

Date of Hearing: April 17, 2018

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sharon Quirk-Silva, Chair

AB 2596 (Cooley and Kiley) – As Introduced February 15, 2018

SUBJECT: California Economic Development Strategic Plan

SUMMARY: Requires the Governor's Office of Business and Economic Development (GO-Biz) to take the lead in preparing a California Economic Development Strategy (ED Plan). Specifically, **this bill**:

- 1) Designates GO-BIZ as the lead in preparing an ED Plan.
- 2) Requires GO-Biz to commission a study to make recommendations on the ED Plan. The first study is to cover a two-year period, and subsequent studies are to be for a three-year period. Each study is to include the following:
 - a) A statement of economic goals for the state;
 - b) Identification of governmental and nongovernmental impediments to economic development;
 - c) A list of legislative, regulatory, and administrative reforms necessary to ease the identified impediments and to make improvements to the business climate and economy of the state;
 - d) An evaluation of the effectiveness of the state's economic development programs;
 - e) A list of key industries in which the state shall focus its economic development efforts, and strategies to foster job growth and economic development covering all state agencies, offices, boards, and commissions that have economic development responsibilities;
 - f) An evaluation of proposals, policies, and goals developed at the regional level;
 - g) Strengths and weaknesses of the California economy and the state's prospects for future economic prosperity;
 - h) Existing, emerging, and declining industries in California and elsewhere;
 - i) Effectiveness of California's economic development programs in creating and retaining jobs and attracting industries;
 - j) Adequacy of state and local physical and economic infrastructure;
 - k) Opportunities to leverage federal resources for state priorities; and
 - l) Tactics for attracting private capital to the state and investment in state priority areas.
- 3) Authorizes the use of selected portions from previous studies to satisfy the prescribed elements of the study, as specified.
- 4) Requires GO-Biz to convene, *following the completion of the study described in #2*, a stakeholder advisory group to assist with evaluating and preparing the ED Plan. The stakeholder advisory group is required to include representatives from:
 - a) Businesses;
 - b) Labor unions;

- c) Organizations representing the interests of diverse ethnic and gender groups;
 - d) Local government leaders;
 - e) Academic economists and business professors;
 - f) Chambers of commerce and other business organizations;
 - g) Economic development organizations;
 - h) Economic development groups focusing on regional economies, government agencies; and
 - i) Key industries.
- 5) Requires GO-Biz to submit a report of its findings and recommendations regarding the study to the Governor and the Legislature no later than one-year following the first meeting for the stakeholder advisory group after January 1, 2019, and every three years following that date.
- 6) Requires GO-Biz to electronically deliver copies of the recommended ED Plan to every constitutional officer, legislator, and member of the Governor's cabinet, as well as to every state agency, office, board, and commission having economic development responsibilities.
- 7) Authorizes GO-Biz to accept nonstate moneys for the purpose of developing the ED Plan, including but not limited to, federal and private sector funds. In the instances where GO-Biz accepts donations, the following applies:
- a) No donor is allowed to contribute more than 25% of total cost of the development of the ED Plan;
 - b) GO-Biz is required to post a donor report on its website within 30 days of receiving funds; and
 - c) The donor report is required to include the donor's name and address, amount of the donation, and the date the donation was made.

EXISTING LAW:

- 1) Requires the Governor to prepare the Environmental Goals and Policy Report (EGPR) every four years for the purpose of defining the state's 20- to 30-year growth and economic development strategy with particular attention to statewide land use policy. Upon approval by the Governor, the EGPR shall serve to:
- a) Record approved goals, policies, and decisions of state government related to statewide growth and development and the preservation of environmental quality;
 - b) Advise the Legislature of statutory action required to implement state environmental goals and objectives;
 - c) Inform other levels of government and the public of approved state environmental goals and objectives and the proposed direction of state programs and actions in achieving them;
 - d) Provide a clear framework of goals and objectives as a guide to the preparation and evaluation of state functional plans; and
 - e) Serve as a basis for judgments about the design, location, and priority of major public programs, capital projects, and other actions, including the allocation of state resources for environmental purposes through the budget and appropriation process.

- 2) Requires the Governor to transmit to the Legislature, not later than April 15 of each year, an economic report to be designated as the “Economic Report of the Governor” setting forth all of the following:
 - a) A review of economic developments during the preceding calendar year, including trends in employment, unemployment, income, construction, and major economic sectors providing a measure of economic growth.
 - b) Forecasts of trends in employment, income, and investment for the coming year and trends in such major economic sectors as it is feasible to project.
 - c) Additional material on the California economy that is pertinent and of general interest, with historical analysis and projections of use in economic planning whenever possible.
 - d) Insofar as possible, summaries of state policies and actions that relate to the economic development of the state that foster and promote growth in employment, productivity, income, and purchasing power.
- 3) Requires the Governor, in conjunction with the economic report, to present an economic message and make recommendations as may be appropriate for programs to further economic development to increase employment, income, and investment in the state.
- 4) 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.
- 5) Authorizes GO-Biz to undertake international trade and investment activities and, as a condition of that authority, requires the office to develop and implement a comprehensive international trade and investment strategy (ITI Strategy). All international trade and foreign investment activities and funding are required to be consistent with the ITI strategy.
- 6) Requires the California Department of Transportation develop the State Transportation Plan (STP), which includes policies covering a broad system of concepts and strategies synthesized from regional transportation plans, including policies on statewide and regional goods movement.
- 7) Requires the California Department of Housing and Community Development (HCD) to prepare a California Statewide Housing Plan, which includes a statement of housing goals, policies, and objectives. The Statewide housing plan is also required to include recommendations for actions by federal, state, and local governments and the private sector that will contribute to the attainment of the housing goals established for California. HCD is required to annually report on the progress of implementation of this plan.

FISCAL EFFECT: Unknown

POLICY FRAME: As the sixth largest economy in the world, California's lack of a strategic plan impedes the state's ability to communicate clear policies on fundamental drivers of the economy, such as infrastructure development, workforce preparation, upward mobility, and support for emerging and dominant industry sectors with the state's regional economies. AB 2596 proposes the development of strategy to guide the state's economic development activities.

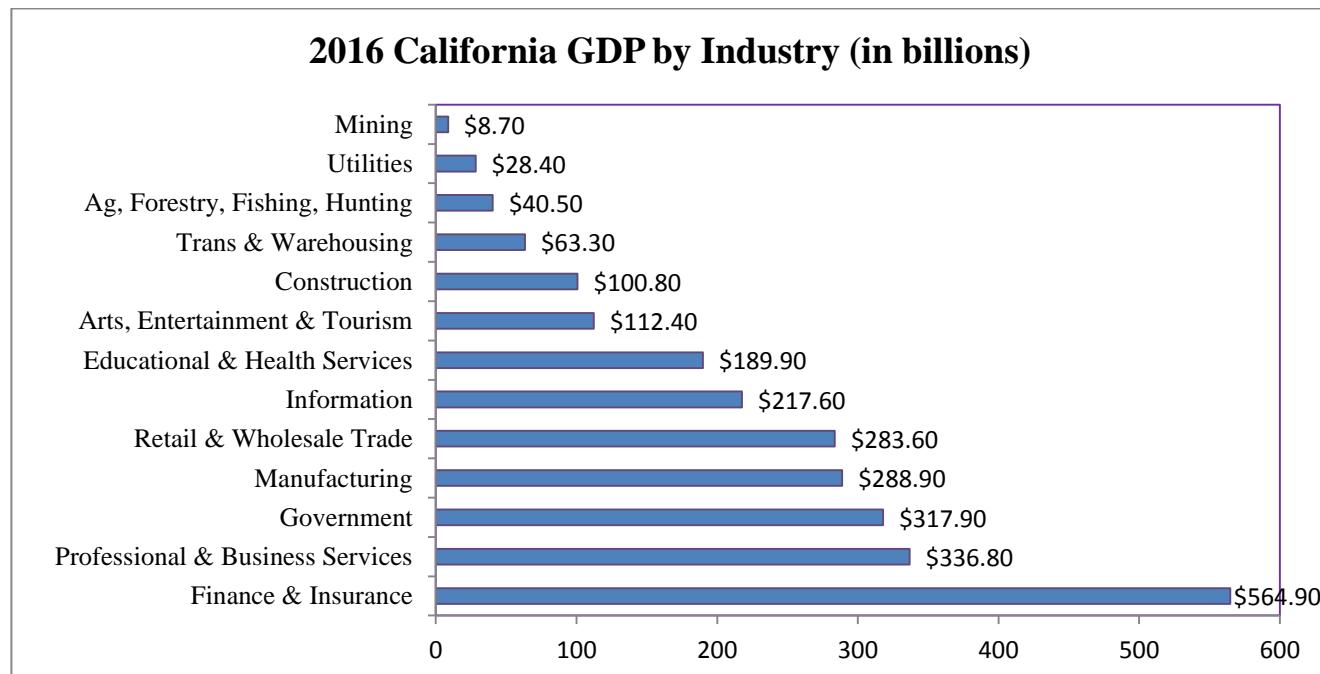
This bill analysis includes additional information on the advantages of a strategy, the interrelationships between state planning and funding, and the role of GO-Biz. Suggested amendments are discussed in comment 6.

COMMENTS:

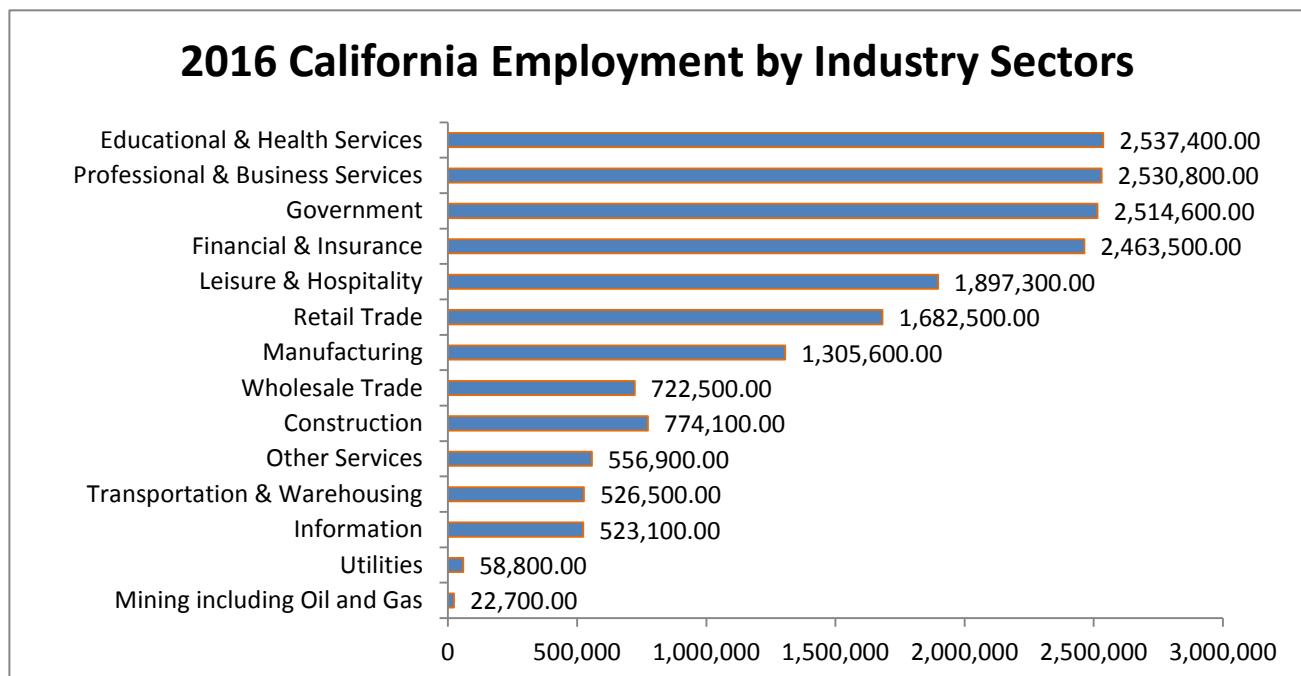
- 1) **California Economy:** California is home to over 39 million people, providing the state with one of the most diverse populations in the world, often comprising the single largest concentration of nationals outside their native country. In 2016, this diverse group of business owners and workers produced \$2.6 trillion in goods and services, ranking the size of the state economy as sixth largest in the world.

The state's significance in the global marketplace results from a variety of factors: including its strategic west coast location; its economically diverse regional economies; its skilled workforce; and its culture of innovation and entrepreneurship, particularly in the area of technology. California has the largest workforce in the nation, comprised of 19.3 million people who are comparatively younger and more educated than the national average. As an example, over 30% of the working age population in California holds at least a bachelor's degree.

Many policy makers and economists describe California as having not a single economy but having a highly integrated network of regional industry clusters that provide access points to other areas of the US and across the world. While biotech has a comparative advantage in some regions, information technology drives growth in others. Driving this economic vitality are both global fortune 250 companies with California headquarters and other facilities, as well as the state's robust small business sector, which employs nearly half of all workers and is comprised of more than 98% of all businesses in the state. The chart below displays California 2016 GDP as reported by industry sector.



The Finance and Insurance sector is consistently the largest contributor to state GDP, providing 21.7% to the California economy in 2016, including 14% of all jobs in the state. The state's two primary industry sectors in terms of GDP (Finance & Insurance and Professional & Business Services) provide a foundation to other industry sectors, including Manufacturing and Information. As shown in the chart below, these same industry sectors represent a significant number of employees.



While California has the largest manufacturing sector in the nation, the state is often bypassed for new facilities and the expansion of existing facilities. According to the California Manufacturers and Technology Association, California falls into the lower quartile of states, based on its job growth following the recession. In comparing new and expanding manufacturing activity (January 2010 to October 2016), California ranked 24 out of 32 major manufacturing states. California received only 2.57% of the job growth, as compared to Michigan (32.49%) that generated the most and New Jersey (-4.78%) that had a net loss of jobs over the 16-year period.

One challenge California faces in growing manufacturing jobs is the state's perceived lack of cost competitiveness and regulated nature of its business environment. These perceptions impact not only decisions about expansions and relocation from other states, but also reshoring decisions. According to one study, California is receiving only about 1% of reshored manufacturing jobs. In recent years, the Legislature and Administration have adopted and funded new initiatives related to the initial costs of development and expansions and technical assistance to help businesses navigate the state regulatory and permitting environment.

Perhaps one of the greatest challenges California faces is the exponentially increasing rate of technological change. The technologies that initially supported California businesses accessing global markets are now in second and third generations. From having a few select centers of innovation in Western industrialized nations, the world now supports multiple centers of technology and innovation. AB 2596 can play an important role in keeping California competitive in today's more technologically sophisticated, hyperlinked, and globally-connected world.

- 2) **What a Strategy could Accomplish:** There are ten key drivers of the California economy: capital, infrastructure, labor, business, education, research and development, resources, consumers, nonprofits, and government actions. Each of these drivers has both its own unique characteristics, as well as shared qualities. In addition, each of the drivers is inextricably linked within the overall economic environment. A significant weakness within any one of the drivers affects the others.

As an example, California's aging infrastructure limits the state's ability to move products from farm to factories and on to foreign and domestic markets. These delays in moving goods and the higher costs of transportation impacts businesses all along the supply chain resulting in less job growth, lower discretionary income, and ultimately less tax revenues.

While the impacts of poor quality infrastructure are known, addressing this challenge requires a coordinated and comprehensive approach by both public and private stakeholders. Since financing often requires long-term commitments and development projects are often permanent structures within the environment, agreements need to be reflected in public documents that can guide related decisions in the future.

The ED Strategy would serve such a purpose of identifying important issues and engaging appropriate stakeholders for the purpose of prioritizing key state actions. Up until August 2011, existing law required the state to have a two-year state *Economic Development Strategic Plan*, similar to the ED Strategy proposed in AB 2596. Based on an evaluation of current conditions, the required updates were designed to allow the Administration and Legislature to monitor the effectiveness of programs and initiatives on an ongoing basis. The last ED Strategy was prepared in 2002 and its statutory mandate was eliminated as part of the 2011-12 budget actions.



AB 2596 would re-establish a requirement for a comprehensive strategy that could support job creation, business development, and attraction of private sector investment.

- 3) **Prior Strategic Plan Attempts:** AB 2596 is modeled after AB 53 as it was passed by the Legislature and vetoed by the Governor. In his veto message, the Governor noted that GO-Biz was in the process of implementing several new business incentives, which were designed to replace the California Enterprise Zone Program, as well as "expanding direct foreign investment, promoting export of California products, removing unnecessary government barriers for businesses, and helping large and small businesses innovate, grow, and prosper in California." Due to these actions which were already proceeding, the Governor said, "I don't think a study and report will bring any additional focus to our efforts."

Prior to the passage and veto of AB 53, the Legislature proposed numerous bills. Initially these efforts focused on the development of an update to the 2002 ED Plan and later to try to reinstate the strategy. These initiatives were backed by significant stakeholder support, including the California Manufacturers and Technology Association, California Forward, California Stewardship Council, the REAL Coalition, and the California Association for Local Economic Development.

While economic development work has not stopped in California without the existence of a plan, many regions have reported feeling a disconnect between state actions and support for significant regional priorities. In contrast, many communities commended the Governor and GO-Biz for their proactive assistance in helping communities prepare competitive bids for the new Amazon headquarters.

What is being proposed in AB 2596 is not a document that sits on a shelf. AB 2596 proposes an on-going engagement process where state government and other stakeholders come together to share information, set goals, remove barriers, align resources, and work collaboratively toward inclusive economic growth.

- 4) **When CA had a Recognizable Plan for Economic Growth:** California's community and economic development policy had historically been driven by a number of statutory mandates, including the EGPR, the Governor's annual economic message, a Five-Year Infrastructure Plan (Infrastructure Plan), and the ED Plan.

Collectively, these four policy mandates formed the foundation for the state's short-, middle-, and long-term economic success. The EGPR was designed to set the overall long-term framework in which individual departments and agencies could develop more detailed functional plans, including elements of the state transportation and state housing plans that would then be used to draw down significant federal dollars.

The Infrastructure Plan was envisioned as a blueprint to set a rational infrastructure development agenda that supported the long-term economic and population growth assessments outlined in the EGPR. Based on the data and assessments from the EGPR and priorities identified in the Infrastructure Plan, an Economic Strategy Panel was convened to develop the ED Strategy, including goals and measurable economic objectives. The Governor's annual economic message served as an annual update and opportunity to true-up these other documents.

Currently the EGPR is out of date. The mandate for an ED Strategy, as noted earlier, was eliminated through a last minute budget action, and the Infrastructure Plan is little more than a tracking system of state infrastructure needs. The Governor's economic message has been subsumed within the discussion of the budget, including the release of the January proposed budget and the May Revise.

While California is awash with potentially impactful strategies, most are unaligned, and priorities between strategies are unclear. As California leads the world in addressing climate change, state actions or too often focused on one-off initiatives rather than laying the framework for an overall economic transition to a low-carbon fueled economy. AB 2596 proposes the development of an action plan, based on current research, that can help the state move forward.

- 5) **Office of Business and Economic Development:** In April 2010, the Governor's Office of Economic Development was established to provide a one-stop-shop for serving the needs of businesses and economic developers. While initially established through Executive Order S-01-10 and partnership

agreement with the SBDCs, the office was later codified and renamed GO-Biz. [AB 29 (*John A. Pérez*), Chapter 475, Statutes of 2010]

In 2012, the Governor initiated, and the Legislature allowed to advance, a comprehensive reorganization of the state's administrative structure. Key changes included the dismantling of the Business, Transportation, and Housing Agency (BTH) and further consolidating GO-Biz's position as the state's lead in economic development. Effective July 1, 2013, GO-Biz gained administrative authority for more economic development related programs and services, including the Small Business Loan Guarantee Program and the Infrastructure and Economic Development Bank.

In 2017, GO-Biz assisted over 18,000 companies through programs and direct services of GO-Biz's six service units: California Business Investment Services, the Office of Permit Assistance, the Office of the Small Business Advocate (OSBA), International Affairs and Business Development, the California Competes Tax Credit Program, and the Innovation and Entrepreneurship Program.

GO-Biz has distinguished itself in serving as a problem solver. As California's development of recharging stations lagged the state's mandate for large-scale deployment of zero emission vehicles, GO-Biz stepped in and began working one-on-one with local communities to site new stations. Implementation of the Sustainable Freight Plan received a boost of reality from GO-Biz's detailed efforts to help operationalize a challenging set of actions. Cyber-security and lean engineering are other areas where GO-Biz has also assisted the state government.

6) **Proposed Amendments:** Below is a list of amendments the committee may wish to consider:

- a) ***Legislative Intent:*** Add legislative intent regarding the importance and value of an ED strategy that promotes triple-bottom-line prosperity, private investment, and regional and stakeholder engagement;
- b) ***Purpose and Scope of Plan:*** Provide specificity as to the scope and purpose of the ED Strategy, including, but not limited to:
 - i) Specifying that the purpose of the plan is to create a comprehensive agenda and framework for inclusive state-wide and regional growth;
 - ii) Expanding the term of the study to five-years with biennial reviews and potential updates; and
 - iii) Specifying that the priorities set in the plan are to be used to guide the development and recommended actions of related state functional plans and strategies of agencies, boards, and commissions;
- c) ***Content of Initial Study:*** Revise and expand the list of mandatory elements of the study, including, but not limited to:
 - i) Identification and analysis of economic opportunities for underserved and high-risk populations and geographic areas;
 - ii) Identification of state workforce preparation and delivery systems;
 - iii) Identification and evaluation of impediments for small businesses development; and
 - iv) Potential funding options for covering the cost of implementing the recommendations;

- d) **Public Engagement:** Expand the public engagement provisions by requiring a public comment period and the option of stakeholder-hosted workshops to review and comment on the study;
- e) **Finalizing Plan:** Specify how the study and public comment will result in a final plan; including:
 - i) Identifying the final ED Strategy as an Action Plan and setting specific criteria for its contents;
 - ii) Setting review criteria for the advisory group to use when reviewing the study, evaluating the public comments, and making recommendations on the final ED Strategy;
 - iii) Requiring GO-Biz to seek legislative advice prior to the finalization of the Action Plan; and
 - iv) Reducing the notice requirements by directing GO-Biz to post the Action Plan on its website and notify the Legislature that the Action Plan is available;
- f) Implementation: Require ongoing engagement and evaluation including:
 - i) Requiring GO-Biz, within 120 days of finalizing the Action Plan, to publish a list of performance indicators which will be used to evaluate and track the implementation of the Action Plan;
 - ii) Requiring an annual progress report that also includes next steps; and
 - iii) Requiring a biennial review and optional update to the Action Plan.

7) **Related Legislation:** Below is a list of related legislation.

- a) **AB 29 (John A. Pérez, Feuer and V. Manuel Pérez) Office of Business and Economic Development:** This bill established GO-Biz to include a newly codified California Business Services and the existing Office of the Small Business Advocate. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
- b) **AB 53 (John A. Pérez) Re-instate a State Economic Strategy:** This bill would have required GO-Biz to lead the preparation of the California Economic Development Strategic Plan, as specified. In addition, the bill would have required a copy of the Worker Adjustment and Retraining Notification Act (WARN) notice be provided to GO-Biz and that it be posted on the Employment Development Department website. Status: Vetoed by the Governor, 2014. In his veto message, the Governor stated: "*GO Biz is now implementing the state's new economic development initiative that Speaker Pérez helped make possible earlier this year. In addition, thanks to legislation authored by Speaker Pérez, GO-Biz is expanding direct foreign investment, promoting export of California products, removing unnecessary government barriers for businesses, and helping large and small businesses innovate, grow, and prosper in California. For all these reasons, I don't think a study and report will bring any additional focus to our efforts.*"
- c) **AB 119 (Assembly Budget Committee) Elimination of State Economic Strategy:** This bill eliminated, commencing January 1, 2012, the responsibility of the Secretary of Labor and Workforce Development Agency to lead the preparation of a biennial California Economic Development Strategic Plan, and to biennially convene an Economic Strategy Panel to provide recommendations regarding the plan. Status: Signed by the Governor, Chapter 31, Statutes of 2011.

- d) **AB 699 (Portantino and V. Manuel Pérez) Update State Economic Strategy – Version 3:** This bill would have updated the requirements for the development of a California Economic Development Strategic Plan, especially in the areas of technology and innovation, and required it be submitted to the Legislature by May 1, 2010. Status: Held in Assembly Appropriations Committee in 2009.
- e) **AB 761 (Vasconcellos) California Economic Development Strategic Planning Act of 1993:** This bill required the Secretary of the Trade and Commerce Agency to convene a biennial Economic Strategy Panel to support the development of a California Economic Development Strategic Plan. Status: Signed by the Governor, Chapter 864, Statutes of 1993.
- f) **AB 1233 (V. Manuel Pérez) State Economic & Workforce Development Strategy:** This bill would have required GO-Biz to prepare a five-year Economic and Workforce Development Strategy. The blueprint will help the state set a strategic path forward by prioritizing and coordinating state activities, supporting local and regional economic development activities, and better leveraging of private and public sector resources. Status: Held in the Assembly Appropriations Committee in 2012.
- g) **AB 1606 (Arambula and Lieu) Update State Economic Strategy - Version 1:** This bill would have updated the membership of the Economic Strategy Panel and the requirements of the California Economic Development Strategic Plan. The bill would have also required the plan to include 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. In his veto message, the Governor stated: *"As I have said since the first days of my Administration, I am committed to fostering a healthy business environment in California. While this bill attempts to aid in that crucial effort, California needs a new overall strategy for its role in promoting economic development, not a piecemeal approach. I am instructing members of my Administration to build on their work and prepare new recommendations on how, and in what manner, state government can assist economic development in California. I look forward to working with the Legislature on this vital issue."*
- h) **AB 1916 (Portantino, Arambula, Price, Salas, and Caballero) Update State Economic Strategy – Version 2:** This bill would have updated the requirements for the development of a California Economic Development Strategic Plan, especially in the areas of technology and innovation, and required it be submitted to the Legislature by January 1, 2010. Status: Vetoed by the Governor in 2008. In his veto message, the Governor stated: *"The historic delay in passing the 2008-09 State Budget has forced me to prioritize the bills sent to my desk at the end of the year's legislative session. Given the delay, I am only signing bills that are the highest priority for California. This bill does not meet that standard and I cannot sign it at this time."*

REGISTERED SUPPORT / OPPOSITION:

Support

Greater Sacramento Economic Council, Bay Area Council, and Valley Vision (co-sponsors)
Align Capital Region
Assembly Member Roger Niello (ret.)
Buzz Oates
Chancellor of UC Davis, Gary S. May

City of Folsom
City of Lincoln
City of Roseville
Eskaton
Future Ford Lincoln of Roseville
Hanson McClain Advisors
Health Net
Los Rios Community College District
Markstein Beverage Co.
Mayor of City of Rocklin
Mikuni Restaurant Group, Inc.
Orange County Business Council
Placer County Board of Supervisors
President of Sacramento State University, Robert S. Nelsen
PRIDE Industries
Rabobank
Raley's
River City Bank
Roseville Mayor Susan Rohan
Sacramento Metro Chamber of Commerce
Sacramento Republic FC
SMUD
Sutter County Supervisor Dan Flores
Sutter Health Valley Area
The Niello Company
United Chamber Advocacy Network of California (UCAN)
United Corporate Furnishings, Inc.
University of the Pacific
VSP Global
William Jessup University
Yolo County
3 individuals

Opposition

None on File

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