

Date of Hearing: April 21, 2009

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE
ECONOMY

V. Manuel Perez, Chair

AB 699 (Portantino and V. Manuel Perez) – As Introduced: February 26, 2009

SUBJECT: California Economic Recovery Strategy

SUMMARY: Updates the requirements for the development of a State Economic Development Strategy (ED Strategy) and requires it be submitted to the Legislature by May 1, 2010.

Specifically, this bill:

- 1) Enacts the Economic Recovery Through Sustainable Development and Innovation Act.
- 2) Provides legislative intent regarding the state's historic position in the global economy and the importance of the state in using the current economic downturn to reinvent itself and support the emergence of core industries that will define the state's economy of the next 50 years.
- 3) Modifies the content of the ED Strategy to reflect current economic best practices and key issues, including the role of innovation in the California economy and the need to attract more private capital to the state's border regions and other emerging domestic markets.
- 4) Expands the membership of the California Economic Strategy Panel (ESP) from 15 to 19 members by including the Small Business Advocate and the Secretaries for the Business, Transportation and Housing (BTH) Agency and the Department of Food and Agriculture (CDFA). The bill also requires that at least one member of the ESP be a representative of economic developers.
- 5) Extends the term of the ED Strategy from every two-years to every five-years. In order to provide adequate oversight, the ESP is required to submit a summary of activities to the Legislature every two-years.
- 6) Deletes the requirement that the ESP convene a meeting in every community in the state with a population over 500,000, and instead, call on the ESP to meet with key stakeholder groups in preparation of the ED Strategy, as specified.
- 7) Requires that the cost of updating the ED Strategy come from private donations, as specified.
- 8) Includes an urgency clause.

EXISTING LAW:

- 1) Establishes ESP, chaired by the Secretary of Labor and Workforce Development (L&WD) for the purpose of developing an overall state economic vision and strategy that can guide public policy, including, examination of the state's economic regions, industry clusters, and cross-regional economic issues.

- 2) Requires the Secretary of L&WD, to lead the preparation of the State ED Plan for the purpose of making recommendations on a two-year economic development strategic plan. The development of the State ED Plan is primarily done through the work of the ESP.
- 3) Requires BTH, in consultation with ESP, to develop an international trade and foreign investment strategy by February 2008, for the purpose of establishing goals, objectives, and recommendations necessary to implement a comprehensive international trade and investment program.
- 4) Requires the Governor to prepare the EGPR every four years for the purpose of defining the state's 20 year growth and economic development strategy with particular attention to statewide land use policy.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Purpose of the bill: According to the authors, California stands at a cross roads without a comprehensive plan to guide our recovery efforts. California workers and businesses are currently facing some of the harshest economic conditions since the Great Depression. Unemployment in California has reached 11% and is projected to rise to over 12% before the current recession is over. Some areas of the state, however, are already experiencing unemployment rates of nearly 27%. Almost every industry sector is experiencing a loss of jobs and will likely continue to experience losses as the global economy progressively deteriorates. In summary, credit markets are frozen, unemployment is rising, and production is stalled.

As Californians move forward from these difficult economic times, the authors state, it is more important than ever to have a unified vision that can support the state's long-term growth. Beyond theory, this vision must be sufficiently grounded in reality as to break through old and ill-fitting models for business development, finance, along with education and workforce development.

In March 2009, the Assembly Committee on Jobs, Economic Development and the Economy (JEDE) released an initial draft of a California Economic Development Recovery Strategy (Recovery Strategy), which sets forth a 24-month blueprint of economic and workforce development actions to be undertaken by the state. In AB 699 the Chairman of JEDE joins with the Chairman of the Committee on Higher Education to outline and operationalize a renewed vision for California's economy.

- 2) ESP fails to produce ED Strategy: Existing law requires the ESP to prepare an ED Strategy every two years to help guide the state's financial investments and activities related to economic and workforce development. The last ED Strategy was completed in 2002. Although the ESP has continued to meet during the last seven years, no ED Strategy has been prepared. Implementation of AB 699, sponsored by JEDE, updates the requirements of the ED Strategy to better reflect our current economic crisis and sets a specific date for its next update.

Without a current assessment of our economic conditions; a prioritization of issues; and a coordination of federal, state, and local efforts; the impact of federal stimulus dollars and the creative efforts of our public and private sectors to retain jobs and improve local economies could be limited.

- 3) A look at California's historical economy: California is the one of the largest and most diversified economies in the world with a state gross domestic product (GDP) of over \$1.8 trillion in 2007. 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 historical factors, including: its strategic west coast location that provides direct access to the growing markets in Asia, Mexico and South America; 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 California GDP 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. The chart below 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 Higher Concentration of Jobs Relative to the Nation (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,	General Merchandise	Beverage & Tobacco	Computer &

	Durable Goods	Stores	Product Manufacturing	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				

4) Drivers in California's future economy: For decades, California has been known as a place where innovation and creativity flourishes. A 2007 study on California's global competitiveness identified the eight key industry clusters, which are listed below, and recommended that the state focus future investments toward these industries in order to maximize the use of state resources.

Dominant industry clusters include:

Emerging industry clusters include:

- a) Professional business and information services
- b) Diversified manufacturing
- c) Wholesale trade and transportation
- d) High-tech manufacturing

- a) Life science and services
- b) Value-added supply chain manufacturing and logistics
- c) Cleantech and renewable energy
- d) Nanotechnology

The study also found that, based on the state's historic strengths identified above, that the state was also uniquely positioned to be a preferred global partner of certain regions of the world, particularly those interested in innovation, science, and technology. The study, however, also stated that California was facing significant challenges from the global redistribution of manufacturing and services and the growing talent pools in other countries.

While the global recession may have slowed down growth, the newly emerging economies of China, India, and Singapore have already made significant investments in research and development. Emerging economies around the world have strived to become leaders in innovation and not merely "copycat" economies of the United States. As one Massachusetts Institute of Technology report states, "It is not out of the question that they may soon be able to 'leapfrog' developed centers of innovation with new innovations of their own."

While these dynamics pose challenges to current leading technology centers, they also offer California new opportunities for collaboration and cooperation. The state is already engaged in academic and research partnerships with Canada and Iceland on renewable energy and other technologies. The University of California at San Diego has a multi-year manufacturing initiative with Mexico, supporting economic growth on both sides of the border.

These types of partnership efforts, however, have not yet been brought forward into a broader economic development framework and are too often treated as one-off initiatives. AB 699 will direct the ESP to examine the nature of innovation and how it affects location decisions and the competitiveness of California, other states, and foreign countries. Enormous potential exists in research, development, and product manufacturing by capitalizing on

cross-border initiatives if California can successfully transition to the new and more highly connected economic world of the 21st Century.

- 5) Other drivers of the California economy: As California identifies priorities and develops strategies for economic recovery, the state must also account for the dramatic demographic shifts which are impacting and will continue to impact the state's economy. Currently, unprecedented numbers of baby boomers are preparing to retire from the market place. Concurrently, a second and significantly smaller wave of new workers and entrepreneurs are emerging to take their places within the American economy.

This demographic trend is particularly important for policy makers as it not only reflects a generational shift in the U.S., but it also reflects a shift in the race and ethnicity of the working age population. The California Budget Project estimates that by 2020, nearly 60% of the working age population in California will be comprised of Latinos, African-Americans, and Asian-Americans.

These emerging domestic markets include people, places, or businesses with growth potential, which have historically faced systemic capital constraints. These constraints are often due to a lack of performance information which limits the ability of financial institutions and traditional investors to model and/or assess the economic viability of these business opportunities.

The demographics of emerging domestic markets include ethnic- and women-owned firms, urban and rural communities, companies which serve low- to moderate-income populations, and other small- and medium-sized businesses. In the U.S., minority purchasing power is expected to triple from \$1.3 trillion in 2000 to over \$4 trillion by 2045. This represents over 70% of the growth of total U.S. purchasing power during the same time period. Latino and African American purchasing power is already so significant in the U.S. that if it were compared to national GDPs it would be greater than all but nine economies in the world.

As the purchasing power of minority communities has expanded, new product markets have opened up. Traditional product lines have also, and will continue to be, modified in order to connect with this new and growing minority market. This growing minority and ethnic-based market is being served by an increase in the number of minority-owned and women-owned businesses. Research shows that the growth of minority owned firms in the beginning of the decade surpassed the growth of all U.S. businesses, growing at a rate of 17% per year, which is six times the growth rate of all other firms. Sales from minority owned firms also outpaced revenues in general - growing 34% per year - more than twice the rate of all other firms.

However, even with these impressive growth numbers, minority and women- owned businesses face systemic capital constraints. African Americans and Latinos are turned down for loans at three times the rate of similarly situated white applicants. Their participation rates in private equity and venture capital, in particular, are also low.

With the current demographic shifts, minority workers will become, for the first time, the core of the working age population. As emerging central players in the state and national economy, issues relating to the potential success of minority-owned businesses must move from being a social equity consideration to a key economic consideration for the long-term success of the

state. The California economy and in the coming years, the U.S. economy, cannot be maintained or grow unless these emerging domestic markets can become mainstream.

- 6) California competitiveness: Innovation has long been the cornerstone of California's competitive edge. Innovation, by its very nature, requires constant reassessment and, very often, reinvestment of public resources to maintain and enhance a creative environment where businesses and financial partnerships can constantly evolve. Even before the current economic downturn, California faced many challenges due to the state's long-term neglect to adequately invest in infrastructure, K-12 education and workforce development.

In March 2008, JEDE undertook a survey of California's business climate. Overall, JEDE found that the state's businesses experience higher costs and greater regulatory burdens than other businesses, in many other areas of the nation. California consistently ranked in the top 10 of highest cost states in the nation. These findings were reinforced in the April 2009 ALEC-Laffer State Economic Competitiveness Index, which ranked California in the bottom 10 of states based on 15 policy factors including:

- Highest Marginal Personal Income Tax Rate
- Highest Marginal Corporate Income Tax Rate
- Personal Income Tax Progressivity
- Property Tax Burden
- Sales Tax Burden
- Tax Burden From All Remaining Taxes
- Estate Tax/Inheritance Tax (Yes or No)
- Recently Legislated Tax Policy Changes
- Debt Service as a Share of Tax Revenue
- Public Employees Per 1,000 Residents
- Quality of State Legal System
- State Minimum Wage
- Workers' Compensation Costs
- Right-to-Work State (Yes or No)
- Tax or Expenditure Limits

The JEDE survey, however, also found that even with those costs certain regions of the state remain highly competitive within the national and global marketplace. As an example, a 2007 index developed by the Milken Institute and Greenstreet Partners found California metro areas hold four of the top 25 slots for areas that are best to create and sustain innovation-based jobs. Top California locations include Riverside-San Bernardino (3rd), Bakersfield (17th), Vallejo-Fairfield (22nd), and Sacramento-Arden-Arcade-Roseville (25th). California has also consistently been a leader in attracting venture capital, although research shows that other states and regions in the world are beginning to close the gap.

- 7) California Economic Development Incentives: One of the primary ways in which states compete for businesses and industry 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, 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 Office of the Small Business Advocate; 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; the Employment Training Panel; the California Workforce Investment Board; the ESP; and the small business procurement preference programs.

There is, however, no single location where these programs, services, and activities come together into a single comprehensive strategy. Further, recent budget actions have deduced tax incentives and eliminated key programs and services. California's budget problems cannot be sufficiently addressed until the state, first, addresses the needs of workers, businesses, and investors. A current economic development strategy will allow the state best analyze how existing programs and services work together. Without such actions it will be difficult to maximize public investments with ongoing private sector activities, including the \$787 billion federal stimulus package. Expanded descriptions of these programs can be found in the JEDE white paper, *California's Economic Development Programs: Meeting the Challenges of Today's Economy*.

8) Related legislation: Below is a list of related legislation.

- a) AB 1606 (Arambula and Lieu): This bill 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.
- b) AB 1721 (Arambula): This bill designates the Business, Transportation, and Housing Agency as the state's primary agency responsible for the facilitation of economic development activities. The bill also establishes 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 adds 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.
- c) AB 1916 (Portantino, Arambula, Price, Salas, and Caballero): This bill updated the membership and requirements of the California Economic Strategy Panel and requires that the next State Economic Development Strategy be submitted to the Legislature by January 1, 2010. Status: Vetoed by the Governor in 2008.
- d) AB 2595 (Arambula): This bill required the Secretary of Labor and Workforce Development and the California Workforce Investment Board to establish a Logistics Worker Training Initiative for the purpose of increasing California workers' competitiveness within the global manufacturing value chain. The outcome of this initiative is a state strategy to support regionally based workforce intermediaries that provide training in advanced logistical systems, especially in the transportation and goods movement sectors. Status: Vetoed by the Governor in 2007.
- e) AB 2711 (Portantino, Arambula, Price and Salas): This bill 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.

- f) AB 2860 (Lieu): This bill renamed the California Commission on Industrial Innovation (Commission) the California Commission on Manufacturing Competitiveness and Innovation, specifies the Commission should avoid recommendations that could diminish certain worker protections, and makes conforming changes to the enabling statute. Status: Held in the Senate Appropriations Committee in 2007.

REGISTERED SUPPORT / OPPOSITION:

Support

Assembly Committee on Jobs, Economic Development, and the Economy (sponsor)

Opposition

None received

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