Date of Hearing: April 17, 2012

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
V. Manuel Pérez, Chair
AB 1460 (Huber) – As Introduced: January 9, 2012

SUBJECT: California Commission on Industrial Innovation

SUMMARY: Repeals the implementing codes for the California Commission on Industrial Innovation (Commission) and deletes one cross reference to the Commission in a separate code.

EXISTING LAW:

1) Establishes the Commission within the Office of the Governor for purposes of encouraging industrial innovation and developing policies that maintain California's leadership in the national economy.

2) Establishes that the Commission shall consist of 25 members, including five from the public sector, six from labor, and ten from industries characterized by industrial innovation.

3) Establishes that, for purposes of defining the scope of the Commission, industrial innovation refers to technology-based companies that devote at least 5% of sales to research and development and at least 15% of sales to depreciable investments. Companies captured within this definition include, but are not limited to, those making electronic components, computers, peripherals, instruments, communication equipment, robotics, biotechnology, photovoltaic, and aerospace equipment.

4) Requires the Commission to convene representatives of business, labor, academia and government for purposes of assessing problems inhibiting, and latent opportunities for, industrial innovation throughout the state including:

    a) Assessing and evaluating programs which improve productivity while maintaining regard for worker involvement and satisfaction;

    b) Identifying means by which industry and universities can cooperate on research and development projects and in the establishment and or expansion of cooperative research and development institutes;

    c) Identifying models for financing industrial innovation;

    d) Identifying management techniques necessary for successful industrial innovation;

    e) Examining and evaluating the effectiveness of any state programs assisting or hindering industrial innovation; and

    f) Identifying shortcomings in the transportation, sewer, water, energy, and waste disposal systems which inhibit existing or future industrially innovative firms.

5) Establishes the Governor's Office of Business and Economic Development, also known as "GO-Biz," to serve as the lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth.

In this capacity, the office may recommend to the Governor and Legislature policies and actions to advance statewide economic goals and respond to emerging economic problems and opportunities; coordinate efforts to ensure federal grants administered or directly expended by the state advance statewide economic goals and objectives; market the business and investment opportunities available in California with both other states and internationally; encourage collaboration among research institutions, startup companies, local governments, venture capitalist and economic development agencies to promote innovation; conduct research on how the state can remain on the leading edge of innovation and emerging sectors; and support small businesses by providing information about accessing capital, complying with regulations, and supporting state initiatives that support small business.

FISCAL EFFECT: Unknown

COMMENTS:

1) Author's purpose: According to the author: "The California Commission on Industrial Innovation (Commission) was created by Executive Order in 1981 (B-91-81) and made permanent in statute in 1982. The Commission was envisioned to recommend effective and aggressive strategies for expanding the state's economy and employment rate. This Commission no longer exists and its proposed activities are supported by other divisions of government, including the Governor's Office of Economic Development."

2) Related state and federal programs: According to the Education Commission of the States, the increasingly globalized economy has put pressure on the U.S. to increase the skills of its citizens in the science, technology, engineering and mathematics (STEM) subjects, areas key to success in a high-tech world. Below are a number of examples of state initiatives:

   a) Seven states – Arizona, Arkansas, Connecticut, Minnesota, Missouri, Rhode Island and West Virginia – have convened councils, commissions or roundtables to provide recommendations and guidance on how STEM education can be improved in the state.
   b) Five states – Florida, Illinois, Massachusetts, Virginia and West Virginia – have created specialized grant programs to be utilized to improve STEM education in the state. These funds employ a variety of strategies for improving STEM achievement.
   c) Five states – Indiana, Massachusetts, Minnesota, Ohio and Texas – intend to improve the skills of teachers in STEM subjects through their initiatives.
   d) Two states – Minnesota and Ohio – include opportunities for students to earn college credit while in high school.

3) Overview of the national and California economy: Post-recession analysis traditionally divides the economic cycle into two stages: recovery and expansion. Recovery describes the period of GDP growth occurring after the economy hits bottom, or the "trough," and gives way to expansion when GDP growth surpasses its previous peak. Given this definition, the national economy entered the expansion phase of the economic cycle during the third quarter of 2011, when annualized GDP reached $13.38 trillion, surpassing the previous GDP peak of $13.36 trillion in the fourth quarter of 2007.

At a more practical level, the U.S. economy added an average 152,000 jobs a month in 2011. In December 2011 and January 2012, however, the economy added 203,000 and 243,000 net new jobs respectively, pushing national unemployment down to 8.3%.

At the state level, the California economy has also been improving at a steady pace. Between 2010 and 2011, unemployment fell from a high of 12.4% to 11.8% in 2011. In January 2012 the unemployment rate fell even further to 10.9%, its lowest rate in three years. In terms of nonfarm jobs gains from 2010 to 2011, the state outperformed the national labor market with 1.4% growth compared to 1.2% nationally. In fact, the state registered job growth across most industries with the largest percentage gains coming from Information, Education, and Administrative Support Services. Only Real Estate and Leasing, Government, Management of Enterprises and Other Services, saw continued job losses in 2011 but on a smaller scale than previous years.

In terms of international trade, the state continued to see sustained growth with the value of two-way trade increasing 11.9% from 2010 (based on year-to date data from January through November 2011). The rate was slower than the increase registered in 2010 when the value of two-way trade surged 21.6% over 2009. In 2011, however, the value of imports grew by 11% while the value of exports through the state's custom districts rose by 13.8%. It should be noted that while exports only account for a third of the value of two-way trade, they suffered a smaller decline through the recession and have come back more strongly than imports as demand from Asian trading partners continues to be strong.

According to the March 2012 UCLA Anderson Forecast, state unemployment should improve to an average of 9.8% in 2013. Overall the Forecast calls for a steady decrease in the California unemployment rate over the next two years, following a slow trajectory towards single-digit unemployment by the end of 2013 and reaching 7.7 percent by the end of 2014.

In addition, according to Chapman University's A. Gary Anderson Center for Economic Research, the California Composite Index, a measure of overall manufacturing activity, increased to 60.3 in the second quarter of 2012, up from 56.6 during the first quarter. Historically, readings above 50 indicate expansion in the manufacturing sector. This is significant because, according to an analysis by the Milken Institute, for every job created in manufacturing, 2.5 jobs are created in other sectors. At the upper bound, electronic computer manufacturing has a multiplier effect of 16 jobs.

4) Industrial economy: California leads the nation in high-tech industry metrics including employment, wages, payroll and establishments. On average, tech-workers in California earn $110,600, 119% higher than the state's average private sector wage. Overall, high tech businesses had a combined payroll of $102.9 billion in California, employing 931,000 high tech workers in 2010, or 78 of every 1000 private sector workers in 2010. A total of 42,000 high-tech establishments were located in California, highest among any state in 2010.

   At a more granular level, in 2010 the state ranked:

   a) 1st in computer systems design and related services employment with 197,800 jobs

   b) 1st in internet and telecommunications services employment with 149,300 jobs

c) 1st in R&D and testing labs employment with 134,700 jobs

d) 1st in engineering services employment with 101,500 jobs

Moreover, throughout the recession, California's economy has largely been bolstered by the Bay Area, where the region's high-end manufacturing, information services and high-tech sector has consistently shown expansion and job gains. In fact, in February the region added 15,400 jobs and had an unemployment rate of 8.6%, considerably lower than the statewide average of 10.9% during the same period.

Given that California is increasingly relying on the job gains and revenue generating potential of high-tech companies like Facebook, whose Initial Public Offering is expected to generate up to $2.5 billion for state coffers, the Committee may want to consider if repurposing the Commission to help guide GO-Biz activities is a better alternative to outright elimination.

While currently GO-Biz is responsible for advising the Governor on economic development activities, there is no specific place where high tech business leaders can convene and make recommendations to the state.

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

a) *AB 2860 (Lieu) Manufacturing Competitiveness*: This bill would have renamed the California Commission on Industrial Innovation the California Commission on Manufacturing and repurposed it to focus on the state's manufacturing competitiveness. Status: The bill was held in Senate Government Organization, 2006.

b) *AB 894 (V. Manuel Pérez) California Manufacturing Competitiveness Act of 2011*: This bill would have established a loan and loan guarantee program to enable the state to draw down federal dollars to support the retooling and expansion of manufacturing in California. Status: The bill was vetoed by the Governor. The veto message reads as follows: "The objectives of the bill are excellent. However, the loan program it creates can be run by the state's Infrastructure bank, which already has authority and experience lending directly to businesses."

c) *SB 550 (Padilla) Manufactured Optical Disc*: This bill authorizes law enforcement officials to inspect commercial optical disc manufacturing facilities to ensure compliance with existing laws requiring certain identifying marks on each disc, and increases the fines for individuals who violate provisions regulating manufactured optical discs. Status: The bill was signed by the Governor, Chapter 421, Statutes of 201l.

d) *AB 699 (Portantino and V. Manuel Pérez) Update State Economic Strategy*: 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: The bill was held in Assembly Appropriations Committee in 2009.

e) *AB 2506 (V. Manuel Pérez) Innovation and Job Creation Act*: This bill authorizes a comprehensive set of enhancements to tax incentive programs and administrative procedures including a manufacturing sales tax exemption, increased R&D credits and

secondary education donation credits for the purpose of creating jobs and supporting innovation-based businesses. Status: The bill is pending in the Assembly Committee on Business, Professions and Consumer Protection.

f) *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: The bill was held under submission in the Assembly Committee on Appropriations in 2008.

g) *AB 2860 (Lieu) Industrial Innovation Commission*: This bill would have renamed the California Commission on Industrial Innovation (Commission) the California Commission on Manufacturing Competitiveness and Innovation, specified the Commission should avoid recommendations that could diminish certain worker protections, and made conforming changes to the enabling statute. Status: The bill was held in the Senate Appropriations Committee in 2007.

REGISTERED SUPPORT / OPPOSITION:

Support

None Received

Opposition

None Received

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