Economic Opportunities in California's Rural Communities: Defining the New Rural Economic Strategy

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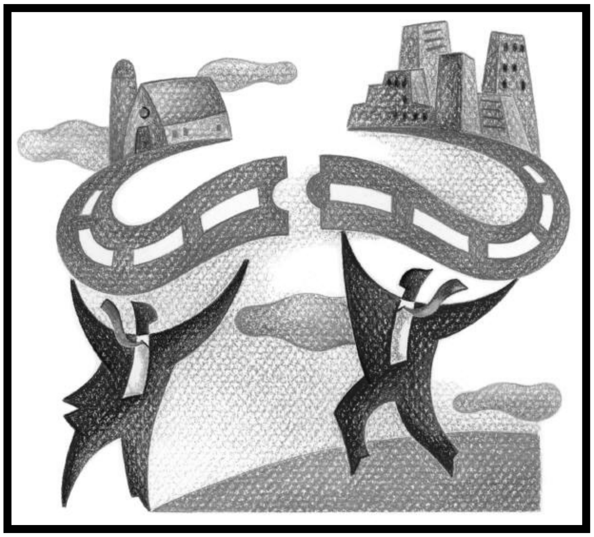

Hearing Convened by

The Assembly Committee on Jobs, Economic Development, and the Economy

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Economic Opportunities in California's Rural Communities: Defining the New Rural Economic Strategy

The purpose of this paper is to provide background and identify trends to assist Assembly Members during their October 2, 2008, hearing on the opportunities and resources available for economic development in the rural areas of California.

During the course of the hearing, Members will hear testimony from experts on emerging trends in rural economic development and how some communities are bringing more private investment into California's historically underserved rural communities. As a case study, the hearing will focus on the Southern San Joaquin Valley including the Counties of Fresno, Kern, Kings, and Tulare. *Appendix C includes a map of the San Joaquin Valley.*

The Southern San Joaquin Valley has been repeatedly identified as one of the most economically challenged regions in the nation. Most recently, the region received the lowest ranking in the nation based on a national human and community development survey. However, even with the challenges, residents in these Southern San Joaquin Valley communities continue in their efforts on improving the economy and developing new strategies to help make their towns a better place for themselves, their families, and others within their community.

Organization of the Hearing

The agenda for the hearing has been organized to allow Members to examine a variety of issues concerning rural development, including the infrastructure, workforce training, and access to business capital. By the conclusion of the hearing, it is hoped that Members will have sufficient information to begin the development of a framework for a new and more modern rural development policy for the state that builds on the successes of the past while enhancing the long-term value of California's rural areas.

Special attention has been taken in developing the agenda to ensure that the local communities' perspective is provided. The Committee has invited a mayor and two county supervisors to provide initial commentary on the needs of their communities and to make closing comments on the ideas and recommendations presented during the course of the hearing.

For the purpose of engaging a variety of stakeholders, the hearing also features a panel discussion on current trends and innovative solutions to the challenges facing rural communities in the Southern San Joaquin Valley. Panelists include an economic developer, small business, a provider of small business technical assistance, a public financier of infrastructure, and a local workforce investment board member, among others.

Definitions of Rural Communities

Developing a more modern rural policy will be challenging, the first of which being to define exactly what is a rural community. Different programs and services at the state and national level define rural area, rural community, and rural city and/or county in a variety of ways. Some programs use definitions such as "communities under 50,000 that are rural in nature," "areas of less than 2,500 not in census places," or "nonmetro county."

Some of the most common definitions used by federal researchers define rural as simply being the absence of urban. Using this type of definition for rural can provide an inaccurate picture of a community and lead policy makers to undercount the number of rural areas and the true scope of challenges which they face.

The negative impact of these definitions is especially true for rural communities that have been experiencing inordinately high in-migration from other areas of the state. This growth is not necessarily occurring due to increased economic opportunity from within the region, but rather from the lack of affordable housing for low- and middle-income people in other areas of the state. The growth experience within the San Joaquin Valley is an excellent example of population growth without the generally-related economic benefit.

These types of rural areas are sometimes called rapidly urbanizing areas even though they do not share similar characteristics to urban areas, such as diversified economies, developed infrastructure, and access to important services such as health care and higher education. Lack of access to a comprehensive set of financial services is also common among these areas and further limits business development.

When applying for resources, rapidly urbanizing rural areas can find themselves ineligible for rural-targeted programs due to tight population eligibility criteria. However, because of the limitations discussed above, these areas are often unable to compete when vying for resources against truly urban and suburban areas. One example of this imbalance is each area's ability to provide a local financial match when apply for state funding.

An extended discussion of rural definitions has been included in Appendix H because of the importance of how these definitions drive public policy and provide access to different programs and services.

Issues for Consideration

During the course of the hearing, Members may wish to consider the following issues:

1. Does the state embrace its rural communities or consider these regions merely holding areas for future growth?

2. To what extent are the economic development issues facing rural communities different or similar to those affecting urban and suburban communities?

3. How can rural communities best be supported within the larger innovation and new technology networks that benefit other areas of the state?

4. Does the state have the optimal mix of policies, programs, and services to attract private sector investment to rural communities and help them achieve local economic development objectives?

5. Do the current policies, programs, and services strengthen historically weak regional or local economies, and thereby reduce future public costs for public assistance, law enforcement, and public health?

6. What will be the impact of recent events in credit markets on small business development, access to capital for infrastructure development, and liquidity within the capital markets as a whole?

Organization of this Paper

This paper is organized into six sections. The first section provides background on the California economy within a global economic context. The second section has information on the state's regional economies with an expanded subsection on the Southern San Joaquin Valley. The third section provides background and analysis on rural communities including opportunities for advancing the economic diversity of these areas.

The fourth section provides background on the three economic target areas for the San Joaquin Valley: manufacturing and logistics, cleantech, and agriculture-related businesses. The fifth section includes a summary of federal and state resources that are available, or could be made available, to communities to address their challenges and maximize their opportunities. The sixth section has background on current private financial resources being used in community development. The seventh and final section includes recommendations that Members may wish to consider when developing a list of next steps from the hearing. In addition to these sections, the paper includes a number of appendices that may provide useful references during the Members' deliberations.

- Appendix A includes a fact sheet on the California economy.

- Appendix B includes a fact sheet on the Southern San Joaquin Valley.

- Appendix C includes a map of the San Joaquin Valley.

- Appendix D includes a list of economic development legislation.

- Appendix E includes a brief description of California's current economic and investment programs.

- Appendix F includes selective descriptions of federal economic and investment programs.

- Appendix G includes a list of foreign trade zones in California.

- Appendix H includes a discussion on the definition of rural communities.

- Appendix I includes a status report on a new initiative in the San Joaquin Valley to expand entrepreneurship opportunities within this historically underserved area.

- Appendix J includes a summary of this hearing.

Section I – The California Economy

The focus of the October 2nd hearing is on the economic challenges facing rural communities using the Southern San Joaquin Valley as a case study. This section provides general background on the California economy in order to provide a context for considering the options available to, and limitations affecting, rural communities as they compete both globally and within the state for their share of the economic pie. The section will conclude with a look at the California economy in the near future. *Appendix A has extended information on the California Economy.*

In preparing this analysis, Committee staff used the most recent data. However, recent changes in the national and global economy have materially affected the economy in ways which have not yet been captured in traditional data collection methods. It is expected that when the Committee has its next review of the California economy in the winter of 2009 potentially significant trends will be identified.

With capital markets so in flux, the paper has not attempted to provide a specific analysis of how changes in the equity and debts markets will impact business development in California. Preliminary conversations with financial advisors suggest that while credit markets are constricting, the full impact of the events of the past few weeks is not expected to be felt for four to six months.

The California Economy

In 2007, California's gross state product (GSP) was estimated at over $1.8 trillion. For comparison, global gross domestic product (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), Germany ($3.3 trillion), China ($3.2 trillion), United Kingdom ($2.7 trillion), France ($2.5 trillion), Italy ($2.1 trillion), Spain ($1.4 trillion), Canada ($1.4 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.

The state's significance in the global marketplace results 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. Overall job growth in the state from 2001 to 2006 was 6.1%. Growth in GSP outpaced the growth rate of the nation as a whole, 33.9% for California as compared to the US at 30.4%. Among other economic distinctions, the state leads the nation in export-related jobs, small business development, and business start-ups, in general. Chart 1 - California Industry Comparisons, provides additional details on California's industrial base by listing the largest, fastest, most competitive, and highest paid wages by industry type.

Chart 1 - California Industry Comparisons

	Largest Industries in California Based on Revenues (2006)	Fastest Growing Industries (2001-06)	Industries with Greatest Competitive Advantage (2006)	Industries with Highest Average Wage (2006)
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	Other Information Services	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	Construction of Buildings	Crop Production	Petroleum & Coal Products
6	Hospitals	Credit Intermediation & Related Activities	Computer & Electronic Product Manufacturing	Performing Arts, Spectator Sports
7	Merchant Wholesalers, Durable Goods	General Merchandise Stores	Beverage & Tobacco Product Manufacturing	Computer & Electronic Product Manufacturing
8	Food & Beverage Stores	Beverage & Tobacco Product Manufacturing	Internet Publishing & Broadcasting	Funds, Trusts, & Other Financial Vehicles
9	Credit Intermediation and Related Activities	Specialty Trade Contractors	Performing Arts, Spectator Sports	Utilities
10	Computer & Electronic Product Manufacturing	Motion Picture & Sound Recording Industries	Electronics & Appliance Stores	Pipeline Transportation

Source: California Economic Profile, Economic Strategy Panel, August 2008

There are a variety of ways in which to measure entrepreneurial activities; one of the most common is tracking business start-ups and the establishment of new branches. Global Corporate Xpansion, a quarterly magazine for executives and site selection professionals, prepares an annual economic development ranking of the U.S. Chart 2 – 2007 Annual Economic Development Rankings displays data from its 2007 assessment.

Chart 2 - 2007 Annual Economic Development Rankings		
Industry	**California Ranking**	**Other Top States**
Aerospace	1st in start-ups and 1st in new branches	Florida, Texas, Washington, and New York for start-ups and Florida, Texas, Washington, and Virginia in new branches
Agribusiness/ Food Processing	2nd in start-ups and 1st in new branches	Florida, Texas, Michigan, and New York for start-ups and Texas, Florida, Illinois, and Georgia in new branches
Automotive Original Equipment Manufactures (OEMs)	1st in start-ups and 5th in new branches	Texas, Florida, Michigan, and Indiana for start-ups and Michigan, Texas, Ohio, and Indiana in new branches
Bioscience	1st in start-ups and 1st in new branches	Florida, Texas, Massachusetts, and New York for start-ups and Texas, Florida, Pennsylvania, and New York in new branches
Health Services	1st in start-ups and 1st in new branches	Florida, Texas, New York, and Michigan for start-ups and Texas, Florida, Pennsylvania, and New York in new branches
Manufacturing	1st in start-ups and 1st in new branches	Texas, Florida, New York, and Michigan for start-ups and Texas, Illinois, Florida, and Michigan
High-Tech Manufacturing	1st in start-ups and 1st in new branches	Texas, Florida, New York, and Michigan for start-ups and Texas, Florida, Missouri, and New York in new branches
Medical Device Manufacturing	1st in start-ups and 1st in new branches	Texas, Florida, New York, and Ohio for start-ups and Texas, Florida, Ohio, and Massachusetts in new branches
Pharmaceuticals	1st in start-ups and 5th in new branches	New Jersey, Florida, Texas, and New York for start-ups and New Jersey, New York, Pennsylvania, and Illinois in new branches
Telecom	1st in start-ups and 1st in new branches	Texas, Florida, New York, and Michigan for start-ups and Texas, Missouri, Florida, and Georgia in new branches
Transportation	1st in start-ups and 2nd in new branches	Florida, Texas, Michigan, and New York for start-ups and Texas, Illinois, Florida, and New York
		Source: Global Corporate Xpansion

As Chart 1 and Chart 2 illustrate, the state's economy is not dominated by a single industry; rather, it is comprised of a variety of industries throughout the state. In Section II of the paper economic and business development data is provided at the regional level including information on the most dominant industries, biggest job growth, and related employment data. County level data is also provided in Section II for our four case study Counties of Fresno, Kings, Kern, and Tulare.

Significance of Trade in the California Economy

If California were a country, it would be the 11th largest exporter in the world. Exports from California accounted for more than 14% of total U.S. exports in goods, shipping to 222 foreign destinations in 2007.

California's land and sea ports of entry serve as key international commercial gateways for products entering the country. California exported $134 billion in goods in 2007, ranking only second to Texas with $168 billion in export goods. If the value of exported services was added to the value of goods exported, it is likely that California would rank first in the nation in total exports. Computers and electronic products were California's top exports in 2007, accounting for 32.6% of all state exports, or $43.7 billion.

Manufacturing is California's most export-intensive activity. Overall, manufacturing exports represent 9.4% of California's GSP, and computers and electronic products constitute 54.3% of the state's total manufacturing exports. More than one-fourth (26.3%) of all manufacturing workers in California directly depend on exports for their jobs.

Mexico is California's top trading partner, receiving $18.3 billion in goods in 2007. The state's second and third largest trading partners are Canada and Japan with $16.1 billion and $13.5 billion, respectively. Other top-ranking export destinations include China, South Korea, Taiwan, the United Kingdom, Hong Kong, Germany, and Singapore.

The state's largest growth market in terms of dollars is in China, where exports increased from $4.7 billion in 2001 to $7.9 billion in 2005. During this same period, exports increased to Canada by $1.4 billion, Mexico by $1.4 billion, South Korea by $1.3 billion, and to Hong Kong by $967 million.

California's fastest growing significant market is Vietnam. Exports to Vietnam increased 515% from 2001 to 2005. Other major expanding markets for California products include: the United Arab Emirates (up 405%), India (up 111%), Israel (up 78%), and Chile (up 78%), during the same five-year period.

Foreign Direct Investment

The U.S. is the largest recipient of foreign direct investment (FDI) in the world. In 2007, the U.S. received $199 billion in FDI. California receives more FDI than any other state in the U.S. with the largest share of foreign activity in California being in the non-manufacturing industries.

FDI impacts the California economy in many ways, including, assisting in the creation of jobs, boosting worker wages, increasing exports, bringing in new technology and skills, and generally strengthening the state's manufacturing base. Foreign-controlled companies accounted for 8.2% of total manufacturing employment in California in 2005.

Measures of FDI are generally based on business operations by entities in the U.S. that have more than 10% foreign ownership. FDI does not include investments in financial instruments, i.e. bonds. State-level data does not include capital investment structures such as private equity. Given the current conditions in the capital markets it may be appropriate to examine more closely the role of foreign investment in California.

The California Chamber of Commerce estimates that over 542,000 California workers benefit from jobs with foreign-owned firms. Foreign investment in California was responsible for 4.2% of the state's total private-industry employment in 2005. California has had the highest level of employment in foreign-owned firms since, at least, 1997. Along with employment, foreign owned firms own more property, plants, and equipment in California than any other state.

In 2003, leading sources of FDI in California were investors from the United Kingdom, Japan, Switzerland, Germany, and France. Europe, in total, is the largest source of FDI in California. Collectively, Asian Pacific countries have the second highest FDI in California with a higher proportion of manufacturing employment and commercial property holdings than Europe.

According to the Organization for International Investment, California ranks first in the U.S. in the number of employees supported by U.S. subsidiaries due to its proven track record as an attractive location for international employers.

The Role of Small Business in the California Economy

California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's $1.8 trillion economy. Businesses with less than 100 employees comprise more than 98.3% of all businesses, and are responsible for employing more than 57.9% of all workers in the state.

Small- and medium-sized businesses are also an important part of California's export economy. Of the almost 51,400 companies that exported goods from California in 2005, 95% were small- and medium-sized enterprises (SME) with fewer than 500 employees. These SMEs generated nearly half (43%) of California's exports in 2005. Nationally, SMEs represented only 29% of total exports. Again, these numbers include the export of only goods and not services.

According to the U.S. Department of Commerce, evidence shows that exporting SMEs could sharply increase exports by adding new markets. Nearly three-fifths (59%) of SME exporters posted sales in only one country in 2004. For large firms, more than half (53%) exported to five or more foreign markets during the same period. SMEs in California are crucial to the state's international competitiveness and an important means for dispersing the positive economic impacts of trade within the California economy.

Small businesses function as economic engines, especially in challenging economic times. During the nation's economic downturn from 1999 to 2003, microenterprises (businesses with less than five employees) created 318,183 new jobs or 77% of all employment growth, while larger businesses with more than 50 employees lost over 444,000 jobs. From 2000 to 2001, microenterprises created 62,731 jobs in the state, accounting for nearly 64% of all new employment growth. Common types of microenterprises include engineering, computer system design, housekeeping, construction, landscaping, and personnel services.

Given small businesses' important role in the California economy, it is unfortunate that their needs are often overlooked when developing statewide policies and programs. This has most recently been a challenge during the state policy debates on health care, tax policy, and workforce development.

However, it is important to note that some state agencies have begun to raise the importance of this issue, including the California Workforce Investment Board (CWIB). The CWIB states in its biennial strategic plan that while small businesses are critical to all areas of the state, they play a particularly key role in rural areas where there are a limited number of large employers. The CWIB further states that small businesses continue to have difficulty learning about and accessing public workforce development systems and that it is important to give specific attention to the needs of small businesses.

The Committee is currently working with Small Business California and the CWIB to survey local workforce investment boards to better understand their business service strategies, use of industry clusters to target training, and how they are measuring the return on investment of public and private dollars. The results of the survey are expected later in the fall and will likely form the basis of proposed legislation in 2009.

Changing Demographics in the Workplace

California's population is expected to increase by 10 million between 2000 and 2020, according to an August 2008 study by the California Budget Project (CBP). The young adult (20 to 24 years old) and the working age populations (25 to 65 years old) are expected to increase by a healthy 26.2% and 27.4%, respectively. The increase in working age people will also be more diverse with 40% of the population being Latino, 38.2% white, 13.2% Asian, and 5.6% African American.

The increase in diversity raises important questions related to current public and private investments in education, vocational training, higher education, and lifetime learning opportunities. For decades public funding and learning opportunities in these areas have not kept pace with basic population growth.

Just as important as the increase in diversity is the shift in the age of the population. The greatest rate of increase among population groups is expected from people over the age 65, which will increase by approximately 75.4% between 2000 and 2020. In 2020, more than 6 million Californians are expected to be over the age of 65 and be either out of, or in the process of, leaving the workforce.

California's 38 million people are already more ethnically diverse than the rest of the nation. The 2000 Census found that California's population was already a "majority minority" state based on race and ethnicity. In 2006, whites accounted for 42.8% of the population as compared to 69.4% in the rest of the nation. Latinos represent 35.9% of the population as compared to 11.9% in the rest of the nation; Asians represent 12.1% as compared to 3.2% in the rest of the nation; and African Americans represent 6% of the state's population as compared to 13% in the rest of the nation.

These statistically significant surges in the diversity of California's working-age population are a trend that is quickly moving across the country and will result in profound impacts on the U.S. economy. It is estimated that 85% of the growth in the U.S. population will come from non-white ethnic groups during the next 40 years. This demographic shift is expected to measurably increase the comparative value of minority purchasing power. The current size of the U.S. Hispanic and African-American consumer market is already larger than the GDP of all but nine countries in the world.

In a related change, there has also been a significant increase in the number of minority-owned firms. The Milken Institute first identified this trend in 2000 and reported that the growth of minority owned firms was surpassing the growth of all U.S. businesses, growing at a rate of 17% per year, six times the growth rate of all other firms. Further, revenues attributed to minority firms are growing 34% per year—more than twice the rate of all other firms.

Woman-owned firms, particularly among ethnic women, increased at a rate five times greater than all firms. The rate of African American women-owned firms increased by 12% annually, as compared to 2% for all firms and just under 4% for all woman-owned firms. The Internal Revenue Service has predicted that Latinos will soon own 1-in-10 businesses.

Despite their increase in numbers, the ability of minority and women-owned businesses to grow is constrained by their access to capital. Even after accounting for a variety of factors (education, experience, industry, and location) minority-owned firms receive less capital on less advantageous terms. Latinos and African Americans are turned down for business loans at 3 times the rate of whites with equivalent credit characteristics.

Further, minority-owned firms tend to start their businesses with lower levels of personal wealth and face barriers when tapping traditional financing sources, contributing to lower rates of overall success and growth. Access to capital is not just limited to debt equity; the Milken Institute's report, among others, also found that of the estimated $95 billion in the private equity market in 1999 (nationwide), only $2 billion is managed by companies whose focus is supplying capital to entrepreneurs from traditionally underserved markets. Despite advances in venture capital, mezzanine debt, and asset-backed securitization, the vast majority of minority firms do not have access to the types of financing available to larger companies.

In 2006, $130 billion was raised by private equity venture funds, and approximately $25.5 billion was invested in 3,416 deals. Although women own approximately 40% of all businesses in the U.S., they receive less than 5% of all venture capital. Minority owners comprise 8% of all owner firms, with Hispanics owning close to 4%. However, minority-owned firms receive less than 2% of venture capital. Rural entrepreneurs account for 10% of all businesses but receive less than 2% of all venture capital.

The Committee has made the examination of the challenges facing small business, including minority and woman-owned business, a policy priority for the past two years. For the purposes of analysis, the Committee uses the term "emerging domestic market"

(EDM) to refer to these significant demographic shifts in communities that may have historically been overlooked for private investment, but now may be or could become private investment ready.

The term, EDM, was originally developed by the Milken Institute, and they use it to refer to people, places, or business enterprises with growth potential that face capital constraints due to systemic undervaluation as a result of imperfect market information. These markets include ethnic- and women-owned firms, urban and rural communities, companies that serve low- to moderate-income populations, and other small- and medium-sized businesses. This hearing focuses on rural communities and will offer the Members an opportunity to examine a new facet of EDM challenges. *Appendix A has fact sheet on the California Economy.*

The California Economy 2008-2010

According to a September 23, 2008, economic forecast from the University of the Pacific (UOP), California is halfway through a recession that won't begin easing until sometime next year. The stimulus checks were not successful in staying off a recession in the long-term according to UOP. The checks provided an artificial boost to the economy during the summer, but with the money spent the economic pressures across the nation remain.

The state's most current unemployment figures from the Employment Development Department report that California's unemployment rose in August to 7.7%, the highest rate since 1996. Projections from the University of California at Los Angeles (UCLA) predict that statewide unemployment will remain above 7% throughout all of 2009.

Housing starts are expected to hit bottom in late 2008 and remain low through 2009 due to constriction of the credit market and competition from foreclosure properties. UCLA researchers also predict that housing prices will continue to decline and will not hit bottom until some time next year.

The construction industry is one of the hardest hit having lost about 130,000 jobs in the past two years. UOP predicts that another 50,000 jobs will be lost before bottoming out at the end of 2009. Manufacturing is expected to continue to decline, shedding another 40,000 jobs over the next year. The only major economic sector expected to add jobs in California next year is health care, according to UOP.

Changes in the Budget Expected to Impact Business

The final budget for 2008-09 included a number of revenue enhancement provisions that are expected to impact business development. These provisions are summaries below in terms provided by the Department of Finance.

- Net Operating Loss (NOL) Suspension and Carryback: Except for taxpayers with income that is less than or equal to $500,000, NOL deductions are suspended for tax years 2008 and 2009. Also, beginning in 2008, the time limit on carrying forward

NOLs is increased from 10 to 20 years. Beginning in 2011, taxpayers will be permitted to carryback losses for two years, bringing California into conformity with federal law. Carrybacks will be limited to 50 percent of losses for tax year 2011, and 75% for tax year 2012. The full NOL could be carried back starting in 2013. This tax law change is expected to increase revenues by $1.265 billion in 2008-09 and $695 million in 2009-10. In part because of carrybacks, this tax law change is expected to reduce revenues in subsequent years. The revenue loss is projected to be $265 million in 2010-11 and $485 million in 2011-12.

- <u>Tax Credit Limitation and Usage Modification</u>: Under prior law, business incentive credits could reduce corporate tax liability to the $800 minimum tax, and eliminate entirely personal income tax (PIT) liability. This provision will limit tax reductions from tax credits to 50% of tax liability. This limitation is effective for tax years 2008 and 2009 for corporate and individual taxpayers. For tax years 2010 and later, the 50% limitation would no longer apply. In addition, corporations will now be allowed to share credits within a unitary group, but only if the receiving member of the group was in the group when the credit was earned. If a corporation is sold or transferred to another unitary group, credit sharing would generally not be allowed. These changes are expected to increase revenues by $615 million in 2008-09 and $260 million in 2009-10, and reduce revenues by $385 million in 2010-11 and $480 million in 2011-12.

- <u>Limited Liability Companies (LLC) Payment Date Change</u>: Under prior law, LLC's were not required to pay the LLC fee until after the end of the year. This law change will require an estimated payment of the fee amount on the 15th day of the sixth month of the LLC year, generally June 15. This law change is expected to accelerate $360 million in 2008-09 and $36 million in 2009-10.

- <u>Improve Compliance with Taxes by Establishing a Penalty for Understatement of Tax</u>: Corporate taxpayers who understate their tax liability by $1 million or more will be subject to a new penalty. This penalty, equal to 20% of tax understatement, would apply to tax years beginning on and after 2003 and will be assessed in addition to the current 10 percent annual interest applied to these late payments. Taxpayers could file amended returns and report and pay tax understatements by May 31, 2009 to avoid paying the penalty. This tax law change is expected to increase 2007-08 revenues by $1.435 billion, 2008-09 revenues by $75 million and 2009-10 revenues by $45 million.

- <u>Limited Liability Companies (LLC) Payment Date Change</u>: Under prior law, LLC's were not required to pay the LLC fee until after the end of the year. This law change will require an estimated payment of the fee amount on the 15th day of the sixth month of the LLC year, generally June 15. This law change is expected to accelerate $360 million in 2008-09 and $36 million in 2009-10.

- <u>Accelerate Estimated Payments</u>: Generally estimated payments for PIT and corporations are required to be paid in equal amounts evenly divided among the four estimated payments. Going forward, taxpayers will be required to pay 30% each with the first two estimated payments, and 20% each for the last two estimated payments. This law change is expected to accelerate $1.270 billion in 2008‑09 and $240 million in 2009‑10. Taxpayers with large unexpected mid‑year changes in income will still be able to use the annualization method to avoid penalties.

Section II – The San Joaquin Valley Regional Economy

In the first section, the paper looked at state economic indicators and trends. In this second section information is provided on the state's regional economies with a special focus on the San Joaquin Valley.

Economic Development in California's Regional Economies

California is not only one of the largest economies in the world, but it is also one of the most economically diverse. The state's economy is comprised of a variety of industry clusters, many linked to technology, agribusiness, and foreign trade.

To gain a better understanding of the state's multifaceted economy, the California Economic Strategy Panel (ESP), working in collaboration with the Employment Development Department, established the California Regional Economies Project (Regional Economies Project) in 2003. As a first step, the Regional Economies Project undertook an analysis to determine the state's primary economic regions and related trends in workforce and business development.

From this analysis, ESP prepared regional economic profiles, which have become a basic building block for many groups undertaking their own community development activities. As an example, the California Partnership for the San Joaquin Valley, a group established by Governor's executive order in 2005, used its regional profile as a foundation for the development of its economic and community development action plan. Policymakers also use these profiles for developing and analyzing legislation, initiatives, and other community development activities.

Below is a listing of the state's nine economic regions with basic information from the Regional Economies Project. As the focus of the hearing is on the rural communities in the Southern San Joaquin Valley, more detailed information is provided in the following subsection.

Northern California

The Northern California region consists of 11 counties along the north coast, Oregon border, and northeastern Sierra Nevada. These counties are heavily dependent on natural resources, with the majority of the land consisting of public and privately owned forest and grazing lands. The region as a whole is sparsely populated and underdeveloped.

In 2006, the region accounted for 1.1% of California jobs and 1.2% of its population. The region ranked eight out of nine in job growth from 2001 to 2006, experiencing an increase in jobs of 1.3%. Businesses with fewer than 50 employees comprised 98% of total employers and employ 68.5% of workers in the region. Top industries in the region include government (27%), retail trade (13%), and health care and social assistance (11%).

Northern Sacramento Valley

The Northern Sacramento Valley region consists of the counties of Shasta, Tehama, Glenn, Butte, and Colusa. These counties are primarily agriculture-based, with forestry and farm-related manufacturing centered in Shasta County. This region differs significantly from its neighboring regions in land ownership and industrial composition.

In 2006, the region accounted for 1.2% of California jobs and 1.4% of its population. The region ranked fifth in job growth from 2001 to 2006, experiencing an increase in jobs of 6.4%. Businesses with fewer than 50 employees comprised 97.2% of total employers and employ 57.5% of workers in the region. Top industries in the region include government (22%), retail trade (13%), and health care and social assistance (13%).

Greater Sacramento

The Greater Sacramento region consists of six counties, which are becoming increasingly interdependent: Sacramento, Yolo, Placer, El Dorado, Sutter, and Yuba. Although eastern Placer and El Dorado counties are currently more closely aligned with the greater Lake Tahoe area, most of the new growth in those counties is occurring in the western portions. As a result, the economic base is increasingly shifting towards the Sacramento area. Parts of Sutter and Yuba counties are currently more closely aligned with the Northern Sacramento Valley agricultural areas, but much of the new growth is occurring along Highways 65, 70, and 99 in the direction of Sacramento County.

In 2006, the region accounted for 6.2% of California jobs and 6.1% of its population. The region ranked second in job growth from 2001 to 2006, experiencing an increase in jobs of 9.4%. Businesses with fewer than 50 employees comprised 96.1% of total employers and employ 46.8% of workers in the region. Top industries in the region include government (26%), retail trade (11%), and health care and social assistance (9%).

San Joaquin Valley

The San Joaquin Valley region is composed of eight counties that line the southern Central Valley, and have economies based upon agriculture and related industries. Sixty percent of the region consists of privately-owned farmland.

In 2006, the region accounted for 8.6% of California jobs and 10.4% of its population. The region ranked first in job growth from 2001 to 2006, experiencing an increase in jobs of 9.9%. Businesses with fewer than 50 employees comprised 95.7% of total employers and employ 44.4% of workers in the region. Top industries in the region include government (19%); agriculture, forestry, fishing, and hunting (14%); and, retail trade (11%).

Bay Area

Traditionally, the nine counties that border the San Francisco Bay have comprised the Bay Area region. However, Santa Cruz County has now become more dependent upon the Bay Area region than on the Central Coast region and is now considered part of the Bay Area regional economy.

In 2006, the region accounted for 22% of California jobs and 19.8% of its population. The region ranked last in job growth from 2001 to 2006, experiencing a 5.8% decrease in jobs. Businesses with fewer than 50 employees comprised nearly 95.7% of total employers and employ 43.1% of workers in the region. Top industries in the region include government (14%), manufacturing (11%), and retail trade (10%).

Central Sierra

The seven southeastern counties of the Sierra Nevada represent a distinct geographic and economic region. The region is largely government owned, sparsely populated, and composes a small share of state economic activity. As a result, the region requires a different economic development strategy than neighboring regions.

In 2006, the region accounted for 0.4% of California jobs and 0.5% of its population. The region ranked sixth in job growth from 2001 to 2006, experiencing an increase in jobs of 5.9%. Businesses with fewer than 50 employees comprised 98.1% of total employers and employ 50.1% of workers in the region. Top industries in the region include government (33%), accommodation and food services (17%), and retail trade (12%).

Central Coast

The Central Coast region includes three counties – Monterey, San Luis Obispo, and Santa Barbara. In 2006, the region accounted for 3% of California jobs and 2.9% of its population. The region ranked seventh in job growth from 2001 to 2006, experiencing a job growth of 3.6%. Businesses with fewer than 50 employees comprised 95.9% of total employers and employ 71% workers in the region. Top industries in the region include government (18%); agriculture, forestry, fishing, and hunting (13%); and accommodation and food services (11%).

Southern California

The counties of Los Angeles, Ventura, Orange, San Bernardino, and Riverside comprise an economic interdependent region. Orange County is different from its northern and eastern neighbors, but not to the extent that a separate region is required.

In 2006, the economic linkages between Orange County and its neighbors, particularly Los Angeles County, were fairly strong. The region accounted for 46.9% of California jobs and 48.7% of its population. The region ranked fourth in job growth from 2001 to 2006, experiencing an increase in jobs of 6.5%. Businesses with fewer than 50 employees comprised 96.1% of total employers and employ 42.3% of workers in the region. Top industries in the region include government (13%), manufacturing (11%), and retail trade (11%).

Southern Border Region

This two-county region that borders Mexico is the smallest, but most diverse economic region in the state. However, according to the Regional Economies Project, the similarities are important for state strategic planning and, therefore, necessitate putting both counties in the same region.

In 2006, the region accounted for 8.8% of California jobs and 8.6% of its population. The region ranked third in job growth from 2001 to 2006, experiencing an increase in jobs of 7.7%. Businesses with fewer than 50 employees comprised 95.7% of total employers and employ 42% of workers in the region. Top industries in the region include government (18%), retail trade (11%), and accommodation and food services (10%).

Closer Examination of the Southern San Joaquin Valley

Many policymakers generally recognize that poverty and unemployment impact the state's economy through higher costs for social services, law enforcement, and other public services like emergency care. Children growing up in poverty face tremendous challenges learning in school, finishing high school, and being engaged in the legal system. Poverty and blighted communities create both direct and lost opportunity costs for the state, local communities, and individuals.

The challenges facing the San Joaquin Valley have been known for decades and officially documented in nationally recognized reports such as the Brookings Institution report, "Katrina's Window: Confronting Poverty Across America," which ranked the City of Fresno as having the highest rate of concentrated poverty in the nation. *Appendix B includes a fact sheet on the Southern San Joaquin Valley.*

More recently, the Southern San Joaquin Valley was designated as the poorest region in the nation based on a human development index prepared under funding from Oxfam and the Rockefeller Foundation, among others. The Human Development Index measured a variety of indicators including life expectancy at birth, education levels, median earnings, as well as other income and heath indicators. While California, overall, ranked 11, the Congressional district encompassing Fresno, Kings, Kern, and Tulare Counties ranked dead last. Other Congressional districts in the San Joaquin Valley ranked in the bottom five including those just to the north and south. *Appendix C includes a map of the San Joaquin Valley.*

Chart 3 – Comparison of Southern San Joaquin Valley Counties, displays information on the current unemployment rates, occupations in the regions with the fastest job growth, and occupations in the regions with the most projected job openings. While portions of the chart clearly indicate challenges, the chart also identifies areas of potential economic opportunity.

Chart 3 – Comparison of Southern San Joaquin Valley Counties				
	Population (2008)[1]	**Unemployment Rate (2008)[2]**	**Occupations with Fastest Job Growth (2004-2014)[3]**	**Occupations with the most Job Openings (2004-2014)[4]**
California	38,049,462	7.6%	Network Systems & Data Communications Analysts	Retail Salespersons (2006-2016)
			Computer Software Engineers, Applications	Cashiers (2006-2016)
			Forensic Science Technicians	Waiters & Waitresses (2006-2016)
			Skin Care Specialists	
			Veterinary Technologists & Technicians	
Fresno	931,098	10.1%	Psychology Teachers, Postsecondary	Farmworkers & Laborers, Crop, Nursery, & Greenhouse
			Network Systems & Data Communications Analysts	Retail Salespersons
			Home Health Aides	Cashiers
			Mechanical Engineering Technicians	
			Industrial Engineers	
Kern	817,517	9.9%	Boilermakers	Farmworkers & Laborers, Crop Nursery, & Greenhouse
			Paving, Surfacing, & Tamping Equipment Operators	Cashiers
			Reservation & Transportation Ticket Agents	Retail Salespersons
			Structural Iron & Steel Workers	
			Employment, Recruitment, & Placement Specialists	
Kings	154,434	9.9%	Medical & Clinical Laboratory Technicians	Farmworkers & Laborers, Crop, Nursery, & Greenhouse
			Real Estate Sales Agents	Retail Salespersons
			Home Health Aides	Elementary School Teachers, Except Special Education
			Education Administrators, Preschool & Child Care	
			Clinical Counseling, & School Psychologists	
Tulare	435,254	10.9%	Engineering Managers	Farmworkers &

				Laborers, Crop, Nursery, & Greenhouse
			Business Teachers, Postsecondary	Retail Salespersons
			Computer Software Engineers, Systems Software	Cashiers
			Network Systems and Data Communications Analysts	
			Personal Financial Advisors	
				Source: Labor Market Info, EDD

Population Growth

One of the greatest challenges faced by communities in the San Joaquin Valley has been the impact of growth. For the past two decades, this region has been one of the fastest growing areas in the state. Not surprisingly, during this same period, air pollution levels have become so bad that the region has been cited as being in severe nonattainment; water quality in several rural communities has been significantly compromised; and, long-time residents are finding it increasingly difficult to find affordable housing, as transplanted urban workers are driving-up housing costs.

Population projections from 2000 to 2020 by the Great Valley Center suggest that the region will continue to experience strong growth and end the first half of the century with more than double the population. Chart 4 - Population Growth in the San Joaquin Valley displays the anticipated population growth in the San Joaquin Valley on a decade by decade basis.

Chart 4 – Population Growth in the San Joaquin Valley

	2000	2010	2020	2030	2040	2050
FRESNO	804,508	983,478	1,201,792	1,429,228	1,670,542	1,928,411
KERN	665,519	871,728	1,086,113	1,352,627	1,707,239	2,106,024
KINGS	130,202	164,535	205,707	250,516	299,770	352,750
MADERA	124,696	162,114	212,874	273,456	344,455	413,569
MERCED	211,481	273,935	348,690	439,905	541,161	652,355
SAN JOAQUIN	569,083	741,417	965,094	1,205,198	1,477,473	1,783,973
STANISLAUS	451,190	559,708	699,144	857,893	1,014,365	1,191,344
TULARE	369,873	466,893	599,117	742,969	879,480	1,026,755
Total	3,326,552	4,223,808	5,318,531	6,551,792	7,934,485	9,455,181

Source: The Great Valley Center

This growth will continue to put pressure on communities to meet basic air and water quality standards, provide for adequate levels of affordable housing, educate the children, and sustain a viable economy.

San Joaquin Valley Partnership

Economic development activities in the San Joaquin Valley have advanced with the establishment of the California Partnership for the San Joaquin Valley (the Partnership) in 2005 through a gubernatorial Executive Order. Members of the Board are appointed by the Governor and include representation from a broad range of stakeholder groups. At the suggestion of the Chairman of the Committee, all members of the San Joaquin Valley's Congressional, State Senate, and State Assembly delegations are also members of the Partnership.

The Partnership was established, in part, to provide a parallel state entity to work with the federal Interagency Task Force for the Economic Development of the Central San Joaquin Valley (Interagency Task Force). The Interagency Task Force is locally administered through the Fresno Office of the federal Department of Housing and Urban Development. The Partnership and the Interagency Task Force regularly work on joint initiatives.

The activities of the Partnership are driven by a comprehensive regional strategic action plan which was developed from the recommendations of multiple issue-oriented working groups that were combined with testimony offered at almost a dozen public meetings.

The comprehensive regional strategic action plan includes specific activities related to improving transportation, housing, health care, air and water quality, economic development, and educational needs for the San Joaquin Valley. Selected economic development related initiatives from the Action Plan for the Southern San Joaquin Valley include:

- Align region-wide economic development efforts in support of targeted industry clusters: (1) Agribusiness, including Food Processing, Agricultural Technology, and Biotechnology; (2) Manufacturing; (3) Supply Chain Management and Logistics; (4) Health and Medical Care; and (5) Renewable Energy.

- Identify and implement strategies and mechanisms for investments in infrastructure and incentives that support the economic vitality of the region.

- Create a dynamic, entrepreneur-producing economic climate.

- Accelerate the deployment and adoption of renewable and clean energy, including biofuels.

- Develop a coordinated, integrated program to promote tourism linked to rest stops, state parks, and other destinations.

- Create a demand-driven workforce system including high quality vocational training and academic education that supports target clusters.

- Expedite access to and use of advanced communication services (ACS) and information technology in all communities.

- Develop a long-range strategy for agriculture in the San Joaquin Valley that ensures its viability and sustainability

The Partnership has also served as an important convener on key issues in the San Joaquin Valley. It is where regional leaders on transportation can efficiently engage with regional leaders on water and/or economic development. Coordination which could take weeks can now take place in a day or two. The Partnership has also helped local governments, businesses, and residents of the San Joaquin Valley speak with a more united voice on state funding issues.

To get the initiative started, the Partnership received $5 million in the 2005-06 Budget Act; half of the moneys were allocated toward state and local administrative costs and half of the proceeds were allocated as seed grants to jumpstart the implementation of the Partnership's comprehensive strategic action plan.

Important economic development seed grants were provided to community partners that committed to advancing the recommendations of the Action Plan. One seed grant was awarded to the Golden Capital Network and Pacific Communities Ventures for facilitating the development of an extended network of private equity funds to serve the capital needs of local businesses. *Appendix I includes a quarterly update of the project.*

Another seed grant went to Central California Economic Development Corporation for the implementation of an enhanced market strategy for the San Joaquin Valley, which focuses on fostering business development and business attraction and retention. A third seed grant helped to establish the San Joaquin Valley Clean Energy Organization (SJVCEO) which now serves as a facilitator of a variety of clean energy activities in San Joaquin Valley.

The Council of Fresno County Governments was also awarded a seed grant to develop a “toolbox” of best practices for farmland conservation. One of the grant deliverables is to create an organization to hold and manage interests (like conservation easements) in protected farmland. It is intended that this Farmland Conservation Model Program will complement long-term, regional, urban land use decisions and will be applicable to the entire San Joaquin Valley.

In addition to the moneys allocated through the 2005-06 Budget Act, the Partnership has also served as a catalyst for advancing the locally defined priority projects identified in the Action Plan. Over $6 million in existing state program dollars have been leveraged for Partnership priorities, including funding for a regional nursing education consortium and Highway 99 improvements. Specific examples of workforce development related funding which has come to the San Joaquin Valley through greater coordination with the Partnership includes:

- $500,000 from the Employment Training Panel to the Kern Community College District (Bakersfield College) to promote full-time job retention in high-wage occupations; provide skills for transitioning to high performance workplaces; support priority industries; and, serve the region's manufacturing companies as well as the logistics, goods movement, and construction industries. The "Just in Time" training funds will cover training costs for businesses throughout the region.

- To address the need to find employees for hard-to-fill positions, the U.S. Department of Labor awarded $2 million for the creation of 12 new training programs at State Center Community College District (SCCCD) and West Hills campuses to serve 500 students through the Agriculture for Tomorrow program, introducing students to the advances in food processing, manufacturing, logistics and warehousing, and preparing them for careers from computer-based inventory management to high-tech food safety inspection. The grant will be matched by $2.7 million from the partners in the program.

- The U.S. Department of Labor awarded $1.85 million to expand nurse training at community colleges in Merced, Modesto, and SCCCD's Madera Center. The grant will be matched with $1.5 million from the participating colleges and partners.

- $1 million grant to support the work of the Partnership's Higher Education and Workforce Development Work Group.

<u>Resources for the Valley</u>

While communities in the San Joaquin Valley face challenges, communities have worked to bring a variety of key resources to the region. During the hearing Members will have an opportunity to discuss how effective these resources have been in addressing the specific challenges of San Joaquin Valley rural communities.

One of the biggest assets, the San Joaquin Valley has are the public and private institutions of higher education and advanced technical education. The San Joaquin Valley is served by the following four-year universities:

- University of California, Merced
- California State University, Bakersfield
- California State University, Fresno
- California State University, Stanislaus
- University of the Pacific (private)
- Fresno Pacific University (private)

The region is also served by nine community colleges.

- Bakersfield College
- Taft College
- Cerro Coso College
- Porterville College
- College of the Sequoias
- Fresno City College
- West Hills College
- Merced College
- Modesto Junior College

Many of the two-year and four-year colleges listed above also have satellite facilities to help extend their programs beyond the main campus. In addition, there are also a growing number of vocational schools serving these areas.

The San Joaquin Valley also has a number of business incentive zones. These incentives are discussed in greater detail in Section V of the paper and *Appendix E*. The incentive zones include, but are not limited to:

- Enterprise Zones: Each county offers at least one enterprise zone, where benefits include a six percent tax credit on equipment and a tax credit of up to $31,574 per qualified employee over a five-year period. Enterprise zone benefits are available in the following communities: Bakersfield, Delano, Fresno, Fresno County, Hanford, Lemoore, Corcoran, Lindsay, Madera, Merced/Atwater, Porterville and Shafter. The state's only Business Incentive Zone, similar to the enterprise zone, is located in the County of Tulare.

- Foreign Trade Zones: A number counties are served by Foreign Trade Zones which offer special tax free benefits for manufacturing and other activities that take place within the zones. Areas in the San Joaquin Valley include: Mid State 99, Visalia (sub-zone of Merced County); U.S. Cold Storage, Tulare; International Trade and Transportation Center, Shafter; and Fresno.

- Recycling Market Development Zones: Both Fresno County and Kern County have a Recycling Market Development Zone. The purpose of this program is to provide assistance to support new businesses, expand existing ones, create jobs, and divert waste from landfills.

Perhaps one of the greatest resources the San Joaquin Valley has is its workers. Based on 2000 census, there are 1.5 million people in the San Joaquin Valley over the age of 25. Chart 5 - Educational Attainment in the San Joaquin Valley**,** provides an education-based outline of the working age population based on U.S. Census data.

Chart 5 - Educational Attainment in the San Joaquin Valley

Educational Attainment	Number of People	Percentage of Population over 25
Population over 25 years old	1,577,333	100%
Less than 9th Grade Education	275,540	17.5%
9th-12th Grade Education, No Diploma	242,498	15.4%
High School Graduate or Equivalent	378,505	24%
Some College, No Degree	355,316	22.5%
Associate Degree	103,057	6.5%
Bachelor's Degree	151,711	9.6%
Graduate or Professional Degree	70,696	4.5%
Source: Central California Economic Development Corporation		

Average wages from private industry in the San Joaquin Valley are estimated at $31,747 for 2006, which is a 21% increase from 2001to 2006. Firms with more than 100 employs represent less than 2% of firms. The number of firms with more than 1,000 employees decreased by 2.1% from 2001 to 2006. Chart 6 - Major Employers in the Southern San Joaquin Valley, includes a list of the major employers in the Southern San Joaquin Valley.

Chart 6 - Major Employers in the Southern San Joaquin Valley

Company	County	Plant	Employees
Foster Farms	Fresno County	Poultry & Eggs	2,500
Pelco	Fresno County	Mfg Security Systems	1,900
Zacky Farms	Fresno County	Poultry Processing	997
Harris Ranch Beef Co.	Fresno County	Meat Products	650
Sunmaid	Fresno County	Food Processing, Raisins	600
The Gap	Fresno County	Distribution Center	525
Grundfos Pumps	Fresno County	Mfg. Water Pumps	275
Wawona Frozen Foods	Fresno County	Preserved Fruits & Vegetables	175
Crawford & Company	Fresno County	Claims Management	100
Grimmway Farms	Kern County	Groceries & Related Products	5,000
Giumarra Vineyards	Kern County	Beverages	4,000
Bolthouse Farms	Kern County	Carrot Processing	2,350
State Farm Insurance Co.	Kern County	Regional Processing Center	1,500
Sun World Int’l	Kern County	Groceries & Related Products	1,500
Jackson & Perkins	Kern County	Roses & Misc. Nondurable Goods	1,000
Frito Lay	Kern County	Groceries & Related Products	725
Alfa Leisure	Kern County	RV Manufacturer	600
Dryer’s	Kern County	Ice Cream Products	450
Sun Pacific	Kern County	Ag Packer/Grower	300
Performance Food Group	Kern County	Distribution Cold Storage	300
Del Monte Corp.	Kings County	Food Processing-Tomato Paste	1,400
J.G. Boswell	Kings County	Prod/Processing Cotton,Alfalfa	1,200
Leprino Foods	Kings County	Cheese Processing	618
Communication Svc for the Deaf	Kings County	Call Center	300
Marquez Bros.	Kings County	Mexican Dairy Products	306
Central Valley Meat Company	Kings County	Meat Processing	270
Warmerdam Packing	Kings County	Groceries & Related Products	250
Conagra Foods	Kings County	Food Processing-Garlic	250
ExoPack	Kings County	Mfg. Flexible Packaging Bags	181
SK Foods	Kings County	Tomato Paste Processing	121-500
Walmart	Tulare County	Warehouse/Dist.	1,527
Ruiz Food Products	Tulare County	Misc. Food & Kindred Products	1,100
Cigna Health Care	Tulare County	Call Center	1,000
Jostens	Tulare County	Printing/Publishing	720
Dairyman’s /Land O’ Lakes	Tulare County	Dairy Products	650
Beckman Coulter	Tulare County	Mfg. Circuit Boards	245
VF Outdoor	Tulare County	Distribution Outdoor Supplies	200
TriWall/Weyerhauser	Tulare County	Paper Mfg	100
Knight Transportation	Tulare County	Distribution	100

Source: Central California Economic Development Corporation

Section III – Rural Development in California

The October 2, 2008 hearing is designed to provide information and public comment on the elements of a modern rural development policy. This section provides information on the history of rural development in California, development challenges facing rural communities, and examples of rural development models from other states.

California's History with Rural Development

Aside from administering the small cities portion of the federal Community Development Block Grant Program, California has no state-level programs specifically targeted toward rural economic development activities. While California is not unique in its lack of attention to rural economic policy, this was not always true. California's most recent venture into rural policy came in the late 1990's with the enactment of two bills, one to establish an internal cabinet-level task force on rural issues and another to establish an external stakeholder driven rural development council. Stakeholder groups represented on the rural development council included economic developers, local governments, tribal governments, agriculture, forestry, and other business interests. The internal task force was managed through the Governor's Office, and the rural development council was administered through the now defunct Technology, Trade and Commence Agency.

Combined these two entities addressed a variety of rural issues including economic development, health care, energy, workforce development, water, and land use. The rural development council was also a member of the National Rural Development Partnership, which was initially chartered by an act of the U.S. Congress in 1990. Today, 36 state rural development councils belong to the National Rural Development Partnership, including California's neighboring states of Arizona, Nevada, and Oregon.

The internal rural task force and the external rural development council provided an opportunity for other rural policy groups to bring their issues forward and reduce the prevalent silo thinking. The California Rural Health Policy Council is one example of a group whose voice became greater by having a single internal and external place to raise issues and share ideas. The rural development council was also a place where external stakeholders could raise and seek resolution of issues among the broader statewide rural community. Besides advancing policy issues, the rural policy task force also worked with federal, state, and local governments to:

- Eliminate impediments to economic growth by streamlining burdensome regulations;

- Identify gaps in service delivery and develop solutions for addressing these areas; and

- Develop and support a more congruent and fluid service-delivery system for rural California.

California's rural policy was reflecting a new federal policy that focused not just on rural education and health care, but also on proposed investments intended to “enable rural Americans to help themselves, create jobs, and rebuild their communities.” This strategy advanced recommendations from earlier federal reports that argued that the only effective policy to improve conditions in impoverished rural communities was to use federal funds and technical assistance to leverage local planning and fund efforts.

This refocused federal policy was also to become part of a broader national strategy to bring the nation out of the recession that had begun in 1991. Two changes in national tax policy were particularly important to rural communities. The first was the increase in the earned income tax credit which substantially increased the after-tax income of the working poor, a disproportionate number of whom reside in rural areas. The second, was the enactment of legislation creating empowerment zones and enterprise communities (EZ/EC), which included certain tax incentives to encourage growth in distressed areas. The EZ/EC program included both an urban component administered through the federal Department of Housing and Urban Development and a rural component administered by the U.S. Department of Agriculture (USDA).

While California's enterprise zone program was initially established in the early 1980s, changes were made to the program in the mid-1990s to better reflect the changes in federal policy, SB 2023 (Costa) Chapter 955, Statutes of 1996 and AB 296 (Knight) Chapter 953, Statutes of 1996. In 2005 and 2006, Chairman Arambula lead four months of intensive hearings to examine the state enterprise zone program which resulted in an even stronger alignment of the state program with the original intention of the federal program, which was assisting poor communities in helping themselves, creating jobs, and rebuilding their neighborhoods.

Support for Innovation within Rural Communities

Enhancing innovation opportunities within rural communities can be a very powerful, competitive advantage to these historically lower-income economies. A new report by Collaborative Economics notes that many communities are experiencing new forms of economic pressures from innovation-driven globalization and technological changes.

Collaborative Economics states that the global innovation economy is primarily driven by ideas and is different than the industrial-based economies of the past. Rather than competing solely on the basis of costs, the new model also requires communities to compete on the basis of increasing productivity. Collaborative Economic states that today's business development is based on an open business model where firms seek innovation assets, including ideas, talent, capital, and other resources from many different internal and external sources. This open business model means that rural businesses are not necessarily removed from the competition simply because of location.

In the new model it is important that regions, whether urban or rural, be capable of supporting ongoing learning and adapting to new innovations. While it may seem that urban areas offer more favorable innovation conditions, rural areas can offer many highly desired qualities when properly packaged. Key characteristics of a successful innovation model are business communities which are well networked, have the ability to operate collaboratively, and are clustered geographically. By its very nature, Innovation can take many forms – a community can be innovative in how it produces products as well as in the types of products it produces. Rural innovation may be about performing traditional activities in a new way, or about starting new businesses and/or new industry sectors.

Successful innovation is strongly related to the level of access to human capital, knowledge, and networks. Rural innovation does not necessarily look like innovation or high-tech as it occurs in more urban places. As one example, a rural area may try to develop complex R&D facilities in order to compete for high-tech industries. This type of development may, however, generate costly upfront investments with very little job creation. It may be more effective to invest in the capacity of a rural area to assimilate innovation, rather than to try to produce that innovation itself. Investments in infrastructure such as broadband technologies or low-cost laboratory space for prototype development may prove to be more effective.

An excellent opportunity for rural innovation lies in the area of renewable energy. While much of the state-level discussions on renewable energy are dominated by urban- and suburban-based stakeholders, renewable energy is, for the most part, truly a discussion about rural energy production. Biofuels primarily rely on agricultural feed stocks. Due to siting requirements, wind power will most likely be used in rural areas as compared to urban communities. While solar power is clearly more flexible, large solar arrays generally need to be erected in rural areas.

The scale of this economic opportunity for rural communities is enormous. According to the USDA, this year's bill for oil imports to the U.S. will exceed "the entire value of every ear of corn, every gallon of milk, every pound of beef, everything that we produce agriculturally" in the country. Rural renewable energy could mean more stable revenues for communities. Development of renewable energy facilities in rural areas can also mean new jobs in construction, operations, and maintenance. It could also mean a viable future for young people, and thus reduce the brain drain from California rural communities. Section IV of the paper includes a more extended discussion on cleantech activities in the Southern San Joaquin Valley.

Another important rural innovation opportunity is the advance in access to broadband. In a knowledge-based economy, easy access to information through secure, decentralized data systems allows large and small organizations to relocate, network, expand more cost-effectively, and provide workers and contractors with more flexibility relative to work space. Factories, warehouses, offices, and transportation networks can also be optimized for economic efficiency. Broadband effectively levels the playing field by allowing rural communities to have unprecedented access to information which enhances their ability to provide services that were previously only available in urban settings. In effect, jobs become more mobile, and that ultimately benefits rural communities.

Access to broadband provides the technical backbone to support telecommuters, home-based businesses, web-based businesses, new businesses, satellite offices, and relocations. California's current broadband initiatives may need to be evaluated to determine whether they are being fully leveraged in rural communities.

Leveraging the Rural – Urban Connection for Mutual Benefit

Rural development does not need to operate in a vacuum. Coordinating rural development actions with major regional and state-level investment activities can more effectively ensure that local infrastructure investments provide significant value, including those of a smaller scale.

Periodically, the Legislature and the Governor put forth "comprehensive" investment plans in telecommunications, transportation, energy, and water infrastructure; however, even when a rural component is added, its addition often occurs at the end of the process rather than it being a central component to the plan. As an example, early discussion on the allocation of the goods movement moneys from the 2006 infrastructure bonds focused on how much money would go to Los Angeles and the Bay Area. Even though 45% of trucking related to goods movement travels through the Valley, it took an extended, aggressive, and coordinated effort for the San Joaquin Valley to even get 25% of the $1 billion of funding available.

Working across regions is also important when considering public investments in education and vocational training. Access to an adequate variety of these types of opportunities in a rural area can be difficult. A rural community may have limited public transportation between itself and other rural and urban areas, or the operation of the education facilities themselves may be constrained due to outdated education funding formulas or too prescriptive of a program delivery system to properly fit current rural development patterns.

Some of these gaps can be filled through better coordination and cooperation between public and private resources in rural and more urban communities. Other solutions will need to be specifically designed so that jobs and appropriately skilled workers can flow freely between rural and urban areas. As discussed above, even in a fully diversified rural economy, it is likely that successful innovation-based businesses will need access to an ongoing variety of key resource providers making the urban and rural connection even more important.

Rural Development Models from Other States

California was once a leader is rural development policy and could, with appropriate new direction, help to facilitate greater prosperity in California's rural communities. Below are a few examples of the types of proactive policies, programs, and services being used by other states in assisting their rural communities.

- Minnesota Entrepreneurial Gateway Program: The Minnesota Rural Partners (MRP) has built an online tool for entrepreneurial resource matching (www.bizpathways.org). This tool is a component of the Minnesota Entrepreneurial Gateway program (MEG), developed to serve as an economic development strategy for the rural areas of Minnesota. Currently, four pilots of the MEG program are in place and have benefited an estimated 30,000 people. More than 3,000 service providers participate in the online tool. MRP has leveraged about $200,000 to implement the four pilot sites from a combination of user fees and foundation grants, including the Initiative Foundation, Blandin Foundation, the Minneapolis Foundation, and the W.K. Kellogg Foundation. Partners included the higher education systems, the state economic development department, the Independent Bankers Association, and local community organizations and businesses.

- New Mexico Rural Readiness Program: The New Mexico Rural Development Response Council recently completed a three-and-a-half year contract with the Economic Development Administration designed to implement economic development projects in 16 rural New Mexico communities. The purpose of the program is to use a specific community development project as a means to increase the community's capacity to carry on future projects. To date, Rural Readiness has created 700 to 750 jobs and has the potential to create 1,700 new jobs during the next two to ten years.

- Wyoming Community Assessments: The community assessment program provides communities the training and technical assistance necessary to undertake an assessment of the community's assets. Too often planning goes forward without adequately understanding the real strengths and weaknesses of the community. With a well prepared assessment a community has a better ability to make decisions and plan their own future. The cornerstone of the program is to help communities develop locally-conceived and locally-driven development strategies and to provide a long-term support system to help achieve development goals. The program has given rural communities the tools to set their own course based on their individual assets and values within the community. Community assessments have been undertaken in nearly every Wyoming community. Further, the program has nearly 500 trained volunteers for the resource teams with extensive experience in the areas of community and economic development, land use planning, affordable housing, conservation, healthcare, tourism, transportation, infrastructure, and many more.

- South Dakota's Investment Visa Program: South Dakota's international trade and investment program includes targeting foreign investors who are interested in obtaining a green card and potential U.S. citizenship on a fast-track. The South Dakota program uses the current federal EB-5 immigration program that provides permanent residency to foreign investors who meet certain requirements. The primary requirement is the investment of $1 million anywhere in the U.S. or $500,000 in a target area. To help implement their foreign investment attraction program, the state established a U.S. Customs approved Regional Center, an entity officially able to facilitate the EB-5 applications and market the program worldwide.

- National Rural Policy Research Institute: The Rural Policy Research Institute (RUPRI) provides unbiased analysis and information on the challenges, needs, and opportunities facing rural America. RUPRI's aim is to help policymakers understand the rural impacts of public policies and programs. RUPRI was founded in 1990 to address a concern of members of the U.S. Senate Agricultural Committee, including Senator Kit Bond (Missouri); Senator Dale Bumpers (Arkansas); Senator Tom Harkin (Iowa); and Senator Bob Kerrey (Nebraska), that no objective, non-governmental source of external data, information, and analysis, regarding the rural and community impacts of public policy decisions was available.

Microenterprise in Rural Regional Economies

As discussed throughout this paper, California's rural communities face a variety of economic development challenges. High unemployment; intense pockets of poverty; inadequate infrastructure; and limited access to the educational, vocational, health, and government services available in urban and suburban communities are only a few of the issues rural communities face in developing and implementing economic development strategies.

For many rural policy makers, entrepreneurship is considered the best, if not the only, hope for building stronger economies in the rural areas. This renewed interest in entrepreneurship and small business development is an important national trend. Rural communities are increasingly shifting away from trying to attract subsidies; instead, they are opting for strategies to attract more private investments. This subsection examines how microenterprise activities can help move rural economies forward drawing from national and California specific research.

The Rural Policy Research Institute and the USDA advocate for small and home-based business development, in part, because of rural communities' smaller markets and limited access to large pools of skilled labor. However, they both emphasize rural communities' ability to effectively promote new small enterprise, which can supplement local employment opportunities and increase their tax base.

The Corporation for Enterprise Development (CFED), working with funding from the Kellogg Foundation, undertook an extended study to identify and review institutions, programs, and activities that support rural entrepreneurship. The study, *Mapping Rural Entrepreneurship*, validated the many challenges facing rural communities today. It concluded that a new program delivery framework was needed that would "animate" people and institutions around entrepreneurship. The new recommended framework would:

- Provide tools and resources for local communities to identify and grow their own assets; make local decisions about the balance between economic, social, and environmental imperatives; learn from the experiences of others; and, be open to experimentation and innovation;

- Include regionally oriented solutions developed through cooperation across multiple jurisdictions;

- Include entrepreneur-focused systems that align a variety of training, technical assistance, and financing programs to support entrepreneurs at the various stages of the business development; and,

- Provide opportunities for continuous learning by both the entrepreneurs and the program and service administrators.

Mapping Rural Entrepreneurship also highlighted other essential elements for promoting rural entrepreneurship including providing supportive public policy; fostering a diverse group of entrepreneurs; and, obtaining participation by anchor institutions, such as universities and community development financial institutions.

The Regional Economies Project also undertook a special analysis of California's rural regions in their report, *Patterns of Entrepreneurship in Rural California* (*Rural Entrepreneurship Report*). For the purposes of the analysis, California's rural regions are defined as the Central Coast, Central Sierra, Northern California, and Northern Sacramento Valley. The *Rural Entrepreneurship Report* found entrepreneurship to be the single biggest driver of economic growth, job creation, and industrial and technological innovation in California's rural regions.

The number of businesses in rural regions grew 18% between 1990 and 2003, providing a net gain of 18,000 establishments. There were an estimated 117,000 rural establishments by the close of 2003. Rural entrepreneurship also represents new business enterprises – 40% of all enterprises were established in the last five years (1997 to 2002) and 20% were established between 1990 and 1996.

Seventy-four percent of all firms in rural areas have fewer than five employees, while firms with more than 100 employees represent less than 1%.

The *Rural Entrepreneurship Report* found that most firms never leave the rural community in which they start and that over 80% of the net growth in establishments is attributable to sectors related to health, regional experience, and innovation services. Further, the report cites that national research and experience suggest that the growth of entrepreneurship is highly dependent on the local supporting infrastructure, including education, technical assistance, and access to credit.

A Look at Microenterprise in Rural Fresno County

Fresno County lies within the heart of the San Joaquin Valley. More than one in five San Joaquin Valley residents live in poverty – twice the state average. The per capita income for the San Joaquin Valley is also 30% less than the statewide average. National studies show the San Joaquin Valley as one of the poorest regions in the country, currently designated as being even more economically challenged than the Appalachian Region of the American Southeast. Despite these challenges, San Joaquin Valley communities continue to move forward on small-scale business development initiatives.

In 2006, the Fresno County Economic Opportunity Commission (FCEOC) worked with the Cities of Mendota and Firebaugh on economic development and microenterprise opportunities. A small business technical assistance and development project was financed through the Rural Business Enterprise Grant from the USDA, Rural Development. In implementing this program in the City of Firebaugh, the FCEOC partnered with nine public and private entities to examine how Firebaugh can better diversify its economy.

To establish a basis for determining how to support new business development, the FCEOC contracted for a survey of existing businesses by the University Business Center, California State University at Fresno. Of the 72 businesses surveyed, over half had been in business for more than 10 years and 51% were sole proprietorships. The most often cited factor in preventing growth was the overall market conditions within the community. As discussed earlier in this paper, helping rural businesses access larger markets often in more urban areas is a central element in any effective rural development program.

The FCEOC microenterprise development project with the City of Mendota included a survey of more than 1300 households. One survey question asked about the skills the individuals felt they had, which could be used to augment their families income. The survey found that while 64% of the respondents felt they had no special skills, others stated they could cook (9%), drive (7%), provide childcare (7%), or perform mechanical duties (4%).

The Mendota survey also found that the top three things people wanted assistance with were pricing products/services (41%), applying for financial assistance (26%), and developing a market strategy (11%).

The City and County of Fresno have several programs which are designed to offer technical assistance to small and emerging businesses. Members may want to inquire how these programs have been adapted, or could be adapted, to meet the needs of rural communities.

Defining a Modern Rural Development Policy for California

One of the most compelling changes facing rural communities is the shift away from a mono-economy dominated by agricultural. Increased productivity has led to a reduction in farm employment, and rural communities across the nation now depend on a wide range of economic engines for growth. Each of these engines require new and/or updated skill sets, alternative financing options, and other community development elements to make them sustainable.

Increasing globalization coupled with enhanced communications has also brought global as well as local competitiveness challenges. Last year, rural communities in the Southern San Joaquin Valley competed for a manufacturing plant from China. Promoting a more modern rural development policy will require setting new goals that encompass the economic success of the whole state, leveraging all available infrastructure opportunities, re-examining education and workforce development systems, and improving access to capital for California's rural communities. Most importantly, a modern rural development policy requires co-ordination across sectors, levels of government, and between public and private actors.

Section IV – Key Industry Sectors in the San Joaquin Valley

As noted earlier in the paper, the Partnership for the San Joaquin Valley has identified three industry sector targets: manufacturing and logistics, cleantech, and agribusiness. This section provides additional information on each of these industries, including current San Joaquin Valley activities and investments. It is expected that additional information on local initiatives will be provided during the hearing. *Appendix B includes a fact sheet on the economy of the Southern San Joaquin Valley.*

Revitalization of Manufacturing

Manufacturing is a key driver of the California economy, responsible for employing 1.5 million workers and contributing $1.79 billion to the state's $1.8 trillion GSP in 2007.

The top ten manufacturing sectors include computers and electronics, chemicals, food products, fabricated metals, transportation equipment, machinery, petroleum and coal, plastics and rubber, and apparel. Manufacturing is California's most export-intensive activity with more than one-fourth of all manufacturing workers in California directly depending on exports for their jobs.

Manufacturing in California, however, faces 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 markets.

Since December 2000, California has lost 342,000 manufacturing jobs to other states and countries. According to the Legislative Analyst's Office, this decline, in part, reflects major reductions in the high-tech jobs sector lost in 2001 and 2002.

Responding to this significant decline in jobs, the California Workforce Investment Board and the California Economic Strategies Panel undertook an assessment of the manufacturing base of five major California regions, including Greater Sacramento, Bay Area, San Joaquin Valley, Southern California, and the San Diego Border region. The resulting study, "Logistics and Manufacturing Value Chains: Meeting the Workforce and Infrastructure Demands of a 'Real Time' Economy," (Logistics Study) revealed new information on the emerging role of logistics in stimulating growth in manufacturing.

Logistics added 73,000 California jobs between 1990 and 2003. Total logistics related employment in 2003 was estimated at 390,506, paying an average yearly wage rate of $42,475. The Logistics study also found that California's growth in logistics (25%) outpaced growth in the same sector nationally (20%). Employment within logistics related jobs comes from four interrelated subsectors: transportation services, logistical support, warehousing and storage, and supply chain management.

Of the four regions, logistics employment in Southern California is by far the largest, with about 59% of all logistics employment in the state. Bay Area logistics employment declined by 9% between 1990 and 2003.

More than 41,000 logistics jobs were in the San Joaquin region in 2003. Since then the region has become an increasingly important corridor for supplying logistics support. San Diego is the smallest of the four regions, employing about 6% of the California logistics workforce.

Growth in Logistic Related Jobs in the San Joaquin Valley

The San Joaquin Valley's share of all California logistics employment rose from 7% in 1990 to more than 10% in 2003. The region is 0.95% shy of a logistics employment concentration equal to that of the U.S. as a whole.

Jobs related to logistics increased by 67% in the San Joaquin Valley from 24,400 in 1990 to more than 40,700 in 2003. However, wages attributed to this sector were 22% below the California logistics average, being estimated at $37,500 in 2002. Chart 7 - San Joaquin Valley Employment: Logistics, displays additional detail on sub-sector employment in the logistics sector.

Chart 7 - San Joaquin Valley Employment: Logistics

	1990 Employment	**2003 Employment**	**Percentage of Employment in Subsector 2003**	**Percentage of Employment Change 1990-2003**
Transportation Services	20,497	27,243	67	33%
Logistical Support	2,020	2,532	9	75%
Warehousing and Storage	1,852	9,841	24	431%
Supply Chain Management	14	93	0.2	564%
Logistics	24,383	40,709	100	67%

Source: Bureau of Labor Statistics, Collaborative Economics

Warehousing and storage employment is highly concentrated in the San Joaquin region. The Action Plan developed by the Partnership for the San Joaquin Valley has identified manufacturing and logistics as an area of competitive advantage for the region. Currently, the San Joaquin Valley EDC works collaboratively on attracting new businesses within this industry cluster.

Findings of the Report

Most significantly, the Logistics Study noted that manufacturing is rapidly changing from simply consisting of the production of goods. It is changing into an integrated supply chain uniquely characterized by continual design and innovation improvements that are being carried out at varying production sites which are connected by an increasingly high tech logistical system.

For California, this shift in the manufacturing model has resulted in a decline in the actual number of production jobs and an increase in employment opportunities in design and logistics to support this new value chain of interdependent business functions.

The study also found that there is a growing trend in outsourcing logistics providers. These third party logistics providers furnish specialized end-to-end solutions. This specialization is driving the cost of managing inventories down, and thus, hiring a third party logistical provider can become even more financially viable.

A 2004 study by the Georgia Institute of Technology found that 80% (up from 71% three years prior) of North American and European companies outsource part of their logistics operations to outside contractors. The study found that while most companies have long outsourced such functions as freight transport and warehousing management, with the complexity of supply chains, many are now handing over larger portions of their logistical operations to third party logistics providers.

The California Employment Development Department (EDD) anticipates growth in logistics occupations. For example, in the area of transportation and materials moving, which represents 45% of the current logistics workforce, EDD estimates an additional 156,000 new jobs between 2002 and 2012. This projected growth is expected across all skill levels, including entry level. Unfortunately, only a handful of California colleges and universities offer training in logistics, and funding for logistics training has remained fragmented.

Fortunately, for the Southern San Joaquin Valley, several grants, as detailed in a previous section, have already been made available to help fund new logistics training programs in the region. In reviewing some on the online literature, it appears that these new training opportunities are also distributed throughout the region and do not necessarily require rural residents to travel to the primary urban centers in the San Joaquin Valley in order to receive training.

Chart 8 - Recent Deals in Manufacturing and Logistics, provides information on new business activities in the Southern San Joaquin Valley related to the manufacturing and logistics industry sector.

Chart 8 – Recent Deals in Manufacturing and Logistics

Company	Location	Sq. Ft.	Employees	Terms
Walmart	Merced County	1,000,000	600-900	Purchase/NC
VF Outdoor, Inc.	Tulare County	800,000	200-350	Lease
Performance Food Group	Kern County	150,000	300	Purchase/NC
Heilind Electronics	Tulare County	103,000	50-125	Lease
FedEx Ground	Kern County	60,000	200	Purchase/NC
Randy's Ring and Pinion	Fresno County	28,000	6	Lease
Old Castle Precast, Inc	Madera County	295,000	125	Purchase
CTX Builders	Tulare County	100,000	75	Lease

Quality Container	Madera County	75,000	20	Purchase/NC
Plastic Industries	Fresno County	50,000	20	Lease
Fresno Truss	Fresno County	40,000	20	Purchase/NC
Plemons Machinery	Fresno County	30,000	50	Purchase/NC
Sanitary Stainless	Fresno County	25,000	20	Lease
Zymex	Merced County	214,000	50-75	Purchase/NC
JIT Manufacturing	Tulare County	18,000	100-150	Lease
OptiStreams	Fresno County	10,000	25	Lease
Beyond-Earth Enterprises/ XCOR Aerospace	Beyond Kern County			
Source: Central California Economic Development Corporation				

Another challenge in maximizing California's opportunities related to logistics is the current condition of our transportation system. While there are increasing opportunities for jobs within logistics, growth in supply chain demand has created major strains on the infrastructure for California’s ports, freight systems, and highways. Advanced logistical systems supported by ever more complex and fast information systems are able to support higher trade volumes consistent with manufacturing and the retailers' desire for "just-in-time" inventory delivery systems. Our current physical logistics infrastructure does not keep up. Communities throughout the San Joaquin Valley have joined forces to gain upgrades to state highway 99. The 2006 infrastructure bond included $1 billion in funding to continue work on state highway 99.

New Opportunities in Cleantech

Business development and job creation in the cleantech and renewable energy sector are an important emerging industry for California, as a whole, and lower income rural areas, in particular. Cleantech encompasses a broad range of products and services, from alternative energy generation, to wastewater treatment, to the creation of environmentally-friendly consumer products.

The growth of the cleantech industry is the result of two disparate factors converging to create a new market. First, recent advances in new technologies, research methods, manufacturing, and communications have lowered the cost of environmentally sensitive technologies. Second, an increasing number of consumers and businesses are looking for ways to reduce energy costs, increase access to clean water, and meet new environmental regulatory requirements at the local, state, and global levels.

As the market for clean technologies matures, clean technology will continue to become cost-competitive with traditional energy counterparts. Leading investment researchers, such as Clean Edge, suggest that cleantech will be a $156 billion market within the next 10 years. According to a 2004 report by Environmental Entrepreneurs and the Natural Resources Defense Council, venture capital investments in California's clean technology industry through 2010 could seed 52,000 to 114,000 new jobs statewide.

In general, California should be well positioned to take advantage of the new cleantech market with our thriving technology base, existing entrepreneurial and management talent, access to a full range of capital, and proactive environmental policies such the passage of AB 32 (Nuñez), Chapter 488, Statutes of 2006. However, other states and even foreign countries are also vying for domination of this new emerging industry.

Connecticut, Massachusetts, Texas, New Mexico, New York, New Jersey, Florida, and Pennsylvania all have proactive cleantech economic policies. Collectively, the Northeast received 25 percent of North American cleantech venture capital. Europe and Japan are also successfully building cleantech clusters. Germany and Japan have already usurped California's once leading position in solar and wind energy through targeted policies and initiatives.

Economic development strategies and analysis benefit from examining cleantech, as not just one industry, but as an element in a number of industries. Some individuals are not clear on what makes up "Cleantech" industries. The following chart, Chart 9 – Cleantech Industries, includes a list of the different industries and business activities encompassing cleantech.

Chart 9 - Cleantech Industries	
Agriculture	Bio-based materials; farm efficiency technologies; micro-irrigation systems; bio-remediation; non-toxic cleaners and natural pesticides.
Air & Environment	Air purification products and air filtration systems; energy efficient HVAC; universal gas detectors; multi-pollutant controls; fuel additives to increase efficiency and reduce toxic emissions.
Materials	Biodegradable materials derived from seed proteins; micro-fluidics technology for conducting biochemical reactions; nano-materials; composite materials; thermal regulating fibers and fabrics; environmentally-friendly solvents; nano-technology components for electronics, sensor applications and energy storage; electro-chromic glass; thermoelectric materials.
Energy	*Energy Efficiency*: Energy management systems; systems that improve output of power generating plants; intelligent metering; solid state microrefrigeration; control technology for HVAC systems; automated energy conservation networks. *Energy Generation*: Distributed and renewable energy and conversion, including wind, solar/photovoltaic (PV), hydro/marine, biofuels, fuel cells, gasification technologies for biomass, and flywheel power systems. *Energy Infrastructure*: Wireless networks to utilities for advanced metering; power quality monitoring and outage management; integrated electronic systems for the management of distributed power; demand response and energy management software. *Energy Storage*: Batteries, e.g. thin film and rechargeable; power quality regulation; flywheels; electro-textiles.
Manufacturing /Industrial	Advanced packaging; natural chemistry; sensors; smart construction materials; business process and data flow mapping tools; precision manufacturing instruments & fault detectors; chemical management services.
Recycling & Waste	Recycling technologies; waste treatment; internet marketplace for materials; hazardous waste remediation; bio-mimetic technology for advance metals separation and extraction.

Transportation	Hybrid vehicle technology; lighter materials for cars; smart logistics software; car-sharing; temperature pressure sensors to improve transportation fuel efficiency; telecommuting.
Water & Wastewater	Water recycling and ultra-filtration systems (e.g. UV membrane & ion exchange systems); sensors and automation systems; water utility sub-metering technology; desalination equipment.
	Source: Cleantech Venture Network

A March 2008 study by the California Economic Strategy Panel found that the California cleantech industry is primarily engaged in energy generation and energy efficiency with solar comprising 64% of establishments and 53% of employment. Further, the study found that employment in the manufacturing industry comprised 41% of employment and 15% of the establishments in California cleantech.

Similar to the manufacturing and logistics supply chain, California's cleantech economy is diverse, having multiple points of engagement along the value chain. Business opportunities exist in R&D, commercialization, manufacturing, distribution, and installation and maintenance. Each of these stages requires financing and a skilled workforce.

Currently the major economic hubs in clean technology are in Southern California and the Bay Area, with green buildings more concentrated in the Bay Area and energy storage and efficiency concentrated in Southern California. The Southern Border Region has a higher regional concentration in the area of water conservation. Wastewater and environmental consulting is more concentrated in the Greater Sacramento Region.

While the San Joaquin Valley has identified cleantech as one of its top three economic priorities, advances in the areas have been limited to date. One bright area for the San Joaquin Valley has been the measurable increase in patent registrations related to wind technologies. Cleantech legislation offered by Assemblyman Arambula, and co-authored by local legislative leaders such as Assemblyman Villines, has had a difficult time advancing through the Legislature. Below is a partial list of clean legislation developed by the Committee in the last two legislative sessions.

- **AB 2553 (Arambula and Villines) – California Air Quality Zones:** This bill authorizes the establishment of a California Air Quality Zone Program within BT&H for the purpose of providing incentives for owners of mobile and stationary sources of air pollution to invest in air pollution control equipment that produce surplus emission reductions, and for owners of stationary sources of air pollution to invest in the production and utilization of renewable energy technologies. The bill also provides incentives to establish facilities that manufacture equipment that can be used to reduce air pollution emissions. **Status:** Held under submission in Senate Appropriations Committee.

- **AB 1506 (Arambula) – Clean Tech Statewide Early Adapter Business Incentives:** This bill requires the BT&H to undertake a study to determine how to provide incentives for businesses to adopt new, cleaner technologies. Approximately 60% of the state's greenhouse gas (GHG) emissions are attributable to only two industry sectors: transportation and utilities. This bill focuses on how reductions can be made in the other 40% of GHG emissions. **Status:** Held under submission in Senate Appropriations Committee.

- **AB 1527 (Arambula) – California Clean Tech Advantage Act:** This bill establishes the California Clean Tech Advantage Act of 2007 to provide enhanced research and development income tax credits to small businesses undertaking research related to clean technologies. One provision increases the value of the applied research and development credit from 15 to 20%. The other provision authorizes a 10% salable credit to help raise working capital. Both credits expire once the Air Resources Board implements its broader GHG emission reduction program in 2012. **Status:** Held under submission in Assembly Revenue and Taxation Committee.

- **AB 1620 (Arambula) – One-Stop-Shop for Clean Tech Information:** This bill establishes a one-stop-shop for businesses that need information on the state's evolving regulatory framework on clean technologies. The bill would locate the one-stop-shop within BT&H. **Status:** Held under submission in Senate Environmental Quality Committee.

- **AB 1651 (Arambula) – Clean Tech Credit on New Equipment:** Authorizes a 10% income tax credit for the purchase of cleantech equipment by small businesses. The credit expires once the Air Resources Board implements its broader GHG emission reduction program in 2012. **Status:** Held under submission in Assembly Revenue and Taxation Committee.

- **AB 2711 (Portantino, Arambula, Salas, Price):** This bill requires the Secretary of BT&H to develop a comprehensive state technology and innovation strategy to guide future state expenditures and activities. **Status:** Held under submission in Assembly Appropriations Committee.

California is, however, beginning to work across borders in advancing its position in cleantech. Under the last two governors, a broad range of activities related to stronger technological cooperation on reducing GHG emissions have been initiated. Agreements have been signed with China, Canada, Iceland, the United Kingdom, and Mexico's border Governors.

Academic and civil leaders in the Southern San Joaquin Valley may want to consider how these types of cross-border agreements can be expanded or used as a model for cleantech activities in rural areas of the San Joaquin Valley. New globally-based models for innovation and technology have brought great changes in how world economies work. Emerging foreign markets once thought to be too far away are regularly being developed by the mainstream business community. If rural India isn't too far away, then surely Kings County can offer excellent investment opportunities for cleantech. Chart 10 - Recent Deals in Cleantech including Renewable Energy, provides information on new business activities in the Southern San Joaquin Valley related to the cleantech including renewable energy.

Chart 10 – Recent Deals in Cleantech including Renewable Energy				
Company	**Location**	**Sq. Ft.**	**Employees**	**Terms**
Heilind Electronics	Tulare County	103,000	50-125	Lease
Sanitec	Merced County	30,000	25	Lease
Source: Central California Economic Development Corporation				

Economic Impact of Agriculture

While Agriculture is no longer among the top three industry sectors in California, it is still a significant component of the state's economy and the second largest industry in the San Joaquin Valley. California produces over 400 commodities, employing 370,000 people, and accounting for $31.4 billion dollars in direct sales. California is the nation's top agricultural producer and exporter with 76,500 farms and ranches.

The top 10 agricultural products in 2006 were milk and cream, grapes, nursery and greenhouse products, almonds, cattle and calves, lettuce, strawberries, tomatoes, floriculture, and hay. Notable increases in cash receipts in 2006 included:

- Apples - 40%
- Cabbage - 25%
- Celery - 25%
- Cherries, Sweet - 47%
- Grain, Sorghum - 25%
- Grapes, Table - 23%
- Lemons - 37%
- Lettuce, Leaf - 29%
- Lettuce, Romaine - 41%
- Potatoes, Summer - 29%
- Prunes - 90%
- Raspberries - 24%
- Tomatoes, Fresh - 45%
- Tomatoes, Processing - 11%

Notable decreases in cash receipts in 2006 included:

- Apricots - 32%
- Cottonseed - 37%
- Oats - 58%
- Olives - 77%
- Onions, Spring - 35%
- Oranges, Navel - 36%
- Oranges, Valencia - 38%

Of the top ten agriculture producing counties in the U.S., California has nine. In 2006, Fresno remained the number one county in the nation with $4.84 billion in agricultural value, a 4.4% increase over 2005. In addition, 14 of the state’s counties recorded more than $1 billion in agricultural value.

Six of the state's top 10 agriculture producing counties are in the San Joaquin Valley including Fresno, Tulare, Kern, Merced, Stanislaus, and San Joaquin. Chart 11 - 2006 Agricultural Production in San Joaquin Valley, includes a full list of the counties in the San Joaquin Valley including revenues and top commodities.

Chart 11 - 2006 Agricultural Production in the San Joaquin Valley

State Ranking	County	Revenues in Billions	Commodities
1	Fresno	$4.8	Grapes, Almonds, Tomatoes, Poultry, Cattle and Calves
2	Tulare	$3.8	Milk, Oranges, Cattle and Calves, Grapes, Alfalfa Hay and Silage
4	Kern	$3.4	Almonds and By-Products, Grapes, Milk, Carrots, Citrus
5	Merced	$2.2	Milk, Chickens, Almonds, Cattle and Calves, Tomatoes
6	Stanislaus	$2.1	Milk, Almonds, Cattle and Calves, Chickens, Walnuts
7	San Joaquin	$1.6	Milk, Grapes, Tomatoes, Almonds, Walnuts
11	Kings	$1.2	Milk, Cotton, Cattle and Calves, Alfalfa Hay, Almonds
13	Madera	$1.0	Almonds and Hulls, Milk, Pistachios, Wine and Raisin Grapes, Replacement Heifers
			Source: California Department of Food and Agriculture

Other top agriculture producing counties in 2006 include: Monterey ($3.4 billon), Ventura ($1.5 billion), San Diego ($1.4 billion), and Imperial County ($1.3 billion). While California is home to less than 4% percent of the nation's farms and ranches, the state produces 13.3% of the nation's total value in direct sales.

Importance of Agricultural Exports

Agriculture is an important component in the state' export economy with nearly 24% ($9.8 billion) of its agricultural production exported in 2006. This represents a 5% increase in exports over 2005. The combined top 10 export commodities accounted for 70% of the export value of the top 55 agricultural export commodities and 60% of total agricultural exports.

In 2006, the top 10 export commodities were almonds, wine, dairy and products, cotton, table grapes, walnuts, oranges, pistachios, processed tomatoes, and strawberries. Strawberries were new to the top 10 list in 2006. Their 17% increase in value from 2005 pushed rice off this list.

Rural based businesses interested in accessing foreign markets may benefit from leveraging the extensive export experience of local farmers. California agricultural products were exported to more than 150 countries in 2006. In 2006, the top 10 export destinations accounted for 85% of the export value of the top 48 commodities. The top three destinations (the European Union, Canada, and Japan) accounted for nearly 60% of the top 48-commodity total. Even though the main market for California agricultural production is still the rest of the U.S., foreign markets have become relatively more important in recent years. For comparison, in 1999 only 16% of the local production was shipped to overseas markets, whereas in 2006 this figure was 24%.

California agriculture faces many challenges including, the aging farmer, rancher, and fisherman; pest infestations; global competition; incompatible adjacent land uses; increasingly complex environmental regulations; and reduced access to skilled workers at peak seasons. The agricultural production is also highly vulnerable to natural resource inputs, the access to water being of significant importance.

Weather and climate information is a vital factor in the decision making process of agricultural producers. Examples include: decisions on new investments; modifications to existing systems; and the operation of existing facilities, particularly with respect to irrigation allocations. California currently has an unsustainable system for water collection, storage, and distribution which is expected to worsen in the coming decades. Chart 12 - Recent Deals in Agriculture Related Businesses, provides information on new business activities in the Southern San Joaquin Valley related to the agriculture.

Chart 12 – Recent Deals in Agriculture Related Businesses

Company	Location	Sq. Ft.	Employees	Terms
Performance Food Group	Kern County	150,000	300	Purchase/NC
Custom Produce	Fresno County	100,000	115	Purchase/NC
Cotton Mill	Fresno County	233,000	65	Purchase
California Dairies	Tulare County	300,000	100	Purchase/NC
Dreyers Grand Ice Cream	Kern County	250,000	450	Purchase/NC
Foster Farms	Merced County	200,000	25	Purchase/NC
California Tomato Machinery	Madera County	65,000	20	Purchase/NC
Marquez Brothers International	Kings County	20,000	8	Expansion
DeOaxaca Cheese	Fresno County	4,000	17	Sale

Source: Central California Economic Development Corporation

Section V – Public Resources for Community Development

This section addresses public resources that are available to assist rural communities in developing more diverse and sustainable local economies.

The section includes information on geographically-based as well as topically-based programs. *Appendices D, E and F have extended information on state economic development legislation and state and federal programs, respectively*. The Committee has also produced a catalog of state economic and workforce development programs which is available on the Committee's website through the State Assembly website at www.assembly.ca.gov or through the Committee office.

Geographically Targeted Economic Development Activities

The state and federal governments have established several important, geographically-based economic development programs. Under these programs, communities apply and their applications are ranked based on the strength of the Economic Development strategy. Once designated they are then eligible for certain benefits.

Geographically targeted economic development programs are founded on the principle that targeting significant economic incentives to low-income communities allows these communities to more effectively compete for new businesses and retain existing businesses, resulting in increased tax revenues, less reliance on social services, and lower public safety costs. Residents and businesses also directly benefit from these more sustainable economic conditions through improved neighborhoods, business expansion, and job creation.

One of the largest state administered programs is referred to as the geographically-targeted economic development areas (G-TEDAs) which include Enterprise Zones (EZs), Manufacturing Enhancement Areas (MEAs), Local Agency Military Base Realignment Areas (LAMBRAs), and a Targeted Tax Area (TTA). Existing law authorizes the activation of 42 EZs, two MEAs, eight LAMBRAs, and one TTA. Each G-TEDA is established for a certain limited period of time and operates under the oversight of the Department of Housing and Community Development.

Under the G-TEDA programs, businesses and other entities located within targeted areas are eligible for a variety of local and state provided incentives. Local governments often write down the costs of development. Chart 13 - Comparison of State Tax Benefits by Target Area, provides a comparison of the state tax incentives available in the different G-TEDAs. They may also fund related infrastructure improvements, provide job training to prospective employees, or establish a streamlined process of obtaining permits.

Chart 13 - Comparison of State Tax Benefits by Target Area					
	Hiring Credit	Longer NOL[1] Carry-Forward Period	Sales and Use Tax Credit	Accelerated Depreciation	Lender Interest Deduction
Enterprise Zone	X	X	X	X	X
Manufacturing Enhancement Zone	X				
Targeted Tax Area	X	X	X	X	
Local Agency Military Base Realignment Area	X	X	X	X	
Source: Legislative Analyst's Office					

Additionally, the state offers a number of incentives, including: tax credits, special tax provisions, priority notification when selling state surplus lands, access to certain brownfield clean-up programs, and preferential treatment for state contracts. At least one G-TEDA is currently authorized in Fresno, Kern, Kings, and Tulare Counties.

Another significant program is Community Redevelopment Project Area. The California Constitution provides for the establishment of community redevelopment project areas and the issuance of property tax increment bonds. Every city and county is authorized by law to activate a community redevelopment agency (RDA) which has the official responsibility of selecting the project area based on the ability to make a required finding that the included area is both urbanized and blighted. There were currently 425 redevelopment agencies in 2006-07.

RDAs have special authorities and responsibilities within project areas for the purpose of eliminating blight and increasing property values and the community's quality of life. Once established, prescribed portions of any increases in property taxes from within the project area are available to the RDA to finance the implementation of the approved redevelopment plan.

Another state program provides for the designation of a Recycling Market Development Zone program for the purpose of offering assistance to support new businesses, expand existing ones, create jobs, and divert waste from landfills. There are currently 33 Recycling Market Development Zones in California roughly covering 71,790 square miles of the state from the Oregon border to San Diego. In the Southern San Joaquin Valley, both Fresno County and Kern County have a Recycling Market Development Zone.

Businesses located in a Recycling Market Development Zone that use materials in the waste stream to manufacture their products have a variety of assistance available, including low interest loans, technical assistance, and free product marketing.

Foreign Trade Zones are areas where goods may be imported without submitting to all U.S. Customs rules or tariffs, and are intended to promote U.S. trade while retaining domestic employment that might otherwise go to foreign countries. Merchandise admitted into a zone may, among other things, be stored, exhibited, repacked, assembled, graded, cleaned, processed,

[1] NOL= Net Operating Loss

tested, labeled, and mixed with foreign merchandise. There are two types of Foreign Trade Zones – General Purpose and Subzone Purpose Zones. Subzones, sponsored by a General Purpose Zone, are generally located within an industrial park or port complex whose facilities are also used by the general public. These zones are established by the federal government with companion state statute authorization. California has 17 general purpose FTZs out of 234 zones in the U.S. In the Southern San Joaquin Valley, there is only one Foreign Trade Zone located in Merced, Madera, and Fresno Counties. *Appendix X includes a list of California's Foreign Trade Zones.*

The federal Empowerment Zone and Enterprise Community program is designed to afford communities real opportunities for growth and revitalization through the targeted use of public and private resources based on a community's comprehensive strategic plan. The framework of the program is embodied in four key principles:

- Economic Opportunity
- Sustainable Community Development
- Community-based Partnerships
- Strategic Vision for Change

One of the strengths of the program is that there is an urban and a rural component to the program. Each community in the Empowerment Zone and Enterprise Community Program tailors its own strategic plan to meet the needs of the community. There are four communities in California participating in the Empowerment Zone and Enterprise Community Program: the City of Watsonville in Santa Cruz County; the County of Imperial; the Westside Tulare region, including rural portions in Fresno and Tulare Counties; and Desert Communities in Riverside County.

Another key geographically targeted program is the investment visa provisions administered under the federal Immigration Act of 1990, which authorizes the issuance of 10,000 new green cards a year based on a foreign investment in the U.S. Persons applying to the program must demonstrate that they have invested a minimum of $1 million with the likely result of creating at least 10 net jobs, or investing $500,000 into certain target areas based on high unemployment. Based on 2007 State figures 292 cities, 33 counties (21 rural), 11 metropolitan statistical areas, and 1,567 census tracts have been identified as eligible target areas. Within the Southern San Joaquin Valley, eligible areas include the Counties of Kern, Fresno, Kings, and Tulare, and the cities of Bakersfield, El Centro, Fresno, Hanford-Corcoran, and Visalia-Porterville. Some states such as South Dakota have specific programs which target foreign investment by people who want to apply for visas under the investment provisions.

Other State and Federal Resources

In addition to the geographically targeted economic development areas, California offers a variety of programs and services to assist with business start-ups, retention, and expansion.

Since the demise of the Technology, Trade and Commerce Agency in 2003, economic developers have struggled to establish a rational structure for helping the public find information on state programs and resources. In 2006, the California Economic Strategy Panel launched the California Business Portal, www.calbusiness.ca.gov .

Within its many links, the California Business Portal networks to another web-based business assistance program, CalGOLD. Initially launched in 1997 by the California Environmental Protection Agency (CalEPA), CalGOLD is an online electronic network of information on environmental regulatory, licensure, and permitting requirements. The database can be searched by specific businesses to individualize the information.

Beyond programs and services related to regulatory compliance, the state administers a number of other programs that assist businesses which relate to infrastructure and workforce development. The Infrastructure and Economic Development Bank (I-Bank) was created to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California. The I-Bank has the authority to issue tax-exempt and taxable revenue bonds. I-Bank administered programs include: the Infrastructure State Revolving Fund Program, the Industrial Development Revenue Bond Program, the Infrastructure & Community 501(c)(3) Revenue Bond Program, and the Exempt Facility Revenue Bond Program.

In addition, the state administers several important workforce development programs including the California Workforce Investment Board which works with local workforce development boards to "achieve sustainable economic growth, meet the demands of global competition in the modern economy, and improve the quality of life for all Californians." The CWIB also states that its vision is to provide employment training with strong job prospects and connect employers with job-seekers.

The Small Business Program administered by the Employment Training Panel also targets small businesses that do not have the resources or flexibility to train skilled workers on their own. The Employment Training Panel specializes in providing individualized worker training that directly meets the needs of businesses.

Contained within the California Labor and Workforce Development Agency, CalBIS "serves employers, corporate real estate executives, and site location consultants considering California for new business investment and expansion." Among its services, CalBIS provides site selection services; information on international trade; workforce services; labor market data; and, guides for businesses, including "California Investment Guide: an Overview of Advantages, Assistance, Taxes and Permits" and "Setting Up Business in California: a Guide for Investors."

There are several key federal agencies, which provide economic and workforce development programs and services, including the United States Department of Agriculture (USDA), the federal Small Business Administration (SBA), the federal Economic Development Agency (EDA), U.S. Commercial Service, and the U.S. Treasury.

The USDA Rural Development program works to improve the economy and quality of life throughout rural America by helping rural individuals, communities, and businesses obtain the financial and technical assistance needed to address their diverse and unique needs. The program's goal is to make sure that rural citizens can participate fully in the global economy.

USDA Rural Development has multiple programs to provide people with financial and technical assistance as well as promoting economic development. Financial programs support essential public facilities and services such as: water and sewer systems; housing; health clinics; emergency service facilities; and, electric and telephone service. USDA Rural Development promotes economic development by supporting loans to businesses through banks and community-managed lending pools. They provide technical assistance and information to help agricultural and other cooperatives get started and improve the effectiveness of their member services and help communities undertake community empowerment programs. They have an $86 billion dollar portfolio of loans and administer nearly $16 billion in program loans, loan guarantees, and grants through their programs.

Extended information on state and federal programs has been included in Appendices E and F, respectively.

Section VI – Private Resources for Community Development

Access to capital is only one impediment to economic development; however, it can be a significant one. It is particularly challenging for policymakers to address because it means engaging the private sector on how investors and financial institutions choose to allocate their money.

This section outlines some private financing options for business development through a discussion of the Community Reinvestment Act (CRA) and the role of community development financial institutions (CDFIs). Given the events in the national capital markets of the last few weeks, it is unclear how future community development activities will be undertaken through private finance. Some experts suggest that CRA is a luxury that can no longer be afforded, while others suggest that better investing in low- and middle-income communities is taking finance back to its roots.

Community Reinvestment Act

The CRA was enacted in 1977 to prevent redlining and to encourage banks and thrifts to help meet the credit needs of all segments of their communities, including low- and moderate-income neighborhoods.

The CRA and its implementing regulations require federal financial institution regulators to assess the record of each bank and thrift in fulfilling their obligations to the community and to consider that record in evaluating applications for charters or for approval of bank mergers, acquisitions, and branch openings.

For more than a decade, financial service institutions have been in a consolidation period which has resulted in some heightened CRA efforts by larger institutions. Investors and investor watch groups have also begun engaging publicly-held financial institutions to demonstrate good corporate responsibility and implement sustainable financial policies that meet the "triple bottom line" test of being socially, environmentally, and economically responsible.

The state administers several programs to encourage investments by conventional banks in underserved communities and microenterprises. The California Capital Access Program (Cal CAP), administered by the State Treasurer's Office, provides loan portfolio insurance for lenders who make small business loans. The loan portfolio insurance encourages banks and other financial institutions to make loans to small businesses which might otherwise fall just outside of conventional underwriting standards.

Banks may also obtain small business loan guarantees under the California Small Business Loan Guarantee Program (SBLGP). The SBLGP, administered by BT&H in conjunction with a network of 11 Small Business Financial Development Corporations (FDC) provides loan guarantees for up to 90% of the amount of small-sized loans.

Maximizing the investment of private dollars is an essential policy objective for the state as there is no ability for public dollars to create long-term sustainable local economies. When the state reduces funding for programs like the SBLGP, more economic value is lost than simply a loan for $300,000. *Appendices E and F includes additional information on Cal CAP, SBLGP, and other state and federal programs available to assist microenterprise.*

<u>Effectiveness of the Current Community Reinvestment Act</u>

A 2003 study by Harvard University, Kennedy School of Government found that the CRA had failed to keep pace with the changing financial industry. The following are key findings from the report related to microenterprise and serving the business needs of lower-income communities.

- From 1993-2000, CRA-regulated entities provided significantly more loans to lower-income people and communities than they would have if CRA did not exist.

- For conventional prime loans assessed under the CRA and made to African American households, some 61% go to lower-income borrowers and neighborhoods. For loans not assessed, this share is only 42% - a gap of 19% points. For Latinos, the gap is 17%.

- However, lending <u>not subject to detailed CRA</u> scrutiny is the <u>fastest growing segment</u> of the market.

"For 25 years, CRA has encouraged the entities it regulates to expand access to capital, especially to lower-income minorities," says William Apgar, Senior Scholar at the Joint Center for Housing Studies, Kennedy School of Government. "If CRA is to continue benefiting lower-income people and communities, it must be modified to reflect industry changes and emerging financial services needs."

While CRA reporting is a federal regulatory issue, addressing the need and lack of access to a variety of financial instruments is not. Research shows that financial intermediaries have been successful in expanding the number of credit and investment types available to small businesses, including microenterprises. It may be appropriate to undertake a study of financial options regulated by the state and assess whether current programs and policies benefit small business development in California.

<u>The 2007 Community Reinvestment Act Report</u>

The 2007 annual CRA report by the Federal Financial Institutions Examination Council (FFIEC) regarding the almost 2,000 financial institutions it regulates, also underscores the challenge of making small business loans, particularly to historically underserved populations.

In the aggregate, $147 billion in loans to 5.3 million small businesses, including small farms, were reported having been originated in 2007. Of these loans, 16.4% were provided to businesses located in rural areas. Measured by number of loans, 96% of the small business loans were for amounts under $100,000. Measured by dollars, the distribution of loans differs: only 44.3% of small business loan dollars were loans of less than $100,000.

Unlike home mortgage lending, a well-developed secondary market for small business loans does not exist, and CRA data reflects this. Financial institutions continue to have difficulty in meeting the needs of smaller sized businesses needing small-sized loans to start new businesses. According to the California Association of Microenterprise Organizations, a majority of small businesses use private capital to start and grow early stage businesses, including credit cards, personal lines of credit, and home equity.

Legislation introduced in February of 2008 by Assemblyman Felipe Fuentes, AB 2416 would have required the California Small Business Board to examine and prepare a report on the viability of establishing a new financial instrument to facilitate the sale of small business guaranteed loans into a secondary market of loans that had been guaranteed under the state Small Business Loan Guarantee Program. Currently, federally insured small business loans are sold into the secondary market and are attractive investments to conservative investors such as state treasurers.

Community Reinvesting by Individual Banks

While there has been some disappointment relative to the effectiveness of the CRA in bringing forward significant new private investment in underserved communities or minority- and women-owned businesses, it does not suggest that there are not good programs being implemented across the country.

Most, if not all, major banks in the U.S. have community development or community reinvestment departments. For more than a decade, financial service institutions have been in a consolidation period. Many banks also have foundations that help supplement the banks' other community reinvestment activities.

Much of the work in community reinvestment is done through financial and community intermediaries, such as microenterprise development organizations, chambers of commerce, and economic development corporations. The following are examples of community development and microenterprise related initiatives currently being undertaken. It is not an exhaustive list, but rather a sample of the diversity of program approaches.

Merger and Acquisition Agreements: As part of their acquisition of California Federal Bank in November 2002, Citibank made a 10-year commitment of investing $120 billion in the low- and moderate-income communities of California and Nevada, including minority households and "majority-minority" census tracts. Of the total $120 billion, $10 billion has been targeted for small business lending; $3.5 billion for community giving, including financial education; and $3.5 billion for community development lending, including organizational capacity building of non-profits.

Targeted Lending Activities: Wells Fargo has a special business services division for business loans to women- and minority-owned businesses. Wells Fargo has currently set a 10-year, $20 billion lending goal for women-owned businesses and $3 billion goal for Latino-owned businesses. The Wells Fargo small business services center for women- and minority-owned businesses provides a variety of loans and lines of credit (including those backed by federal and state guarantee programs), payroll assistance, and retirement planning.

Banking Foundations: In 2005, Citigroup Foundation provided 1,300 grants to expand community development opportunities and entrepreneurship in the country. Wells Fargo has made 104 community development investments in California for a total of $318 million, including investments in a microloan program and a private equity fund for women- and minority-owned growth companies.

New Product Development: Bank of America has established a community and economic development program, the NationsBank Neighborhood Fund (FUND). The FUND provides both loans and equity investments for affordable housing, small business venture capital, and commercial and economic development. As an example, the FUND invests in New Market Tax Credits, CDFIs, and community credit unions. The FUND is one of Bank of America's primary contributors to the bank's 10-year goal of investing $750 million in community development lending and $1.5 billion in philanthropy by the end of 2014.

Community Based Targets: In 2005, Union Bank of California announced an "early renewal" of its 10-year commitment to investing in communities where branches are located by increasing their target from 4.5% to 6.5% of total assets. Union Bank implements this program through a variety of small business, and minority- and women-owned business initiatives, including the use of local suppliers of goods and services.

Civic Leadership: Tim Rios, Wells Fargo's national spokesman for the Latino small business initiative, is also a member of the ESP, the state economic development policy body that guides the Regional Economies Project. Participation in public policy development is an important link between the public and private sectors.

Community Development Financial Institutions

Increasing the access to capital is a fundamental challenge for lower-income communities, many of which are located in rural and urban areas. As noted earlier, CRA is not the only answer for providing private capital. CDFIs are another private sector tool for community development. CDFIs also serve an important role as a financial intermediary that is eligible to receive both public and private moneys and use those moneys to meet a variety of public purposes. While CDFIs share a common mission of community development, they each have a variety of structures and development lending goals.

There are six basic types of CDFIs: community development banks, community development loan funds, community development credit unions, microenterprise funds, community development corporation-based lenders and investors, and community development venture funds.

In 2006, an estimated 1,200 CDFIs were in operation in the U.S., including all 50 states and the District of Columbia, serving both rural and urban communities. Chart 14 - Community Development Financial Institutions by Purpose and Regulation, presents a detailed comparison of the six types of CDFIs.

Chart 14 – Community Development Financial Institutions by Purpose and Regulation

CDFI Type	Purpose	Governance and Ownership	Regulation
Community Development Bank	To provide capital to rebuild lower-income communities through targeted lending and investment	For-profit corporation; stock ownership; community representation on boards of administration	Federally regulated and insured through the Federal Depository Insurance Corp., the Federal Reserve, Office of the Comptroller of the Currency, state banking agencies
Community Development Credit Union	To promote community ownership of assets and savings, to provide special outreach to minority communities	Nonprofit financial cooperatives owned and operated by lower-income persons who are members	Regulated by both federal and state government and insured by the National Credit Union Administration
Community Development Loan Fund	To aggregate capital at below-market rates and re-lend this money to non-profit housing and business developers in urban and rural lower-income communities	Nonprofit, community investors, borrowers & experts serve on the boards and loan committees	Self-regulated; except for non-profit 501(c)(3) restrictions and state securities law where applicable
Community Development Venture Capital Fund	To provide equity and debt with equity features for medium-sized businesses to create jobs, entrepreneurial capacity & wealth that benefit low-income communities	For-profit or nonprofit; varied community representation	Variable; depends on funding sources
Microenterprise Development Loan Fund	To foster social and business development through loans and technical assistance to low-income people involved in very small businesses or self-employed and unable to access conventional credit	Nonprofit, democratic; in peer lending model, borrower groups make loan decisions	Regulated by the IRS and grant makers as any other 501(c)(3) nonprofit
Community Development Corporations	To revitalize neighborhoods by producing affordable housing, creating jobs, and providing social services to low-income communities	Nonprofit; formed by local community; volunteer community member boards	Regulated by the IRS and grant makers as any other 501(c)(3) nonprofit

Source: CDFI Coalition

Sources of Funding for Community Development Financial Institutions

CDFIs attract capital from private and public sources including corporations, individuals, religious institutions, private foundations, and pension funds. Depository CDFIs, such as community development banks and community development credit unions, obtain capital from customers and non-member depositors.

During the 1990s, CDFIs rapid growth was fueled by the establishment of a federal CDFI Fund (1994) and revisions to CRA regulations (1995), which specifically recognize loans and investments in CDFIs as a qualified CRA activity.

The federal CDFI Fund makes capital grants, equity investments, and awards to fund technical assistance and organizational capacity-building. Eighty-nine CDFIs shared in $54 million as part of the 2008 awards. The federal CDFI Fund also rewards banks and thrifts for CDFI investments and direct investments in distressed communities through its Bank Enterprise Award Program (BEA). On September 15, 2008, the U.S. Treasury awarded $20.1 million under the BEA to 52 depository institutions serving economically distressed communities. California recipients included the Bank of the Bay headquartered in Oakland and First Bank located in Huntington Beach.

The New Markets Tax Credits Program, initiated in 2002, encourages private sector investment by offering tax credits for qualified community development investments. CDFIs use the money awarded through CDFI Fund programs to leverage private-sector resources into distressed communities.

Chart 15 - Community Development Financial Institutions by Borrower and Related Activities**,** presents a detailed comparison of the six types of CDFIs by types of borrowers, capital sources, financial products and services offered, and technical assistance provided.

Chart 15 – Community Development Financial Institutions by Borrower and Related Activities

CDFI Type	Borrowers	Capital Sources	Financial Products and Services Offered	Technical Assistance
Community Development Bank	Non-profit community organizations, individual entrepreneurs, small businesses, and housing developers	Deposits (often below market investments) from individuals, institutions and the government	Mortgage financing; home improvement, commercial business, non-profit and student loans, and consumer banking services	Usually subcontractors or separate subsidiaries offer credit counseling, and business planning
Community Development Credit Union	Members of the credit union (usually individuals)	Member deposits and limited non-member deposits from social investors, and the government	Consumer banking services (e.g. savings accounts, check cashing, personal and loan committees)	Credit counseling and business planning
Community Development Loan Fund	Non-profit community organizations, social service provider facilities and small businesses	Foundations, banks, religious organizations, corporations, government, insurance companies and individuals	Construction; pre-development; facilities and business start-up and expansion loans	Extensive guidance before, during and after the loan transaction

Community Development Venture Capital Fund	Invests in small to medium-sized businesses in distressed communities that hold the promise of rapid growth	Foundations, corporations, individuals, and government	Commercial equity investments and loans with equity features	Extensive technical assistance to portfolio companies, including taking seats on their board of directors
Microenterprise Development Loan Fund	Low-income individuals and entrepreneurs	Foundations and government	Micro-business start-up and expansion	Substantial training and technical assistance in social and business development
Community Development Corporations	Entrepreneurs, homeowners, business owners, and consortia of community residents	Banks, foundations, corporations, other private support, and government	Equity investments, mortgage lending, debt financing, linked deposits, and Individual Development Accounts	Marketing, business planning, flexible manufacturing networks, and business improvement
				Source: CDFI Coalition

A state CDFI credit was established in 1997, providing for a one-year 20% tax credit for qualified deposits of $50,000 or more in a certified CDFI. In 2000, the program was expanded to include deposits made by insurance companies. The California Department of Insurance provides certification of CDFIs and the tax credit as part of its administration of the California Organized Investment Network Program. In 2007, over $9 million in community development investments were leveraged through the state CDFI credit. Statutory changes related to the 2008-09 Budget Act have reduced this credit by half for the two following fiscal years.

Community Development Financial Institutions Data Project

The CDFI Data Project (CDP) is a collaborative initiative to create a data collection and management system that produces high quality, comprehensive data for and about the community development finance field. Supported by the MacArthur and Ford Foundations, the CDP brings together:

- Association for Enterprise Opportunity (AEO)
- Aspen Institute
- Coalition of Community Development Financial Institutions (CDFI Coalition)
- Community Development Venture Capital Alliance (CDVCA)
- Corporation for Enterprise Development (CFED)
- Opportunity Finance Network
- National Community Investment Fund (NCIF)
- National Federation of Community Development Credit Unions (NFCDCU)

The CDP collected data for the 2006 fiscal year from 505 CDFIs. This dataset includes common data points across all industry sectors: 146 community development loan funds (including microenterprise funds, housing funds, community facilities funds, and business funds), 17 community development venture capital funds, 287 community development credit unions, and 55 community development banks.

In 2006, CDFIs held over $23.5 billion in assets and reported the following community development impacts:

- Financed and assisted 8,185 businesses, which created or maintained 35,609 jobs;
- Facilitated the construction or renovation of 69,893 units of affordable housing;
- Built or renovated 750 community facilities in economically disadvantaged communities; and,
- Provided 32,728 alternatives to payday loans and helped 91,180 low-income individuals open their first bank account.

California Community Development Financial Institutions

Currently, there are an estimated 77 CDFIs in California. Since 1996, $1.2 billion has been awarded to California organizations from the federal CDFI Fund. The CDFI Fund estimates that for every federal CDFI Fund dollar allocated, $21 private dollars are also leveraged.

At the end of the 2006 fiscal year, CDFIs in California held more than $1.3 billion in debt and equity positions which assisted over 45,812 customers, including microenterprises. According to the national CDFI Coalition, in 2006, CDFIs in California:

- Provided asset building savings and retail financial services to 129,994 clients;
- Financed 60 community service organizations;
- Opened 1,005 first accounts;
- Created or renovated 5,636 affordable housing units;
- Financed 759 businesses and microenterprises, creating and supporting 4,512 jobs; and,
- Provided training and technical assistance to 821 organizations and 4,120 clients.

California CDFIs serve all major underserved populations as indicated by the following list. Please note that one CDFI activity may serve more than one target group. As an example, a microloan to lower income Latina living in Mendota would be counted in four of the target groups including low-income, minority, female and rural area. In 2006 CDFI's served the following target populations: low-income individuals (75%), minorities (70%), females (48%), urban areas (83%), and rural areas (17%).

Section VII – Recommendations

This Section provides recommendations that the Members may wish to consider when developing a follow-up strategy to the hearing.

General Principles

Rural communities in California have experienced significant changes in the last two decades. First, rural communities are undergoing significant demographics changes. On the one hand, younger people are leaving rural areas to seek better economic opportunities. On the other hand, people are moving from urban to rural areas, seeking more affordable lifestyles, but still expecting to have access to the same urban and suburban amenities.

Second, rural communities have been impacted by changes in the economic structure of rural areas. While agriculture continues to shape many rural landscapes, its economic importance is declining. Thus, diversifying rural economies is a key objective for most economic development strategies. Rural areas in a number of parts of California have succeeded in strengthening their industrial base, and many more, similar to the San Joaquin Valley, are looking to clean technologies to further broaden their base.

Third, significant institutional changes are affecting rural areas. Decentralization of some state planning activities and an increased use of regional and local planning have resulted in the involvement of a much wider array of actors in rural development. These actors not only include national, regional, and local governments, but now they also include various other stakeholders, including businesses, environmentalists, housing advocates, health care executives, investors, and workers. New approaches are emerging in rural areas seeking to address these changes and cope with the specific needs of, and opportunities for, rural communities. The regional blueprint process and the California Partnership for the San Joaquin Valley are good examples of these more regional models for development.

Beyond the changes discussed above, a new and more modern rural development policy must also address rural-urban links which can result in greater opportunities for both rural and urban residents. Strategies and investments for rural and urban areas cannot rationally be discussed separately. The two types of regions are strongly interlinked, and understanding these linkages can open new investment opportunities in both regions.

Recommendations

The recommendations are divided into the main themes including enhancing rural entrepreneurship, expanding cleantech-related business opportunities, and making structural changes to better support rural economic development.

Support Rural Entrepreneurs

- *Support Regional Innovation Models*: Update local rural development strategies to place innovation at its core. Innovation based strategies focus on strengthening inventor-fancier business networks and increasing the ability of communities to uptake new business models and technologies that help businesses be competitive in global markets.

- *Reduce Red Tape*: Streamline state regulatory, licensing, and permitting requirements for small business and microenterprise start-ups through online, one-stop applications.

- *Begin Business Development Skills Early*: Enhance entrepreneurship training in California K-12 and community college systems, including those serving rural communities.

- *Undertake Key Financial Research*: Establish a Center of Excellence on Entrepreneurship at a California State University to support research on the issues surrounding business models, investment vehicles, and regulatory regimes that make it possible for investors to invest in emerging domestic markets.

- *Better Monitor Access to Credit*: Establish a "red team" to be responsible for undertaking a monthly assessment of businesses', including small businesses', access to credit. The assessment can also identify gaps in financial services and provide an early warning for capital market issues.

- *Help Businesses become Investment Ready*: Begin a dialogue with early-stage investors on how to assist businesses in becoming prepared for, and competitive in, obtaining early-stage investment.

- *Support the Next Generation of Farmers*: Establish a public/private partnership to encourage and assist new farmers in getting started. The state's contribution could be in streamlining and offering the technical assistance necessary to meet the various licensing and permitting requirements.

- *Enact Rural-Focused Trade Agreements*: Establish trade promotion agreements that specifically benefit the non-agriculture related portion of rural economies.

Advance Cleantech Opportunities

- *Establish a Cleantech Research Center*: Call on the University of California to consolidate certain cleantech research facilities at U.C. Merced and establish strategic partnerships with California State Universities in the Central Valley to leverage regional expertise and maximize economic impact.

- *Establish Innovation Zones*: Enhance the incentives within G-TEDAs which could be beneficial to cleantech R&D, manufacturing, and distribution for G-TEDAs that establish strategic partnerships with federal research facilities and other key innovation partners.

- *Establish Short-Term Research Centers*: Examine opportunities to utilize currently unoccupied industrial park facilities as low-cost research facilities for professors from around the world.

Structural Changes to Support Rural Development

- *Leverage Public Dollars*: Develop a resource coordination function within state government to assist local jurisdictions, nonprofits, foundations, and financial institutions to identify and partner with state resources for entrepreneur development.

- *Assessment of Rural Infrastructure Needs*: Undertake, in consultation with rural communities, a comprehensive assessment of infrastructure needs in rural areas, including, water, sewer, roads, and telecommunication. The assessment should include identification of available public and private funding, identification of financing gaps, an outline of opportunities for joint development projects, and other solutions for meeting rural infrastructure needs.

- *Provide a Formal Voice for Rural California*: Establish a Rural Policy Task Force to provide a voice for the unique issues and concerns of rural communities. Ensure that the broad range of rural stakeholders has an opportunity to become engaged. Seek federal and private funding to support the task force's activities.

- *Rural Economic and Workforce Development Liaison*: Call on the Governor to name a rural economic development specialist within the Business, Transportation, and Housing Agency and a rural workforce development specialist within the Labor and Workforce Development Agency.

- *Rural Pilot Project*: Establish a pilot project in three rural communities, inventory existing available economic and infrastructure programs, and identify gaps and opportunities for innovative solutions. Each community would begin the process by identifying its targeted industry clusters, existing strategies, and regional interests in participating in the project.

- *Funding Formulas*: Modify funding formulas to include provisions for rapidly urbanizing rural areas, and establish adequate funding thresholds for more remote rural communities.

- *Legislation in 2009*: Convene a rural development roundtable to discuss possible new legislation for the 2009 Legislative Session.

Appendix A

Fast Facts on the California Economy

Compiled by: Assembly Committee on Jobs, Economic Development, and the Economy
Juan Arambula, Chair

California is one of the ten largest economies in the world with a 2007 gross state product (GSP) of \$1.8 trillion.[5] California's foreclosure rate is ranked 2nd in the nation (2.6 times the national average).[6] Unemployment is at 7.6%,[7] and nonfarm businesses have lost 72,700 jobs since August 2007.[8]

California Economy

- In 2007, California's total GSP was \$1.8 trillion as compared to the United States with an estimated gross domestic product (GDP) of \$13.7 trillion. [9]
- California's GSP ranks it as the 8th largest economy in the world, following the United States (\$13.8 trillion), Japan (\$4.3 trillion), Germany (\$3.3 trillion), China (\$3.2 trillion), United Kingdom (\$2.7 trillion), France(\$2.5 trillion), and Italy(\$2.1 trillion).[10]
- Major industrial economies smaller than California's include Spain (\$1.4 trillion), Canada (\$1.4 trillion), and Brazil (\$1.3 trillion).[11]

Energy Market

- California produces 13.5% of the natural gas, 39% of the crude oil, and 69.5% of the electricity it uses. The remaining electricity and natural gas is purchased from Canada, the Pacific Northwest, the Rocky Mountain States and the Southwest. The remaining crude oil is imported from Alaska and foreign sources. [12]
- Since September 2005, the price of crude oil has jumped more than \$51 dollars a barrel. [13]

Real Estate

- California metropolitan areas lead the nation in foreclosures, and the state accounted for 27% of foreclosure filings nationwide. California's foreclosure rate is ranked second in the nation with a rate 2.6 times the national average. Merced, San Joaquin, and Stanislaus County held the state's top three foreclosure rates, respectively.[14]
- California continues to experience high population growth and a tightening of its housing markets. As of January 2008, California's population was 37,559,440 which added 490,000 people in 2007.[15]
- Housing production has not kept pace with the State's housing needs, particularly in the coastal metropolitan areas, and the housing need has worsened, especially for renter households and low-income owner households throughout the State. While the average annual need is projected at approximately 220,000 housing units, construction has lagged substantively below the need. [16]
- California's homeownership rate in 2007 was the second lowest in the nation (55.9%) and 9.8 percentage points lower than the national homeownership rate (68.1%).[17]
- March 2008's median price of an existing, single-family detached home in California decreased 29% percent since March 2007. From April 2007 through April 2008, the median base home asking price of homes dropped 15%, and the total number of new homes sold dropped 43.9%.[18]

Job Market

- California nonfarm businesses have lost 72,700 jobs in payrolls from August 2007 to August 2008, a decrease of 0.5%. Nationwide, nonfarm payrolls were down 84,000 jobs over the month and down 283,000 jobs over the year. The 0.5% year-over rate decrease in California jobs was more than the 0.2% rate decrease of the nation. [19]
- The Educational & Health services sector saw the largest gains in the last year, with an increase of 50,200 jobs within the sector, representing an increase of 3% from the previous year. [20]

- From August 2007 to August 2008, nonfarm payroll jobs rose in 6 of the 11 major industry sectors:
  - 50,200 in Educational and Health Services;
  - 26,300 in Government;
  - 14,100 in Leisure and Hospitality;
  - 8,400 in Professional and Business Services;
  - 900 in Natural Resources and Mining;
  - 500 in Other Services[21]
- The Construction sector lost the most payroll jobs by far with 79,200, followed by Financial Activities with 33,300; Manufacturing with 28,800; Trade, Transportation and Utilities with 24,600; and Information with 7,200 jobs lost. [22]

Insourcing of Jobs

- U.S. subsidiaries of foreign companies in California employ 572,500 California workers. [23]
- In comparison to other states, California ranks 1st in the United States in the number of employees supported by U.S. subsidiaries. At the national level, U.S. subsidiaries employ 5.3 million Americans and support an annual payroll of $364.2 billion. [24]

Unemployment (August 2008)

- Statewide: 7.6% (Up from 5.5% in 2007);
- Alameda County: 6.9% (Up from 5.0% in 2007);
- Contra Costa: 6.7% (Up from 5.0% in 2007);
- Fresno County: 9.7% (Up from 7.4% 2007);
- Imperial County: 24.7% (Up from 21.2% in 2007);
- Los Angeles County: 8.2% (Up from 5.3% in 2007);
- Sacramento County: 7.7% (Up from 5.7% in 2007);
- San Bernardino: 8.6% (Up from 6.0% 2007);
- San Joaquin County: 10.2% (Up from 7.8% in 2007); and,
- Santa Clara County: 6.5% (Up from 5.0% in 2007). [25]

California's Trade Economy

- Exports from California accounted for 12% of total U.S. exports in 2007.[26]
- California's export shipments of merchandise in 2007 totaled $134.3 billion, ranking California second only to Texas ($168.2 billion) among the states in terms of total exports of products.[27] If the value of services were added to the export of profit, it is likely that California would rank first in total exports.[28]
- California exported to 222 foreign destinations in 2007, and the State leads the nation in export-supported jobs with one in seven jobs related to trade.[29]
- Small and medium-sized firms generated more than two-fifths (44%) of California's total exports of merchandise in 2006.[30]
- California's top three export markets in 2007 were Mexico, Canada, and Japan, respectively. [31]
- In 2007, the state's leading export category was computers and electronic products, representing 33% ($43.7 billion) of California's total merchandise exports. [32]

Foreign Direct Investment

- California receives more foreign direct investment than any other U.S. state.[33]
- In 2006, foreign-controlled companies employed 572,500 Californians and accounted for 8.9% of total manufacturing employment in California and 4.3% of the state's total private-industry employment. [34]

Appendix B

Fast Facts on the Southern San Joaquin Valley

Compiled by: Assembly Committee on Jobs, Economic Development, and the Economy
Juan Arambula, Chair

California is one of the ten largest economies in the world with a 2007 gross state product (GSP) of over $1.8 trillion.[35] California nonfarm businesses have lost 72,700 jobs in payrolls from August 2007 to August 2008. Every Southern San Joaquin Valley county currently has unemployment rates that are up by 2% or more from the previous year.[36]

California Economy

- In 2007, California's total GSP was $1.8 trillion as compared to the United States with an estimated gross domestic product (GDP) of $13.7 trillion. [37]
- California's GSP ranks it as the 8th largest economy in the world, following the United States ($13.8 trillion), Japan ($4.3 trillion), Germany ($3.3 trillion), China ($3.2 trillion), United Kingdom ($2.7 trillion), France($2.5 trillion) , Italy($2.1 trillion).[38]
- Major industrial economies smaller than California's include Spain ($1.4 trillion), Canada ($1.4 trillion), and Brazil ($1.3 trillion).[39]

Job Market

- California nonfarm businesses have lost 72,700 jobs in payrolls from August 2007 to August 2008, a decrease of 0.5%. Nationwide, nonfarm payrolls were down 84,000 jobs over the month and down 283,000 jobs over the year. The 0.5% year-over rate decrease in California jobs was more than the 0.2% rate decrease of the nation. [40]
- The Educational & Health services sector saw the largest gains in the last year, with an increase of 50,200 jobs within the sector, representing an increase of 3% from the previous year. [41]
- From August 2007 to August 2008, nonfarm payroll jobs rose in 6 of the 11 major industry sectors:
  - 50,200 in Educational and Health Services;
  - 26,300 in Government;
  - 14,100 in Leisure and Hospitality;
  - 8,400 in Professional and Business Services;
  - 900 in Natural Resources and Mining;
  - 500 in Other Services[42]
- The Construction sector lost the most payroll jobs by far with 79,200, followed by Financial Activities with 33,300; Manufacturing with 28,800; Trade, Transportation and Utilities with 24,600; and Information with 7,200 jobs lost. [43]

Fastest Growing Jobs in the Southern San Joaquin Valley

- Fresno:
  - Psychology Teachers, Postsecondary;
  - Network Systems and Data Communications Analysts;
  - Home Health Aides;
  - Mechanical Engineering Technicians;
  - Industrial Engineers [44]
- Kern
  - Boilermakers;
  - Paving, Surfacing, and Tamping Equipment Operators;
  - Reservation and Transportation Ticket Agents;
  - Structural Iron and Steel Workers;
  - Employment, Recruitment, and Placement Specialists [45]

- Kings:
  - Medical and Clinical Laboratory Technicians;
  - Real Estate Sales Agents;
  - Home Health Aides;
  - Education Administrators, Preschool and Child Care;
  - Clinical Counseling, and School Psychologists [46]

- Tulare:
  - Engineering Managers;
  - Business Teachers, Postsecondary;
  - Computer Software Engineers, Systems Software;
  - Network Systems and Data Communications Analysts;
  - Personal Financial Advisors [47]

Greatest Number of Job Openings 2004 to 2014 in the Southern San Joaquin Valley

- California:
  - Retail Salespersons;
  - Cashiers;
  - Waiters and Waitresses[48]

- Fresno:
  - Farmworkers and Laborers, Crop, Nursery, and Greenhouse;
  - Retail Salespersons;
  - Cashiers [49]

- Kern:
  - Farmworkers and Laborers, Crop, Nursery, and Greenhouse;
  - Cashiers;
  - Retail Salespersons[50]

- Kings:
  - Farmworkers and Laborers, Crop, Nursery, and Greenhouse;
  - Retail Salespersons;
  - Elementary School Teachers, Except Special Education [51]

- Tulare:
  - Farmworkers and Laborers, Crop, Nursery, and Greenhouse;
  - Retail Salespersons;
  - Cashiers [52]

Unemployment (August 2008)

- Statewide: 7.6% (Up from 5.5% in 2007);
- Fresno County: 9.7% (Up from 7.4% in 2007);
- Imperial County: 24.7% (Up from 21.2% in 2007);
- Kern: 9.5% (Up from 7.5% in 2007)
- Kings: 9.5% (Up from 7.3 % in 2007)
- Los Angeles County: 8.2% (Up from 5.3% in 2007);
- Sacramento County: 7.7% (Up from 5.7 % in 2007);
- San Bernardino: 8.6% (Up from 6.0% 2007);
- San Joaquin County: 10.2% (Up from 7.8% in 2007);
- Tulare: 10.6% (Up from 8.2% in 2007); [53]

Trade Import/Export

- California leads the nation in export-related jobs; about one in seven jobs in the state is related to trade.[54]
- In 2005, California’s agricultural exports ($8.2 billion) accounted for 14% of all U.S. agricultural exports.[55]
- The San Joaquin Valley is California's leading agricultural producing bioregion, and five of its counties -- Fresno, Kern, Tulare, Merced, and Stanislaus-- rank among the state's top 10 counties in farm production value.[56]

Appendix C

Map of the San Joaquin Valley

The eight counties of the San Joaquin Valley include Kern, Tulare, Kings, Fresno, Madera, Merced, Stanislaus and San Joaquin.

The San Joaquin Valley has 62 cities and more than 3.9 million residents. Historically, one of the most productive agricultural areas in the world, more recently the San Joaquin Valley has also become one of the state's fastest growing regions.

Source: 2007 State of CA EDD

Appendix D

Major Bills Affecting Economic Development

Below is a discussion of recently enacted legislation affecting economic development in California. This summary does not attempt to list legislation affecting California's general business climate or business operation requirements.

The California Economy and Emerging Domestic Markets

AB 716 (Chan): Small Business Financial Development Corporations
This bill eliminates the California Small Business Financial Development Loan Guarantee Account and makes clarifying and technical changes. ***Status***: Chaptered by the Secretary of State – Chapter 178, Statutes of 2003.

AB 969 (Correa): California Tourism Expansion Act of 2003: Tourism Economic Development Zones
As passed by the committee, this bill authorized the City of Anaheim and the City of Garden Grove to create a pilot project to be known as the Tourism Development Council. ***Status***: Chaptered by the Secretary of State - Chapter 470-Statutes of 2004.

AB 1182 (Ridley-Thomas): Government Financing
This bill creates new financing mechanisms for the California Debt and Investment Advisory Commission, and the California Industrial Development Financing Authority Commission. ***Status***: Chaptered by the Secretary of State – Chapter 7, Statutes of 2004.

SB 1823 (Hollingsworth): Economic Development
This bill changes all references in the enterprise zone statute from "agency" to "department" and transfers responsibilities regarding the Targeted Tax Area program and the Local Agency Military Base Recovery Act to the Department of Housing and Community Development. ***Status***: Chaptered by the Secretary of State – Chapter 145, Statutes of 2004.

AB 1855 (Maze): California Infrastructure and Economic Development Bank: Financing
This bill requires that the California Infrastructure and Economic Development Bank notify specified legislative and municipal entities when changes are made to the criteria for awards under the Infrastructure State Revolving Fund Program. In addition, this bill exempts the I-Bank from state hiring freezes for specified purposes. ***Status***: Chaptered by the Secretary of State – Chapter 189, Statutes of 2004.

AB 2481 (Nuñez): California Infrastructure and Economic Development Bank: Board of Directors.
This bill makes technical and clarifying changes to the membership of the California Infrastructure and Economic Development Bank Board of Directors. ***Status***: Chaptered by the Secretary of State – Chapter 48, Statutes of 2004.

AB 2565 (Parra): Economic Development

This bill requires an updated strategic plan to minimize California's loss of military bases and jobs in future rounds of Federal Base Realignment Act Closures. This bill is related to SB 926 (Knight). ***Status***: Chaptered by the Secretary of State - Chapter 763, Statutes of 2004.

AB 2690 (Hancock): Public Works: Funds
This bill exempts volunteers, as defined, from provisions in existing law requiring prevailing wage rate for all workers employed on public works projects of more than $1000. ***Status***: Chaptered by the Secretary of State – Chapter 330, Statutes of 2004.

AB 2805 (Ridley-Thomas): Redevelopment Plans
This bill grants authority to the Los Angeles City Council to revise the Hoover Redevelopment Plan in order to facilitate and promote continued redevelopment and economic development in the project area thereby stimulating the local economy and creating jobs. ***Status***: Chaptered by the Secretary of State - Chapter 954, Statutes of 2004.

ACR 254 (Firebaugh): Asset Acquisition Disparity
This measure makes legislative findings based on California Research Bureau reports that indicate the disparity in wealth and access to education between Latinos and non-Latinos. Encourages the Latino Legislative Caucus, the Hispanic Republican Caucus, and the Earned Assets Resource Network (EARN) in partnership with the Milken Institute to engage in targeted research to more accurately measure the economic impact of the disparities and report to the Governor and Legislature its findings by January 15, 2005. ***Status***: Chaptered by the Secretary of State - Chapter 199 - Statutes of 2004.

SB 926 (Knight and Ashburn): Economic Development
This bill establishes the Office of Military and Aerospace Support in the Business, Transportation, and Housing Agency, and sets forth its duties and authority with respect to state and local defense retention and conversion. ***Status***: Chaptered by the Secretary of State - Chapter 907, Statutes of 2004

SB 973 (Machado): State Property
This bill requires state agencies to overwrite, or render unrecoverable, any data that is contained on surplus data storage hardware prior to disposing of, auctioning, or transferring the hardware from state possession. ***Status***: Chaptered by the Secretary of State – Chapter 717, Statutes of 2003.

Enterprise Zones and Other Geographically-Targeted Economic Development Areas (G-TEDA)

AB 1550 (Arambula): G-TEDA Reforms
This bill makes a number of significant changes to the management and oversight of the G-TEDA programs. This bill is the result of extensive oversight hearings by JEDE and R&T, and extended discussions with stakeholder groups. Key provisions include:

1) Authorizing cities and counties to apply for an EZ designation that includes noncontiguous boundaries, if HCD determines the area is needed to implement the applicant's economic development strategy and that areas between the noncontiguous areas were not excluded for discriminatory purposes. This authority is also provided for EZ and TTA boundary expansions.

2) Authorizing an expiring EZ that applies for a new designation, and receives a conditional designation letter from HCD, to offer all EZ benefits until such time as HCD makes a final designation or declines to designate the EZ. The effective date of a new EZ designation shall be the expiration date of the old EZ designation.

3) Requiring applications in response to EZ designation solicitations after January 1, 2007 be ranked based on their economic development strategy and implementation plan, including the extent the strategy: sets reasonable and measurable benchmarks, goals, and objectives; identifies local resources, incentives, and programs; provides for the attraction of private investment; includes regional and community-based partnerships; and, addresses hiring and retention of unemployed or underemployed residents or low-income individuals.

Status: Chaptered by the Secretary of State - Chapter 718, Statutes of 2006.

AB 1856 (Maze): Targeted Tax Areas: Expansion

This bill allows for the expansion of a targeted tax area (TTA) territory by up to 15% upon meeting specified criteria. Adds additional incentives to the TTA program. ***Status***: AB 1856 was held in the Assembly Committee on Revenue and Taxation, however, the language of AB 1856 was amended into AB 2398 (Maze). AB 2398 was chaptered by the Secretary of State – Chapter 423, Statutes of 2004.

SB 763 (Lowenthal): Expansion of State Voucher Fee Authority

This bill expands HCD's fee authority for the purpose of off-setting the cost of administering the geographically-targeted economic development area programs. ***Status:*** Chaptered by the Secretary of State - Chapter 634, Statutes of 2006.

California's Technology Economy

AB 2582 (Mullin): California Government Online to Desktops (CALGOLD) Program

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

AB 1532 (Nakano): Economic Development: Technology Programs

This bill transfers responsibility for the California Spaceport Authority, the Challenge Grant Program, and the Technology Planning Program from the California Technology, Trade, and Commerce Agency to California Business, Transportation and Housing Agency. ***Status***: Chaptered by the Secretary of State – Chapter 627, Statutes of 2003.

AJR 86 (Lieber): Space exploration

This measure requests Congress and the President of the United States to enact and fully fund the proposed budget for space exploration, as submitted to the Congress in the federal 2005 fiscal year budget, thus enabling the United States and California to remain leaders in the exploration and development of space. ***Status***: Chaptered by the Secretary of State – Chapter 154, Statutes of 2004.

AB 1061 (Firebaugh): Unemployment Insurance: Employment Training Panel: Small Businesses

This bill seeks to enhance small business access to Employment Training Panel programs and resources, and to assist the aerospace and defense supplier industries. ***Status***: Chaptered by the Secretary of State – Chapter 844, Statutes of 2003.

AB 1532 (Nakano): Economic Development: Technology Programs
This bill establishes the Regional Technology Alliances (RTAs) under the administration of the Business, Transportation and Housing Agency (BTH) and places the Challenge Grant Program and the Technology Planning Program within the RTA. Also establishes the California Spaceport Authority under the administration of the BTH and requires the Secretary of Labor Workforce Development to convene the California Economic Strategy Panel. ***Status***: Chaptered by the Secretary of State – Chapter 627, Statutes of 2003.

HR 29 (Houston): Joint Bio-Energy Institute
This resolution affirms the Assembly's support of the outstanding proposal developed by the national laboratory partnership of Sandia National Laboratories, Lawrence Livermore National Laboratory, and the Lawrence Berkeley National Laboratory to bring the Joint Bio-Energy Institute to California. ***Status:*** Approved by the Assembly, August 10, 2006.

SB 1698 (Ashburn): Military and Aerospace Enterprise Development
This bill extends the sunset on the Military and Aerospace Support Act from January 1, 2007, to January 1, 2009, and expands the duties of the Office of Military and Aerospace Support to include outreach to the aerospace industry for the purpose of fostering aerospace enterprises in California. ***Status:*** Chaptered by the Secretary of State – Chapter 681, Statutes of 2006.

Small Business Development and Operations

AB 348 (Arambula and Bass): Small Business Certification Reciprocity Program
This bill authorizes the Department of General Services (DGS) to accept certification of a small business made by a local agency if it determines that the local agency has applied similar certification criteria and review processes as those applied by DGS. ***Status:*** Chaptered by the Secretary of State – Chapter 185, Statutes of 2005.

AB 2330 (Arambula): Impact of Regulations on Small Businesses
This bill requires the Office of the Small Business Advocate to have a study prepared by October 1, 2007, regarding the costs of state regulations on small businesses, as specified. ***Status:*** Chaptered by the Secretary of State – Chapter 232, Statutes of 2006.

AB 3058 (Assembly Committee on Jobs, Economic Development, and the Economy): Small Business Disaster Preparedness
This bill requires the Office of the Small Business Advocate, in cooperation with the Office of Emergency Services and the Department of Industrial Relations, to develop a web-based handbook for small businesses on emergency preparedness, emergency response, and recovery strategies. This bill also requires at least three meetings be held in different locations in the state to share best practices for disaster preparedness for small businesses. ***Status:*** Chaptered by the Secretary of State – Chapter 233, Statutes of 2006.

SB 1156 (Alarcon): Microenterprise
This bill states the intent for cities and counties to encourage access to microenterprise development. Additionally, this bill defines a microenterprise as a business of five or fewer employees, including the owner and defines a microenterprise development provider as a nonprofit or public agency that provides self-employment training, technical assistance, and access to microloans to individuals seeking to become self-employed or to expand their current business. ***Status***: Chaptered by the Secretary of State – Chapter 87, Statutes of 2004.

SB 1436 (Figueroa): State Small Business Assistance
This bill enhances the state's technical assistance to small businesses by improving the state's Internet information for small businesses and requiring the designation of agency-level small business liaisons. ***Status:*** Chaptered by the Secretary of State – Chapter 234, Statutes of 2006.

SB 1558 (McPherson): Small Business Financial Development Corporations
This bill makes various code maintenance changes to the California Small Business Financial Development Corporation Law to reflect certain duties assumed by the Business, Transportation, and Housing Agency as a result of the abolishment of the Technology, Trade, and Commerce Agency in 2003. ***Status***: Chaptered by the Secretary of State - Chapter 143, Statutes of 2004.

AB 1643 (Ridley-Thomas): Employment
This bill promotes small business by requiring the Employment Development Department (EDD) to study the impact of employee misclassification tax audits on micro-enterprises and directs EDD to provide education and outreach programs related to complicated tax regulations that impact small business and micro-enterprises. ***Status***: Chaptered by Secretary of State - Chapter 828, Statutes of 2004.

Disabled Veteran Business Enterprises (DVBE) and Small Business Certification

AB 669 (Cohn): Public Contracts: Disabled Veteran Business Enterprises
This bill requires that a small business, microbusiness, and disabled veteran business enterprise must perform a commercially useful function, in relation to specified state contracts, and also imposes certain penalties for misrepresenting the performance of a commercially useful function. ***Status***: Chaptered by the Secretary of State – Chapter 623, Statutes of 2003.

SB 115 (Florez): California Disabled Veteran Business Enterprise Program
This bill makes various changes to the DVBE Program, including requiring DGS to establish a state agency wide mandatory DVBE participation incentive. This bill also requires the DGS small business advocate to provide specified services to small businesses and certified disabled veteran business enterprises. Additionally, this bill requires DGS to adopt a streamlined reporting procedure for state agencies to use in reporting their DVBE participation to the Department of Veterans Affairs. ***Status:*** Chaptered by the Secretary of State - Chapter 451, Statutes of 2005.

International Trade

AB 3021 (Nuñez): California-Mexico Relations
This bill establishes the six-member California-Mexico Border Relations Council (Border Council) comprised of all Agency Secretaries and the Director of the Office of Emergency Services for the purpose

of coordinating activities of state agencies involving California-Mexico relations. The Border Council is required to report to the Legislature on its activities annually. ***Status:*** Chaptered by the Secretary of State - Chapter 621, Statutes of 2006.

SB 897 (Scott): International Trade and Investment Office in Yerevan, Armenia
This bill extends the sunset date allowing for the creation and operation of an international trade and investment office, on a contractual basis, in Yerevan, Republic of Armenia, from January 1, 2006 to January 1, 2008, and extends the reporting deadline regarding the success of this office from March 1, 2005 to June 1, 2007. ***Status:*** Chaptered by the Secretary of State - Chapter 604, Statutes of 2005.

SB 1513 (Romero): Final Compromise - California International Trade and Investment Act
Provides new authority for the Business, Transportation, and Housing Agency (BT&H) to undertake international trade and investment activities, and as a condition of that new authority, directs the development of a comprehensive international trade and investment policy for California. This bill reflects extended bi-partisan discussions between the Senate and the Assembly. Based on these agreements, AB 2601 was dropped to allow a single consensus bill on international trade to be sent to the Governor. ***Status:*** Chaptered by the Secretary of State - Chapter 663, Statutes of 2006.

Appendix E

A Selection of California's Economic and Workforce Development Programs

Below are brief descriptions of several of California's economic and workforce development programs available at the state level. This listing is intended to provide a basic representation of the types of programs and services that are available to businesses in California. For a complete listing of state programs and services, please refer to the Catalog of State Economic and Workforce Development Programs developed by JEDE in 2007. The Catalog is available through the JEDE Committee office and from its website located at www.assembly.ca.gov. California's economic and workforce investment programs are spread across several governmental agencies and entities.

Workforce Development and Business Assistance

California Workforce Investment Board (CWIB)

CWIB was formed to assist the State of California in complying with the federal Workforce Investment Act of 1998. CWIB's goals, as described in its strategic plan, are to "achieve sustainable economic growth, meet the demands of global competition in the modern economy, and improve the quality of life for all Californians." To meet these goals, CWIB and local workforce investment boards throughout the state work with stakeholder groups consisting of private businesses and public entities. CWIB's mission focuses on providing employment training with strong job prospects and to connect employers with job seekers. More information on the CWIB and the local workforce investment boards may be found at: www.calwia.org.

California Employment Training Panel (ETP)

Established in 1983, the ETP is a business- and labor-supported state agency that funds job skills training to provide workers with jobs that have good pay potential and long-term usefulness. ETP is governed by a seven-member panel appointed by the Governor and Assembly and Senate Leadership. ETP uses the Employment Training Fund for their training programs. Monies in the Employment Training Fund are provided by one-tenth of 1% of unemployment insurance wages paid by every private, for-profit employer in the state, as well as some non-profits, amounting to no more than $7.00 per covered employee per year. Research has shown that for every $1.00 invested in the ETP Program $5.00 is returned in economic benefits. More information regarding the ETP may be found at: www.etp.ca.gov

California One-Stop Career Centers

The One-Stop Career Center (One-Stop Center) system is a statewide network of centers that provide employment, education, and training services all in one location. The One-Stop Centers work with public and private non-profit partners to provide their services. Some One-Stop Centers have all of their partners on site, and some do not. However, all partners are community-based and easily accessible to workers, job seekers, and businesses.

California Business Portal

This state government website provides links to a wide range of information for businesses, including establishing a business, growing an existing business, exporting goods, foreign investment, doing business with government, key industries information, and Internet links to relevant public and private entities that provide other services to businesses. The Internet address for the California Business Portal is: www.calbusiness.ca.gov.

Small Business Development Centers
Small Business Development Centers (SBDC) provide free services to business clients to assist them in achieving their global market goals. SBDCs provide basic business development assistance at 46 locations throughout the state. These centers are funded by the U.S. Small Business Administration, the Chancellor's Office of California Community Colleges, and donations from business and other academic institutions. More information may be found at: www.calbusiness.ca.gov/cedpgybsbdc.asp

Infrastructure Development and Goods Movement

Goods Movement Plan
This effort, led by BT&H and CalEPA, is intended to improve the movement of goods in California. This plan aims to facilitate business growth in both the near and long term by promoting infrastructure improvements and developing strategies to maximize the ability of businesses to import, export, and distribute goods using California's roadways, ports, rails, and other modes of transport. In January 2007, the Phase II Goods Movement Plan was published which provided a statewide action plan for goods movement. More information on funding priorities may be found at: www.arb.ca.gov/gmp/gmp.htm.

Metropolitan Planning Organizations
A Metropolitan Planning Organization (MPO) is an organization of elected officials in urbanized regions with a population of over 50,000. MPOs provide a forum for local decision-making on transportation issues of a regional nature. Under TEA-21, the MPOs objective is to "encourage and promote the development of transportation systems embracing various modes of transportation in a manner which will efficiently maximize the mobility of people and goods within and through urbanized areas and minimize transportation-related fuel consumption and air pollution." As a condition for receipt of federal capital or operating assistance, MPOs must have a continuing, cooperative and comprehensive transportation planning process. The MPOs are to cooperate with the state in developing transportation plans and programs for urbanized areas. This transportation planning process is to result in plans and programs consistent with the urbanized area's comprehensive planned development. In addition, the plans are to provide for the development of transportation facilities (including pedestrian walkways and bicycle facilities) and serve as an intermodal system for the state, metropolitan areas and the nation. More information on funding priorities may be found at:
http://www.dot.ca.gov/hq/tpp/offices/orip/index_files/MPOs_and_RTPAs_Contact_List.pdf

The California Infrastructure and Economic Development Bank (I-Bank)
The I-Bank was created to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California. The I-Bank has the authority to issue tax-exempt and taxable revenue bonds I-Bank administered programs include: the Infrastructure State Revolving Fund Program; the Industrial Development Revenue Bond Program; the Infrastructure & Community 501(c)(3) Revenue Bond Program; and, the Exempt Facility Revenue Bond Program. More information may be found at: www.ibank.ca.gov

General Business Promotion

California Government: Online to Desktops (CalGOLD)

Contained within CalEPA, CalGOLD is an Internet portal for businesses to access information about environmental, regulatory, and permitting requirements. CalGOLD does not issue licenses or permits but provides assistance for businesses in determining permitting and licensing requirements and provides contact information for the appropriate permitting or licensing agency. More information is available at: www.calgold.ca.gov.

California Business Investment Services (CalBIS)

Contained within the California Labor and Workforce Development Agency, CalBIS "serves employers, corporate real estate executives, and site location consultants considering California for new business investment and expansion." Among its services, CalBIS provides site selection services, information on international trade, workforce services, labor market data, and guides for businesses, including "California Investment Guide: an Overview of Advantages, Assistance, Taxes and Permits" and "Setting Up Business in California: a Guide for Investors." More information may be found at: www.labor.ca.gov/calBIS/.

Small Business Loan and Guarantee Program (SBLGP)

The SBDLG Program was established to assist small businesses obtain term loans or lines of credit when they cannot otherwise qualify for these types of credit on their own. The State, working through eleven financial development Centers, guarantees that a qualifying small business borrower's loan is guaranteed in the event the borrower defaults. Loan terms and interest rates are negotiated between the borrower and the lender. More information may be found at: www.leginfo.ca.gov/cgi-bin/displaycode?section=corp&group=14001-15000&file=14055-14060.6

Direct Farm Loan Program

The Direct Farm Loan Program provides loans to family farms for crop production, harvest loans, farm ownership, farm improvements or equipment acquisition. The loans must be eligible for guarantee by the U.S. Department of Agriculture's Farm Services Agency. Whereas small business loan guarantees are made with the approval of the Financial Development Corporation's Board of directors, loans made in the Direct Farm Loan Program must receive approval from the Farm Services Agency prior to the Financial Development Corporation's approval. More information may be found at: www.leginfo.ca.gov/cgi-bin/displaycode?section=corp&group=14001-15000&file=14070-14076

Community Development Block Grant Program

The Department of Housing and Community Development administers the small cities portion of the federal Community Development Block Grant (CDBG) Program. Large and medium sized municipalities are provided with direct allocations from the federal Housing and Urban Development Department. Counties with fewer than 200,000 residents in unincorporated areas and cities with fewer than 50,000 residents that are not participants in the federal CDBG Program compete for program dollars. Each year the CDBG Program makes funds available to eligible jurisdictions through several allocations including: General, Native American and Colonias; Economic Development – Over the Counter; Economic Development – Enterprise; and, Planning and Technical Assistance allocations. Due to the flexibility of the program, most of these allocations are significantly over subscribed. More information may be found at: www.hcd.ca.gov/fa/cdbg/Enterprise.html

Sustainable Communities Grant and Loan program
The Sustainable Communities Grant and Loan Program, administered by the California Pollution Control Financing Authority, assists cities and counties to develop and implement sustainable community growth policies, programs and projects. The Program has funded specific plans, alternative transportation studies, finance plans, redevelopment plans, engineering studies, public projects, and other efforts that promote sustainable development policies. More information may be found at: www.treasurer.ca.gov/cpcfa/scgl/summary.pdf

California Capital Access Program
Administered by the California Pollution Control Financing Authority, the California Capital Access Program (CalCAP) is chaired by the State Treasurer. CalCAP encourages banks and other financial institutions to make loans to small businesses that fall just outside of most banks' conventional underwriting standards. Eligible businesses must be in one of the industries in the Standard Industry Classification codes list and meet specified standards for conducting business in California. The business activity resulting from the loan must be created and retained in California, and must meet federal Small Business Administration classification guidelines or have fewer than 500 employees. More information may be found at: www.treasurer.ca.gov/cpdfa/calcap.htm.3.

Geographically-Targeted Economic Development Programs

Geographically-Targeted Economic Development Areas
The Enterprise Zone (EZ) Program and the other geographically-targeted economic development areas (G-TEDAs) are among the largest state economic development programs in California. The Department of Housing and Community Development (HCD), administers four G-TEDA programs including: EZs, Manufacturing Enhancement Areas (MEAs), Local Agency Military Base Realignment Areas (LAMBRAs), and one Targeted Tax Area (TTA). Under the G-TEDA programs, businesses and other entities located within targeted areas are eligible for a variety of local and state provided incentives. Local governments often write down the costs of development. They may also fund related infrastructure improvements, provide job training to prospective employees, or establish a streamlined process of obtaining permits. Additionally, the state offers a number of incentives, including: tax credits; special tax provisions; priority notification when selling state surplus lands; access to certain brownfield clean-up programs; and, preferential treatment for state contracts. More information may be found at: www.caez.org

Community Redevelopment Project Areas
The California Constitution provides for the establishment of community redevelopment project areas and the issuance of property tax increment bonds. Areas are selected by a local community based on specific conditions of blights. RDA have special authorities and responsibilities within project areas for the purpose of eliminating blight and increasing property values and the community's quality of life. Once established, prescribed portions of any increases in property taxes from within the project area are available to the RDA to finance the implementation of the approved redevelopment plan. More information may be found at: http://www.calredevelop.org//AM/Template.cfm?Section=Home

Recycling Market Development Zones
The Recycling Market Development Zone (RMDZ) program, administered through the Integrated Waste Management Board, offers assistance to support new businesses, expand existing ones, create jobs, and divert waste from landfills. Businesses located in a Recycling Market Development Zone that use

materials in the waste stream to manufacture their products have a variety of assistance available, including low interest loans, technical assistance, and free product marketing. The zones cover roughly 71,790 square miles of California from the Oregon border to San Diego. More information on the program can be found at: www.ciwmb.ca.gov/RMDZ/AllZones.asp

Foreign Trade Zones (FTZ)

FTZs are areas where goods may be imported without submitting to all U.S. Customs rules or tariffs and are intended to promote U.S. participation in trade and retain domestic employment that might otherwise go to foreign countries. These zones are established by the federal government with authorizing state statutes in the California Government Code (sections 6300 to 6305). California has 17 general purpose FTZs out of 234 zones in the U.S. More information may be found at: www.labor.ca.gov/calBIS/cbforeigntradezones.pdf and www.cbp.gov/xp/cgov/import/cargo_control/ftz/.

Empowerment Zones

Federal tax law that authorizes the issuance Empowerment Zone Bonds (EZ Bonds) by the California Industrial Development Financing Advisory Commission. The EZ Bond Program is intended to augment the benefits of the Industrial Development Bond (IDB) Program by providing additional support for economic development to the most distressed communities in California. The EZ Bond Program expands the eligibility of the state IDB Program to manufacturers, retailers, and any service business that operates in a federal Empowerment Zone. There are currently four federal Empowerment Zones in California – Los Angeles, Santa Ana, San Diego, and an unincorporated section of Riverside County. Federal Empowerment Zones are designated based on high unemployment and poverty rates. More information may be found at: http://www.rurdev.usda.gov/rbs/ezec/ and http://www.treasurer.ca.gov/cidfac.

Foreign Trade and Investment

California Business Investment Services (CalBIS)

Contained within the California Labor and Workforce Development Agency, CalBIS "serves employers, corporate real estate executives, and site location consultants considering California for new business investment and expansion." Among its services, CalBIS provides site selection services, information on international trade, workforce services, labor market data, and guides for businesses, including "California Investment Guide: an Overview of Advantages, Assistance, Taxes and Permits" and "Setting Up Business in California: a Guide for Investors." More information may be found at: www.labor.ca.gov/calBIS/.

Centers for International Trade Development (CITD)

These centers are funded through the California Community Colleges, Economic and Workforce Development Program. With 14 centers in the state, each hosted by a local community college, the CITD assists companies in doing business abroad with technical assistance, market research, educational programs, and relationship-building opportunities. In addition, the CITD works closely with the California Commission on Jobs and Economic Growth, Small Business Development Centers, the U.S. Department of Commerce, chambers of commerce, business associations, and the California-Mexico Trade Assistance Centers. More information may be found at www.citd.org.

California-Mexico Trade Assistance Centers (CMTAC)

CMTAC has 18 centers throughout California to provide assistance for California companies to conduct business in Mexico. These centers have close ties to the Centers for International Trade Development (CITD), which are run through the California Community Colleges. Among its services, CMTAC provides technical assistance, trade data, trade missions to Mexico, hosted business events and conferences, and information on investment regulations and transportation logistics. More information may be found at: www.cmtac.org.

TradePort

This Internet Web site provides information and services to assist California businesses with global trade initiatives. TradePort was launched in 1996 with federal and state funding, is owned by the Bay Area Economic Forum and the Los Angeles Area Chamber of Commerce, and is managed by the Monterey Bay International Trade Association. This Internet portal provides businesses with information on market research, export strategy, rules of trade, financing, logistics, and trade statistics. Also, TradePort has a network of affiliates, including service centers in the Bay Area, Los Angeles, Inland Empire, Fresno/Central Valley, Sacramento, and San Diego. The Internet address is www.tradeport.org.

Agricultural Export Program (AEP)

AEP, administered by the California Department of Food and Agriculture, was established to "assist California's agricultural producers in foreign market development, leading to increased exports of our agricultural products." Among its services, AEP supports trade shows, trade missions, foreign buyer visits, market research, and up-to-date education on international trade policies and regulations. More information may be found at: calagexports.com.

International Business Relations Program (IBRP)

IBRP, administered by the Office of the Secretary of State, provides information and assistance for out-of-state and foreign companies seeking to conduct business in California. Their services consist of assistance with filing and reporting requirements for conducting business primarily, but the program also provides access to information on California businesses, foreign consulates, foreign trade offices in California, and other general information about California companies and government. More information may be found at: www.ss.ca.gov/business/ibrp/ibrp.htm.

Energy Technology Export Program (ETEP)

ETEP, administered by the California Energy Commission, provides financial assistance to California-based companies conducting business on the international market, organizes trade missions, conducts visits by foreign energy decision makers, and provides energy market information. More information may be found at: www.globalenergyconnection.ca.gov.

Foreign Trade Zones (FTZ)

FTZs are areas where goods may be imported without submitting to all U.S. Customs rules or tariffs and are intended to promote U.S. participation in trade and retain domestic employment that might otherwise go to foreign countries. These zones are established by the federal government with authorizing state statutes in the California Government Code (sections 6300 to 6305). California has 17 general purpose FTZs out of 234 zones in the U.S. More information may be found at: www.labor.ca.gov/calBIS/cbforeigntradezones.pdf and www.cbp.gov/xp/cgov/import/cargo_control/ftz/.

World Trade Centers (WTC)

Part of the network of 282 WTCs throughout the world, California houses 10 WTCs. These organizations are intended to promote international trade and business relations and provide a range of services, including research and information, educational programs, and business networking opportunities. The WTCs serve as a "one-stop shopping center" for international business. California WTC in the following areas: Bay Area, Baja California/Greater Tijuana, Long Beach, Los Angeles, Orange County, Oxnard, Palm Springs, Sacramento, San Diego, and San Francisco. More information can be found at: world.wtca.org.

Appendix F

Selected Federal Economic Development Programs

This appendix provides information on several key federal agencies, which provide economic and workforce development programs and services, including the United States (U.S.) Department of Agriculture (USDA), the federal Small Business Administration (SBA), the federal Economic Development Agency (EDA), US Commercial Service, and the U.S. Treasury.

Department of Agriculture, Rural Development

USDA Rural Development works to improve the economy and quality of life throughout rural America by helping rural individuals, communities, and businesses obtain the financial and technical assistance needed to address their diverse and unique needs. Their goal is to make sure that rural citizens can participate fully in the global economy.

USDA Rural Development has multiple programs to provide people with financial and technical assistance as well as promoting economic development. Financial programs support essential public facilities and services such as: water and sewer systems; housing; health clinics; emergency service facilities; and, electric and telephone service. USDA Rural Development promotes economic development by supporting loans to businesses through banks and community-managed lending pools. They provide technical assistance and information to help agricultural and other cooperatives get started and improve the effectiveness of their member services and help communities undertake community empowerment programs. They have an $86 billion dollar portfolio of loans and administer nearly $16 billion in program loans, loan guarantees, and grants through their programs. More information about USDA Rural Development can be found at: www.rurdev.usda.gov.

Below are various divisions and programs administered by USDA Rural Development:

Community Facilities Loans/Guaranteed Loans/Grants

Community Programs, a division of the Housing and Community Facilities Programs, administers programs designed to develop essential community facilities for public use in rural areas. These facilities include: schools; libraries; childcare; hospitals; medical clinics; assisted living facilities; fire and rescue stations; police stations; community centers; public buildings; and, transportation. Through its Community Facilities Programs, USDA is striving to ensure that such facilities are readily available to all rural communities. Community Facilities Programs uses three financial programs to achieve this goal:

- The Community Facilities Guaranteed Loan Program
  Community Programs can make and guarantee loans to develop essential community facilities in rural areas and towns of up to 20,000 in population. Loans and guarantees are available to public entities such as municipalities, counties, and special-purpose districts, as well as to non-profit corporations and tribal governments.

- The Community Facilities Direct Loan Program
  Loan funds may be used to construct, enlarge, or improve community facilities for health care, public

safety, and public services. This can include costs to acquire land needed for a facility, pay necessary professional fees, and purchase equipment required for its operation.

- The Community Facilities Grant Program
  The Community Facilities Grant Program is typically used to fund projects under special initiatives, such as Native American community development efforts; child care centers linked with the Federal government's Welfare-to-Work initiative; Federally-designated Enterprise and Champion Communities, and the Northwest Economic Adjustment Initiative area.

Empowerment Zone and Enterprise Community Program

Administered by the United States Department of Agriculture, the Empowerment Zone and Enterprise Community Program offers a compact between the federal government, local communities, and state and local governments in order to promote economic and community development. Each community in the Empowerment Zone and Enterprise Community Program tailors its own strategic plan to meet the needs of the community. There are four communities in California participating in the Empowerment Zone and Enterprise Community Program: the City of Watsonville in Santa Cruz County, the County of Imperial, the Westside Tulare region, including rural portions in Fresno and Tulare Counties, and Desert Communities in Riverside County. More information may be found at www.ezec.gov.

Small Business Administration

The U.S. SBA is an independent agency of the Executive Branch of the Federal Government. It is charged with the responsibility of providing four primary areas of assistance to American Small Business: advocacy, management, procurement, and financial assistance. Financial assistance is delivered primarily through SBA's Investment programs, Business Loan Programs, Disaster Loan Programs, and Bonding for Contractors. A selection of SBA's financial assistance programs are described below. A complete list of SBA programs and services is available at: www.sba.gov/.

Minority and Women Prequalification Pilot Loan Program

The Minority Prequalification Loan Program and the Women's Prequalification Pilot Loan Program use intermediaries to assist prospective minority and women borrowers in developing viable loan application packages and securing loans. The Women's Program uses only non-profit organizations as intermediaries; the Minority Program uses for-profit intermediaries as well.

Eligibility requirements include: Businesses at least 51% owned, operated and managed by people of ethnic or racial minorities or by women; businesses with average annual sales for the preceding three years that do not exceed $5 million; and, businesses that employ fewer than 100 persons, including affiliates.

The maximum amount for loans under the Women's program is $250,000; under the Minority Program, it is generally the same, although some districts set other limits. The SBA will guarantee up to 80% of loans $100,000 and less and up to 75% of loans above $100,000 for both programs. The intermediary then helps the borrower locate a lender offering the most competitive rates.

Microloan Program

The Microloan Program provides very small loans (up to $35,000) to startup newly established, or growing, small businesses. These funds are made available to non-profit community based lenders that, in turn, make loans to borrowers. There are 12 participating lenders in California and these lenders must provide training and technical assistance to its microloan borrowers.

International Trade Loans

Under the International Trade Loans program, small businesses engaged in or ready to begin international trade – or adversely affected by competition from imports – may qualify for short or long term financing. The SBA can guarantee up to $1.25 million for a combination of fixed asset financing and Export Working Capital Program assistance.

Applicants must establish that the loan will assist businesses to: significantly expand or develop an export market; upgrade equipment or facilities to improve their competitive position; provide a business plan that reasonably projects export sales sufficient to cover the loan; or, help address adverse affects of import competition.

For International Trade Loans, SBA can guaranty up to 85% of loans of $150,000 and less, and up to 75% of loans above $150,000. The maximum guaranteed amount is $1,250,000.

7(A) Loan Programs

The most basic and most common type of loans offered by the SBA to American small businesses are 7(a) loans. All 7(a) loans are provided by lenders who are called participants because they participate with SBA in the 7(a) program. Not all lenders choose to participate, but most American banks do. There are also some non-bank lenders who participate with SBA in the 7(a) program which expands the availability of lenders making loans under SBA guidelines.

7(a) loans are only available on a guaranty basis, but SBA does not fully guaranty 7(a) loans. Both the lender and SBA share the risk that a borrower will not be able to repay the loan in full. The guaranty is a guaranty against payment default. It does not cover imprudent decisions by the lender or misrepresentation by the borrower. Under the guaranty concept, commercial lenders make and administer the loans. Some of SBA's lender programs include:

- The Certified Lenders Program (CLP) is designed to provide expeditious service on loan applications received from lenders who have a successful SBA lending track record and a thorough understanding of SBA policies and procedures. CLP lenders are expected to perform a complete analysis of the application and, in return, SBA promises a fast loan decision. SBA reviews the lender's credit analysis rather than conducts a second analysis. SBA still makes the final credit and eligibility decision but, by completing a credit review instead of an independently conducting analysis, SBA strives for 3 working day turn around in arriving at its decision.

  The key aspect of CLP is the greater utilization of the credit knowledge of the lender's loan officers to shorten SBA's loan processing time. SBA still makes an independent determination as to whether the applicant can repay the loan from the profits of the business, but under CLP, the lenders work is reviewed rather than completely double checked.

- The Preferred Lenders Program (PLP) is another step in SBA's process of streamlining the procedures necessary to provide financial assistance to the small business community. Under PLP, SBA delegates loan approval, closing, and most servicing and liquidation authority and responsibility to these carefully selected lenders. SBA will continue to check loan eligibility criteria under this program.

  PLP lenders are nominated based on their historical record with the Administration. They must have demonstrated a proficiency in processing and servicing SBA-guaranteed loans. The credit criteria for PLP loans is the same as that for the CLP and/or the Regular 7(a) program. In the event of payment default by the borrower and the need for enforced collections, the PLP lender agrees to liquidate all business assets before asking SBA to honor its guaranty.

FastTRAK Loan Program

The FastTRAK Loan Program is a 7(a) loan program that allows lenders to provide for smaller revolving loans needed for working capital. Lenders may approve unsecured lines of credit for up to $25,000 and the maximum loan amount of $150,000. Under the FastTRAK Program, a limited number of lenders have SBA-delegated authority to streamline loan approval, and primarily use their own paperwork. Loans may not exceed $250,000, and may be used for revolving credit or for a term loan. More information about the SBA FastTRAK program can be found at: www.sba.gov/financing/frfastrak.html.

CAPLines Loan Program

CAPLines is the 7(a) umbrella program under which the SBA helps small businesses meet their short-term and cyclical working-capital needs. SBA generally can guarantee up to $1 million, with a maximum interest rate for loans over $50,000 of prime + 2.25%. Total loan amounts may be as high as $2 million. One of the five short-term working-capital loan programs for small businesses under the CAPLines umbrella is the Contract Line.

Export Working Capital Program

EWCP was designed to provide short-term working capital to exporters and supports export financing to small businesses when financing is not otherwise available. This program encourages lenders to offer export working capital loans by guaranteeing repayment of up to $1.5 million or 90% of a loan amount, whichever is less. A loan can support a single transaction or multiple sales on a revolving basis.

Designed to provide short-term working capital to exporters, EWCP is a combined effort of the SBA and the Export-Import Bank. These two agencies have joined their working capital programs to offer a unified approach to the federal government's support of export financing.

Certified Development Company (504) Loan Program

Certified Development Companies (CDCs) are nonprofit corporations set up to contribute to the economic development of their communities. CDC's partnering with SBA provide small businesses long-term, fixed-rate financing to acquire real estate, machinery and equipment for business expansion or to modernize facilities. SBA guarantees funding CDC assistance up to $1 million, which may not exceed 40% of the project cost. A SBA guarantee of up to $1.3 million is possible for loans which meet stated public policy goals. Recipient small businesses must contribute a minimum of 10% equity as part of the loan package. The private lender’s portion of these loans is unlimited. These loans are only available through CDCs and must create at least one job per every $35,000 loaned under SBA's guarantee. For more information, go to: www.sba.gov/financing, and click on "CDC – 504 Loans."

Small Business Development Centers Program

The Small Business Development Centers Program is administered by the U.S. Small Business Administration, with California sponsorship from California State University (CSU) Chico, CSU San Jose, CSU Fullerton, CUS Northridge, University of California Merced, Southwestern Community College, and the Chancellor's Office of the California Community Colleges Economic and Workforce Development Program. The Small Business Development Centers assist small businesses "through business management counseling and training, resulting in the creation and retention of jobs, increased sales and profits, new business starts, and more." More information on the Small Business Development Centers may be found at: www.calbusiness.ca.gov/cedpgybsbdc.asp.

Small Business Investment Company (SBIC) Program

SBA's Small Business Investment Company (SBIC) Program provides long-term loans and/or venture capital to small firms. SBICs are privately-owned investment companies which are licensed and regulated by SBA. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides financial assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures, which are sold to private investors.

Because an SBIC's success is linked to the growth and profitability of the companies which it finances; some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments which often give them partial ownership of those businesses in the hope of sharing in the companies' profits as they grow and prosper. The following types of investments are commonly used by SBICs:

- Loans with Warrants – SBICs may make loans in return for warrants which enable them to purchase common stock, usually at a favorable price, during a specific period of time.

- Convertible Debentures – SBICs may make loans with a conversion feature whereby the debenture can be converted , at the SBIC's option, into an equivalent amount of common stock.

- Stock – SBICs may purchase common or preferred stock from the business.

Some SBICs also provide management assistance to the companies they finance to foster growth. Eligible businesses generally include small businesses with a net worth not exceeding $6 million and average annual net profits after taxes over the past two years not exceeding $2 million. Businesses interested in raising venture capital can go to the SBA website for a list of participating funds. http://www.sba.gov/INV

Economic Development Administration

The Economic Development Administration (EDA) was established to generate jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas of the U.S. EDA assistance is available to rural and urban areas of the U.S. experiencing high unemployment, low income, or other severe economic distress.

EDA works to help distressed communities become empowered to develop and implement their own economic development and revitalization strategies. Based on these locally- and regionally-developed priorities, EDA works in partnership with state and local governments, regional economic development districts, public and private nonprofit organizations, and Indian tribes. EDA helps distressed communities address problems associated with long-term economic distress, as well as sudden and severe economic dislocations including recovering from the economic impacts of natural disasters, the closure of military installations and other Federal facilities, changing trade patterns, and the depletion of natural resources. More information on the EDA can be found at: http://www.eda.gov/.

Economic Adjustment Assistance Program

The Economic Adjustment Assistance Program provides a wide range of technical, planning and infrastructure assistance in regions experiencing adverse economic changes that may occur suddenly or over time. This program is designed to respond flexibly to pressing economic recovery issues and is well-suited to help address challenges faced by U.S. regions and communities. More information on this program can be found in the Catalog of Federal Domestic Assistance, No. 11.307.

Planning Programs for Economic Development Districts, Indian Tribes and Redevelopment Areas

The Planning Program helps support planning organizations, including District Organizations and Indian Tribes, in the development, implementation, revision or replacement of comprehensive economic development strategies (CEDS), and for related short-term planning investments. This program also helps state plans designed to create and retain higher-skill, higher-wage jobs, particularly for the unemployed and underemployed in the nation's most economically distressed regions. More information on this program can be found in the Catalog of Federal Domestic Assistance, No. 11.302.

Technical Assistance Programs – Local Technical Assistance

The Local Technical Assistance Program helps fill the knowledge and information gaps that may prevent leaders in the public and nonprofit sectors in economically distressed regions from making optimal decisions on local economic development issues. More information on this program can be found in the Catalog of Federal Domestic Assistance, No. 11.303.

Research and Evaluation Program and National Technical Assistance Programs

The Research and National Technical Assistance Program supports research of leading, world class economic development practices, and funds information dissemination efforts. More information on this program can be found in the Catalog of Federal Domestic Assistance, No. 11.303 and No. 11.312.

Community Development Block Grant Program

Administered by the United States Department of Housing and Urban Development, the Community Development Block Grant Program administers a number of community and economic development programs that provide grants, loans, tax incentives, and other assistance. In particular, the Rural Housing and Economic Development Program assists in the establishment of Community Development Financial

Institutions, lines of credit, revolving loan funds, small business incubators, and microenterprises. More information can be found at: www.hud.gov/offices/cpd/communitydevelopment/programs.index.cfm.

Community Affairs Program

Administered by the Federal Reserve System, this program provides outreach, education, and technical assistance to address financial service issues affecting low- and moderate-income persons and communities. Working through programs at the twelve Federal Reserve Banks, this program provides information through training programs, workshops, forums, conferences, and trade fairs. More information on this program may be found at: www.federalreserve.gov/communityaffairs/national/default.htm.

Department of Labor, Workforce Innovation in Regional Economic Development Activities

The 13 original 2005 Workforce Innovation in Regional Economic Development (WIRED) awardees split a pool of $195 million; each 2nd Generation WIRED region will receive an award of $500,000, with the ability to access a $4.5 million balance contingent upon completion of a regional implementation blueprint. Each of the second generation WIRED regions already received $100,000 after the 2005 competition to prepare talent development strategies. California has received WIRED designations in both the 1st and 2nd Generations. The 1st Generation includes the California Innovation Corridor, while the 2nd Generation encompasses 18 counties in Northern California. More information can be found at: www.doleta.gov.

New Markets Tax Credits, Department of Treasury

The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities.

The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

Over the life of the NMTC Program, CDEs are authorized to issue up to $16 billion NMTCs, including $1 billion of special allocation authority to be used for the recovery and redevelopment of the Gulf Opportunity Zone. To date, 233 awards have been made totaling $12.1 billion in allocation authority. More information can be found at: www.cdfifund.gov.

US Trade and Development Agency

US Trade and Development Agency (USTDA) advances economic development and U.S. commercial interests in developing and middle income countries. The agency funds various forms of technical assistance, early investment analysis, training, orientation visits and business workshops that support the development of a modern infrastructure and a fair and open trading environment. In Fiscal Year 2007, USTDA obligated nearly $46 million in support of the development goals of project sponsors in 51 host

counties around the world. USTDA-funded activities fall into two categories: (1) trade capacity building and sector development; and (2) project definition and investment analysis. Trade capacity building and sector development assistance supports the establishment of industry standards, rules and regulations, trade agreements, market liberalization and other policy reform. Project definition and investment analysis generally involves studies that support large capital investments that contribute to overseas infrastructure development. Last year, USTDA funded 63 technical assistance activities, 43 feasibility studies, and 31 orientation visits.. The average size of a USTDA grant is $400,000.
http://www.ustda.gov/

The Minority Business Development Agency

The Minority Business Development Agency (MBDA), administered under the U.S. Department of Commerce, is the only federal agency created specifically to foster the establishment and growth of minority-owned businesses in America.

MBDA mission is to promote the growth and competitiveness of large, medium and small minority business enterprises. MBDA provides funding for a network of Minority Business Development Centers (MBDCs), Native American Business Development Centers (NABDCs), and Business Resource Centers located throughout the Nation. The Centers provide minority entrepreneurs with one-on-one assistance in writing business plans, marketing, management and technical assistance and financial planning to assure adequate financing for business ventures. The Centers are staffed by business specialists who have the knowledge and practical experience needed to run successful and profitable businesses. Business referral services are provided free of charge. However, the network generally charges nominal fees for specific management and technical assistance services.

There are several MBDCs regional offices located in San Francisco and Los Angeles which serve the Western U.S. MBDC's also funds more local offices to serve smaller subregions of the West. There are two offices serving the Inland Empire, located in Riverside and Los Angels; two serving Los Angeles with locations in Los Angeles; and two serving Northern California, located in San Jose and San Francisco. There is a NABDC located in El Monte which serves California Native Americans.
.http://www.mbda.gov/?section_id=10&bucket_id=151&content_id=2269&well=entire_page

Appendix G

Foreign Trade Zones Located in California

Foreign Trade Zones (FTZs), are areas where goods may be imported without submitting to all U.S. Customs rules or tariffs, and are intended to promote U.S. participation in trade and retain domestic employment that might otherwise go to foreign countries. These zones are established by the federal government with companion state statute authorization. California has 17 general purpose FTZs out of 234 zones in the U.S.

	FTZ No. 3 San Francisco Grantee: San Francisco Port Commission Operator: Foreign Trade Zone 3, Inc. Pier 23, The Embarcadero San Francisco, CA 94111 Phil Eastman (415) 391-0176 www.ftz.com	3A Lilli Ann 3B Chevron 3C Tesoro Refining	San Francisco
	FTZ No. 18 San Jose Grantee: City of San Jose Office of Economic Development San Jose City Hall, 200 E. Santa Clara Street San Jose, California 95113 Joseph Hedges (408) 535-8186 joe.hedges@sanjoseca.gov www.sjeconomy.com	18B NUMMI 18C Cirrus Logic 18D Hewlett-Packard 18E Space Systems/Loral, Inc.	San Jose
	FTZ No. 50 Long Beach Grantee: Board of Harbor Commissioners of the Port of Long Beach P.O. Box 570, Long Beach, CA 90801-0570 Larry Ditchkus (562) 590-4162	50C National RV 50D Datatape, Inc. 50E Alps Manufacturing 50F Rauch Industries 50G Shell Oil Products 50H BP West Coast Products LLC 50I Valero Energy Corporation 50J Ricoh Electronics, Inc. 50K Eastman Kodak Company	Los Angeles/ Long Beach
	FTZ No. 56 Oakland Grantee: City of Oakland Operator: Pacific American Warehousing & Trucking Co 9401 San Leandro St., Oakland, CA 94603 Linda Hothem (510) 568-8500	56A Mazda	San Francisco
	FTZ No. 143 West Sacramento Grantee: Port of Sacramento 1110 West Capitol Avenue West Sacramento, CA 95691 Mike Luken (916) 371-8000 www.portofsacramento.com	143A C. Ceronix 143B Hewlett-Packard 143C Gymboree Corporation	San Francisco
	FTZ No. 153 San Diego Grantee: City of San Diego 600 B St., Ste 400, San Diego, CA 92101 Lydia Moreno (619) 533-7512	153A EMD Biosciences, Inc. 153B Hewlett-Packard 153C DNP Electronics 153D Callaway Golf Company 153E National Steel & Shipbuilding Co.	San Diego
	FTZ No. 191 Palmdale Grantee: City of Palmdale, Economic Development, 38250 North Sierra Highway, Palmdale, CA 93550 David Walter (661) 267-5125		Los Angeles/ Long Beach
	FTZ No. 202 Los Angeles Grantee: Board of Harbor Commissioners of the City of Los Angeles 425 South Palos Verdes Street San Pedro, CA 90731	202A 3M 202B Chevron USA, Inc. 202C ConocoPhillips 202D IKEA Wholesale, Inc. 202E Sony Electronics, Inc.	Los Angeles/ Long Beach

	Masa Morimoto (310) 732-3843		
Serving rural communities	FTZ No. 205 Port Hueneme Grantee: Board of Harbor Commissioners, Oxnard Harbor District Port of Hueneme, P.O. Box 608 333 Ponoma St., Port Hueneme, CA 93044 Will Berg (805) 488-3677	205A Imation Corporation	Port Hueneme
Serving rural communities	FTZ No. 226 Merced, Madera & Fresno Counties Grantee: Board of Supervisors of the County of Merced 2507 Heritage Drive, Atwater, CA 95301 John F. Fowler (209) 385-7686 jfowler@co.merced.ca.us www.ftz226.co.merced.ca.us		Fresno
Serving rural communities	FTZ No. 231 Stockton Grantee: Stockton Port District P.O. Box 2089 Stockton, CA 95201 Henry McKay (209) 946-0246	231A Medline Industries, Inc.	San Francisco
	FTZ No. 236 Palm Springs Grantee: City of Palm Springs 3200 East Tahquitz Canyon Way Palm Springs, CA 92262 Cathy Van Horn (760) 323-8175		Palm Springs
Serving rural communities	FTZ No. 237 Santa Maria Grantee: Santa Maria Public Airport District 3217 Terminal Drive, Santa Maria, CA 93455 Gary Rice (805) 922-1726		San Luis
	FTZ No. 243 Victorville Grantee: Southern California Logistics Airport Authority 18374 Phantom, Victorville, CA 92394 Richard Cole (760) 243-1900	243A Black & Decker Corp.	Victorville
	FTZ No. 244 Riverside County Grantee: March Joint Powers Authority P.O. Box 7480, Moreno Valley, CA 92552 Lori M. Stone (909) 656-7000		Los Angeles/ Long Beach
Serving rural communities	FTZ No. 248 Eureka Grantee: City of Eureka, California Office of the City Manager 531 K Street, Eureka, CA 95501-1165 Marie Liscom (707) 441-4215		Eureka
Serving rural communities	FTZ No. 253 Butte County Grantee: Oroville Economic Development Corporation P.O. Box 959, Oroville, CA 95966 John Peace (530) 533-2960 JDP@OEDCO.org		San Francisco
Serving rural communities	FTZ No. 257 Imperial County Grantee: County of Imperial Imperial County Department of Planning and Development Services 801 Main St., El Centro, CA 92243 Jurg Heuberger (760) 482-4236		Calexico

Appendix H

Definitions of Rural Community

Different programs and services at the state and national level define rural area, rural community, and rural city and/or county in a variety of different means. Some programs use definitions such as "communities under 50,000 that are rural in nature," "areas of less than 2,500 not in census places," or "nonmetro county." Some of the most common definitions of rural define it as the absence of being urban. As an example, the U.S. Census Bureau defines an urban area as: "Core census block groups or blocks that have a population density of at least 1,000 people per square mile and surrounding census blocks that have an overall density of at least 500 people per square mile. All areas outside the urban areas are classified by the U.S. Census as rural.

One of the more detailed definitions of rural is the Rural-Urban Commuting Area Codes (RUCAs). Under the RUCA system, census tracts are classified using the same theoretical concepts and data used by the Office of Management and Budget to define metro and micro areas. Measures of population density, urbanization, and daily commuting are then used to identify metropolitan, micropolitan, and small-town urban cores, adjacent tracts that are economically integrated with those cores, and outlying rural tracts. The use of census tracts instead of counties provides a different and more detailed geographic pattern of settlement classification.

Each of these definitions drive funding, research, and other users of statistics. Below is a comparison of nine definitions of rural and how these differences impact who is included within the definition of rural.

Definitions of Rural Community		
Rural definition #1 Based on U.S. Census Places	All areas outside Census places with 2,500 or more people	87.7 million people 31% of U.S. population 97% of U.S. land area
Rural definition #2 Based on U.S. Census Places	All areas outside Census places with 10,000 or more people	115.8 million people 41% of U.S. population 98% of U.S. land area
Rural definition #3 Based on U.S. Census Places	All areas outside Census places with 50,000 or more people	177 million people 63% of U.S. population 99% of U.S. land area
Rural definition #4 Based on U.S. Census Urban Areas	All areas outside urban areas. This places the upper limit of rural at 2,500, since urban areas must have at least 2,500 people.	59.1 million people 21% of U.S. population 97% of U.S. land area
Rural definition #5 Based on U.S. Census Urban Areas	All areas outside urban areas with 10,000 or more people.	70.6 million people 25% of U.S. population 98% of U.S. land area
Rural definition #6 Based on U.S. Census Urban Areas	All areas outside urban areas with 50,000 or more people.	89.5 million people 32% of U.S. population 98% of U.S. land area
Rural definition #7 Based on Office of Management and Budget Criteria	All counties outside metropolitan areas in 2003 (based on 2000 census data)	48.8 million people 17% of U.S. population 75% of U.S. land area
Rural definition #8	Census tracts with 2000 Rural-Urban	57.6 million people

Based on Economic Research Service, USDA, criteria	Commute Areas (RUCA) codes 4 through 10	20% of U.S. population 81% of U.S. land area
Rural definition #9 Based on Business and Industry Program, Rural Development, USDA, criteria	Locations outside places of 50,000 or more people and their associated urbanized areas.	101.9 million people 36% of U.S. population 98% of U.S. land area
		Source: Economic Research Service, USDA

Some policy makers have suggested that having one definitive definition for rural community would best serve these too often underserved areas. Other policy makers however believe that attempting to make such a distinction could take on a life of its own diverting attention from the larger issues of poverty, poor performing schools, lack of access to health care, clean air and water, and foundering economic main streets. Still others have noted that inner cities, however that may be defined, and rural communities share an uncanny demographic resemblance and the challenges they face.

Appendix I

Seed Grant - Building Investment and Entrepreneurship

Grantee Organization: Golden Capital Network/Pacific Community Ventures
Contact Person: Jon Gregory

Description of Quarter's Activity/Impact on Partnership

1. Building local private equity investment capacity, particularly at the stages between friends/family and later-stage private equity;
2. Developing a strong infrastructure that supports entrepreneurship and business growth; and,
3. Initiating and sustaining venture capital deal flow generation programs and activities.

The following activities occurred in the last quarter to support the overall goals:

- CVBI sent representatives to the following communities to discuss the benefits of entrepreneurship and incubation: Kings County, Porterville, Kingsburg, Selma, Fowler, City and County of Madera, Corcoran, City of San Joaquin, Visalia.

- Business ambassadors from Porterville, Visalia and Kingsburg came to Fresno to tour CVBI's facilities and discuss incubation best practices.

- CVBI held two meetings with representatives from community colleges about incubation on college campuses.

- Lyles Center on April 2, 2008, organized a fourth work group for regional stakeholders in developing infrastructure to support entrepreneurs and business expansion. Porterville Community College and the Porterville Chamber of Commerce hosted the event. Business development professionals, educators and local elected officials participated.

- Substantial progress has been made on creating the network resource portal representing economic stakeholders who could help support and direct entrepreneurial advancement in our eight-county region. This grant partnership is working with the Partnership Economic Development Work Group (Consultant: Central California Economic Development Corporation) to merge resources and create one larger universe of information.

- The Stanislaus Alliance on May 1, 2008, hosted the Annual Lenders Roundtable. More than 40 members from the local banking community attended the roundtable. Information on Venture Capital opportunities was presented.

- Workshop on equity education was conducted in Los Banos on May 29, 2008. Small business owners, economic professionals and local elected officials participated. (This workshop series has combined information for both economic professionals and business entrepreneurs.)

- Golden Capital Network (GCN) organized and executed the first New California 100 Awards Conference and Banquet held on June 17, 2008, in Davis, Calif., honoring many business owners from our region. During the conference, numerous angel and venture capitalists (and industry experts) participated on eight panels with in-depth content intended to educate entrepreneurs on investment trends and preferences.

- GCN hosted an "Entrepreneur Executive Boot Camp" on June 16 covering key topics essential for success.

- Recruited two angel investor champions per angel spoke trained in each location; helped them with recruit angels; developed angel spoke funds. Ongoing efforts are being made in recruiting two angel investor champions per angel spoke. An initial presentation in June with a group of 15 potential champions provided helpful information to refine the model. This will be re-tuned and re-presented within the next three to six months.

Planned Activities for next 3-6 months

- GCN is organizing an angel investor educational event on July 23, 2008, at University of the Pacific, Stockton.

- Extensive Web portal also has been created to showcase regional companies to local and external investors. The portal includes a news engine, video upload capabilities, business summary uploads, and a means for angel investors to easily identify and track local companies. To view the initial pilot, visit chico.venturecommunities.com. The portal has been developed with the ability for tailoring to each individual community in the Valley and to showcase their local companies and local investors. During the next three to six months, GCN intends to work with local partners to bring the portal to fruition in Fresno, Modesto and Stockton.

- Equity workshop being developed for Kern County.

- Network resource portal presented to the Central California Economic Development Corporation on Friday, July 18, 2008, for feedback and comment before launching.

- CVBI selected community college to partner a pilot regional community college incubator. MOU is being prepared and reviewed.

- “Angel Group Formation” template and “Resource Booklet” currently being assembled. Anticipated completion Sept. 30, 2008.

- Ongoing efforts being made in recruiting two angel investor champions per angel spoke. Initial presentation in June with a group of 15 potential champions provided helpful information to refine the model. Will be re-tuned and represented within the next three to six months.

- Marketing plans to help angel investor champions identify and recruit angels on an ongoing basis should be finalized by July 31.

Challenges/Problems/Bottlenecks/Feedback

- As noted in earlier reports, cooperation and communication is always a challenge due to geographic challenges.

- Current economic challenges to our region have both emphasized the importance of the efforts of the grant participants and distracted from the ability to execute some of these efforts due to conflicting priorities of those to be engaged.

- Alternative means of delivering information to interested parties should be explored. The workshop venue may not be the most efficient in providing or reaching the pertinent parties. Using multimedia should be considered as well as ongoing community college programs for those interested in enrolling.

If you have coordinated any outreach, please describe briefly.

Progress has been made to coordinate efforts with the Central California Economic Development Corporation in creating the directory of regional resources for entrepreneurs. Not only will this provide a much more robust directory of information but will further enhance our regional identity and cross-communication.

Appendix J

Summary

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