

Date of Hearing: January 9, 2018

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sharon Quirk-Silva, Chair

AB 427 (Muratsuchi) – As Amended January 3, 2018

SUBJECT: California Aerospace Commission

SUMMARY: Enacts the California Aerospace and Aviation Act of 2018, which establishes the California Aerospace and Aviation Commission (Commission) for the purpose of serving as a central point of contact for related industries and to support the health and competitiveness of these industries in California. Specifically, **this bill:**

- 1) Expresses findings and declaration of the Legislature that include, but are not limited to:
 - a) 2016 the U.S. aerospace and defense industry contributed the following:
 - i) Supported 1.7 million jobs within businesses producing end-user goods and services and within the industry's supply chain;
 - ii) Represented approximately 2% of the nation's employment base and 13% of the nation's manufacturing employment base;
 - iii) Generated \$300 billion in economic value, representing 1.8% of total nominal GDP in the US, and 10% of total manufacturing output;
 - iv) Produced labor income approximately 44% above the national average – \$93,000 average labor income per job – reflecting the highly skilled nature of the workforce; and
 - v) Provided tax receipts to federal, state and local governments from companies and their employees of \$63 billion, or about 1.7% of total tax revenues.
 - b) Aerospace is one of California's largest industries, with a total economic impact in 2014 of more than \$100 billion annually including \$38.8 billion in indirect revenues that support related industries;
 - c) California's position as a global leader, however, is being increasingly challenged. Primary industry challenges have been identified, including: competition from abroad in aerospace manufacturing; a declining in-state customer base with government contracts; and state tax credits that need modification to match incentives in other states;
 - d) The significant benefits provided to California by the aerospace and aviation industries are in jeopardy as a result of the concerted efforts of other states and countries to lure the industry away from California; and
 - e) The Legislature declares that there is a need for a concerted and collaborative effort by California state and local governments to provide an environment supportive of, and conducive to, the undertakings of the aerospace and aviation industries in this state.

- 2) Establishes a 15-member Commission located under the administrative authority of the Governor's Office of Business and Economic Development (GO-Biz).
- 3) Provides that the purpose of the Commission is to serve as a central point of contact for businesses engaged in the aerospace and aviation industries and to support the health and competitiveness of these industries in California.
- 4) Requires the Commission to make recommendations to the Legislature, the Governor, GO-Biz, and other state agencies on legislative or administrative actions that may be necessary or helpful to maintain and improve the position of the state's aerospace and aviation industries in the national and world markets. In undertaking its mission and responsibilities, the commission is authorized to do all of the following:
 - a) Hold hearings, meetings, and other activities designed to solicit information from aerospace and aviation businesses and related stakeholders;
 - b) Host and participate in trade shows;
 - c) Approve or modify any marketing and promotion plan developed by the director to promote aerospace and aviation industries in the state;
 - d) Adopt operational rules and procedures, consistent with the authorities and requirements of this chapter, the GO-Biz, and general operating procedures of the state;
 - e) Request and obtain any information from state entities necessary to carry out the purposes of this chapter;
 - f) Accept grant moneys for the purpose of implementing this chapter; and
 - g) Accept gifts and donations, as specified.
- 5) Provides for the following Commission membership:
 - a) Nine appointments by the Governor including:
 - i) Two members who are from major aerospace or aviation corporations;
 - ii) One member who is from a small- and medium-size aerospace or aviation business;
 - iii) One member who is from a local or regional economic development corporation;
 - iv) One member who is from a seaport that exports aerospace or aviation equipment;
 - v) One member who is from the aerospace or aviation industry supply chain;
 - vi) One member from California's higher education system; and
 - vii) Two members who are members or employees of a union or guild of aerospace or aviation employees.

- b) Two appointments each by the Senate Rules Committee and the Speaker of the Assembly; and
 - c) Two ex officio, nonvoting members comprised of the GO-Biz Director and the Director of the California Military Department or their designees.
- 6) Requires the Governor to appoint a director to the Commission and specifies that his or her salary is to be set by the Department of Human Services, as specified. In addition, bill provides for the following relating to the selection and actions of the Commission Director:
- a) The Commission is authorized to submit a list of qualified director candidates to the Governor for his or her consideration;
 - b) The Commission Director is to report to the Director of GO-Biz;
 - c) The Commission Director is required to provide staff support to the commission and GO-Biz may supply additional staff on a permanent or temporary basis; and
 - d) The GO-Biz Director is required to act as the Commission Director during a vacancy in that position and during a temporary absence, disability, or unavailability of the Commission Director to perform his or her duties.
- 7) Requires the chairperson and vice chairperson to be selected by the Commission members from among the Commission membership. In addition, the bill specifies the following:
- a) The vice chairperson serves as the chairperson in the chairperson's absence;
 - b) The members of the commission serve without compensation; and
 - c) Members of the Commission are required to receive the actual and necessary travel expenses while on official Commission business.
- 8) Requires the Commission to meet at least four times a year. In addition, the bill provides the following related to Commission meetings:
- a) Meetings may be held in person, via the Internet, or via telephone;
 - b) A quorum is not necessary to meet to hear testimony; and
 - c) A quorum is necessary to approve official acts.
- 9) Authorizes the Commission to contract for consultants and appoint an advisory board. Members of the advisory board are to serve without compensation and are prohibited from using the name of the commission on any letterhead, business card, or identification badge without expressed authority from the Commission.
- 10) Requires all funds received by the Commission to be deposited in the Aerospace and Aviation Account, which is created by this bill. In addition, the bill provides the following related to these contributions:

- a) The Commission is allowed to accept nonstate funds for the purpose of operating the Commission and undertaking Commission activities;
 - b) Moneys in the account are subject to appropriation by the Legislation;
 - c) Moneys in the account are under the direct control of the Director of GO-Biz or his or her designee;
 - d) No donation may be larger than 25% of the annual budget of the Commission; and
 - e) For each private donation, the Commission is required to post specified information on its website. This requirement is in addition and does not supplant any requirements of the Political Reform Act of 1974, as specified.
- 11) Requires the Commission to annually report, as specified, on its activities. At a minimum, the report is required to include:
- a) A list of Commission activities;
 - b) Outcomes of those activities;
 - c) Trends impacting the competitiveness of California's aerospace and aviation industries; and
 - d) Key economic data about the industries.

EXISTING LAW establishes GO-Biz to serve as the state's primary agency for issues of economic and business development. Among other entities within GO-Biz' oversight are the California Business Investment Services Program, the Office of the Small Business Advocate, the International Trade and Investment Program, and the California Infrastructure and Economic Development Bank.

FISCAL EFFECT: Unknown

POLICY FRAME: California has historically been a global Aerospace leader, holding 9% of the combined space and aircraft market in the world in 2016. The aerospace industry is, however, being transformed by new technologies, commercial opportunities, and innovation centers within regions previously considered too remote or technologically undeveloped. In short, California's dominance is being challenged. In order to maintain the state's competitiveness, California may need a new framework from which the state can better facilitate and align public and private sector actions. Among other challenges, the state needs to prepare for a potential new round of military base closures, shifts in funding priorities at NASA, and implementation of the recently released National Security Plan, to name just a few.

AB 427 proposes the creation of an industry–focused commission to help guide the state's economic and workforce development activities. Able to be industry-funded, this Commission could provide a unique component to the state's existing economic framework, which currently focuses on regional economies and integrated economic development networks.

The analysis includes information on the California economy and the importance of the aerospace industry to the state. Suggested technical amendments are included in Comment 4.

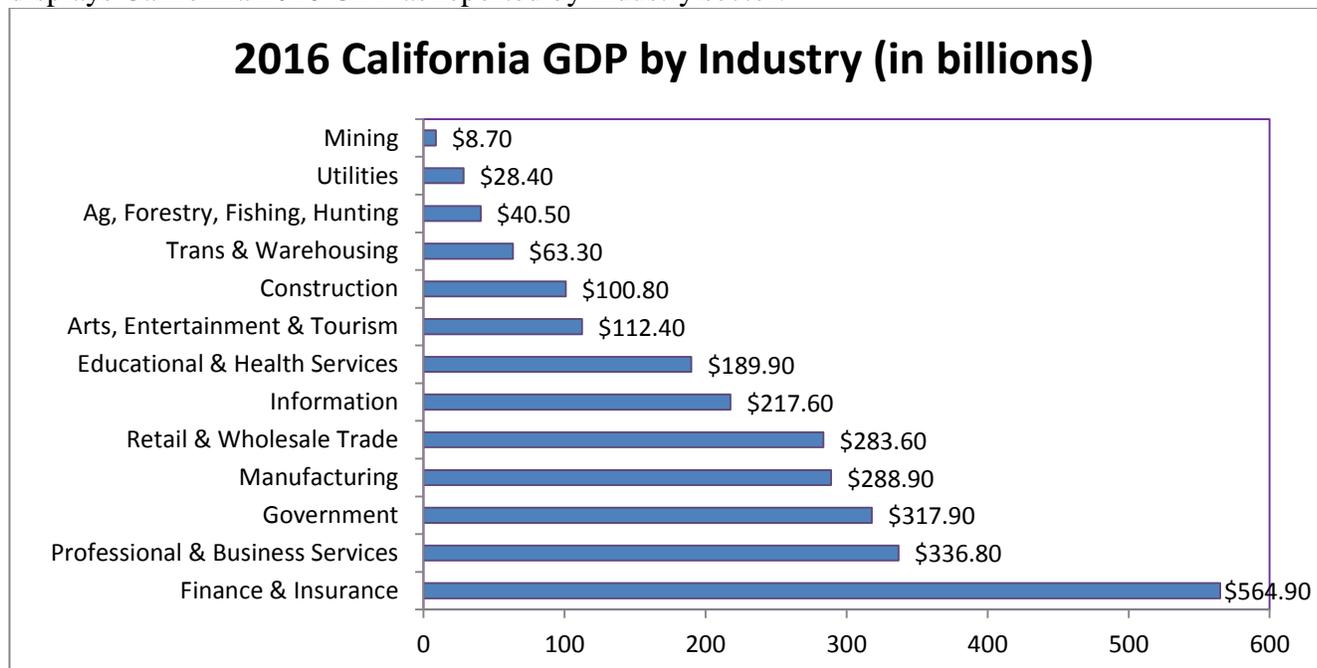
COMMENTS:

- 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.

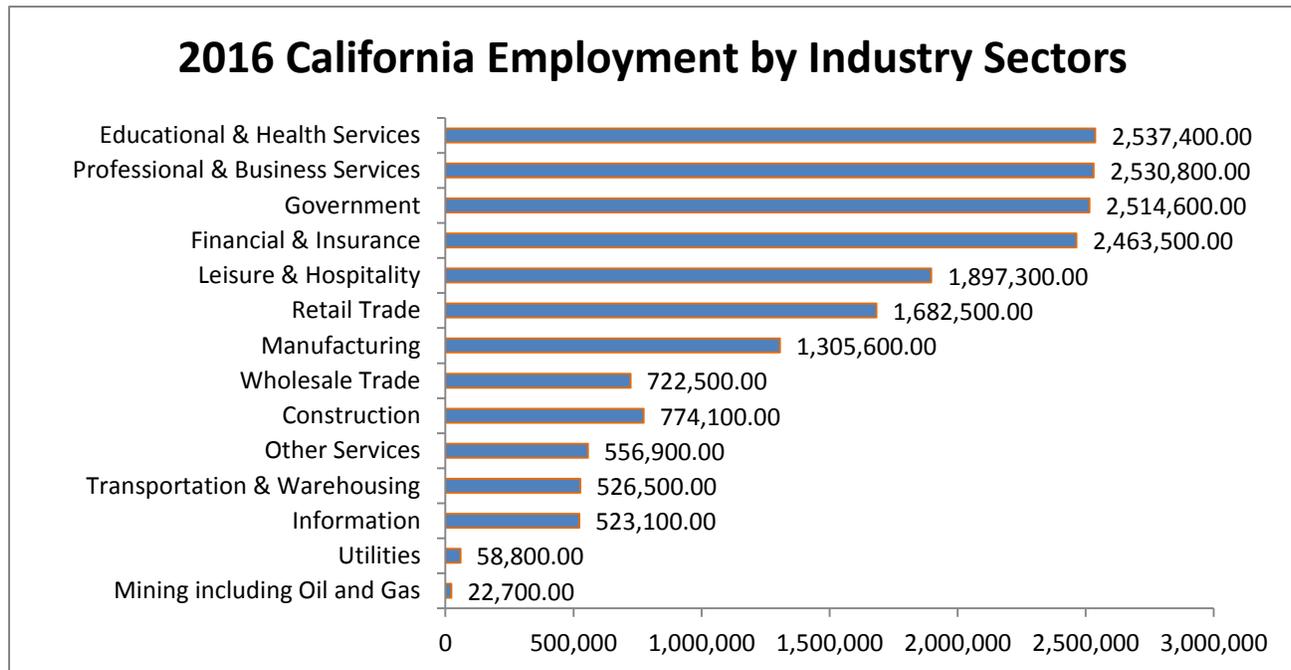
The state's significance in the global marketplace results from a variety of factors: including its strategic west coast location; its economically diverse regional economies; its skilled workforce; and its culture of innovation and entrepreneurship, particularly in the area of technology. California 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 U.S. 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 half of all workers and is comprised of more than 98% of all businesses in the state.

California's well diversified small business base also provides an economic advantage by meeting the niche needs of the state's dominant and emerging innovation-based industry sectors. 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.

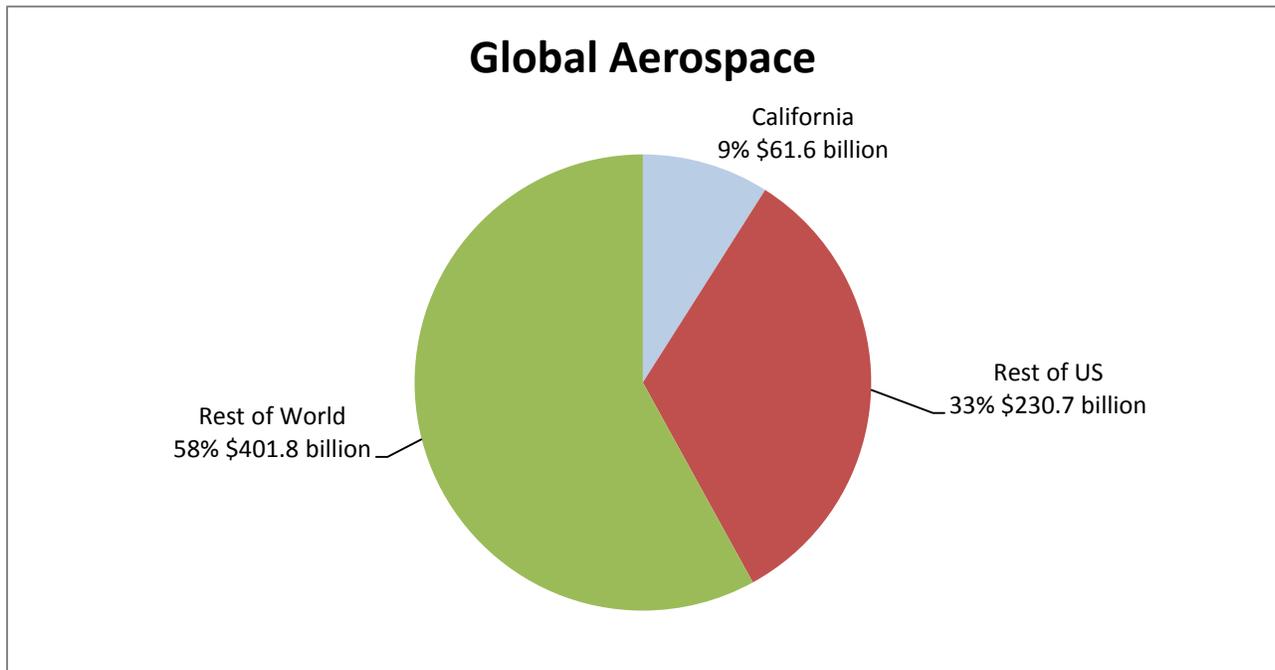


Global and domestic markets are constantly evolving. The pace of this change is increasing as digitization, among other trends, causes the radical reordering of "traditional" industry boundaries and interrelationships. For aviation and aerospace, these new technologies offer opportunities, but also challenges as other areas of the U.S. and the world develop their own capabilities and expertise.

National space policy is in flux and a shift away from satellite technologies, as an area in which California excels, to manned commercial missions to mars could have a significant ripple effect on a range of California industry sectors as federal and private research and development dollars go elsewhere.

- 2) **Economic Impact of Aerospace Industry:** In 2016, the American Aerospace Association published a report on the economic impact aerospace and defense industry, which found that these industries:
- Supported 1.7 million jobs within businesses producing end-user goods and services and within the industry’s supply chain, with about 531,000 jobs in the industry’s commercial aerospace segment (e.g. civil and general aviation aircraft, helicopters and space systems) and 511,000 jobs in the defense and national security segment of the industry (e.g. military aircraft, ground and sea systems, armaments and space systems).
 - Represented approximately 2% of the nation’s employment base and 13% of the nation’s manufacturing employment base.
 - Generated \$300 billion in economic value, representing 1.8% of total nominal GDP in the US, and 10% of manufacturing output.

- Produced labor income approximately 44% above the national average – \$93,000 average labor income per job – reflecting the highly skilled nature of the workforce.
- Provided tax receipts to federal, state and local governments from companies and their employees of \$63 billion, or about 1.7% of total tax revenues.



Recent California data was difficult to find, with most government, economic development, and business associations citing research by A. T. Kearney. This 2014 report notes that aerospace is one of California's largest industries, with a total economic impact of more than \$100 billion annually including \$38.8 billion in indirect revenues that support related industries.

In this report, the aerospace market sector includes:

- Space industry: Launch Services; Satellite Manufacturing; Ground Equipment; Engineering Services; and Satellite Services.
- Aircraft Industry: Aircraft; Engine and Parts; Search, Detection, Navigation, Guidance, and Nautical (SDNGN) Instruments; and Maintenance Repair, and Overhaul.

California is a global leader in in space instrumentation, satellite services and manufacturing, and engineering services. The state provides more than 50% of all aerospace engineering services and 59% of aircraft SDNGN instrumentation.

The California aerospace industry employs 230,000 workers directly and supports 511,000 jobs across related industry sectors. Other related industry sectors include Finance, Construction, and Transportation.

Key California strengths include having a capable and skilled workforce, with numerous technical universities to provide a pipeline for the industry. These advantages are identified as weakening, however, as well as siting several industry challenges. The report identifies several, including:

- Competition from abroad in aerospace manufacturing;
- A declining in-state customer base with government contracts; and
- State tax credits (reviewed in 2012) that need modification to match incentives in other states.

The report does note that wage differences between competitive states are equalizing and that there is an increasingly supportive political environment in the Assembly and among California's US Congressional delegation. In 2014, the Legislature approved an enhanced tax credit and tax exemption for Lockheed Martin and Northrop Grumman, who were competing for federal Department of Defense contracts. The incentives provided a tax credit of 17.5% of wages paid to its workers, potentially worth \$420 million over the 15-year life of the deal, and exempts from property tax tangible personal property having space flight capacity, AB 2389 (Fox), Chapter 116, Statutes of 2014 and AB 777 (Muratsuchi), Chapter 13, Statutes of 2014.

In 2016, the Legislature approved the extension of the sales and use tax exemption on equipment used in manufacturing through 2023, AB 398 (E Garcia), Chapter 135, Statutes of 2017.

With average wages in aerospace being over \$100,000 per year and more than 60% of the jobs in Southern California requiring specialized training, but less than a four-year degree, the aerospace and aviation business sector offer the state a unique strategy for supporting business expansion by both large and small businesses and upward mobility for workers.

- 3) **National Security Strategy:** In December, the Trump Administration released the National Security Strategy (Strategy), which could have far reaching funding implications on California's aerospace and aviation industries.

Among other things the Strategy "commits the U.S. government to partnering with private industry to explore space and defend U.S. assets there" and declares that the U.S. "must maintain our leadership and freedom of action in space," and directs the government to work with industry to "improve the resiliency of our space architecture.

The Strategy notes that space-based systems and information are playing an ever increasing role in military and intelligence systems, communications and financial networks, weather monitoring, and navigation. "As U.S. dependence on space has increased, other actors have gained access to space-based systems and information." Better technology and lower costs have allowed other governments and the private sector to obtain "imagery, communications, and geolocation services" which are possibly "resulting in a challenge to U.S. military operations."

The Strategy suggests that a robust manufacturing sector is also key to national security. More specifically that the ability of the military to respond to an emergency will depend on the nation's ability to produce needed parts and systems; support healthy and secure supply chains; and provide a skilled U.S. workforce.

In promoting greater investment, "the U.S. Government will work with industry partners to strengthen U.S. competitiveness in key technologies and manufacturing capabilities. In addition, we will reform regulations and processes to facilitate the export of U.S. military equipment." The Strategy also commits to supporting technical colleges and apprenticeship programs that link to targeted national security technologies.

AB 427 proposes the establishment of a commission of experts from the public and private sector to assist California law makers in evaluating and developing responses to changes and opportunities that arise as the federal government begins to implement this new Strategy.

- 4) **Proposed Amendments:** Below is a list of technical amendments staff recommends to further the purposes of the bill.
 - a) Add Assembly Member Fong as a co-author.
 - b) Set a two-year term for members of the Commission appointed by the Governor, except that certain initial appointments will be for three years in order to provide for a more stable board structure.
 - c) Authorize the reappointment of the Commission members.
 - d) Limit commission members from serving more than three terms.
 - e) Add two additional members to the Commission, including a workforce development professional and another small and medium-size aerospace or aviation industry representative.
 - f) Operations of the commission shall be supported through nonstate funds.
- 5) **Related Legislation:** Below is a list of related legislation.
 - a) ***AB 14 (Waldron) Unmanned Aircraft Systems (UAS) Task Force:*** This bill establishes the Unmanned Aircraft Systems (UAS) Task Force to develop a comprehensive policy for the use of UAS in California, including the use of UAS to promote aviation, aerospace, agricultural, public safety and technology industry uses throughout the state. Status: Failed Passage in the Assembly Committee on Transportation, 2015.
 - b) ***AB 240 (Lackey) California Institute for Aerospace:*** This bill would have requested the University of California Regents to establish the California Institute for Aerospace in order to achieve specified goals, including: a) creating new opportunities for jobs in aerospace research; b) design and using public-private partnerships to perform innovative research in aerospace technology; and c) develop California's next generation of engineers and technicians through expanded research opportunities within the aerospace industry. The bill requested the Regents to locate the institute at a satellite campus within 20 miles of Edwards Air Force Base or United States Air Force Plant 42, so that it will be close to a large part of the state's current aerospace research and development. Status: Held on the Suspense File in Assembly Appropriations, 2017.
 - c) ***AB 1071 (Brough) Aerospace Hirer Credit:*** This bill authorizes a tax credit for a qualified taxpayer, defined as an aerospace entity, in an amount equal to 17.5% of qualified wages paid or incurred during the taxable year to a qualified employee, not to exceed \$25,000,000 per taxpayer per taxable year. Status: Pending in the Assembly Revenue and Taxation Committee.
 - d) ***AB 2237 (Olsen) Science, Technology, Engineering, and Mathematics Partnership Academies:*** This bill would have established Science, Technology, Engineering, and Mathematics (STEM) Partnership Academies for the purpose of providing grants to school districts to establish up to 100 academies in STEM occupations including application software developer, computer user support

specialist, computer programmer, computer hardware engineer, industrial engineer, civil engineer, architectural engineer, aerospace engineer, dietetic technician, medical scientist, microbiologist, general medical practitioner, dental services provider, and chemist. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2016.

- e) **AB 2600 (Lackey) California Institute for Aerospace:** This bill would have requested the University of California Regents to establish the California Institute for Aerospace in order to achieve specified goals, including: a) creating new opportunities for jobs in aerospace research; b) design and using public-private partnerships to perform innovative research in aerospace technology; and c) develop California's next generation of engineers and technicians through expanded research opportunities within the aerospace industry. The bill requested the Regents to locate the institute at a satellite campus within 20 miles of Edwards Air Force Base or United States Air Force Plant 42, so that it will be close to a large part of the state's current aerospace research and development. Status: Held on the Suspense File in Assembly Appropriations, 2016.
- f) **AB 2664 (Irwin) UC Entrepreneurship:** This bill requires the University of California (UC) to make one-time expenditures on activities, using the \$22 million General Fund provided in the Budget Act of 2016, to expand or accelerate economic development in the state in ways that support innovation and entrepreneurship, including in the areas of aerospace, .Status: Signed by the Governor, Chapter 826, Statutes of 2015.
- g) **ACR 43 (O'Donnell) California Aerospace Week:** This resolution proclaims the week of March 23 through March 27, 2015, as California Aerospace Week and recognizes the contributions of the aerospace industry to the history, economy, security, and educational system of California. Status: Adopted, Res. Chapter 27, Statutes of 2015.
- h) **AJR 13 (Lackey) National Aeronautics and Space Administration:** Expresses the Legislature's advocacy for the President and the US Congress to continue to place an emphasis on increasing funding to National Aeronautics and Space Administration's (NASA) budget and encouraging the expansive use of public-private partnerships to propel the industry forward into the next generation of advancement. Status: Adopted by the Legislature, Resolutions Chapter 144, Statutes of 2017.
- i) **HR 37 (O'Donnell) California Aerospace Days:** This resolution proclaims the days of February 29, 2016, and March 1, 2016, as California Aerospace Days. Status: Adopted, 2016.
- j) **HR 58 (Muratsuchi) California Manufacturing Day:** This resolution declares Friday, October 6, 2017, as California Manufacturing Day. Status: Adopted, 2017.
- k) **SB 1138 (Hueso) Space Day:** This bill requires the Governor to proclaim the first Friday in May of each year to be Space Day and to encourage public schools and educational institutions to conduct suitable commemorative exercises on that date. Status: Signed by the Governor, Chapter 196, Statutes of 2016.
- l) **SB 1215 (Allen) California Aerospace Commission:** This bill would have established the California Aerospace Commission to foster the development of aerospace-related activities including, but not limited to, aviation, commercial and governmental space travel, unmanned aerial vehicles, aerospace education and job training, infrastructure and research launches, manufacturing, academic research, applied research, economic diversification, business

development, tourism, and education. Status: Held on the Suspense File in Senate Appropriations, 2016.

- m) ***SR 19 (Fuller) California Aerospace Week***: This resolution recognizes the contributions of the aerospace industry by proclaiming the week of March 23-March 27, 2015, as California Aerospace Week. Status: Adopted, 2015.
- n) ***SR 60 California Aerospace Days***: This resolution recognizes the contributions of the aerospace industry to the history, economy, security, and educational system of California, its communities, and its citizens by proclaiming the days of February 29, 2016, and March 1, 2016, as California Aerospace Days. Status: Adopted, 2016.

REGISTERED SUPPORT / OPPOSITION:

Support

California Manufactures and Technology Association

Opposition

None on File

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