

Date of Hearing: May 3, 2011

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE
ECONOMY

V. Manuel Pérez, Chair

AB 29 (John A. Perez) – As Introduced: December 6, 2010

SUBJECT: Governor's Office of Economic Development

SUMMARY: Establishes the Office of Economic Development within the Governor's Office (GOED) for the purpose of serving as the lead entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. Specifically, this bill:

- 1) Codifies the existing CalBIS within GOED as a program to serve employers, corporate executives, business owners, and site location consultants who are considering California for business expansion and investment. In implementing the program, GOED is required to establish a process for convening strike teams on key business development situations including, but not limited to, attracting new businesses, relocating large manufacturers and closure of large businesses.
- 2) Transfers the existing Office of the Small Business Advocate (OSBA) to GOED.
- 3) Requires that the Director of GOED be appointed by the Governor, subject to confirmation by the Senate Rules Committee.
- 4) Specifies that, among other duties, GOED:
 - a) Make recommendations to the Governor and Legislature on new state policies, programs and actions, as well as amendments to existing programs, for the purpose of advancing statewide economic goals, respond to emerging economic issues, and ensure that all state policies and programs conform to the adopted state economic and business development goals;
 - b) Coordinate the development of policies and criteria to ensure that federal grants administered or directly expended by the state advance statewide economic goals and objectives;
 - c) Market the business and investment opportunities available in California by working in partnership with local, regional, federal, and other state public and private institutions to encourage business development and investment;
 - d) Provide information on, among other things, the state's economic, workforce, infrastructure and demographic conditions, as well as financial information to help link businesses with state and local public and private programs;
 - e) Provide information on permitting, siting and other regulatory information, as well as other regulatory information pertinent to business operations in the state. GOED is also required to provide assistance in obtaining state and local permits;

- f) Encourage collaboration among research institutions, start-up companies, local governments, venture capitalists and economic development organizations; and
 - g) Establish a well-advertised telephone number, an interactive Internet website and an administrative structure that effectively supports the facilitation of business development and investment.
- 5) Expands the agenda of issues to be addressed during the biennial convening of the Economic Strategy Panel (ESP) to include existing industries, as well as the currently required emerging and declining industries.
 - 6) Requires a copy of a previously mandated ESP report on economic development program accountability be provided to GOED following the conclusion of the next biennial convening of the ESP. The bill also expands the accountability system to include an assessment of business retention.
 - 7) Provides that funding for GOED in the 2011-12 fiscal year shall be from existing resources and staffed by personnel loaned from other state agencies and departments including, but not limited to, Labor and Workforce Development Agency (LWD); Business, Transportation and Housing Agency (BTH); California Environmental Protection Agency (CalEPA); the State and Consumer Services Agency; Governor's Office of Planning and Research (OPR); and the Resources Agency. Each member of Cabinet is required to identify a senior manager within his or her agency who is to be responsible for coordinating business support activities with GOED. Funding in subsequent years will be through the regular budgeting process, including the permanent transfer of associated positions.

EXISTING LAW:

- 1) Requires the Governor to prepare the Environmental Goals and Policy Report every four years for the purpose of defining the state's 20 year growth and economic development strategy.
- 2) Establishes the ESP, chaired by the Secretary of LWD, for the purpose of developing an overall state economic vision and strategy that can guide public policy, including an examination of the state's economic regions, industry clusters, and cross-regional economic issues.
- 3) Establishes the OSBA within OPR for the purpose of supporting small business development in the state.
- 4) Establishes various state programs and services related to economic development and growth at differing agencies, departments, boards, and state entities including, but not limited to, LWD; BTH; OPR; Department of Housing and Community Development; and CalEPA.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Purpose: According to the author, "In February 2010, the Little Hoover Commission released a report entitled *Making up for Lost Ground: Creating a Governor's Office of Economic Development*. The report analyzed the status and effectiveness of the various pieces of the defunct Technology, Trade and Commerce Agency (TTCA) that had been reorganized into other state entities. The report recommended the creation of a new governmental entity to fill the void left by the dismantled agency. One agency that would promote greater economic development, foster job creation, and deliver specific services (i.e. permitting, tax, regulatory, and other information) directly to the California business community.

AB 29 creates the Office of Economic Development within the Governor's Office, and establishes specific tasks and duties for the office, including reorganizing such entities as the Small Business Advocate and CalBIS into this new office. Ultimately, this new office will establish long-term economic goals and strategies as well as specific and effective services to California's businesses both large and small."

- 2) Governor's Office of Economic Development: GOED was created in April 2010 through Executive Order (S-05-10). Since its inception, it has served over 3,000 businesses, 95% of which are small. The most frequent types of assistance include help with permit streamlining, starting a businesses, relocation and expansion of businesses, and regulatory challenges.

Under the auspices of GOED, a number of state programs and services are administered, including programs related to international trade, permit assistance, CalBIS, the OSBA, and innovation. There are 23 positions assigned to GOED, which is funded through existing state resources and staffed by personnel loaned from state agencies and departments. AB 29 states that this shall remain the funding and staffing structure for GOED during the 2011-12 fiscal year and thereafter be subject to the regular state budgeting process.

Among other programs, GOED administers the Innovation Hub (iHUB) program in partnership with the statewide network of Small Business Development Centers. There are currently 12 regional iHUBs including iHUBs located in the following regions: Sacramento, San Jose, the Coachella Valley, and San Diego and Imperial Counties. The iHUB program is designed to improve the state's national and global competitiveness by stimulating partnerships, economic development, and job creation around specific research clusters. Key assets and partners of the initiative include technology incubators, research parks, universities, federal laboratories, economic development organizations, business groups, and venture capitalists.

Another key initiative of GOED are the "strike teams" which can be mobilized to help attract and/or retain specific businesses. Strike teams are especially well suited to engage with major employers and have been successfully activated to assist Bayer Healthcare, Jazz Semiconductor, and Baxter Pharmaceutical locate and/or expand in California.

GOED is also sponsoring a permit streamlining pilot project, which will offer a One-Stop-Shop for state and local permits. The pilot, launched in partnership with the City and County of San Francisco, will allow a business owner to login to a single website (day or night) and apply for and pay all necessary city, county and state permits. AB 29 substantially implements the current activities of GOED as outlined in the 2010 EO.

- 3) Supporting local economic recovery: One of the primary ways by which states compete for attracting, retaining and expanding businesses and industry sectors is through their fiscal policies, including income tax- and sales and use tax-based incentives. California's economic development-related incentives include tax benefit programs that address the purchase and depreciation of equipment, the undertaking of research and development of new products and technologies, targeting of private investments to underserved areas, and special treatment for small businesses under the state's tax laws.

In addition to tax incentives, the state funds and/or administers a limited number of programs and services to assist business and workforce development, including, but not limited to, the OSBA; the California Small Business Loan Guarantee Program; international trade and foreign investment activities; the federal Small Cities Community Development Block Grant Program; the Enterprise Zone Program; the Employment Training Panel; the California Workforce Investment Board; the ESP; and the small business and disabled veteran-owned business enterprise procurement preference programs.

There is, however, no single location where information on and/or technical assistance for accessing these programs, services, and activities can be found. Further, recent budget actions have reduced incentives and eliminated key programs and services. Economic developers believe that California's budget problems will not be resolved until the state more concretely addresses the economic recovery needs of workers, businesses, and investors.

- 4) Differing models for the state's economic development activities: While AB 29 substantially codifies the current activities of GOED, at least one of the state economic development stakeholders would prefer a different model. A letter by the California Manufacturing and Technology Association (CMTA) states that GOED's current structure has resulted in an office of state employees that, while highly qualified, lack sufficient direct authority to "work at the same level of a CalEPA or BT&H Secretary."

More specifically, the CMTA, recommends reorganizing the LWDA into two separate departments: a Department of Industrial Relations that focuses on the enforcement and compliance with the Labor Code and a Department of Workforce and Economic Development. The second Department would house many of the divisions currently under the Employment Development Department and would align all workforce policy decisions within an economic development plan.

There has been extensive dialogue about the structure and location of a renewed economic development entity. Comments later in the analysis provide a fairly comprehensive historical perspective. Most recently, even the Governor has indicated to a number of stakeholder groups that he is interested in a broad reorganization discussion of many of the state's current programs and services (including the economic development programs) for the purpose of creating leaner, less duplicative, and improved program outcomes.

- 5) Historical perspective on the state's economic development activities: The challenges of bringing together a coherent, outcome-oriented economic and workforce development program have been discussed by Assembly and Senate policy committees since the demise of the TTCA in 2003.

With the elimination of the TTCA, many have opined that the state lost focus and, potentially, its ability to adequately support business development and job creation. Further compounding the state's ability to decisively act on economic development recommendations is the ESP's failure to meet its statutory obligation to update the state Economic Development Strategic Plan every two years. Since 2002, no economic development plan has been prepared.

Beginning in 2005, JEDE held hearings and sponsored legislation to, at a minimum, bring greater coordination of existing state programs and services and call for an updated economic development strategy.

JEDE sponsored legislation in 2007 (AB 1721 [Arambula], Chapter 631), designating BTH as having primary responsibility for the facilitation of economic development activities. The following year, the Budget Act deleted this designation, once again leaving the state with no lead agency for state economic development activities.

Also in 2007, JEDE sponsored legislation (AB 1606 [Arambula and Lieu]), to require the state to centralize its existing economic development programs within the ESP, however, that bill was vetoed by the Governor. The Governor's veto message stated that he would be coming forward with his own restructuring program in the following year. In 2008 and 2009, JEDE sponsored three additional bills to try to improve coordination of programs and to better leverage private sector dollars. Each of these bills were either vetoed or held in the Assembly or Senate Appropriations Committees. Full descriptions under the final comment in the analysis.

In August 2009, JEDE sponsored a seventh bill relating to realigning the state's economic and workforce development resources, AB 1558 (V. Manuel Perez), which was held in Senate Appropriations Committee in 2010. This session, JEDE sponsored AB 1233 (V. Manuel Pérez), which authorizes the creation of a joint economic and workforce development strategic plan and extends the term of the strategic plan from two to five years, as well as making other updates to its content. In deference to AB 29, the Chair of JEDE has made AB 1233 a two-year bill.

- 6) The Little Hoover Commission and renewed legislative responses: In February 2010, the Little Hoover Commission (LHC) completed an extended review of the state's economic and workforce development programs and services and released its report, *Making up for Lost Ground: Creating a Governor's Office of Economic Development*.

While the LHC heard substantial criticism about the state's business climate during its review, this report focused on how the state could better organize and utilize its existing business focused and broader economic and workforce development programs and services. The report noted that the state's current economic development activities are spread out over numerous agencies, boards, commissions and financing authorities. "More than 10 advisory panels, boards and commissions, with more than 150 combined members from the public and private sectors, provide guidance on how the state should spend millions of dollars on economic and workforce development programs. This fragmentation helps explain why state government lacks a vision or voice for California economic development," states the report.

Further, the LHC report states that this lack of a cohesive vision has resulted in a leadership void that has diminished the state's ability to coordinate state resources and evaluate the overall effectiveness of the state's economic development efforts. Based on its hearings and research, the LHC report made four core recommendations:

- a) The state must create a high-profile office for economic development (OED) within the Governor's Office, to bring together critical functions of existing state economic development entities. The office should serve as the visible point of contact for existing and prospective businesses and economic development leaders at the local, state and federal levels. Key information should be compiled and made available through a well-publicized website.
- b) A series of Action Teams must be created within the OED. CalBIS should be moved from LWD to the OED and serve as the foundation for this more robust outreach unit.
- c) A policy unit must be created within the OED to develop a statewide vision for economic growth. Guided through bottom-up input from public and private entities, the OED should take over the statutory responsibilities of the ESP and develop the state economic development strategy.
- d) The OED must serve as an advocate for big-picture prosperity and economic growth including serving as a representative on the California Strategic Growth Council and TeamCalifornia and partnering with public and private entities, such as legislative policy committees.

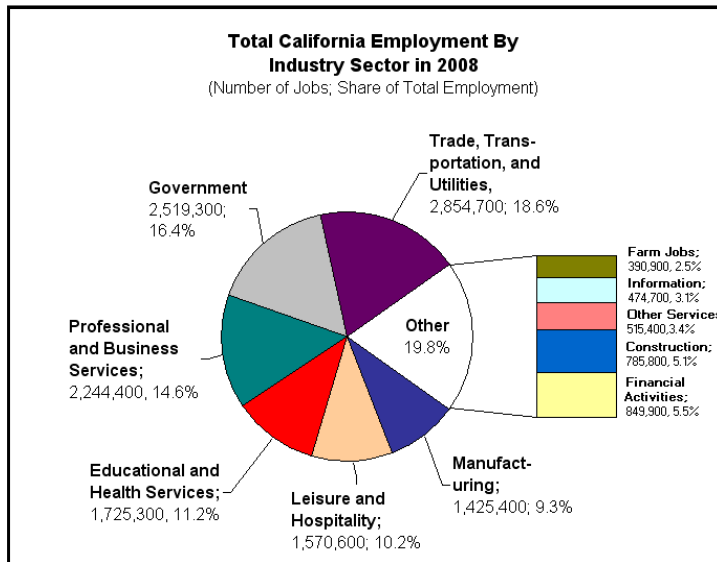
Two Assembly measures were introduced to help implement the LHC recommendations - AB 2734 (John A. Pérez) and AB 2287 (Bass) in 2010. A Senate measure was also introduced that year to help move the LHC recommendations forward, SB 1259 (DeSaulnier). SB 1259, however, proposed a slightly different structure than the Assembly measures by establishing a new state agency rather than an office within the Governor's Office. Governor Schwarzenegger also chose to move forward on the LHC report recommendations and issued Executive Order S-05-10, which created the currently operating GOED. Together with AB 1558 from the prior year, there were four measures pending in the Legislature in May 2010, which underlines the importance of codifying the realignment the state's economic development programs.

Ultimately, the Legislature sent AB 2734 to the Governor which would have codified the Executive Order. AB 2734 was vetoed by the Governor, based, according to his veto message, on the provision that the director of GOED was subject to Senate confirmation, which he stated inappropriately infringed on the rights and powers of the Governor. AB 29 also includes the Senate confirmation provision.

- 7) The California economy: California is the one of the largest and has one of the most diversified economies in the world with a state gross domestic product (GDP) of over \$1.9 trillion in 2009. If California were an independent nation, it would rank as the eighth largest economy in the world.

Historically, the state's significance in the global marketplace has resulted from a variety of factors, including: its strategic west coast location that provides direct access to the growing

markets in Asia; its economically diverse regional economies; its large, ethnically diverse population, representing both a ready workforce and significant consumer base; its access to a wide variety of venture and other private capital; its broad base of small- and medium-sized businesses; and its culture of innovation and entrepreneurship, particularly in the area of high technology. Economic growth in California has also historically outpaced the growth rate of the nation as a whole.



The **chart to the left** illustrates the industry make-up of California's economy based on employment. Among other economic distinctions, the state has historically led the nation in export-related jobs, small business development, and business start-ups.

California's economy and business profile, however, have been shifting. As the **chart below** illustrates, between 2001 and 2009, there has been a significant shift from high wage jobs with

benefits to lower wage jobs, which often pay no benefits. This shift is particularly acute in the manufacturing sector, where it is estimated that over 473,000 jobs were lost during that time period.

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



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Most economic forecasters believe that unemployment

will remain above 10% throughout 2011 and 2012. Jobs are forecast to recover to their pre-recession peak by the first half of 2013, however, unemployment rates are likely to remain above 8% through much of 2014. Forecasters at the University of the Pacific Business

Forecasting Center state that California GDP will average a modest 2.8% in 2011 and approximately 255,000 jobs will be added.

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

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

The Brookings Metropolitan Policy Program has published its own assessment of how this rebalancing will be experienced in the U.S. and has noted four key trends to watch in the post-recession economy. The first trend is that the economy will be more export oriented and second, it will be fueled by new, lower-carbon energy sources. The third trend identified is that the next economy will be based on a higher level of global innovation, which will require "a relentless pace of innovation, adaptation, and embracement of new markets and processes." The fourth key trend is that next economy will be led by major metropolitan areas – not nations and not states.

While California's historical dominance in innovation-based industries, networked global supply chains and strong regional economies should give instate businesses certain advantages in the post-recession economy, other components of the California economy, including the quality of the state's infrastructure and the preparedness of its workforce for the 21st Century economy, are not as strong and could limit the state's overall economic growth.

- 9) Related legislation: Below is a list of related legislation.
- a) Current legislative session:
 - i) AB 1233 (V. Manuel Pérez): This bill calls for an integrated economic and workforce development plan. Status: This measure is pending in the Assembly Committee on Jobs, Economic Development and the Economy. The author has made it a two-year bill.
 - b) Previous legislative sessions:
 - i) AB 699 (Portantino and V. Manuel Pérez) - Demand and Update State Economic Strategy 3: This bill would have updated the requirements for the development of a State Economic Development Strategy, especially in the areas of technology and innovation, and requires it be submitted to the Legislature by May 1, 2010. Status: Held in Assembly Appropriations Committee in 2009.

- ii) AB 1558 (V. Manuel Pérez) – EDD Reorganization Model: This bill would have realigned the state's economic and workforce development programs within the Employment Development Department, to be renamed the Economic and Employment Development Department. Status: Held in the Senate Appropriations Committee in 2010.
- iii) AB 1606 (Arambula and Lieu) – ESP Reorganization Model: This bill would have required the development of a strategy to increase private investment in California's historically underserved communities, also known as emerging domestic markets. The bill also centralizes the state's existing economic development programs with the Economic Strategy Panel, in order to improve their coordination and impact on California communities. Status: Vetoed by the Governor in 2007.
- iv) AB 1721 (Arambula) – Designates BTH as Lead on Economic Development: This bill designated the Business, Transportation, and Housing Agency as the state's primary agency responsible for the facilitation of economic development activities. The bill also established a fund for receiving federal, state, local, and private economic development moneys that can be used to further state economic development activities. No moneys may be used from this fund without a specific appropriation by the Legislature. The bill also added economic development-related definitions and authorizes the Business, Transportation, and Housing Agency to administer specified federal Economic Development Administration disaster recovery moneys. Status: Signed by the Governor, Chapter 631, Statutes of 2007.
- v) AB 1916 (Portantino, Arambula, Price, Salas, and Caballero) – Demand and Update Economic Strategy 2: This bill would have updated the membership and requirements of the ESP, especially in the areas of technology and innovation, and required that the next State Economic Development Strategy be submitted to the Legislature by January 1, 2010. Status: Vetoed by the Governor in 2008.
- vi) AB 2287 (Bass) – Office of Economic Development and CalBIS: This bill would have established the Office of Economic Development, which includes the California Business Investment Services Program, within the Governor's ED Office. Status: Held under submission in JEDE in 2010.
- vii) AB 2711 (Portantino, Arambula, Price and Salas) – State Technology and Innovation Strategy: This bill would have required the Secretary of the Business, Transportation and Housing Agency to develop a comprehensive state technology and innovation strategy to guide future state expenditures and activities. Status: Held under submission in the Assembly Committee on Appropriations in 2008.
- viii) AB 2734 (John A. Pérez) – Governor's Office of Economic Development: This bill would have established the Office of Economic Development (ED Office) within the Governor's Office for the purpose of serving as the lead entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. Status: Vetoed by the Governor in 2010.

- ix) SB 1259 (DeSaulnier) – Economic Development and Job Creation Agency: This bill would have created the Economic Development and Job Creation Agency and required the new agency to perform duties relating to economic development and job creation. It would have required the secretary to develop a reorganization plan and propose a structure for the agency. Status: Held in Senate Appropriations Committee on 2010.

REGISTERED SUPPORT / OPPOSITION:

Support

Bay Area Council
Business Council, Inc.
California Center for Rural Policy, Humboldt State University
California Faculty Association
City of San Bernardino
Contra Council
Economic Vitality Corp.
Fresno Business Council
Greater Antelope Valley Economic Alliance
Greater Corona Valley Chamber of Commerce
Hollywood Chamber of Commerce
Joint Venture Silicon Valley Network
Little Hoover Commission
Los Angeles Area Chamber of Commerce
Los Angeles County Business Federation
Los Angeles County Economic Development Corporation
North Bay Leadership Council
Oakland Metropolitan Chamber of Commerce
Orange County Business Council
Rafter Group, Inc.
Sacramento Metro Chamber
San Diego Chamber of Commerce
San Diego Regional, EDC
San Francisco Chamber of Commerce
San Gabriel Valley Economic Partnership
San Jose Silicon Valley Chamber of Commerce
Sierra Business Council
Silicon Valley Leadership Group
Small Business California
Sonoma County Economic Development Board
South Bay Association of Chambers of Commerce
Southern California Leadership Council
Team California
The Greater Corona Valley Chamber of Commerce

Opposition

None received

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