

Date of Hearing: January 10, 2012

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE  
ECONOMY

V. Manuel Pérez, Chair

AB 1233 (V. Manuel Perez) – As Amended: January 4, 2012

SUBJECT: California Economic Workforce Development Strategy

SUMMARY: Requires the Director of the Governor's Office of Business and Economic Development (GO-BIZ) to prepare a five-year economic and workforce development strategy. Specifically, this bill:

- 1) Requires GO-BIZ, in consultation with the Secretary of the Labor and Workforce Development Agency (LWD), to prepare, and update every five years, the California Economic and Workforce Development Strategy (Strategy).
- 2) Requires the California Workforce Investment Board (CWIB) to assist LWD in preparing the Strategy and provides that the Strategy may serve to meet existing requirements to have a state workforce strategy, one of the pre-conditions for drawing down federal Workforce Investment Act moneys.
- 3) Requires the Strategy to include goals, objectives and recommendations for legislation, as well as regulatory and administrative actions. The recommendations will, among other things, identify funding options, stakeholder partnerships necessary for implementation and methods for measuring success. The Strategy is also required to provide a context for these recommendations by providing a prioritized list of significant issues affecting the economy, an evaluation of the state's existing economic development programs and an assessment of the adequacy of state and local physical, electronic and human infrastructure.
- 4) The Strategy is required to be based on existing and current assessments that have been completed by relevant state, federal, local and regional public and private organizations. The bill includes a list of economic and workforce development related state entities and reports that need to be consulted with and/or reviewed by CAL-BIZ and LWD to ensure a comprehensive, yet cost effective, policy review.
- 5) Requires that a preliminary Strategy be developed and that the relevant policy and fiscal committees of the Legislature hold one or more public hearings on the document. Following the conclusion of those hearings, the Strategy may be finalized by CAL-BIZ.
- 6) Provides for the posting of the preliminary and final strategy on relevant state entity websites and requires notice of these actions to the public and Legislature.
- 7) Prohibits state funds from being used to finance the development of the preliminary Strategy.
- 8) Contains an urgency clause.

EXISTING LAW:

- 1) Establishes GO-BIZ within the Governor's Office for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth.
- 2) Establishes the LWD in state government, and provides that the Secretary is responsible for overseeing seven major areas including, but not limited to, enforcement of California labor laws; workforce development activities, including grant making for job training and coordination with other workforce development partners; tax collection; and economic development activities that lead to job creation and improved economic competitiveness.
- 3) 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.

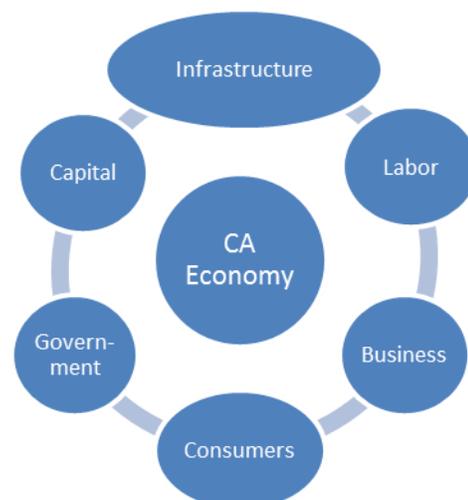
FISCAL EFFECT: Unknown

COMMENTS:

- 1) **Purpose:** According to the author, "Implementation of AB 1233 will help the state set a strategic path forward through prioritizing and coordinating state activities, supporting local and regional economic development activities and better leveraging of private sector and other public sector resources."

The author states that "without a blueprint to guide the expenditure of state resources the state risks losing its comparative advantages that have, up until now, allowed workers and businesses to remain competitive within the global economy. There is much work to be done," the author states, "to support small businesses, improve infrastructure and provide the education and workforce training necessary to be competitive in a marketplace that has few geographic boundaries."

- 2) **What the strategy would accomplish:** As the diagram below illustrates, there are six key drivers of the California economy. Each of these drivers has both its own unique characteristics and also qualities that are shared in common. In addition, the diagram illustrates how each of the drivers is inextricably linked within the overall economy. Weaknesses within any one of the drivers affects the others.



As an example, California's aging infrastructure limits the state's ability to attract new capital – especially in rural and historically underserved areas, such as those in the Coachella and Imperial Valleys. The condition of infrastructure in turn limits new job opportunities, resulting in less consumer spending and ultimately less tax revenues.

There is, however, no single document or planning process where these programs, services, and activities come together into a single comprehensive strategy. Up until August 2011, existing law required the state to have a two-year state *Economic Development Strategic Plan*, which would set state economic goals and recommendations necessary to improve the business climate and economy of the state. The Plan was to also evaluate the adequacy of state and local infrastructure, the effectiveness of the state's economic development programs and identify strategies to foster job growth and economic development covering all state agencies, offices, boards, and commissions that have economic development responsibilities. The timely and regular update of the state Economic Development Strategic Plan was also designed to allow the Administration and Legislature to monitor the effectiveness of state economic development programs and services on an ongoing basis.

The state Economic Development Strategic Plan was last prepared in 2002 and its statutory mandate was eliminated as part of the 2011-12 budget actions. The state still has a requirement to develop a state workforce development strategy, which is used to draw down federal WIA funding. The workforce strategy does not, however, meaningfully address economic and business development issues. AB 1233 would establish a requirement for the state to have a comprehensive strategy to support job creation, business development and attraction of private sector investment.

- 3) **Governor's Office of Business and Economic Development:** In February 2010, the Little Hoover Commission (LHC) undertook a review of the state's economic and workforce development programs. In its final report, *Making up for Lost Ground: Creating a Governor's Office of Economic Development*, it analyzed the status and effectiveness of current programs since the 2003 demise of the Technology, Trade and Commerce Agency and recommended the creation of a new governmental entity to fill the void left by the dismantled agency.

The report called for a single entity that would promote greater economic development, foster job creation, serve as a policy advisor and deliver specific services (i.e., permitting, tax, regulatory, and other information) directly to the California business community. In April 2010, Governor Schwarzenegger issued Executive Order S-05-10 (EO) as a means to operationalize the report recommendations including the creation of the Governor's Office of Economic Development (GOED).

Since its inception, GOED 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, the Office of the Small Business Advocate, and innovation. There are 23 positions assigned to GOED in 2011-12 Budget, which are funded through existing state resources and staffed by personnel loaned from state agencies and departments. In October 2011, the Governor signed AB 29 (cited and described below), which effectively codified GOED and changed its name to GO-BIZ, effective January 1, 2012.

Among other programs, GO-BIZ administers the Innovation Hub (iHUB) program in partnership with the statewide network of Small Business Development Centers. There are currently 12 regional iHUBs located throughout the state. 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 GO-BIZ 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 to locate and/or expand in California.

GO-BIZ 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 Web site (24x7) and apply for and pay all necessary city, county and state permits.

- 4) **Challenges to California's Competitiveness:** Innovation has long been the cornerstone of California's competitive edge. Innovation, by its very nature, however, 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.

On an ongoing basis, JEDE tracts a variety of surveys that rate and rank California's business climate. Overall, JEDE has found that the state's businesses experience higher costs than in many other areas of the nation, consistently ranking California in the top 10 highest cost states. However, surveys also find that even with those costs certain regions of the state remain highly competitive within the national and global marketplace. Below is a sampling of the findings from key economic surveys including those related to innovation, venture capital and research and development.

The 2010 innovation index developed by Milken Institute and Greenstreet Partners ranked only one California location in the top 25 communities in the nation, that being Hanford-Corcoran (24<sup>th</sup>). This finding is down from that of the 2007 index which ranked four California metro areas within the top 25 areas that are best to create and sustain innovation-based jobs: Riverside-San Bernardino (3<sup>rd</sup>), Bakersfield (17<sup>th</sup>), Vallejo-Fairfield (22<sup>nd</sup>), and Sacramento–Arden-Arcade–Roseville (25<sup>th</sup>).

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. A 2010 report, *Venture Impact: The Economic Importance of Venture Capital Backed Companies in the U.S. Economy*, showed that although California remains a leader in both venture-backed employment and revenues, its position is being seriously challenged. Among other key challenges is the continued impact of the 2008 recession.

According to the report, California was the only state, within the top 5 states, to see a decline in venture capital investment; the state went from receiving \$997 billion in 2008 to \$845 billion in 2010. The State of Washington saw the largest increase in venture capital

investment, having received \$79 billion in 2008 to \$256 billion in 2010. In addition, the report offered the following findings related to venture-backed companies and employment:

- Nationally, venture-backed companies contributed to 11.9 million jobs and \$3.1 trillion in revenues in 2010. California was the leader in revenues tied to venture-backed companies with \$846 billion, followed by Washington (\$256 billion), Texas (\$243 billion), Pennsylvania (\$238 billion) and Massachusetts (\$90 billion).
- The states with the highest employment attributable to venture-backed companies were California (3.9 million jobs), Texas (1.1 million jobs), Pennsylvania (783,527 jobs), Washington (778,579) and Massachusetts (775,151 jobs) in 2010.

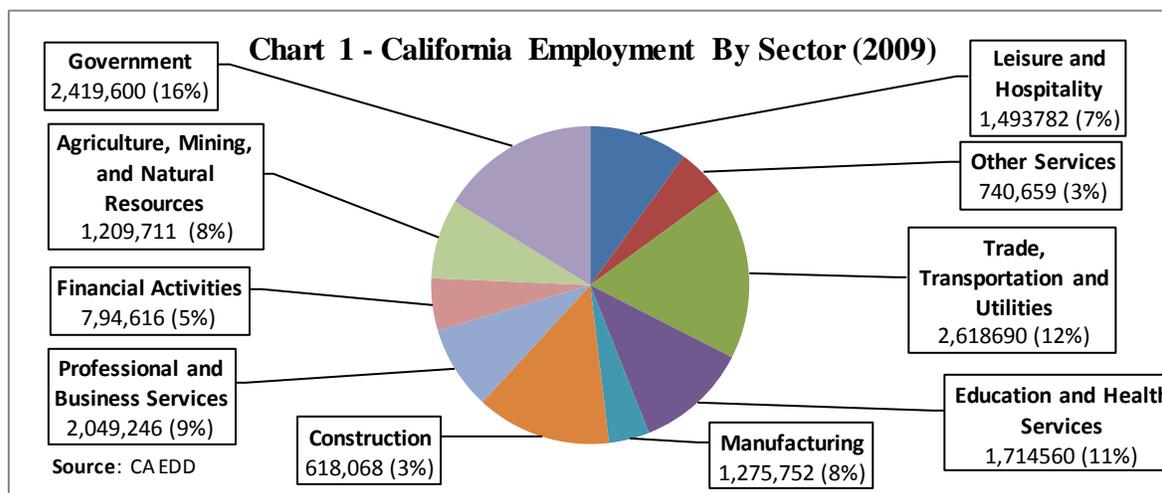
Another historic California strength has been its academic-based research capacity. In a 2006 survey, the University of California ranked second with Caltech third and Stanford fourth among all universities for biotechnology transfer. MIT was ranked first and the University of Florida ranked fifth.

California also ranks first among 50 states for patents issued in 2010, when 30,089 total patents were granted. Other top performing states include New York (8,095 patents), Texas (8,027 patents), Washington (5,810 patents), and Massachusetts (5,261 patents). California's research and development expenditures as a percentage of GDP were just above 3.5% in 2009, ranking the state first among many global competitors including Japan, Korea, Germany, France, Singapore, Canada, U.K., China and India. While the state's world class research universities remain an advantage, recurring cuts to the University of California system and the proliferation of new global centers of innovation will likely require new collaborations and investments.

Other indices reviewed identified additional areas that threaten California's long-term economic strength. In particular, JEDE surveys found that the state will need to make long-term investments in infrastructure, K-12 education, and workforce development. As an example, California ranks only 5<sup>th</sup> among U.S. states in science and technology according to the Milken Institutes 2010 Science and Technology Index. If the state does not regain competitiveness in these areas, California's advantages in entrepreneurship, finance, and technology will further erode.

- 4) **California Economy:** California is one of the ten largest economies in the world, having a 2010 GDP of \$1.9 trillion. This dominance 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.

*Chart 1 – California Employment by Sector (2009)* shows total reported California employment by industry. Many of these employment/industry sectors are linked to California's ability to participate within a global marketplace and continue to attract foreign



investment. Businesses with 1-99 employees comprise nearly 98% of all businesses, and they are responsible for employing more than 37% of all workers in the state. Due to their ability to provide specialized goods and services, small- and medium-sized businesses are crucial to the state's international competitiveness.

- 5) **Related legislation:** The following is a list of bills related to a state economic development strategy.
- AB 29 (John A. Pérez) – Codification of GO-BIZ:** This bill establishes the Office of Business and Economic Development 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: Signed by the Governor, Chapter 475, Statutes of 2011.
  - AB 699 (Portantino and V. Manuel Pérez) - 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.
  - AB 1606 (Arambula and Lieu) –Update Economic Strategy 1:** This bill would have updated the requirements of the ESP and required the development of a targeted set of actions to increase private investment in California's historically underserved communities, also known as emerging domestic markets. Status: Vetoed by the Governor in 2007.
  - AB 1916 (Portantino, Arambula, Price, Salas, and Caballero) – 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.

- e) ***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.

REGISTERED SUPPORT / OPPOSITION:

Support

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

Opposition

None received

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