

STATE CAPITOL
P.O. BOX 942849
SACRAMENTO, CA 94249-0081
(916) 319-2090
FAX (916) 319-2190

WEBSITE
AJED.ASSEMBLY.CA.GOV



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May 21, 2020

The Honorable Gavin Newsom
Governor of the State of California
State Capitol, First Floor
Sacramento, California 95814

RE: Manufacturing Response and Recovery Initiative

Dear Governor Newsom:

As members of the Assembly Committee on Jobs, Economic Development, and the Economy, we respectfully recommend the establishment of a Manufacturing Response and Recovery Initiative (MRR Initiative) to jump-start California's economic recovery from the coronavirus emergency and to become better prepared to protect the health and safety of our residents in the future.

The State Emergency Services Act, Government Code Sections 8550 - 8669.7, confers upon the Governor certain emergency powers and the responsibility to provide for state assistance in the organization and maintenance of the emergency programs, including the assignment of functions, establishment of new programs, and the coordination and direction of the emergency actions of relevant entities. These emergencies include natural, manmade, and war-caused emergencies that result in conditions of disaster or in extreme peril to life, property, and the resources of the state. Overall, the State Emergency Services Act provides the Governor with tools to protect the health and safety and preserve the lives and property of the people of California in difficult times.

California faces many hurdles in meeting the challenge of the coronavirus emergency. Extended global supply chains have hampered the state's ability to meet the basic needs of our health care system and food supply chain, and have fundamentally impaired our ability to develop and follow evidence-based policies. While California's disaster response capabilities are some of the best in the world, in the last few months we have learned the serious downsides to global supply chains for crucial goods, such as the lack of personal protective gear and swabs for testing kits.

Comprised of both an executive order and new legislation, the MRR Initiative first sets the framework to quickly and efficiently stand-up the manufacturing infrastructure to support the state in meeting future health emergencies, earthquakes, fires, and other situations that place California lives and livelihoods in peril. Second, the MRR Initiative recommends five key program actions to address the coronavirus emergency now and put the state on a solid track to recovery.

In moving forward, the MRR Initiative must be guided by the knowledge and experience of professionals in the manufacturing, workforce, economic development, and finance sectors. Supported by this ongoing engagement, the Governor's Office of Emergency Services needs to expand its preparedness, response,

and recovery plans to address California's manufacturing and supply chain capacity to meet the state's emergency needs. Among other items, the emergency response framework of the MRR Initiative includes:

1. **Integrated Emergency Plan:** Incorporating manufacturing needs into the state's emergency plan and establishing orders and regulations to carry out necessary actions to prepare, respond, and recover from a state of emergency, as required by Section 8567 of the Government Code.
2. **Pre-Guidance to Private Sector:** Developing and maintaining guidance to manufacturers and other entities within the supply chain to ensure the state's manufacturing needs can be met either directly or through repurposing of manufacturing facilities. This includes maintaining a current assessment of high priority and limited supply components, workplace skill sets, and production capabilities. This guidance should be integrated and consistent with the state's standardized emergency management system. The state's manufacturing technical assistance center can also play an important role in these efforts.
3. **Public Contracts and Acquisition:** Establishing streamlined contracting policies and model contracts for securing raw materials, technologies, and a workforce necessary to scale-up quickly in order to meet the state's manufacturing needs in an emergency. Activated upon the Governor's direction and modified to meet the unique needs of a state of emergency.
4. **Streamline Permitting:** Establishing a streamlined permitting protocol to support the repurposing, retooling, and modification of existing manufacturing facilities within hours and days, not months and years.
5. **Waive and Postpone Taxes and Fees:** Authorizing the waiving and/or postponement of taxes and fees normally incurred in the construction of buildings, repurposing of facilities, and purchase of equipment and other goods.
6. **Qualified Workforce Pool:** Establishing a rapid response protocol that integrates education and workforce partners to meet supply chain needs.
7. **Finance Retooling of Manufacturing Plants:** Establishing a disaster loan program that can be activated by the Governor to finance the retooling, start-up, production, and distribution of manufacturing facilities.
8. **Designate a Logistics Team:** Identifying a logistics team to assess and monitor resources, equipment, businesses, and workers necessary to meet the state's emergency needs.

While the federal government can utilize the Defense Production Act to expedite, assure, and expand the supply of resources to meet the nation's emergency needs, California does not currently have similar authority. By recognizing supply chain vulnerabilities in advance and setting general contingencies in place, the state would gain valuable time when pivoting to meet its manufacturing needs. These preparations would also allow for the inclusion of workers' health and safety needs, rather than uncovering these needs in the throes of an emergency.

In addition to better preparing for the next emergency, California must take immediate steps to rebuild the state's manufacturing capacity. This cannot happen overnight and it will not happen without purpose and intention. Below are key program actions California should take immediately to meet the challenges of the COVID-19 economic recovery and begin to rebuild the state's manufacturing resiliency:

- **Industry Input:** Create a California Manufacturing Council to guide and inform the economic recovery of the state’s manufacturing and logistics sector.
- **Saleable Credits to Raise Cash:** Repurpose \$100 million of the California Competes Tax Credit authority for FY 2020-21 awards to be saleable tax credits, the proceeds of which would create and retain manufacturing jobs. Prioritize manufacturers within the food production subsector.
- **Conscientiously Build California Manufacturing Base:** Assign the California Business Investment Service at the Governor’s Office of Business and Economic Development to attract foreign manufacturers that fill specific vital product gaps and complement the state’s current manufacturing supply chain capacity.
- **Remove Exemptions:** Spur private investment in manufacturing expansion and retention in California by allowing corporations and banks to receive interest income on tax exempt and taxable Industrial Development Bonds.
- **Align Interests and Create Patient Capital:** Authorize the conversion of publicly funded loans to a 1% to 3% nonvoting equity position in manufacturing facilities.

While today the state’s response to the coronavirus continues to be heavily influenced by our lack of in-state manufacturing capacity, this does not need to be California’s future. Thank you for considering our MRR Initiative recommendation. For questions and further information, please contact the Assembly Committee on Jobs, Economic Development, and the Economy at 916-319-2090 or at toni.symonds@asm.ca.gov.

Sincerely,



SABRINA CERVANTES
Chair



JORDAN CUNNINGHAM
Vice Chair



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