

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

DATE: February 16, 2010

TO: Chairman and Members of the Assembly Committee on Jobs, Economic Development, and the Economy

FROM: Staff of the Assembly Committee on Jobs, Economic Development, and the Economy

RE: February 17, 2010 Oversight Hearing: Defining a Successful Framework to Drive Economic Recovery and Jobs

The Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) is the policy committee within the California State Assembly responsible for providing oversight of the state's economic development programs and services, as well as providing policy direction in areas related to business advocacy within California and the United States.

On February 17, 2010, Chairman V. Manuel Pérez will convene the seventh in a series of hearings designed to examine the state's current economic recovery efforts. Prior hearings have reviewed JEDE's Economic Development Recovery Strategy, examined how the recession was impacting California small businesses, investigated the loss of manufacturing facilities, and examined how the state's economic and workforce development programs are addressing the needs of historically underserved communities.

This hearing will focus on emerging job creation proposals, including those sponsored by Governor Schwarzenegger. In addition, JEDE will begin a region-by-region review of local economic recovery work plans by hearing from the communities along the California/Mexico border and the Sacramento Valley/ Mid-Sierra regions.

Testimony and background information from this hearing will serve as a foundation for future economic recovery work of the Committee including, but not limited to, defining a legislative framework for driving economic recovery and job creation in this state.

Organization of the Hearing and Briefing Materials

The February 17, 2010, hearing is organized around three core presentations: an overview of the California economy, a presentation on two regional recovery work plans, and highlights of the Governor's economic recovery proposals, as well as those of a number of key stakeholders.

During the course of the hearing, Members will hear testimony from researchers, economic development practitioners, state officials and other business and workforce development stakeholders on the current conditions being faced by California businesses and workers and the programs, services, and initiatives being used to address these challenges.

This briefing memorandum is divided into five parts and is designed to assist the Members and public to easily follow along with the presentations during the hearing. The first part includes a summary and update on the JEDE Economic Development Recovery Strategy (Recovery Strategy), which was published in March 2009 and has served as an overarching frame for the JEDE's activities this legislative session. The next three parts directly correlate to the hearing presentations (agenda items II, III and IV) and provide a brief background on the subject matter to be presented, a list of speakers and identification of additional related materials in the briefing binder.

Part five serves as the conclusion of the briefing memorandum and provides a list of big picture issues the Members may wish to consider as they consider how best to define a successful framework to drive the state's economic recovery and job creation efforts. Overall, the information in the briefing binder is organized around 11 tabs, as follows:

- Tab 1 – Hearing Agenda;
- Tab 2 – Hearing Briefing Memorandum;
- Tab 3 – JEDE Economic Development Recovery Strategy: Executive Summary and List of completed and/or initiated recommendations;
- Tab 4 – Fast Facts on California Economy;
- Tab 5 – California 2009 Economic Profile;
- Tab 6 – California and Metro Forecast: January 2010;
- Tab 7 – List of the 12 Economic Recovery Regions and Regional Facilitators;
- Tab 8 – Region 3 Executive Summary from the Sacramento Valley and Mid-Sierra Regional Recovery Strategy;
- Tab 9 – Region 11 Executive Summary from the San Diego and Imperial County Regional Recovery Strategy;
- Tab 10 – Fact Sheet on Governor's Jobs and Economic Recovery Package; and
- Tab 11 – Fact Sheet on Operation Welcome Home.

All of these materials are also available on the Committee website, located at:
<http://www.assembly.ca.gov/acs/newcomframeset.asp?committee=131>

Part 1 - California Economic Development Recovery Strategy

In anticipation of the enactment of the \$787 billion federal stimulus package, JEDE Chairman Pérez called for the preparation of a 24-month blueprint on how to most effectively use federal stimulus funds to address the state's most immediate economic and workforce needs while still serving as a catalyst for advancing the state's long-term economic growth.

The Recovery Strategy, initially presented in March 2009, proposes the use of the broadest set of community, economic, and workforce development tools to link new federal resources with the people and organizations they are designed to serve. In order to accomplish this task, the Recovery Strategy recommends that the state serve as a facilitator to support and enhance each community's individual initiative to design and implement programs which best fit their needs. The Recovery Strategy offered 45 recommendations organized around five community development goals including:

- Goal 1 – Improve business access to capital;
- Goal 2 – Target infrastructure projects that support economic development activities;
- Goal 3 - Expedite workforce development services and training opportunities;
- Goal 4 – Enhance local and regional community development capacity; and
- Goal 5 – Ensure that the state's recovery strategy is a plan for all Californians.

Since its inception, 25 of the 45 recommendations have been initiated and/or completed, many of which passed JEDE on a bipartisan basis. As an example, AB 978 (VM Pérez and Logue) establishes an online "one-stop shop" for applying for state licenses. Implementation of AB 978 will streamline state regulations and help to reduce the cost of operating a small business. The Committee also unanimously passed AB 35 (Furutani), supported by the California Manufacturers and Technology Association, which will more closely align workforce development and career, vocational training activities.

In support of the Recovery Strategy and the Legislature's economic recovery efforts, JEDE held six oversight hearings in 2009 focusing on such topics as preparing the workforce for green jobs, challenges facing manufacturing, small business development issues, and the effectiveness of the state's primary economic and workforce development programs. In addition, Members held nine community roundtables to hear from key local constituencies on how the recession has been affecting their communities and ways in which the state could better support their local recovery efforts.

Upon the direction of the Chair, JEDE staff also prepared a comparison of proposed budget cuts and potential federal funding, as well as a sortable database of federal stimulus funding with Internet links to related federal and state websites. **Tab 3** includes a summary of the Recovery Strategy and a list of completed and/or initiated recommendations. More detailed information on JEDE's economic recovery efforts can be found on the JEDE website at www.assembly.ca.gov .

Part 2 – Overview of the California Economy (Agenda Item II)

The presentation during this agenda item will provide detail on the current California economy and expectations for the coming 12-to-24 months. Related background and some highlights of the presentation are presented below.

The California Economy Prior to 2009

California is the one of the largest and most diversified economies in the world with a state gross domestic product (GDP) of over \$1.8 trillion in 2008. 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 (\$4.3 trillion), Germany (\$3.3 trillion), China (\$3.2 trillion), the United Kingdom (\$2.7 trillion), France (\$2.5 trillion), Italy (\$2.1 trillion), Spain (\$1.4 trillion), Canada (\$1.3 trillion), and Brazil (\$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.

As the largest state in the U.S., California is home to 12.1% of the nation's population and 11.6% of all jobs. Historically, economic growth in California has outpaced the growth rate of the nation as a whole. In 2007, as an example, California's GDP growth rate was 33.9% as compared to the U.S. at 30.4%. Among other economic distinctions, the state has historically led the nation in export-related jobs, small business development, and business start-ups.

Chart 1 provides detail on California's 10 largest and fastest growing industry sectors by number of jobs. This chart and the chart below use 2007 data, which is the most recent data available.

Chart 1 – Job Distribution (2007) and Growth by Industry Sector (2001-2007)			
	Industry Sector	% of All Jobs	Job Growth
1	Government	15.9	6.2
2	Retail Trade	10.7	6.7
3	Manufacturing	9.2	-15.1
4	Health Care and Social Assistance	8.7	8.8
5	Accommodation and Food Services	8.3	9.0
6	Professional, Scientific and Technical Services	6.7	3.6
7	Administrative and Waste Services	6.3	9.0
8	Construction	5.7	18.1
9	Other Services	4.6	19.5
10	Wholesale Trade	4.6	8.6

Source: California Economic Profile, Economic Strategy Panel, 2009

Each industry sector is comprised of one or more sub-sectors. Chart 2 provides additional details on California's industrial base by listing the largest, fastest growing, most competitive, and highest-paid wages by industry sub-sector.

Chart 2 - California Industry Comparisons By Sub-Sectors (2007)				
	Largest Industry Sub-Sectors in California Based on Revenues	Fastest Growing Industry Sub-Sectors	Industry Sub-Sectors with Higher Concentration of Jobs Relative to the Nation	Industry Sub-Sectors with Highest Average Wage
1	Food Services & Drinking Places	Wholesale Electronic Markets, Agents, & Brokers	Support Activities for Agriculture & Forestry	Securities, Commodity Contracts, & Other Investments
2	Professional, Scientific & Technical Services	Private Households (includes households that employ people, such as cooks, maids, gardeners, caretakers)	Private Households (includes households that employ people, such as cooks, maids, gardeners, caretakers)	Oil & Gas Extraction
3	Administrative Support Services	Monetary Authorities – Central Banks	Motion Picture & Sound Recording Industries	Lessors of Nonfinancial Intangible Assets
4	Specialty Trade Contractors	Funds, Trusts, & Other Financial Vehicles	Apparel Manufacturing	Internet Service Providers, Web Search Portals, & Data Processing Services
5	Ambulatory Health Care Services	Pipeline Transportation	Crop Production	Petroleum & Coal Products
6	Hospitals	Support Activities for Mining	Computer & Electronic Product Manufacturing	Performing Arts, Spectator Sports
7	Merchant Wholesalers, Durable Goods	Beverage & Tobacco Product Manufacturing	Other Information Services	Computer & Electronic Product Manufacturing
8	Food & Beverage Stores	General Merchandise Stores	Beverage & Tobacco Product Manufacturing	Funds, Trusts, & Other Financial Vehicles
9	Computer & Electronic Product Manufacturing	Educational Services	Performing Arts, Spectator Sports	Utilities
10	Credit Intermediation & Related Activities	Motion Picture & Sound Recording Industries	Broadcasting (except Internet)	Pipeline Transportation

Source: California Economic Profile, Economic Strategy Panel, 2009

The California Economy Today and in the Near Future

Since the subprime home mortgage crisis in 2007, California communities, in particular, have struggled. With the increasing rates of home foreclosure and tightening of the credit markets, many businesses have found their existing lines of credit evaporating. Significant drops in consumer spending have led to workforce reductions and business bankruptcies.

For much of 2009, the number of unemployed workers rose 40 to 60,000 per month, the year ended with a seasonally adjusted unemployment rate of 12.4%, representing 2.25 million people who are officially identified as unemployed (excludes those that have stopped looking for work, among others).

Bankruptcies among California small business have also risen significantly. Equifax is reported to have found that bankruptcies in California have risen by 81% during the past year, as compared to 44% nationally. An April 2009 study by Bornstein and Song found that more than 1.5 million

California workers are now in immediate risk of losing their jobs, and more than 2.1 million California small business jobs may be lost in the second wave of foreclosures related to toxic mortgages. Hispanic small business owners and their employees are expected to be hardest hit due to the especially high percentage of owners with toxic mortgages (52.6%) relative to the national average (31.9%).

Officially, California emerged from the recession in the final quarter of 2009, three to four months after the official end of the U.S. recession. Unemployment, however, is expected to remain high throughout 2010 and 2011. Forecasters, such as those at the University of the Pacific Business Forecasting Center (UOP) have also cautioned that the recession is not necessarily over in many regions of the state. In its most recent forecast (January 2010) UOP makes a number of key findings including the following:

- California unemployment will peak at 12.8% in winter 2010, remain above 12% for most of 2010, and remain in double digits through all of 2011.
- Nonfarm payrolls will decline by an additional 69,000 in winter 2009-10 to a trough that is 1,030,000 jobs below the peak in summer 2007.
- Jobs will recover to their pre-recession peak in the first half of 2013. During the 5-and-one-half year period of zero net job growth, the state's workforce will have grown by more than 1 million people.
- Manufacturing, Construction, and Retail have experienced the greatest decline over the past year, with each of these sectors shedding over 100,000 jobs across the state.
- Manufacturing will lose an additional 11,000 jobs over the next 12 months, with job growth picking up in fourth quarter of 2010.
- Construction will lead job losses in 2010, declining another 7.5% (45,000 jobs) by the end of 2010.

Presenter and Additional Background Materials

During the February 17, 2010, hearing, Members will have an opportunity to hear from Dr. Jeffrey Michael, Director, Business Forecasting Center, Eberhardt School of Business, UOP.

Additional information on the California economy is available under **Tab 4** – Fast Facts on the California Economy prepared by the JEDE Committee, **Tab 5** – California 2009 Economic Profile prepared by the California Economic Strategy Panel, and **Tab 6** – California and Metro Forecast: January 2010 prepared by the Business Forecasting Center, UOP.

Part 3 - Regional Recovery Initiatives (Agenda Item III)

As JEDE was developing its strategy for guiding state recovery actions in early 2009, Business, Transportation and Housing Agency (BTH) began its own initiative to support regional recovery efforts. With federal stimulus moneys being deployed rapidly and communities needing to act quickly or miss the funding opportunity, BTH's efforts were both timely and appreciated by communities who were beginning to feel the full brunt of the recession.

During 2009, BTH reported regularly to the JEDE Committee on the progress of the development of the regional recovery plans. Now complete, this hearing will be the first opportunity Members will have to hear about plan implementation. The presentations during this agenda item will include opening comments by the BTH Assistant Secretary at the followed by overviews by the regional facilitators of two of the 12 regional recovery work plans: Region 3 - covering the Sacramento Valley and Mid-Sierra Counties, and Region 11 - covering San Diego and Imperial Counties.

Throughout the year, JEDE will be inviting representatives from each of the 12 regions to present their recovery plans, provide a status report on its implementation, and continue to identify areas where the state can better support regional recovery efforts.

Related background and some highlights of the presentation are presented below.

The Regional Recovery Initiative

In March of 2009, BTH issued a framework and guidelines for the development of 12 regional recovery work plans. The idea of the regional recovery work plans was not to supersede or replace local economic development strategies, but to serve as a single place where local priorities could be reflected and regional agreements could be documented. To support the regional collaborations, BTH assigned staff to work directly with the local economic development nonprofit that had agreed to serve as the regional facilitator and drafter of the recovery work plan. The suggested content and structure of the recovery work plan was divided into five key areas including:

1. Support for small businesses and innovation;
2. Use of infrastructure investments to stimulate job growth;
3. Workforce development;
4. Support for housing and communities; and
5. Shovel-ready site certification program.

Draft work plans were requested in April, outreach for regional buy-in was scheduled in May, and in June final drafts were submitted to BTH. In encouraging the regions to move forward on their regional recovery work plans, BTH Secretary Dale E. Bonner said "The state and federal response to the global recession calls for a clear focus on priorities and a collaborative spirit at all levels of government working in partnership with the private sector. The recovery plans will be an important tool to help identify opportunities and specific steps we can take immediately to spur economic recovery throughout the state."

Additional benefits to communities for participating in the development of their regional recovery plans were cited as:

- Instilling public confidence by demonstrating that regions have strategies to mitigate the impact of the crisis;
- Demonstrating a readiness and ability to utilize stimulus funds quickly and effectively;
- Enhancing accountability in tracking utilization of federal moneys;
- Receiving bonus points for certain Proposition 1C housing moneys;
- Receiving state assistance in identifying and applying for state and federal grants; and
- Receiving state assistance in leveraging new economic recovery and infrastructure financing tools.

As JEDE begins hearing from the regions, it may be useful for the committee staff to be directed to start charting similarities and areas where the state may need to take additional actions to support recovery efforts. Further, the regional recovery plans also assist the Members in developing a legislative framework that is truly reflective of the needs and priorities of local communities.

Presenters and Additional Background Materials

During the February 17, 2010, hearing, Members will have an opportunity to hear from:

- Eloisa Klementich, Deputy Secretary for Economic Development at the Business, Transportation and Housing Agency
- Barbara Hayes, Executive Director for the Sacramento Area Commerce and Trade Organization and the Region 3 Facilitator covering the Sacramento County and Mid-Sierra Region
- Julie Meier Wright, CEO of the San Diego Regional Economic Development Corporation and the Region 11 Facilitator covering the San Diego and Imperial County Region

Additional information on these regional recovery strategies is available under **Tab 7** – Map and list of the 12 regions and regional facilitators, **Tab 8** - Executive Summary from the Sacramento County/Sierra Regional Recovery Work Plan and **Tab 9** – Executive Summary from the San Diego and Imperial County Regional Recovery Work Plan.

Part 4 - Emerging Economic Recovery and Job Creation Efforts (Agenda Item IV)

During the course of this panel's presentations, Members will first hear from representatives of the Administration, who will be presenting the Governor's recommended actions relating to economic recovery and job creation, including his California Jobs Initiative (CJI) and Operation Welcome Home (OWH). Several stakeholder groups have also been invited to discuss their own efforts, as well as make recommendations on how to make existing proposals more effective.

The Link between the State Budget and the California Economy

California workers and businesses are currently facing some of the harshest economic conditions since the Great Depression. Almost every industry sector is experiencing a loss of jobs and will likely continue to experience losses as the global economy slowly emerges from this recession. In summary, credit markets remain frozen, unemployment continues to be high, and production is stalled.

Within this challenging economic environment, Governor Arnold Schwarzenegger submitted his 2010-11 budget to the Legislature for its review and approval on January 8, 2010. The budget proposes \$82.9 billion in expenditures, based on \$86,927 billion in new revenues. In order to adopt the budget, however, the Governor and Legislature will also need to come to agreements on how to address an estimated revenue shortfall of \$19.9 billion in the current and budget year.

Due to the significance of the revenue shortfall, the Governor has declared a fiscal emergency, which has the effect of calling the Legislature into a Proposition 58 Special Session. During the Special Session, the Legislature will be asked to take specific actions to reduce expenditures in the current year, approve one or more measures for placement on the November 2010 ballot, and implement other budget reductions that may require extended implementation time in order to be in effect by the start of the new fiscal year. Under a Proposition 58 Special Session, the Legislature is required to act within 45 days of the Governor's declaration, which would require the Legislature to act on a set of legislative proposals by March 1, 2010.

The Governor has also asked that the Legislature include, within the Proposition 58 Special Session, consideration of key economic recovery proposals as a means to increase state tax revenues. More specifically, the Governor's CJI includes five core components:

1. Establishment of a streamlined approval process for shovel-ready green development sites;
2. Establishment of a \$500 million program through the Employment Training Panel to reimburse employers who have paid for training new employees or retraining an existing employee for a new job;
3. Extension and expansion of the \$10,000 homebuyer tax credit for new and existing homes;
4. Elimination of the state sales tax on green technology manufacturing equipment; and
5. Modification to litigation laws and practices.

Key themes in the CJI are similar to some, but not all, of those in the JEDE Recovery Strategy and the regional recovery work plans. Similar themes include, regulatory streamlining where policy objectives can be met cheaper and faster; support for business development in order to create and save jobs; workforce training to support California competitiveness at home and around the world; and infrastructure development that supports workers, businesses and communities.

In addition to the JEDE Recovery Strategy and the Governor's legislative package, several other recovery initiatives have been announced including packages sponsored by the Senate Democratic Caucus and the Assembly and Senate Republican Caucuses. Key stakeholder groups have also developed legislation and, in some cases, multiple bill packages.

The Chairman of JEDE has asked committee staff to prepare a comparison of the various economic and job creation packages to help Members in their consideration of these measures and in defining a legislative framework that can help drive economic recovery and job creation. A draft of the comparison of various proposals is scheduled to become available by March 1, 2010.

Focus on Veteran Services

The U.S. Department of Veterans Affairs (USDVA) estimates the national veteran population was 23.4 million in 2007. In California there are an estimated 2 million veterans, which make up 8.8% of the national population. While most veterans are men, 8% of the veteran population is female.

Research shows that veterans face tremendous challenges transitioning back into civilian life. After having served in the armed forces, veterans returning to the California civilian workforce often find that the jobs they left are now gone. A USDVA study found that 18% of the veterans who sought jobs within one to three years of discharge are unemployed, while one out of four veterans who did find jobs earned less than \$21,840 a year.

In the Governor's State of the State address he announced the creation of OWH, which is designed to connect returning combat veterans to existing services that can make their transition to civilian life more successful including, assistance with obtaining job training, basic and higher education, housing, health care, federal benefits, and support for their families. According to the Governor's Office, no new legislation is required to implement OWH. Funding will be provided through \$20 million in existing outreach funds. Key components of the initiative include:

1. Hiring 300 veterans organized in nine regional teams to counsel 30,000 returning veterans annually.
2. Establishing a new volunteer network, California Veteran Corps, to support the work of the regional teams.

The JEDE Committee has also taken steps to address the challenges veterans face in obtaining a job. In 2009, JEDE sponsored AB 1378 (VM Pérez, Salas and Fletcher), which would enact the Veteran Workforce Development Accountability Act. The bill passed JEDE in January on a unanimous, bipartisan vote.

Due to the importance of assisting our returning veterans, JEDE will be looking into OWH and other related veteran workforce development programs during at least two hearings this spring. During this first hearing, the Administration will have an opportunity to present its initiative and answer general questions. The second hearing is scheduled for March 2 and will be held jointly with the Assembly Committee on Veterans Affairs, Chaired by Assemblywoman Mary Salas. At this second hearing Members will have an opportunity to have a more in-depth conversation on

OWH and the workforce development challenges facing veterans, as they try to reenter the workplace.

Presenters and Additional Background Materials

During the February 17, 2010, hearing, Members will have an opportunity to hear from:

- Representatives from the Administration
- Joel Ayala, President, California Hispanic Chamber of Commerce
- Angie Wei, Legislative Director, California Labor Federation
- Cynthia Leon, Legislative Advocate, California Manufacturers and Technology Association
- Jay Hansen, Legislative Director, State Building and Construction Trades Council, AFL-CIO
- Michael Shaw, Legislative Director, National Federation of Independent Businesses

Additional information is available under and **Tab 10** – Fact Sheet on California Jobs Initiative and **Tab 11**–Fact Sheet on Operation Welcome Home.

Part 5 and Conclusion - Big-Picture Issues for Consideration

Chairman Pérez has convened this hearing to provide Members with an opportunity to more closely examine the current California economy and recommended actions for helping the state emerge from the recession.

Testimony and background materials from this hearing will serve as a foundation for future economic recovery work of the Committee, including the potential development of a comprehensive legislative framework to help drive state economic recovery and job creation efforts.

Many of the recovery themes presented at the hearing have been discussed in prior hearings and some have even been reflected in legislation. This hearing, however, is different from previous hearings because today, many legislative and stakeholder voices have been added to the discussion. The Committee faces a slightly different challenge than simply identifying potentially successful approaches to economic recovery. Today, the challenge also includes developing a way to bring forth a unifying framework that can help advance the economic recovery deliberation.

Beyond this hearing, JEDE is planning additional informational hearings where Members will have opportunities to more closely examine the issues and recommendation raised today including, how current workforce training programs serve returning veterans, challenges small businesses face in avoiding bankruptcy and how California businesses can use global markets to rebuild their profitability.

Larger and overarching issues Members may wish to examine during the hearing include, but are not limited to, the following:

- Does the state strategically use its resources to attract private sector investment?
- Do recommended actions sufficiently support the dominant and emerging industries in California or are proposals narrowly focused on just one or two industry sectors?
- Do recommended actions reflect the priorities and needs that have been identified at the local level?
- Has the state sufficiently examined the short- and long-term costs for failing to strengthen historically weak regional and local economies?
- Are job training dollars resulting in actual jobs or skill sets required by existing businesses?
- Is the state proactively supporting emerging technologies and innovative processes?
- Is the state leaving federal moneys on the table?
- Do the proposals reflect an economic recovery package that serves all of Californians, including, but not limited to, veterans, rural and inner city residents, and the middle-class?