Date of Hearing: April 20, 2010

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
V. Manuel Perez, Chair
AB 2437 (V Manuel Perez) – As Amended: April 5, 2010

SUBJECT: California Manufacturing Competitiveness Act of 2010

SUMMARY: Authorizes the establishment of the California Manufacturing Competitiveness Act of 2010 for the purpose of supporting the retooling and expansion of California's manufacturing facilities, enhancing the state's logistics network, and retaining and creating jobs. Specifically, this bill:

1) Requires the California Industrial Development Financing Advisory Commission (CIDFAC) to establish the California Manufacturing Competitiveness Loan and Loan Guarantee Program for purpose of attracting, retaining and expanding manufacturing facilities with more than 200 employees.

2) Provides that the objective of the program shall be to:

   a) Encourage the development of the state's long-term manufacturing capacity.
   b) Create jobs through the support of retooling and expansion of manufacturing facilities.
   c) Allow manufacturers to access funds under terms and conditions which would not otherwise be available in the private market.
   d) Assist manufacturers to cost effectively respond to energy efficiency regulations and new technologies.
   e) Prioritize assistance to manufacturers who consistently pay the highest wages, based on the average weekly wage rate for their industry sub-sector, and pay health benefits.
   f) Prioritize assistance to applications that are jointly submitted by management and the union at the facility or the union pending representation of workers at the facility.

3) Requires CIDFAC to develop and administer the application, review and evaluation process including the eligibility standards, rating and ranking criteria and other appropriate policies and procedures, subject to the following:

   a) The facility or facilities where the moneys will be expended are located in the state.
   b) The moneys being awarded will be used to create or retain jobs in the State of California.
   c) The maximum loan and loan guarantee limits are $5,000,000 and $10,000, respectively.
   d) Applicants are required to demonstrate that they will have the ability to repay the loans.
   e) Loans may be provided at terms and conditions below market rate to the extent that the overall program remains financially viable.
   f) Applicants must demonstrate they are in compliance with applicable federal, state, and local laws and regulations, or that the project for which they are requesting funding will bring them into compliance.
   g) All applicants must agree to annually report to the CIDFAC on total capital investments made by the company and total employment, as specified.
   h) Wages for employees in California are, on average, equal to or more than the average weekly wage rate for similar workers in the same industry sub-sector.

- i) Applicants provide health insurance benefits for all full-time employees.
- j) The applicant's turnover rate has not exceeded 20% annually at any facility where moneys obtained through the program will be used.
- k) Loans must be paid in full six months prior to relocation of a facility outside of California. If the loan or loan guarantee included a subsidized amount, that amount must also be repaid subject to a sliding scale, as specified.

4) Establishes the Manufacturing Program Account, within the existing Industrial Development Fund at the Treasurer's Office, for the purpose of receiving and holding moneys to implement the program. Program moneys may also, with the approval of the Department of Finance, be held in an account in a private financial institution.

5) Requires CIDFAC, beginning October 1, 2012, to annually provide specified information on the program's activities and impact on the manufacturing industry and on the state's economy, including, at a minimum, the:

   - a) Total beginning and ending balances in the Manufacturing Program Account.
   - b) Number of projects funded and the number of manufacturers assisted.
   - c) Number of jobs created and the number of jobs retained through program assistance in each of the fiscal years.
   - d) Amount of investments made by the manufacturer in the year prior to assistance and the next two years.
   - e) Amount of federal, state, and local taxes paid by the businesses in aggregate. Information on publicly held companies shall also be reported separately.

6) Sunsets the provisions of the bill on January 1, 2016.

<u>EXISTING LAW:</u>

1) Contains legislative findings that it is necessary and essential that the state, in cooperation with the federal government, use all practical means to promote and enhance economic development and increase opportunities for employment, especially in areas where workers have been displaced due to industrial failures.

2) Establishes the CIDFAC with a number of duties, including, but not limited to:

   - a) Assisting industrial development authorities and state agencies in the preparation, marketing, and sale of bonds;
   - b) Collecting and providing impact data of specified industrial development activities, including financial, economic, governmental, and social data, as specified;
   - c) Maintaining contact with municipal bond underwriters, credit rating agencies, investors, and others to improve the market for local government debt issues; and
   - d) Undertaking or commission studies on methods to reduce the costs of state and local issues.

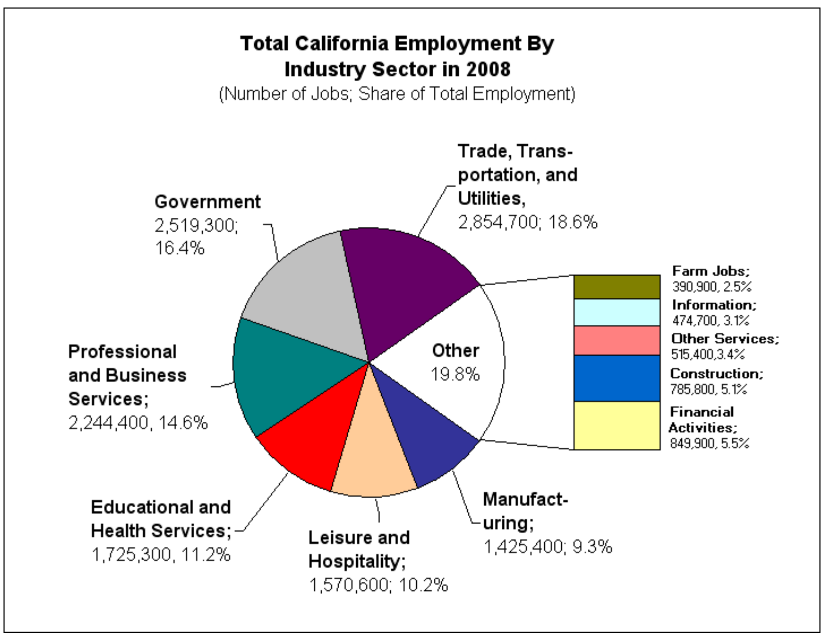
<u>FISCAL EFFECT</u>: Unknown

COMMENTS:

1) Author purpose: The choices that Californians make in the next year will set the foundation for the state's economy for decades to come. Historically, the state's growth strategy has been to aggressively seize new ideas, operationalize the idea and birth a new industry or transform an old industry. Today, we can decide whether to shy away from manufacturing after the loss of so many jobs, or to transform the state's old manufacturing strengths into new products, markets, and opportunities. We can decide to opt out of the national shift to a lower-carbon economy, or to be at the forefront of developing clean and renewable energy industries and quality jobs. This bill provides a new financial component – "a dealer closer" - in California's ability to attract, retain and grow the state's manufacturing sector.

2) The California economy and manufacturing: California is one of the largest and most diversified economies in the world with a state gross domestic product (GDP) of over $1.8 trillion in 2008. For comparison, global GDP was $53.3 trillion, with the U.S. ($13.8 trillion) having the highest GDP of any individual nation, followed by Japan ($4.3 trillion), Germany ($3.3 trillion), China ($3.2 trillion), the United Kingdom ($2.7 trillion), France ($2.5 trillion), Italy ($2.1 trillion), Spain ($1.4 trillion), Canada ($1.3 trillion), and Brazil ($1.3 trillion). Based on these figures from the International Monetary Fund, if California were an independent nation it would rank as the eighth largest economy in the world.

   Historically, the state's significance in the global marketplace resulted from a variety of factors, including: its strategic west coast location that provides direct access to the growing markets in Asia; its economically diverse regional economies; its large, ethnically diverse population, representing both a ready workforce and significant consumer base; its access to a wide variety of venture and other private capital; its broad base of small- and medium-sized businesses; and its culture of innovation and entrepreneurship, particularly in the area of high technology.



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

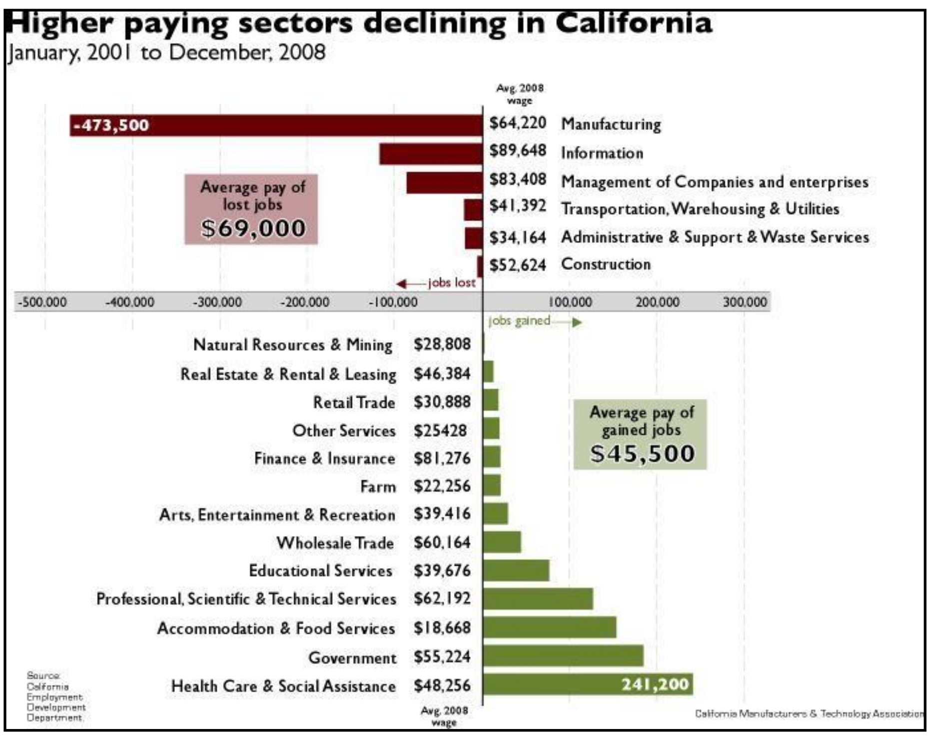
   The **chart above**, prepared by the California Employment Development Department, provides detail on California's largest industry sectors in 2008 including the total number of jobs and percentage to state employment. Manufacturing is one of the top five private industry sectors, responsible for employing 1.4 million workers (9.3%) and contributing $179 billion to the state's $1.8 trillion GDP.

A robust manufacturing sector has many benefits, including high wage jobs and a multiplier effect on other industries and businesses. As an example, the Milken Institute estimates that every job created in manufacturing supports 2.5 jobs in other sectors. In some industry sectors, such as the electronic computer manufacturing, the multiplier effect is 16 to one.

Manufacturing is California's most export-intensive activity. Overall, manufacturing exports represent 9.4% ($120 billion in goods) of California's GDP, and computers and electronic products constitute 29.3% of the state's total manufacturing exports. More than one-fifth (21.9%) of all manufacturing workers in California directly depend on exports for their jobs.

Manufacturing in California, however, even prior to the current economic recession, faced 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 foreign markets.

The **chart below** provides an illustration of the change in job growth between certain industry sectors and the relevance of those shifts to worker wage rates.



Using slightly more current data that includes 2009, the California Manufacturers and Technology Association estimates that California lost 596,000 manufacturing jobs from its peak in January 2001 to December 2009. While part of this reduction reflects the loss of high-tech jobs in 2001 and 2002 and the current recession, the industry as a whole is suffering.

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 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.

Manufacturing, construction, and retail experienced the greatest decline over the past year, with each of these sectors shedding over 100,000 jobs across the state. Forecasters at the University of the Pacific Business Forecasting Center state that job growth during the initial part of 2010 will be concentrated in health care, temporary agencies, and professional services. An additional 11,000 manufacturing jobs are expected to be lost in 2010. Hiring in retail and manufacturing should increase in late 2010 and 2011.

3) 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.

   The federal government has recognized its own role in intentionally setting the US on the fast track to the next economy. Federal funds, such as those from the Economic Development Administration, have become available for states and metropolitan areas to help make the transition to a more export-oriented, lower-carbon, innovation-fueled economy.

4) Manufacturing incentives in other states: California communities are is competition in attracting and retaining manufactures. Below are three nationally recognized state and regional initiatives that target manufacturing and business development.

   a) *Chickasaw Trail Economic Development Compact (MS/TN)*: The purpose of this compact is to promote the development of an undeveloped rural area of Marshall County, Miss., and Fayette County, Tenn. It creates a development authority which incorporates public and private partnerships to facilitate the economic growth of such areas by providing developed sites for the location and construction of manufacturing plants, distribution facilities, research facilities, regional and national offices with supportive services and facilities, and to establish a joint interstate authority to assist in these efforts.

   b) *Michigan SmartZones*: The program consists of collaborations among universities, industry, research organizations, government and other local institutions and has resulted in regionally based high-tech zones which target growth in a specific economic sector that fits the geographic region's strengths and needs, creating clusters of high-skilled, high-paying jobs.

c) *Ohio Business Gateway*: This program is a web-based filing and payment system that allows business taxpayers to file and pay various state level taxes to different state agencies electronically at one web site for free. The program is designed to provide a "one-stop shop" for businesses to comply with a variety of state agency tax and reporting requirements, including sales tax, employer withholding, worker's compensation, unemployment compensation and unclaimed funds.

d) *Arizona Clean Technology Credit*: The goal of the new program (enacted in 2009) is to encourage business investment that will produce high quality employment opportunities and enhance Arizona's position as a center for production and use of renewable energy products. The program offers two benefits: up to a 10% refundable income tax credit and up to a 75% reduction on real and personal property taxes, for companies that are primarily engaged in the manufacturing of or headquarters for producing systems and components that are used or useful in manufacturing renewable energy equipment. The company must also be expanding or locating in Arizona; create fulltime employment positions of which at least 51% are paid at least 125% of the state's annual median wage (currently $30,940); offer to pay at least 80% of the health insurance costs for all net new fulltime employment positions; and spend at least $250,000 in qualifying investments during each twelve-month period.

e) *Missouri Life Science Trust Fund*: In 2007, Missouri's General Assembly approved the $13.4 million funding of the Missouri Life Sciences Research Trust Fund to enhance research capacity and transform research into commercial life science technology. In conjunction with Missouri's universities and industry, $10.5 million was awarded for research grants and $2.6 million for commercialization grants. This Trust Fund is in addition to $15 million the state earmarked to the Missouri Technology Corporation (MTC) for various programs designed to improve commercialization of Missouri technologies.

5) Defining a revolving loan fund: AB 2437 proposes to establish a revolving loan fund (RLF) for larger size tangible and intangible manufacturing businesses, administered by the State Treasurer's Office through its financing authority dedicated to the promotion of industrial development.

The RLF is a gap financing model that is designed as a self-replenishing pool of money, utilizing interest and principal payments on old loans to issue new ones. Historically used for the development and expansion of small businesses, some states are now looking to use the RLF model to support larger size businesses that are looking for alternative ways to access capital in these difficult financial times.

The state has been administering a RLF through the Department of Housing and Community Development for more than a decade, dedicated to providing loans to small size businesses in small and rural communities.

Access to a RLF can be an important step toward obtaining conventional private financial sources. Often the RLF is a bridge between the amount the borrower can obtain on the private market and the amount needed to start or sustain a business. For example, a borrower may obtain 60 to 80% of project financing from other sources.

Typical uses for RLF loans include operating capital, acquisition of land and buildings, new construction, facade and building renovation, landscape and property improvements, and machinery and equipment.

According to the Council of Development Financial Institutions, capitalization for a RLF program usually comes from a combination of public sources, such as the local, state, and federal governments, and private ones like financial institutions and philanthropic organizations. Funding acquired for capitalization is usually the equivalent of a grant, i.e. it does not need to be paid back. State and local governments often use one or a combination of funding sources to capitalize an RLF including, but not limited to, tax set-asides, general obligation bonds, and direct appropriations from the state legislature. The federal government is another common source of capitalization including the Economic Development Administration.

6) Federal funding for manufacturing: In 2009, Senator Sherrod Brown (D-OH) introduced the IMPACT Act, which was incorporated into the House approved energy bill. The IMPACT Act provisions help to create clean energy jobs by supporting manufacturers' transition to the clean energy economy. A total of $30 billion could be distributed to states to establish revolving loan funds to assist small and medium-sized firms in retooling, expanding or establishing domestic clean energy manufacturing operations, and in becoming more energy efficient.

The Hollings Manufacturing Extension Partnership (MEP), a division of the Department of Commerce's National Institute of Standards and Technology, would also receive $1.5 billion in federal funds over five years, under the IMPACT Act provisions, which would be used to help manufacturers access clean energy markets and adopt innovative, energy-efficient manufacturing technologies.

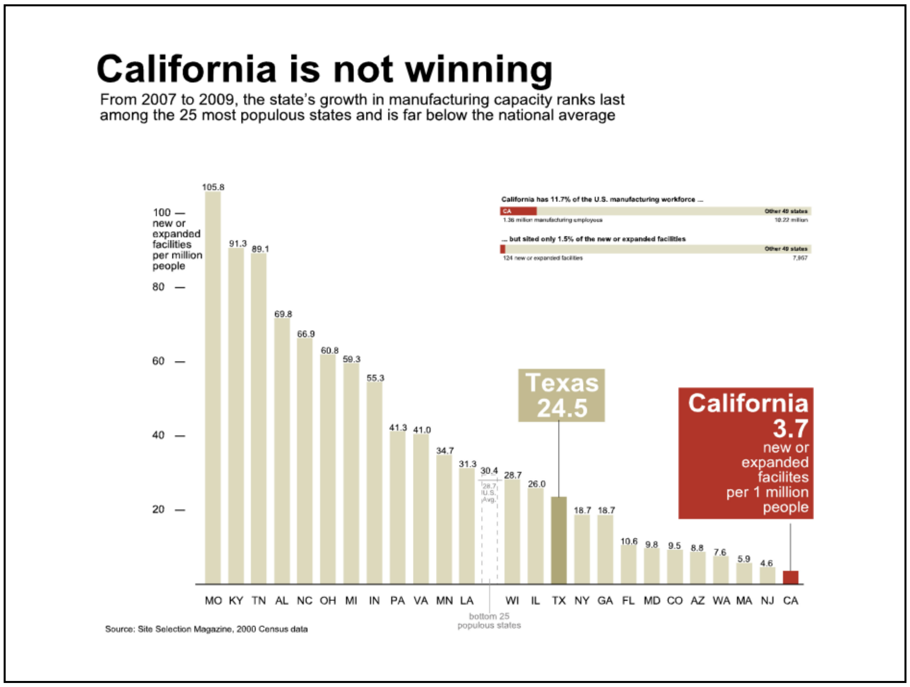
In addition, US Representative Daniel Lipinski (D-IL) introduced HR 4692, the National Manufacturing Strategy Act of 2010, which requires the President to prepare a quadrennial National Manufacturing Strategy, and for other purposes. The measure, introduced February 2010, already has 36 co-authors including California Congress members Brad Sherman and Linda Sanchez.

The Administration has also been moving forward on new manufacturing initiatives with the December 2009 release from the Office of the US President, "A Framework for Revitalizing American Manufacturing." In February, the Obama Administration launched a $130 million initiative – the Energy Innovation Hub - to spur regional growth through making buildings more efficient. Seven federal agencies issued a combined funding announcement to create a single regional research center to develop and commercialize new building efficiency technologies. Similar Innovation Hub announcements are expected for other innovative technologies.

Greater targeting of federal funding is expected following a March 17, 2010 hearing by the House Subcommittee on Science and Technology, where much of the discussion centered on the funding priorities for the agencies overseen by the committee, including the National Science Foundation, the National Institute of Standards and Technology, the Manufacturing Engineering Laboratory, the Manufacturing Extension Partnership and Technology Innovation Program.

AB 2437 would establish a manufacturing loan and loan guarantee program to help ensure California remains competitive as the federal government rolled out new and expanded funding programs.

7) Manufacturing Report: According to a June 2010 report by the Milken Institute, "Manufacturing 2.0: A more Prosperous California," the challenges in the manufacturing industry serve as an early warning of the challenges facing the state's economy as a whole. The report finds that while manufacturing still drives the state's economy, California's competitive position is losing ground to other states and nations based on its regulatory climate, tax burden and reputation as a difficult and costly place to do business. One of the report's key findings was that California is losing a larger share of manufacturing employment and at a faster rate than other states.



The **chart to the left** illustrates the point made in the report, that California is losing its competitive position relative to other states.

In addressing these challenges, the report recommends the state develop a new cooperative relationship that undertakes the following:

- Streamlining the regulatory procedures for manufacturers and increase transparency and accountability in the regulatory process;

- Enhancing public incentives through better planning, coordination across government agencies and partnering with the public sector;

- Launching an industry-led campaign to encourage Californians to pursue careers in manufacturing;

- Creating a network of training, research and business incubation centers around state and to assist in business start-ups.

- Creating a public-private initiative to conduct research, develop new technologies and commercialize more efficient and environmentally sustainable manufacturing practices .

8) Author's amendments: Staff understands that the author will offer the following amendments:

   a) Specify that full funding, including administrative must be available prior to the activation of the program.

   b) Make related amendments to the general authority of the CIDFAC.

   c) Correct a technical error by replacing $10,000 with $10 million as the maximum loan guarantee amount.

9) Related Legislation: Below is a list of related bills from the current and previous session.

   a) AB 1009 (VM Perez) - Industrial Development Financing: This bill modifies statute related to the California Debt Limit Allocation Committee (CDLAC) and CIDFAC to allow these entities to allocate, issue, and collect data on the new types of bonds authorized under the American Recovery and Reinvestment Act of 2009. Status: Signed by the Governor, Chapter 648, Statutes of 2009.

   b) AB 1107 (Arambula) - Goods Movement and Small Business Development: As passed by JEDE, this bill requires the California Small Business Board within the Business, Transportation and Housing Agency and in collaboration with the Labor and Workforce Development Agency and the California Department of Food and Agriculture to assess the goods movement needs of small business and microenterprise in California, and to make recommendations thereupon, for incorporation in the California Economic Development Strategic Plan and in the State Transportation Plan. Status: JEDE-related content removed. Bill was vetoed by the Governor.

   c) AB 1420 (V. Manuel Pérez, Portantino and Block) - Inventory of Innovation Infrastructure: This bill requests the California Council on Science and Technology and the California Space Authority to seek funding to expand their inventory of the state's innovation infrastructure including university research facilities, private research parks, manufacturers and incubators. The current inventory covers innovation resources in 13 of California's 58 counties, providing an on-line interactive database that links researchers and businesses to global innovation networks. Status: The bill is pending in Senate Rules Committee awaiting assignment to a policy committee.

REGISTERED SUPPORT / OPPOSITION:

Support
California Labor Federation (sponsor)
California State Pipe Trades Council
State Association of Electrical Workers
Western State Council of Sheet Metal Workers

Opposition
None known

Analysis Prepared by: Toni Symonds / J., E.D. & E. / (916) 319-2090