Date of Hearing: April 20, 2010

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
V. Manuel Perez, Chair
AB 2287 (Bass) – As Amended: April 5, 2010

SUBJECT: California Business Investment Service

SUMMARY: Establishes the Office of Economic Development (ED Office) which includes the California Business Investment Services Program (CalBIS), within the Governors Office. Specifically, this bill:

1) Establishes the ED Office within the Governor's Office. The Office is under the control of a Secretary, who is required to be confirmed by the Senate.

2) Establishes CalBIS, which is administered through the Office, for the purpose of serving employers, corporate executives, business owners, and site location consultants who are considering California for business investment and expansion.

3) Requires CalBIS to have a well-advertised telephone number, an interactive website, and have the ability to convene strike teams on key business development situations.

4) Requires CalBIS to provide the following:

   a) Economic and demographic data.

   b) Financial information and help link businesses with state and local public and private programs.

   c) Workforce information including labor availability, as well as training and education programs.

   d) Transportation and Infrastructure information.

   e) Assistance in obtaining state and local permits.

   f) Information on tax credits and other incentives.

   g) Permitting, siting and other regulatory information pertinent to business operations in California.

5) Requires the Secretary to work collaboratively with local, regional, federal, and other state public and private marketing institutions and trade organizations in attracting, retaining, and helping businesses grow and be successful in California.

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 with particular attention to statewide land use policy.

2) Establishes the Office of the Small Business Advocate (OSBA) with the Governor's Office of Planning and Research for the purpose of supporting small business development within the state.

FISCAL EFFECT: Unknown

COMMENTS:

1) Author's intent: 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 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. It called for a single 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 2287 creates the Office of Economic Development within the Governor's Office and establishes small business participation goals for state agencies.

2) California's mish-mash of economic development programs: One of the primary ways bywhich 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 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 these programs, services, and activities come together into a single comprehensive strategy. Further, recent budget actions have reduced tax incentives and eliminated key programs and services. California's budget problems cannot be sufficiently addressed until the state addresses the needs of workers, businesses, and investors. A current economic development strategy, as proposed in this bill, will allow the state to 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 current and future federal stimulus moneys.

   Expanded descriptions of the above referenced programs can be found in the Assembly Committee on Jobs, Economic Development and the Economy (JEDE) white paper, *California's Economic Development Programs: Meeting the Challenges of Today's Economy.*

3) Bringing direction and accountability into 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 Technology, Trade and Commerce Agency (TTCA) in 2003.

With the elimination of the TTCA, many have opinioned 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. No economic development plan has been prepared since 2002.

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 the Business, Transportation and Housing Agency 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 Committee. Full descriptions are described in the final comment on this bill.

In August of 2009, JEDE sponsored a seventh bill relating to realigning the state's economic and workforce development resources, AB 1558 (VM Perez), pending in Senate Business Professions and Economic Development Committee.

4) The Little Hoover Commission and 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 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 web site.

b) A series of Action Teams must be created within the Governor's ED Office. CalBIS should be moved from the LWD to the Governor's ED Office and serve as the foundation for this more robust outreach unit.

c) A policy unit must be created within the Governor's ED Office to develop a statewide vision for economic growth. Guided through bottom-up input from public and private entities, the ED Office should take over the statutory responsibilities of the ESP and develop the state economic development strategy.

d) The Governor's ED Office 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.

The Speaker Emeritus of the Assembly, who served as a Member of the LHC, introduced AB 2287 in anticipation of the release of the economic development report. A companion bill, AB 2734 (John A. Perez) was also introduced in the Assembly and will be heard in JEDE on the same day. A Senate measure was also introduced, SB 1259 (DeSaulnier), for the purpose of moving the LHC recommendations forward. SB 1259 proposes a slightly different structure, however, by establishing a new state agency rather than an office within the Governor's Office.

Governor Schwarzenegger has also begun to implement the recommendations in the LHC report and on April 8 issued Executive Order S-05-10, which created the Governor's Office of Economic Development. In general, policy makers can consider the Governor's actions, as well as all of the legislation discussed in this and the former comment, as having similar essential concepts and clearly underlining the importance and timeliness of moving forward on the state's economic and workforce development activities in a more connected and strategic fashion.

5) 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 $1.8 trillion in 2008. 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:

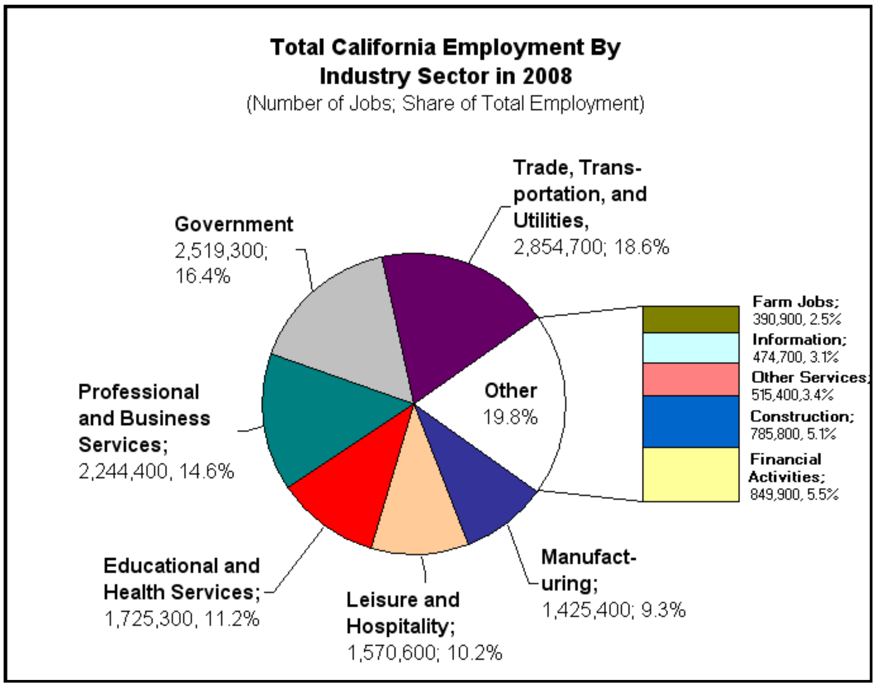
- Strategic west coast location that provides direct access to the growing markets in Asia, Mexico and South America;

- Economically diverse regional economies;

- Large, ethnically diverse population, representing both a ready workforce and significant consumer base;

- Access to a wide variety of venture and other private capital;

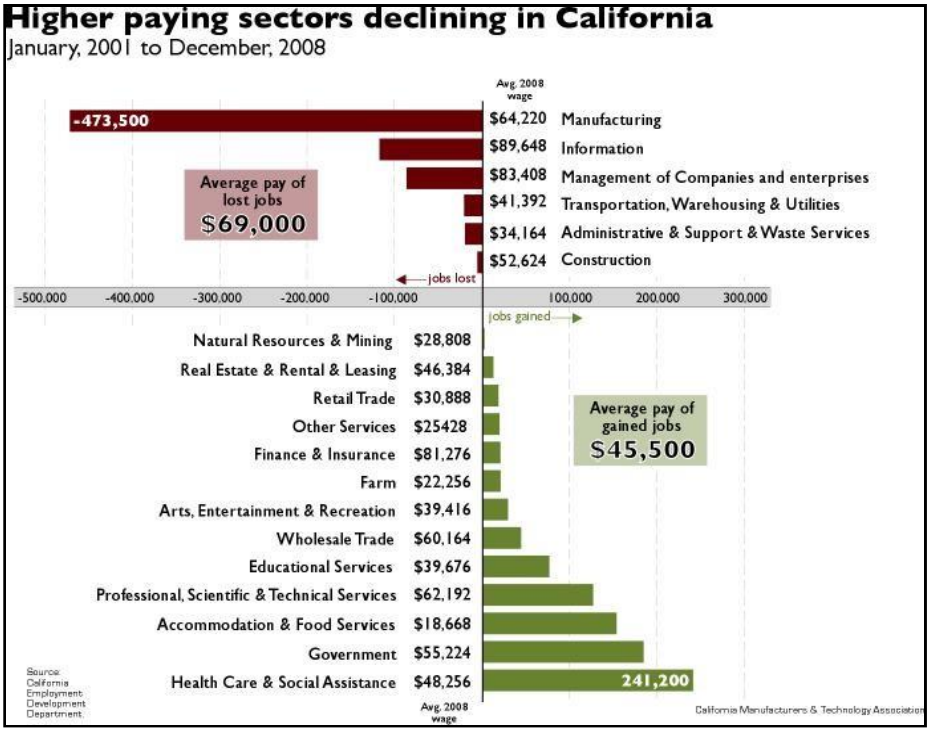
- Broad base of small- and medium-sized businesses; and its culture of innovation and entrepreneurship, particularly in the area of high technology.



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 the year ended with a seasonally adjusted unemployment rate of 12.4%, representing 2.25 million people who are officially identified as unemployed (excludes those that have stopped looking for work, among others). The number of persons unemployed 27 weeks or more increased by 443,000 (156.2%) since December of 2008.



While some economists believe California may have emerged from the recession, there is little disagreement among forecasters that unemployment is expected to remain above double digits throughout 2010 and 2011. Jobs will recover to their pre-recession peak in the first half of 2013, however, unemployment rates are likely to remain above 8% through much of 2014.

6) Forecast of the next economy: In defining the post-recession economy, think tanks, such as the Brookings Metropolitan Policy Program, suggest policy makers look to four key trends. First, the next economy is expected to be more export oriented. Second, it will be driven by new, lower-carbon energy sources. Third, the next economy will be based on a high level of global innovation, which will require "a relentless pace of innovation, adaptation, and embracement of new markets and processes—by no means a return to the past." The fourth key trend is that the next economy will be led by metropolitan areas – not nations and not states. Metropolitan areas will have to have the ability to compete with a network of more sophisticated, hyperlinked and globally-connected metropolitan economies.

   To the extent these trends come to fruition, California should be competitive among other states and nations to move forward aggressively. AB 2287 codifies the CalBIS program and in doing so provides greater intention toward a more strategic approach to attracting, retaining, and growing businesses in the state.

7) California's challenge and opportunity as a global competitor: For decades, California has been known as a place where innovation and creativity flourishes. As one of the largest export states, exporting $120 billion in 2009, the state has strong global connections. These advantages, however, are eroding.

   Findings in a 2007 study prepared for the Business, Transportation and Housing Agency stated that while California was uniquely positioned to be a preferred global partner of certain regions of the world, particularly those interested in innovation, science, and technology, the state also faced 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 worldwide, the newly emerging economies of China, India, and Singapore have already made significant investments in research and development. Emerging economies around the world are striving 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 2287 will direct the Secretary to work cooperatively with local, regional, federal, and other state public and private marketing institutions and trade organizations in attracting, retaining, and helping businesses grow and be successful in California. 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.

8) Amendments: Staff understands that the author will be offering an amendment to codify the EO that mandates that each agency and department expend 25% of their procurement funds through certified small businesses.

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

   a) AB 699 (Portantino and V Manuel Perez) - Demand and Update State Economic Strategy 3: Updates 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 May 2009.

   b) AB 1558 (V Manuel Perez) – EDD Reorganization Model: This bill realigns the state's economic and workforce development programs within the Employment Development Department to renamed the Economic and Employment Development Department. Status: Pending in the Senate Business, Professions and Economic Development Committee.

   c) AB 1606 (Arambula and Lieu) – ESP Reorganization Model: 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.

d) AB 1721 (Arambula) – Designates BTH as Lead on Economic Development: 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.

e) AB 1916 (Portantino, Arambula, Price, Salas, and Caballero) – Demand and Update Economic Strategy 2: This bill 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.

f) AB 2595 (Arambula) – State Manufacturing and Logistics Strategy: 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.

g) AB 2711 (Portantino, Arambula, Price and Salas) – State Technology and Innovation Strategy: 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 in May of 2008.

h) AB 2734 (John A. Perez) – Office of Economic Development: This bill implements the LHC report by establishing the Office of Economic Development within the Governors Office. Status: Pending in JEDE.

i) SB 1259 (DeSaulnier) – Economic Development and Job Creation Agency: This bill creates the Economic Development and Job Creation Agency and requires the new agency to perform duties relating to economic development and job creation. It requires the secretary to develop a reorganization plan and propose a structure for the agency. Status: Pending in Senate Appropriations Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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