common source of capitalization including the Economic Development Administration.

8) Related Legislation: Below is a list of related bills from the current and previous sessions.

a) AB 1009 (V. Manuel Pérez) - Industrial Development Financing: This bill modifies statute related to the California Debt Limit Allocation Committee (CDLAC) and CIDFAC to allow these entities to allocate, issue, and collect data on the new types of bonds authorized under the American Recovery and Reinvestment Act of 2009. Status: The bill was signed by the Governor, Chapter 648, Statutes of 2009.

b) AB 1107 (Arambula) - Goods Movement and Small Business Development: As passed by JEDE, this bill requires the California Small Business Board within the Business, Transportation and Housing Agency and in collaboration with the Labor and Workforce Development Agency and the California Department of Food and Agriculture to assess the goods movement needs of small business and microenterprise in California, and to make recommendations thereupon, for incorporation in the California Economic Development Strategic Plan and in the State Transportation Plan. Status: JEDE-related content removed. The bill was vetoed by the Governor in 2008.

c) AB 1420 (V. Manuel Pérez, Portantino and Block) - Inventory of Innovation Infrastructure: This bill requests the California Council on Science and Technology and the California Space Authority to seek funding to expand their inventory of the state's innovation infrastructure including university research facilities, private research parks, manufacturers and incubators. The current inventory covers innovation resources in 13 of California's 58 counties, providing an on-line interactive database that links researchers and businesses to global innovation networks. Status: The purposes of the bill were pursued through private foundation funding. The bill remained in the Senate at the close of the 2009-10 legislative session.

a) AB 2437 (V. Manuel Pérez) - California Manufacturing Competitiveness Act of 2010: This bill authorizes the establishment of the California Manufacturing Competitiveness Act of 2011 for the purpose of supporting the retooling and expansion of California's manufacturing facilities, enhancing the state's logistics network, and retaining and creating jobs. Status: The bill was vetoed by the Governor in October 2010.

REGISTERED SUPPORT / OPPOSITION:

Support

California Labor Federation (sponsor)

California Manufacturers and Technology Association
CDC Small Business Finance
Communications Workers of America, AFL-CIO, District 9

Opposition - None received

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