

HEARING BRIEFING MEMORANDUM

DATE: January 30, 2013

TO: Interested Parties

FROM: The Assembly Committee on Jobs, Economic Development and the Economy

RE: Briefing on the California Economy

On Tuesday, February 5, 2013, the Assembly Committee on Jobs, Economic Development and the Economy is convening its first legislative hearing of the 2013-14 Session. The objective of the hearing is to provide Members with a foundation from which to oversee and evaluate state programs and legislative proposals in the coming Session.

During the course of this hearing, the Committee will be briefed on the current and projected future of the California economy using an extended dialogue format between policy makers, academics, economists and practitioners. Presentations are designed to be short and provide a snapshot on how the recession impacted the state, demographic shifts expected to have lasting economic consequences, as well as other relevant business and financial trends driving global competitiveness and private investment. A public comment period is also scheduled to allow other economic development professionals, businesses and the general public to add their voice to the dialogue.

This memorandum provides background on the structure of the hearing, witnesses, key policy issues and recommendations for additional follow-up actions.

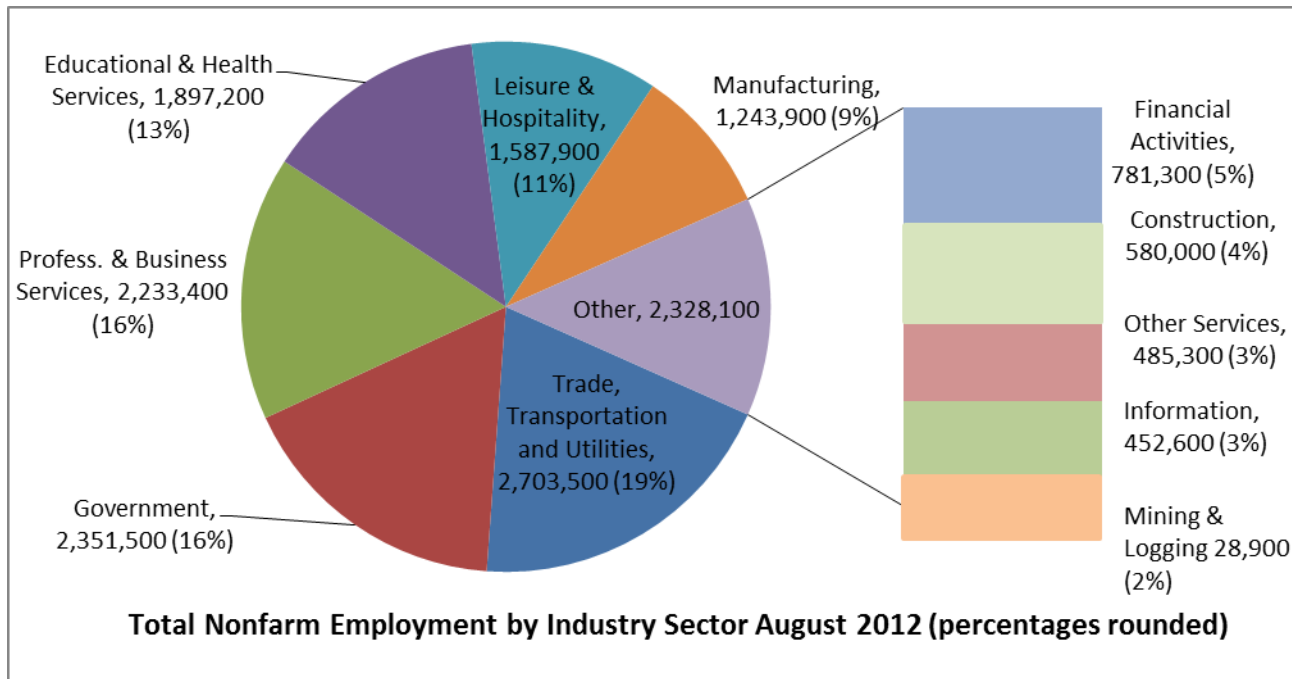
The California Economy

California is home to 38 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 2011, this diverse workforce produced nearly \$2 trillion in goods and services; \$159 billion of which was exported to over 220 countries around the world. Economists describe the state as having nine regional, yet highly interconnected, economies. Compared to most other states, California's economy has repeatedly demonstrated that it has the depth and breadth to drive markets, especially in the area of technology. If California were a country, its 2011 GDP would place it 9th in the world.

The **chart on the following page** provides details on California's largest industry sectors in August 2012, including the total number of jobs and percentage to state employment. A significant driver of the California economy is small businesses (less than 100 employees), which represent nearly 98% of all businesses and 38% of all employment. California has more minority-owned businesses than any other state in the US. California has a premiere public and private university system with world-class research capability, which has historically served as a catalyst for innovation whether working individually or collaboratively with other public and private institutions and businesses.

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California is also the leading state for the filing of patents – 30,750 total patents were granted in 2011, with the next closest being Texas with 8,045 patents issued. *Additional details on the California economy can be found in Appendix 1, Fast Facts on the California Economy.*

California was particularly hard hit in the 2007 financial crisis, which triggered multiple waves of mortgage defaults and foreclosures. The ensuing 2008 Recession further eroded the state's middle class and drove poverty levels, especially among children, to some of the highest in the nation. At its highest point, more than 2.5 million Californians were receiving unemployment benefits and small business bankruptcies were nearly double the national average.

Officially, California's economy is through the recession. Recovery, however, has been uneven, with some areas of the state still experiencing unemployment above 25%. Retirement accounts are depleted, plans for higher education continue to be delayed, and home values no longer serve as the ready financing pool for new entrepreneurs.

Framing the Issue: Challenges in the Post-Recession Economy

In the post-recession economy, California faces a national and global economic environment that is significantly different from that of five years ago. In the future, capital will increasingly become more geographically dispersed and California's singular dominance in technology and innovation has already shifted. New centers of innovation are developing across the globe with the support of new and more agile thinking about the deployment of human, physical and financial capital. In framing these shifts, economic researchers have identified several key emerging trends that will significantly redefine the U.S. economy and its position within the post-recession era:

- Cities and regions will become the dominant drivers of economic growth. State and national policies will need to be modified to reflect these emerging centers economic power.
- Advancing information and transportation technologies are expanding networks, making interregional and global relationships increasingly more important.

- Ideas and products are increasingly designed and assembled within networks that are more collaborative than combative.
- Job growth will be driven by smaller size companies that are better able to meet specialized consumer needs and connect to diverse supply chains within expanding global markets.
- Scarcity and rising prices will put increasing pressure on the development and deployment of alternative and lower carbon fuels.
- As the large Boomer population transitions from the workforce, productivity will become even more dependent on accessing middle and high skilled workers that can utilize evolving technologies and systems.
- The available workforce will be substantially smaller, more diverse, and have educational backgrounds that were provided through school systems that lag other industrialized nations.

While the state has many positive attributes, this changing global environment also brings new competitors, business models and societal expectations. Key among California's challenges are the quality of the state's infrastructure and logistic networks, its education and workforce delivery systems, and the business environment for supporting entrepreneurial and small business development fundamentals.

Speakers at the hearing will discuss how being successful in the next economy will require governments, businesses, and workers to transcend old economic and workforce development frameworks. In the next economy, regions will compete for entrepreneurs based on their ability to link high and middle-skilled individuals with smaller and more niche-market positioned businesses that will design and produce goods, services, and ideas across rural and urban communities, regions, state-to-state and state-to-nations.

Details on the Hearing Dialogue

As noted above, the hearing format is structured as an extended dialogue. Following brief introductory remarks by the Members of the Committee, **Mr. Mac Taylor**, California's Legislative Analyst, and **Dr. Jerry Nickelsburg**, UCLA Anderson Forecast, will open the discussion with a brief overview of the California economy, including a handful of key facts on the recession, recovery and future economy. Once framed, Members of the Committee will have an opportunity to further develop the discussion around key economic and demographic trends.

Dr. Gus Koehler, Time Structures Inc., will then join the discussion highlighting global trends that present social and economic stressors that may impair California businesses' ability to successfully navigate in the next economy. The next two speakers will lead the discussion back to the more narrow issue of small business development in California. **Dr. Glenda Humiston**, USDA Rural Development, in partnership with the Federal Reserve Bank, San Francisco District, recently published a practical guidebook on issues affecting small business development and **Dave Sikich**, President of Atlas Disposal, a small business owner, will discuss their own experience during the recession and how they see the future of their company. *Presenter PowerPoints available at the time of publication can be found in the Appendix.*

A public comment period follows to engage other important stakeholders. Persons interested in providing testimony during the public comment period should sign-up at the registration desk. Written comments may also be provided to the JEDE office.

Key Policy Questions

Rapid globalization in the past two decades has permanently changed the economic development paradigm for California communities. The state's unique location provides both opportunities for accessing international

capital and commerce, as well as challenges such as financing infrastructure suitable to participation within the global movement of goods. Among other issues, the Members may want to consider the policy questions below.

- Where are the opportunities for California to enhance its global competitiveness and economic integration within the broader global markets?
- Can the state's existing education and training systems meet the challenges of the post-recession economy? How can the state help to transcend historic divisions between career tech, college degrees, and employer needs?
- How can the state support local and regional efforts to catalyze private investment, especially in historically underserved and emerging areas?
- What actions can the state take to reduce de facto barriers to business start-ups, re-shoring of manufacturing and expansion of research and development facilities in California?
- Does the state have an appropriate game plan to attract private capital to meet the state's significant infrastructure needs?

Possible Follow-up Actions

During the course of the hearing a variety of issues will be raised and recommendations for future actions discussed. Below is a list of recommendations to help focus the discussion and inspire creative thinking about practical infrastructure development solutions.

1. Hold one or more subsequent hearings to examine key trends, issues raised, and current state capacity to adopt to the challenges of the next economy. Possible topics include, but not limited to, opening international markets to California small businesses, infrastructure finance to support high technology and innovation-based industries, and workforce preparation for the state's fastest growing and most significant industry sectors.
2. Introduce legislation to require a financing plan to support the state's goods movement and logistical needs. Emphasize transfer systems and networks of information, products, and services among regions and globally.
3. Introduce legislation to support the level of ongoing workforce preparation necessary for workers and businesses to successfully compete in the next economy. Prioritize dominant and emerging industry sectors. Ensure training and education opportunities are inclusive on emerging, younger, and more diverse workforce of California's next economy.
4. Work collaboratively with Select Committees with related issue areas to share the workload and leverage the Legislature's best ideas around economic development, foreign trade, global capital and private investment.

Reports related to Presentations

California Facts, by Mac Taylor, California State Legislative Analyst (January 2013): Prepared as a series of charts and tables that illustrate key components of California's economy, state budget, federal funding, state-local finance and demographic trends. Among other findings, the report includes charts that show that international trade is an important component of the state economy; California has gained about 500,000 of the 1.4 million jobs lost between July 2007 and February 2012; unemployment varies significantly among counties with Imperial and the San Joaquin Valley Counties still experiencing unemployment rates above 13%; the racial and ethnic make-up of California has shifted from a 67% Non-Hispanic White majority in 1980 to non-majority state in 2010 where

no ethnic group holds a majority; and large numbers of boomers are beginning to turn 65 and eligible to retire.
www.lao.ca.gov

Guidebook from the California Financial Opportunities Roundtable, Dr. Glenda Humiston, U.S. Department of Agriculture, Rural Development (August 2012): The California Financial Opportunities Roundtable (CalFOR) is a joint effort by the U.S. Department of Agriculture and the Federal Reserve Bank, San Francisco Region. Its purpose was to create a shared vision and provide recommendations on how best to leverage and allocate existing resources towards the goal of sustainable and scalable economic development, job growth and wealth creation. While sponsored by the USDA Rural Development, the scope of the final guidebook applies to all jurisdictions including urban, suburban and rural with an emphasis on bringing what is produced on the farm to the table of people in all areas of the state, nation and world (aka farm to fork). The guidebook presents best practices and current knowledge on innovative financial structures, advancements in investment instruments, new intermediaries, and evolving business structures (i.e. Benefit Corporations, Small Business Investment Companies, etc.) Over 90 stakeholders from various aspects of finance, foundations, government, small business, corporations and economic development sectors contributed to seven work groups which were asked to identify opportunities to improve access to capital.
<http://ajed.assembly.ca.gov/sites/ajed.assembly.ca.gov/files/Final%20CalFOR%20Handbook.pdf>

Materials in the Appendix

A brief, fact-packed summary of the California economy and copies of the presenters' PowerPoint presentations are included in the Appendix:

- Appendix 1 - ***Agenda*** for the February 5, 2013 hearing, "Overview of the California Economy"
- Appendix 2 - ***Fast Facts of the California Economy***, prepared by JEDE
- Appendix 3 - ***Drivers of the California Economy***, graphic prepared by JEDE
- Appendix 4 - ***California Facts*** PowerPoint, prepared by the Mr. Mac Taylor, California State Legislative Analysts
- Appendix 5 - ***Forecast of California Economy*** PowerPoint, prepared by Dr. Jerry Nickelsburg, UCLA Anderson Forecast
- Appendix 6 - ***Brewing the Perfect Economic Storm*** PowerPoint, prepared by Dr. Gus Koehler, Time Structures

Committee Contact Information

The Assembly Committee on Jobs, Economic Development and the Economy is the committee in the California State Legislature responsible for overseeing issues related to business formation, foreign trade and investment, industrial innovation and research, and state and local economic development activities.

The Committee Office is located in the Legislative Office Building (LOB) at 1020 N Street, Room 359. The phone number to the Committee is 916.319.2090.

Mail should be addressed to: Assembly Committee on Jobs, Economic Development and the Economy; State Capitol; Sacramento, CA, 95814. For security reasons, mail is not received or delivered to the LOB.