





This report was prepared by **Doug Henton**, Chairman and CEO of Collaborative Economics and **Julie Meier Wright**, retired President of the San Diego Regional Economic Development Corporation and former Secretary of the California Trade and Commerce Agency with the assistance of **Steven Cahn**, **Joanne Kozberg** and **Nathan Gardels** of the Think Long Committee for California. It is based on:

**Extensive interviews with current and past leaders of California's economic development. Those interviewed include:**

**Bill Allen**, President and CEO of the Los Angeles Economic Development Corporation; **Bob Balgenorth**, President of the State Building and Construction Trades Council of California, AFL-CIO; **Kathleen Brown**, Chairman of Investment Banking, Midwest, Goldman Sachs; **John Bryson** retired Chairman & CEO of Edison International; **Gray Davis**, former California Governor; **George Deukmejian**, former California Governor; **Michael Donnelly**, Sr. Vice President of Merchandising, Kroger & former President of Ralphs Grocery Co.; **Bob Foster**, Mayor of Long Beach and former President of Southern California Edison; **Chris Garland**, Office of Lieutenant Governor Gavin Newsom; **Russ Gould**, former Director of the California Department of Finance and past Chairman of the University of California Regents; **Carl Guardino**, President and CEO of Silicon Valley Leadership Group; **Christine Herron**, Director of Intel Capital; **Doug Hutcheson**, CEO of Leap Wireless/Cricket Communications; **Irwin Jacobs**, founder and former Chairman, Qualcomm; **Jeff Jonker**, Chief Business Officer of Satori Pharmaceuticals; **Stephen Levy**, Director of the Center for the Continued Study of the California Economy; **Lenny Mendonca**, Director of McKinsey and Company, Inc.; **Leslie Miller** with the Office of the Chairman of Google, Inc.; **Gavin Newsom**, Lieutenant Governor of California; **Manuel Pastor**, Professor of American Studies & Ethnicity, University of Southern California; **Noel Perry**, Founder of Next 10; **Art Pulaski**, Executive Secretary-Treasurer, California Labor Federation; **Charles Reed**, Chancellor of the California State University; **Fred Ruiz**, Chairman & CEO of Ruiz Foods; **Peter Schwartz**, Co-founder & Chairman of Global Business Network; **Ashley Swearengin**, Mayor of Fresno; **Laura Tyson**, S.K. and Angela Chan Chair in Global Management of the Haas Business and Public Policy Group, University of California, Berkeley; **Peter Uebberoth**, Founder & Principal, Contrarian Group; **Meg Whitman**, former CEO of eBay; **Pete Wilson**, former California Governor; and **Mark Yudof**, President of the University of California.

**Discussion of the Think Long Committee's Task Force on Jobs, Infrastructure & the Workforce held at Google, Inc. on May 6, 2011, and chaired by Lieutenant Governor Gavin Newsom. The following task force members were present: Julie Meier Wright, Sarah Flocks** representing Art Pulaski, **Christine Herron, Bob Hertzberg, Stephen Levy, Leslie Miller** and **Noel Perry. Becky Morgan** attended as a guest.

**Discussion of the Think Long Committee at a meeting on August 10th, 2011, chaired by Dr. Laura Tyson.**

**The Think Long Committee wants to thank Stephen Levy for his major contribution to this endeavor as well as the following individuals: Greg Blue**, Director of Government Affairs, SunPower Corporation; **Victoria Bradshaw**, former Secretary California of Labor and Workforce Development Agency; **Tony Brunello**, former Deputy Secretary for Energy and Climate Change, California Resources Agency; **Patrick Callan**, President, National Center for Public Policy and Higher Education; **Rachelle Chong**, Regional Vice President of Government Affairs for California, Comcast; **Norman Emerson**, Principal, Emerson and Associates; **Chris Garland**, Chief of Staff to Lieutenant Governor Gavin Newsom; **Ted Harris**, Principal, California Strategies; **Winston Hickox**, former Secretary of California Environmental Protection Agency; **Loren Kaye**, President of California Foundation for Commerce and Education; **Robin Kramer**, Commissioner, Port of Los Angeles; **Sunne Wright McPeak**, President and CEO, California Emerging Technology Fund and former Secretary, Business, Transportation & Housing Agency; **Mark Watts**, Principal, Smith, Watts and Co.; and **Peter E. Weber**, Chair, Executive Committee, California Partnership for the San Joaquin Valley.

**The Think Long Committee applauds Governor Jerry Brown and leaders in the Legislature for their efforts to address California's economic challenges and its double-digit unemployment rate.**

**Finally, the Committee thanks Lt. Governor Gavin Newsom for chairing its Task Force on Jobs, Infrastructure & the Workforce and for his focus on improving the state's economic prospects.**



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# INTRODUCTION

California and its economy enjoy many strengths and advantages compared to its national and global competitors. The world's eighth largest economy, the state includes industries with significant long-term growth potential. California is the nation's leading center of technology and innovation, capturing \$1 in every \$2 of the nation's venture capital funding. It is the dominant entertainment center with 40% of the nation's jobs. California also is the leading Pacific Rim center for exports, foreign trade and investment. It remains the nation's largest agricultural producer and exporter, and tourism has solid long-term growth prospects as consumers around the world experience rising incomes.

But, the competitive climate has become even more challenging for California and the nation. Other countries such as China, India and Brazil are producing strong economic growth and making rapid advances in technology while investing aggressively in infrastructure and education. No longer is America the only center of technology and innovation. Instead, both California and the nation are experiencing high rates of high school dropouts and failing to increase the number of college graduates, particularly in science, technology, engineering and math.

California, and the nation as a whole, still can seize economic opportunities, but only if both overcome these multiplying sets of challenges – challenges made even tougher by the ongoing economic downturn and lingering effects from the “Great Recession.” Failing to act with a real sense of urgency will threaten the essence of the California lifestyle, which is built on the state's middle class, its workers and their families and is fueled by opportunity and innovation in an evolving global economy. Cultivating a healthy economy in California will provide the good jobs that pay family-supporting wages.

In setting forth how California best can adapt to these challenges, the Think Long Committee for California Task Force on Jobs, Infrastructure and the Workforce first analyzed the results of 20 years of prior reports as well as conducted interviews and held discussions with more than 50 business, government, academic and labor leaders from regions throughout the state.

From this work, a set of recommendations emerges around three key points:

- California is an economy of distinct regions
- Productivity and innovation are key to future growth and prosperity
- Public policy should promote productivity and innovation in both the public and private sector

Since California is an economy of distinct regions, any statewide economic strategy that seeks to bolster broad-based prosperity and a healthy middle class of skilled workers must be built “from the bottom up.” Further, such a strategy requires both reducing the cost of doing business by streamlining our complex regulatory process and adding value to the business climate by investing in infrastructure, innovation and people.

As it establishes an economic strategy, the state should focus resources and policies where its strengths and comparative advantages lie: its climate; the relative size of its market; a highly skilled workforce; regions that are hubs of innovation; and access to trade with Asia and Latin America.

The Task Force also carefully reviewed the often repeated criticism that California is a terrible place to do business. These complaints have been around for decades, through good times and bad, and there are dissenting views. Here is where there is no dissent: Good customer service is essential, whether one is talking about a business or a government agency. California must provide that higher level of service in order to compete with other states and nations. As we recommend in this report, it can start by providing single points of contact for interested investors and businesses. Consolidation of duplicating agencies and streamlining regulations can save money over the long term, but the main immediate payoff will be in better customer service.

Traditionally, the debate about creating an economic strategy for California has revolved around two competing definitions of a good business climate:

- **Cost-Driven:** In this view, a good business climate is defined as the absence of high taxes, excessive regulations, high labor costs and high utility rates. Businesses are assumed to be cost-driven and thus locate and grow in environments that provide the lowest-priced inputs (land, labor, capital) and the least interference by government.

- **Innovation-Driven or High-Road:** In this view, a good business climate is defined as what is added to the environment for industries and companies. This includes a skilled workforce, accessible technology (often from a state university), capital markets, quality infrastructure and a network of suppliers. Government has an important role to play in helping to create and maintain this type of business climate.

As noted, a competitive business climate for California requires both critical investments that add to productivity as well as policy reforms that reduce the costs and complexity of doing business.

The key to high-road success is public investment to attract private investment. California’s strengths are its places and people. William F. Miller of Stanford summarizes the direction for a high-road state economic strategy:

What works? What is effective are “people and place” policies. What does not diffuse away quickly are infrastructure and workforce. Although a few key people may be mobile, large numbers of the workforce are not. Policies that support the education and training of the workforce, that support research combined with education, that support a modern infrastructure, and support the development of institutions that facilitate collaboration between business, government, and the independent sector will have lasting effects of building capacity that does not diffuse away. Develop the people and places—the habitat for living and working. Supporting the ongoing development of California’s people and places, its core strengths, should be the central approach of the state’s economic strategy.

The Task Force’s report is divided into three sections:

- An executive summary of priority recommendations for improving infrastructure, strengthening higher education / workforce development and streamlining regulation.
- Facts about the California economy that informed the recommendations.
- A full set of actionable recommendations and goals. Those include: education and budget strategies to reform and fund increased investment through strengthening local government, proposals to organize and fund critical infrastructure investments, and policies to streamline regulation.

# KEY RECOMMENDATIONS

The Silicon Valley Leadership Group's 2011 CEO Business Climate Survey identifies the key challenges in developing an innovation strategy for California:

*Increasingly it is difficult for Silicon Valley companies to compete against other centers of innovation and entrepreneurship—both domestic and abroad. Among the unique challenges are globalization and the international competition for talent. A deteriorating state infrastructure in areas ranging from public education to public transportation has added to the difficulties of recruiting the best workforce, finding them available housing, and educating their children to be tomorrow's world-class workforce.*

The CEO survey reminds us that in competing for businesses we also must compete for talent, which means competing for people. Executive interviews conducted in recent industry studies for local workforce boards uniformly rank access to a skilled labor force as the number one reason for locating in California. Fortunately investments in people and places do double duty—providing great places to work while simultaneously developing great places to live.

The Think Long Committee has developed a series of recommendations for investing in California people and places to create communities and regions that say “come here to live and work.” PreK-12 education recommendations, while critically important to a strong California workforce, are not covered in this report as they are part of the Think Long Committee's broader scope of deliberation. Key infrastructure, higher education and job/workforce recommendations are set forth below, as are recommendations for how to streamline customer service (one-stop shopping) and how regulations can be implemented to make California a more welcoming place for innovation and jobs.

## IMPROVING INFRASTRUCTURE

Think Long has identified infrastructure needs of more than \$765 billion over the next 10 years with nearly half of these dollars currently without a funding source. (For more detail see chart on page 18.) Planning for and funding infrastructure in California is a partnership effort involving the state, local and regional agencies; the private sector; and the federal government. The funding gaps are large but it is critical, given California's continuing budget problems, that new investments are made strategically and wisely. Such investments also would address immediately one of the biggest contributors to the state's high unemployment rate: the ongoing loss of construction jobs. Thoughtful investments in infrastructure — as suggested in the Legislative Analyst's report “A Ten-Year Perspective: California Infrastructure Spending” — will have both substantial short- and long-term effects on the state's economic strength.

Before additional funds are allocated Think Long recommends the state:

- Develop a better process to insure that infrastructure investments are made wisely. Major ideas include rigorous evaluation of alternatives; devolution of planning and prioritization to the local and regional level where possible; and extensive reliance on user fees where feasible, including active promotion of public-private partnerships. The state also must ensure there are proper inter-regional and multi-modal linkages.
- Carefully evaluate alternatives to additional investment and identify innovative ways to invest. There are many ways to expand infrastructure capacity besides building. These approaches include conservation, metering for more efficient energy use and the use of prices such as peak-hour pricing for energy and highways to reduce



peak demands and new construction needs. There are more efficient materials and construction process available, as well. The state should be devoting more resources to maintenance (versus repair, which is more expensive) and also should reduce bureaucracy to expedite projects.

- Implement the Water Innovation Roadmap by the California Council of Science and Technology, Department of Water Resource and other partners. Doing so will promote science and technology solutions to the state's water-supply challenges by using IT and smart systems applications to increase water efficiency; reduce energy intensity of water systems; and assure that surface and groundwater use is monitored using remote sensing and satellite technologies.

A funding strategy for California's unfunded infrastructure gap should include the following:

- Require a new dedicated funding source for future state General Obligations bonds. This approach follows the well-accepted practice where local agency and school bonds are approved only if voters also approve a new funding source. Benefits include improved transparency and governance since voters will know that state bonds aren't "free" and reduce debt-service costs, which will free up funds for other purposes in the state budget.
- Adopt user fees, where appropriate, for infrastructure funding. This can include tolls for peak-hour freeway use and the use of public-private partnerships where the private sector finances and develops public infrastructure in return for user fees. The state should pursue opportunities for private-sector financing of infrastructure where possible although the review of infrastructure needs conducted by the Think Long Committee for California found that a large proportion of new investments such as road repair is not appropriate for the toll road/user fee model.
- Follow the recommendations of the Legislative Analyst's Office (LAO) and others to correct deficiencies in the current state fuel-tax system to provide funding that keeps pace with needs and inflation in an era when fuel efficiency and fuel use are improving rapidly and no longer able to keep pace with transportation funding needs.
- Improve local agency ability to plan for and finance infrastructure by adopting the same rules for local infrastructure and transit districts that we have for schools, where new funding can be approved by local voters with a 55% majority. Also implement the recommendations of the Think Long Committee's tax-reform plan to broaden the sales tax base in a way that helps local transit districts.

## STRENGTHENING HIGHER EDUCATION AND WORKFORCE DEVELOPMENT

California's once world-class higher education system, which fueled much of the state's innovation in the past, has fallen victim to decreasing discretionary spending in State budgets. Simultaneously, other workforce development pipelines, such as industry-supported apprenticeship programs, also have lagged or been too disconnected from industry needs. The result is that, by some estimates, California will be short one million highly skilled workers in the year 2025. The next generation of workers in California and the state's businesses demand and deserve far better. To address this looming workforce crisis and to provide California workers with the skills needed for well-paying, stable jobs, the following reforms must be implemented:

- **Guarantee affordability.** California should develop a fee structure for its Community Colleges, California State University and University of California that is gradual, moderate and predictable. Financial-aid packages need to continue to support low-income students, and financially needy middle-income students should be able to receive sliding-scale benefits, as well.

- Work with the federal government to expand access to H1B visas to meet current skills shortages, notably in tech industries, and develop a new category of permanent visas for foreign students graduating with advanced degrees in STEM fields.
- Improve coordination between the P-12 system and the different segments of higher education — University of California, California State University and the California Community Colleges. Transfer among higher-education segments needs to be a more seamless process. Remove barriers to and increase concurrent enrollment for high school students among all higher education segments. Eliminate outdated classes, especially at the Community Colleges.
- Assess all secondary-school students for college readiness at the end of their junior year, as begun by the Cal State University system, and offer remedial classes for those in need during their senior year.
- Promote career technical training opportunities for students in high school and beyond. Partner with industry to develop programs and internships that show students how education is connected to career opportunities. Establish a “jobs consortium” of cutting-edge companies to create a mentoring/internship program for home-grown labor that connects STEM students in community college, CSUs and UCs to future jobs.
- The California Workforce Board should partner with local workforce boards to disseminate the best practices developed by local workforce boards in assisting existing workers who need both to understand the new world of job searches and rapidly changing employer expectations and assistance in acquiring new or updated skills. Local workforce boards should be encouraged to develop coordinated regional strategies with other boards in the same regional labor market and to develop stronger relationships with their private-sector partners.
- Develop real-time on-line jobs websites that link skills with employment for statewide and local use.

## STREAMLINING GOVERNMENT

Without reducing its regulatory and oversight standards and by making organizational changes at the least cost to the state, California’s government can be a better partner and provide much better customer service to businesses. Several key changes will strengthen the business environment and help sustain and grow jobs, while encouraging trade and investment. These include:

- Consolidate disparate existing economic development functions into a strengthened Office of Economic Development in the Executive Branch. Serving as the single point of contact for business assistance, this office would provide one-stop “concierge service” to companies seeking to locate and expand in California. This office would align the state’s economic development activities into one organization that would work with the state’s diverse economic regions; encourage them to develop and implement customized strategies; and enable action focused on each region’s unique challenges, industry mix and distinct assets. It would use existing positions and budgets in current Executive Branch agencies and commissions. No new public money would be expended. Enacting AB 29 (Perez) is a promising first step and model that aligns with the call for consolidation. Enacting SB 617 to strengthen the Administrative Procedure Act is another.
- Create a Regulatory and Permit Streamlining Unit within the Office of Economic Development that would cut through red tape and organize “red-carpet service” to reduce the time it takes to navigate the permit process for job-creating projects. This group also would be responsible for conducting an economic assessment of all regulations with a fiscal impact greater than \$25 million to provide policy makers with a baseline upon which to determine what additional reforms are needed. It also could carry out the regulatory functions of an Office of Economic and Regulatory Analysis as suggested by the Little Hoover Commission in its October 2011 report, “Better Regulation.”

- Enhance CEQA. The uncertainty created by California Environmental Quality Act (CEQA) lawsuits continues to be a significant deterrent to investment and business expansion. Often developments that meet the strictest environmental standards, address California’s clean-energy needs or offer much-needed new jobs are stymied or halted by legal challenges with little or no merit under the law. Specific enhancements are needed that will provide more certainty to the development process and allow CEQA to serve its original, critically important purpose of protecting California’s environment. Improvements should include reforming the definition of “standing” for lawsuits and establishing streamlined legal proceedings and permitting processes.
- Create “plug and play” economic zones that are pre-approved for CEQA and other land-use and zoning permits. Working with local zoning authorities, the State initially should target high-employment areas such as the Central Valley and the Inland Empire so businesses can open, expand and cluster as quickly as possible.

## **DEVELOPING TAX POLICIES TO SUPPORT INNOVATION**

Tax reforms that increase the attraction of California for innovation and private investment can improve the state’s competitive position in a challenging and increasingly “world is flat” economy. The most important reforms on tax policy proposed by the Think Long Committee — involving broadening the sales tax while reducing personal income tax rates, thus favoring production over consumption — are beyond the scope of this report. More specific tax or tax credit policies that would support innovation – such as a sales tax exemption for manufacturers on depreciable equipment, increasing the R&D tax credit from 15% to 20% to conform with federal policy and reforming the corporate tax code to adopt a mandatory single sales factor for apportionment – should be reconciled with the overall Think Long Committee tax recommendations.

## **CONTINUE CALIFORNIA’S TRADITION OF WELCOMING ENTREPRENEURS AND TALENTED WORKERS AND THEIR FAMILIES**

In addition to investing in California’s people and places and streamlining government to avoid duplication, minimizing permitting times and, in general, providing world-class customer service to residents and businesses, California can build on a strength that is often overlooked in discussions of 21st century economic competitiveness. That strength is California’s well-deserved reputation as a place where people are welcome.

The competition for talent demands a welcoming attitude and California has a proud history upon which to build. From the days of the Gold Rush to the emergence of Hollywood and the explosion of innovation in Silicon Valley, California has welcomed people without regard to where they were born, their spiritual or religious beliefs, the color of their skin or sexual orientation. Mostly this welcoming attitude derives from the openness of California’s residents and businesses but there are places where public policy can support the message “welcome to California.”

# FACTS ABOUT THE CALIFORNIA ECONOMY

There are characteristics about California's economy that are important to understand when considering the state's future. The overview presented below is a synthesis of a California Economy Update prepared by Stephen Levy, Director of the Center for Continuing Study of the California Economy, research by Collaborative Economics and other sources.

## U.S. AND CALIFORNIA ECONOMIES RISE AND FALL TOGETHER

- California is affected by most of the same factors that affect the national economy—spending decisions by consumers, businesses and government and by world economic trends. Historically California grows a little faster in high-growth periods such as the late 1990s and typically trails U.S. growth in recessions. But the pattern of state growth closely follows the national business cycle.
- California experienced larger job losses than the nation during the recession, primarily as a result of nearly 600,000 job losses related to the sharp decline in housing and other construction. During the recession California had smaller manufacturing job losses compared to the nation and increased the state's share of venture capital funding.
- Fewer than 20% of the jobs lost during the recession have been added back as job gains have been smaller than in a normal recovery, leaving unemployment rates high. California's unemployment rate exceeded the national rate by as much as three percent after the Vietnam War, during the early '90s aerospace restructuring and again today. In the past, the state's unemployment rate moved back in line with the national rate once the recessions were over.

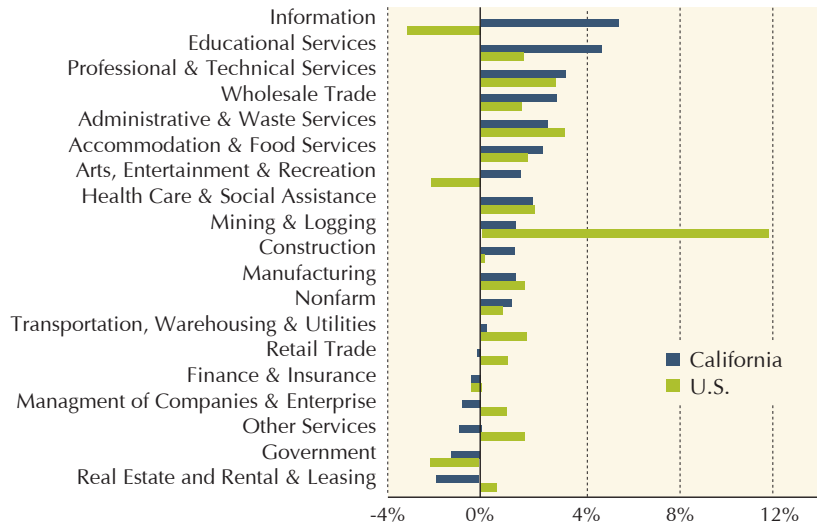
- There is much uncertainty in the global and national economy that will impact the California economy in the coming months. This results from external factors such as financial developments in Europe and Asia as well as federal fiscal and monetary policies that will affect overall economic growth. California's economic future will be shaped by these forces and by how Congress resolves the current policy gridlock.

## CALIFORNIA'S ECONOMY IS DRIVEN BY ITS INDUSTRY STRUCTURE

- The key factors that will affect California's economic performance are the prospects for and competitiveness of the state's key economic base sectors—those industries that sell goods and services to markets across the country and world.
- In the period between August 2010 and August 2011, California's percentage job gain was slightly higher than the nation—1.2% compared to 1.0%. But the good news is that the job growth was concentrated in sectors important for future growth. Of the 171,000 jobs added, 35,000 were in professional and technical services; 24,000 were in information services; 20,000 in wholesale trade as exports reached a record level; and 17,000 in manufacturing. There were additional job gains in the tourism sectors and even a long-awaited 7,800 increase in construction jobs. Overall job growth was and will continue to be restrained by a loss in government-sector jobs.

## YEAR OVER PERCENT JOB CHANGE IN INDUSTRY SECTORS

August 2010 and August 2011



Data Source: Bureau of Labor Statistics, Current Employment Statistics (CES) seasonally adjusted  
Analysis: Collaborative Economics

### CALIFORNIA'S ECONOMY VARIES BY REGION

- The California economy is a collection of diverse regional economies. With agriculture in the Central Valley and high tech in the Bay Area, entertainment and foreign trade in Southern California and tourism in coastal and mountain locales, the state's regions are known for their distinct economies. These regions have different strengths, demographic profiles, housing prices, climates and unemployment challenges.
- The diversity of the state's regional economies means that California's economic strategies should be informed by and reflect the different industry and demographic profiles among the state's economic regions.

### CALIFORNIA HAS ECONOMIC OPPORTUNITIES IN TECH, TRADE, TOURISM AND CREATIVITY

- The largest pool of high-wage job growth is projected to come from professional services, including computer, R&D, scientific and consulting, and from information services, including software and the broad array of Internet-related activities.

- Venture capital funding, critical to developing new goods and services, is growing again, and California's share remains at 50%.
- Port traffic is returning to pre-recession highs and exports of goods made in California reached record levels in recent months. For every two dollars of goods exports there is roughly one dollar of service exports.
- The tourism sector will benefit from global demand as California attractions and the weather combine to provide enjoyable business and personal travel opportunities.
- California's entertainment sector (especially creative work in production and post-production activities) continues to be the dominant center in the nation.

# FRAMEWORK

Although California as a whole can be considered the world's eighth-largest economy, conceiving of it as one monolith fails to highlight just what makes the state so economically strong: its distinct regions that take advantage of unique characteristics and assets to support core business sectors.

## **CALIFORNIA'S ECONOMY IS ACTUALLY A SET OF DIVERSE REGIONAL NETWORKS OF BUSINESSES, FINANCIAL AND EDUCATIONAL INSTITUTIONS AND PUBLIC INFRASTRUCTURE**

California's economy is composed of several distinct regional economies or ecosystems. What we call the state economy is built on the relative strengths of the different regions of the state. San Diego, Los Angeles, Silicon Valley, the Central Valley and other regions of California have different industries, institutions and talent bases.

## **IT IS IMPORTANT TO RECOGNIZE THAT THE STATE OF CALIFORNIA IS A POLITICAL JURISDICTION, NOT AN ECONOMY**

Public policies by state government affect the economy by defining a framework of rules and public investments. In other words, they can set the conditions for economic change and private investment by establishing the ground rules for the economy, but they alone do not determine the outcome of California's regional networks, which are driven by a complex set of both external and internal factors. What is often referred to as the "business climate" is a result of these ground rules.

## **THE GOAL OF STATE ECONOMIC STRATEGY SHOULD BE PROMOTING BROAD-BASED PROSPERITY ROOTED IN RISING PRODUCTIVITY**

Productivity is a function both of the efficient use of human, capital and physical resources and investments in people and innovation. The result should be well-paying jobs and thriving businesses in a wide variety of competitive industries. The keys to competitiveness in the global economy are continuous innovation in both products and processes as well as ongoing efforts to reduce factors that increase cost and to remove barriers

that slow innovation. The key to competitiveness for California is creating great places to live and work—places that say to entrepreneurs and talented workers and their families: "Come be part of the world's greatest center of innovation."

## **WHILE GROWING JOBS AND BUSINESSES SHOULD BE THE RESULT OF A SUCCESSFUL ECONOMIC STRATEGY, PUBLIC POLICIES SHOULD FOCUS PRIMARILY ON SETTING THE CONDITIONS FOR LONG-TERM, SUSTAINED INNOVATION AND PRODUCTIVITY**

What matters most is getting the basics right and creating the right environment for innovation, entrepreneurship and growth.

As noted in the introduction, the debate about creating an economic strategy for California has revolved around two competing definitions of a good business climate:

- **Cost-Driven:** In this view, a good business climate is defined as the absence of high taxes, excessive regulations, high labor cost and high utility rates. Businesses are assumed to be cost-driven and thus locate and grow in environments that provide the lowest-priced inputs (land, labor, capital) and the least interference by government.
- **Innovation-Driven or High-Road:** In this view, a good business climate is defined as what is added to the environment for firms. This includes a skilled workforce, accessible technology (often from a state university), capital markets, quality infrastructure and a network of suppliers. Government has an important role to play in helping to create and maintain this type of business climate.



KEY CHARACTERISTICS	COST-DRIVEN ECONOMIC STRATEGIES	INNOVATION-DRIVEN ECONOMIC STRATEGIES
<b>FOCUS</b>	Domestic competition Zero sum game	Global competition and collaboration Positive sum game
<b>LOGIC</b>	More inputs (land, labor, capital) create more output The lower the costs of inputs, the higher the profitability of outputs	More efficient and innovative use of higher-value inputs (physical, human, knowledge resources) creates more profitable output
<b>GOAL</b>	Employment growth	Increasing productivity and per-capita income
<b>APPROACH</b>	Incentives to attract or retain cost-driven firms and industries	Investments in talent and infrastructure to support innovation-driven clusters
<b>ROLE OF ECONOMIC DEVELOPMENT PRACTITIONERS</b>	Lead industry attraction and marketing efforts to firms and industries	Broker innovation networks, connecting inventors, financiers, and transformers, to produce results
<b>PERFORMANCE METRICS</b>	Quantity of jobs, number of firms attracted/retained	Quality jobs, wage and income growth, innovation (e.g. patents, commercialization, start-ups, etc.)

Developing the effective “people and place” policies that will sustain California’s innovative business sectors and support the strengths of its regional business ecosystems requires looking at economic strategies in ways that are appropriate to the 21st century global economy. The table above shows the key characteristics of cost-driven and innovation-driven economic strategies. Most California regions are combining both depending on their regional needs while focusing on higher-value activities, talent, prosperity and competition that support collaboration and global linkages. The State must be a partner in these regional strategies.

As we look to the future, California and the nation face new economic challenges in a rapidly changing global environment. A recent McKinsey Global Institute report on prospects of growth and renewal in the United States points out that “to deliver economic prosperity for this generation and the ones that follow, the United States needs to retool the economy’s engine so that it can run at higher, sustainable growth rate for decades to come. The key to achieving this is productivity.”

To achieve this, the McKinsey Global Institute outlines seven recommendations for the nation that are equally relevant to the California economy, which, after all, is similarly diverse and expansive:

1. Drive productivity gains in the public and regulated sectors
2. Reinvigorate the innovation economy
3. Develop the U.S. talent pool to match the economy of the future and harness the full capacities of the U.S. population
4. Build a 21st century infrastructure
5. Enhance the competitiveness of the U.S. business and regulatory environment
6. Embrace the energy productivity challenge
7. Harness regional and local capacities to boost overall U.S. growth and productivity

Productivity in the public sector, education and health care has consistently lagged productivity gains in the private sector for the past several decades. McKinsey Global Institute has estimated that if this productivity gap were halved, it would generate annual savings of up to \$300 billion. This could be done by more extensive use of technology, applications of managerial innovations and productivity “best practices” that are consistent with the broader goals of improved health and education outcomes.

McKinsey Global Institute also recognizes that economic regions, such as those that define California, matter. If we understand the diverse economic ecosystems in our state and how they can provide solutions to our challenges we can promote innovation and productivity from the “bottom up.” As McKinsey points out, while cities and regions have markedly different growth and productivity trajectories, there is a rich pool of experimentation with solutions at both the regional and local level. California enjoys the resources – people, education, environment – to be a leader in this experimentation and the beneficiary of its successes.

## **REDUCE COSTS AND ADD VALUE TO PROMOTE PRIVATE-SECTOR AND PUBLIC-SECTOR PRODUCTIVITY AND INNOVATION**

The appropriate type of business climate depends in large measure on the characteristics and specific needs of individual firms. A manufacturing firm with heavy capital requirements and a need to produce commodity products at low cost in order to compete will be more interested in a cost-driven business climate. On the other hand, a high-value firm that needs a skilled, technical workforce and a high quality of life to attract and retain its workers will be interested in an innovation-driven business climate.

A competitive business climate for California requires both critical investments that add to productivity as well as policy reforms that will reduce the cost of doing business. California will have to continue to compete on innovation as well as cost to maintain a high standard of living rooted in rising productivity.

In short, the proper economic strategy for California reduces cost and adds value – both, not either/or. This is the right economic approach for policy, and it is what informs the Task Force’s goals and recommendations.



## RECOMMENDATIONS & GOALS

Developing a high-road innovation-oriented economic strategy for California is a partnership effort.

Government partners include the state and federal government, of course, but the major government partners for planning and implementation in many cases are local and regional agencies. Here California starts with an advantage. The state has well-established regional planning agencies in most parts of the state including SCAG in Southern California, ABAG in the Bay Area, SANDAG in San Diego, and SACOG in the Sacramento region. These agencies have ongoing responsibilities for transportation planning, regional housing and land use planning and recently have been given responsibility for greenhouse gas emission reduction and sustainable community strategy development by the Legislature. Many are now developing regional economic strategies and they will be principal regional partners in implementing high-road strategies for competitiveness.

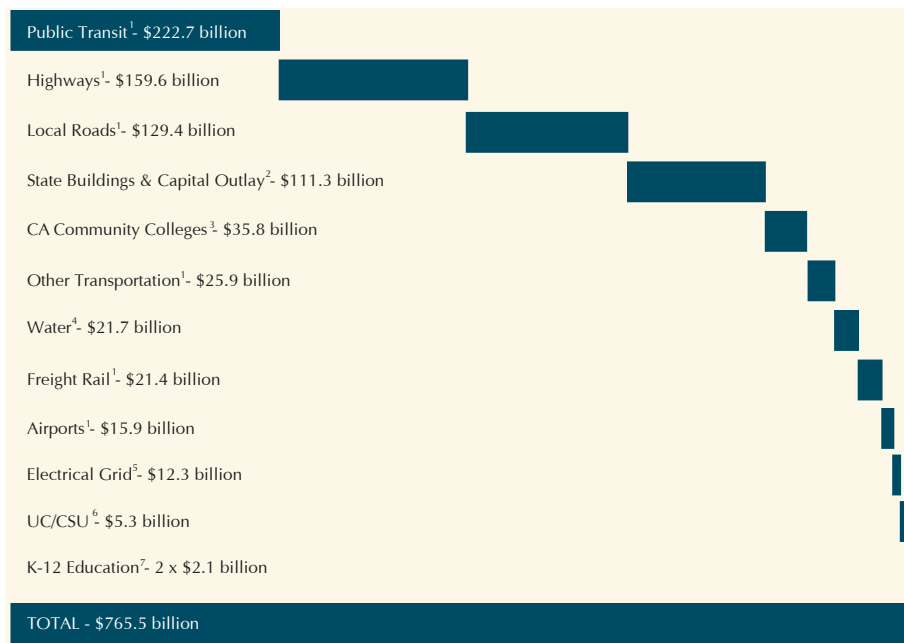
California also has a strong network of public-private regional partnerships including the Los Angeles and San Diego regional economic development corporations; the Bay Area Council and Joint Venture Silicon Valley; Valley Vision in the Sacramento region; the Orange County and Fresno business councils; the San Joaquin Partnership; and many others. These organizations can be vital partners in informing and championing regional economic strategies.



## INVESTING IN INFRASTRUCTURE

California is in need of more than \$765 billion in infrastructure investments, not including those required by local governments and school districts.

### CALIFORNIA'S INFRASTRUCTURE NEEDS EXCEED \$765 BILLION



As explained previously, infrastructure development in California is generally a partnership among state, local, regional and federal government agencies and, at times, the private sector.

Funding comes from a variety of sources. State General Obligation bonds are funded by state General Fund taxes while school and community college construction bonds are funded through local property taxes and often matched by State bonds.

Fuel taxes, local transit district taxes and the state budget provide funds for local and state road maintenance. The majority of the funding needs are in these categories and are funded by federal, state and local sources.

Some infrastructure funding is provided by public and private organizations, such as energy and water utilities, and by public entities such as our ports and airports where user fees pay for most of the service and infrastructure funding. As a result, residents and businesses are already an infrastructure funding partner through the user fees they pay.

## INVESTING EFFICIENTLY

The funding gaps are enormous, but it is critical, given California's continuing budget problems, that new investments are made strategically and wisely. Before additional funds are allocated, California must do the following:

- Employ new technologies to manage demand for infrastructure: There are many ways to expand infrastructure capacity besides building. These approaches include using new devices to meter for more efficient energy use and to implement the use of peak/off-peak hour pricing on highways.
- Develop and maintain California's Strategic Growth Plan to enable well-planned investment in the state's infrastructure. The state's infrastructure needs are vast and often projects compete for funding against each other. California's Strategic Growth Plan will prioritize our most important projects across regions and across policy areas to rationalize our needs and fund the most important projects first.
- Spend 2006 voter-approved Proposition 1B money on trade infrastructure projects outlined in the state's Trade Corridor Improvement Fund. Completing the gaps that remain in the state's rail and highway transit corridors will address two state needs: to speed the "through-put" of goods moving via California's ports between the Midwest and Eastern parts of the United States and the growing markets in Asia and Latin America and to facilitate the movement of agricultural products from the Central Valley. Both are key to maintaining the state's preeminent role in global trade.
- Encourage public pension funds to invest in California infrastructure projects, such as CalPERS announced in mid-September it will be doing over the course of the next few years. These are dollars generated in the state that should, following proper guidelines and meeting all investment protocols, be reinvested in the state.
- Better use the Infrastructure and Economic Development Bank, which is being reorganized under the Department of Finance to direct low-cost loans for local government infrastructure projects and manage bonds for public and public-private infrastructure projects.
- Encourage utility companies to pursue construction of transmission and generation intertie facilities to areas that have high potential for renewable generation development consistent with state, local and federal policies as Edison is doing on its Tehachapi project. Using a combination of incentives, policies and procedures, the state significantly can reduce barriers to entry for new renewable generation facilities by lowering the cost burden that would otherwise be imposed on interconnecting renewable facilities. Doing so will speed construction of new power transmission lines and help the state meet its clean-energy goals by 2020.
- Realign the State Transportation Improvement Program into a grant program that would send more of the annual funding directly to the "Self-Help" counties and regional transportation authorities. Doing so would make counties and regional transportation authorities the decision-makers on transportation projects and give them the resources needed to be most flexible in completing the projects. CalTrans would remain the owner and operator of the state highway system and ensure consistency among regions. The goal of this rearrangement is a cleaner division of responsibility and more efficient delivery of funds and services. The State's role should focus on integrating infrastructure among regions as well as ensuring inter-regional and multi-modal linkages.

Even with conservation, demand management and rigorous evaluation of infrastructure proposals, new financing policies will be required to close the infrastructure funding gap.

### **PAYGO for State General Obligation Bonds**

This proposal would require any new expenditure to be budget neutral or offset with reductions in expenditures from current programs. The goal is to encourage the prioritizing of expenses and the exercising of fiscal restraint. It would:

- Respond to calls that new spending should be fully funded.
- Follow the existing and familiar local school and government practice of paying for bonds when they are approved—a good government practice.
- Eventually reduce state debt-service payments and free up funds for other General Fund uses—at least \$3-4 billion per year even if not fully implemented.
- Add transparency so voters will never see ballot arguments that voting “yes” will not raise taxes and so voters will realize the State has to fund what they approve at the ballot box.

### **Lower the Voting Requirement to Pass Local Bonds and Taxes to 55%**

- This proposal would follow the existing practice for school bonds and increase passage rates while continuing super-majority decision-making principles and be part of the proposal to transfer responsibility and funding to local governments. It also would allow local governments to be a more significant infrastructure funding partner.

### **Adopt More Public Sector User-Fee Funding**

The public sector already collects user fees from bridge tolls and fuel taxes and is embarking on a series of projects for user fees related to high-occupancy vehicle lane use. These facts point out that fee-based infrastructure maintenance and investment can be in the public sector as well as in so-called public-private partnerships.

The idea of user fees is appealing when a direct tie to beneficiaries can be developed because:

- They are demand-management tools.
- They are a market-based approach of using prices to measure demand.
- They provide funding for infrastructure maintenance and construction.

### **Broaden the Sales Tax Base**

This proposal will be detailed in the Think Long Committee’s final recommendations on tax reform. It will be part of a broad package of fiscal reform and produce additional funding for local governments and transit districts, part of which can fund infrastructure.

### **Reorganize and Increase Vehicle-Related Funding**

The LAO and many other organizations in California and across the nation have pointed out that gasoline taxes are consistently falling behind vehicle use and provide a funding source that lags behind car usage and infrastructure repair and construction needs.

Some combination of higher taxes and related taxes to use (especially in an era where higher mileage standards are reducing fuel use relative to car use) would:

- Help fund transportation maintenance and construction.
- Help local governments.

### The Private Sector Component of Infrastructure Funding

Private companies already build and manage construction for much of the public infrastructure in California. In addition residents are familiar with private-sector providers of services in areas such as energy and water, and they pay for these investments with their monthly utility fees.

California and other states are looking to new types of private sector involvement in financing infrastructure through what are called public-private partnerships. The most common type of public-private partnership are toll roads, such as the SR-73 / San Joaquin Hills Toll Road, which are financed and built by private investors and paid for by users through tolls. A major advantage when these projects are feasible is that the capital for investment is provided by the private sector at a time when public infrastructure capital is scarce and voters are reluctant to approve large new bond issues.

Another potential for public-private partnerships is for the state's major employee pension funds to invest in some of the state's future infrastructure projects. For example, CalPERS recently targeted \$5 billion for multiyear investments in infrastructure and in mid-September pledged to spend \$800 million over the coming three years on in-state projects.

In support of exploring public-private partnerships, the Think Long Committee recommends the State:

- Task a fully resourced Public Infrastructure Advisory Commission to establish a framework for innovative funding mechanisms and partnerships to address California's massive infrastructure deficit. It should do so first by focusing on restoring the balance among local, regional and state interests that allows local and regional areas to control their own future when considering the approval of infrastructure projects; by incentivizing the 19 transportation "self-help" regions to leverage resources in

ways that promote local/regional infrastructure and economic development priorities; and by promoting legislation allowing for best practices (e.g. design/build, public-private partnerships, performance-based contracting) to expedite infrastructure development. The state should empower the Commission to assist local agencies, as well as the state, with multi-sector partnerships.

- Task a project team made up of Public Infrastructure Advisory Commission (PIAC) and Business, Housing and Transportation Agency (BTH) staff with focusing on accelerating three projects to financing by December 31, 2012 and extend legislative authority for public-private partnerships indefinitely.
- Support PIAC's coordination with the Infrastructure and Economic Development Bank to help state and local governments effectively negotiate complex public-private partnership procurement contracts and bundle small infrastructure projects in order to lower transaction costs and leverage economies of scale. This service bureau could be a center of excellence that could provide expertise — from assistance with deciding whether a public-private partnership is appropriate to implementing and managing the public-private partnership agreement — for a state or local government entity and should be able to charge the entity a reasonable fee for its service. The expertise that could be provided as a resource include:
  1. Helping to retain experienced professionals to represent the state on any public-private partnership deal in order to negotiate fairly with the private sector.
  2. Conducting value-for-money analysis of each project to determine whether the project should be done as a public-private partnership.

3. Delineating the risks borne by each partner and how the state has shifted risk to its private-sector partner where appropriate.
4. Utilizing performance measurements that will allow evaluation of the results of each project.
5. Calculating infrastructure costs for all projects, whether by public-private partnerships or otherwise, over the life cycle of the asset, taking into account all cost of building, maintaining, operating and owning the infrastructure over the projected life of the asset.

### Federal Funding

California recently has been receiving about \$5 billion per year for transportation infrastructure, and local/regional agencies receive funding as well. The recent high-speed rail funding is another example of federal funding for infrastructure.

Currently the nation is discussing increased federal infrastructure funding both as an anti-recession move and as a competitiveness proposal. California should help develop a national infrastructure funding strategy in collaboration with, not competition with, other states.

### INFORMATION INFRASTRUCTURE

California has been a leader in broadband availability and adoption, but there remain wide swaths of the state – particular rural areas and mid-sized cities – with limited access or access only to lower-speed connections. Both businesses and consumers will benefit from even and full deployment that will expand educational opportunities, improve healthcare services, increase public safety resources, speed communication and, ultimately, provide the foundation upon which California’s future economy will stand. To enhance broadband penetration throughout California, the State should:

- Encourage the deployment of new information technologies such as high-bandwidth communication networks and expand high-speed broadband and wireless communications access to meet the growing needs of small, mid sized and large businesses and further attract businesses to California.
- Encourage industry to work with the Public Utilities Commission to expand the California Advanced Services Fund or California Emerging Technology Fund to assist the growth of broadband infrastructure and adoption in underserved regions of the state.
- Task the PUC with developing model permitting standards and encourage collaboration among providers to speed broadband penetration throughout the state.

## 2

## INVESTING IN PEOPLE

The goal of the recommendations below and those in the education section is to create a public education system, from preschool through 12th-grade and into community college and higher education, that will produce graduates with the skills the state will require. California must play a key role in the continuous education of a skilled and flexible workforce by improving basic skills, English proficiency, digital literacy, and overall STEM (science, technology, engineering and math) training.

Our research and interviews have identified four workforce challenges in supporting a prosperous, innovation-driven 21st century economy in California:

- Increasing the number of college graduates to replace retiring baby boomers and to keep pace with the increasing skill demands throughout the economy.
- Increasing the number of Californians prepared for the STEM occupations critical for the state to remain the innovation capital of the world.
- Preparing students for and showing them the opportunities for middle-skill jobs paying good wages, which the economy needs and which can support families but do not require a four-year college degree.
- Remembering that 7 of 10 workers in 2020 are already in the workforce and providing them the assistance to understand changing employer needs and demands in terms of skills, attitude and passion; the changing world of job searches; and the ways that job seekers and employers are connecting.

All of these steps begin with guaranteeing that students graduate from high school with an education that prepares them for lifelong learning and productive employment—the subject of the PreK-12 reforms discussed in the Think Long Committee’s final set of recommendations.

### MAKING HIGHER EDUCATION A PRIORITY

California’s once world-class higher education system, which fueled much of the state’s innovation in the past and has been a peerless incubator for technology, has fallen victim to decreasing discretionary spending in state budgets. To enable the state to continue to develop

a productive workforce and world-class industries, it must ensure ongoing quality, access and affordability. The trend has been rapidly rising fees borne more heavily by students and their families and less and less by state government. Enrollment levels, which also have been curtailed in recent years, need to expand to meet future workforce needs. Higher education must embrace 21<sup>st</sup> century technology and tools that can make the education system more productive, while maintaining rigorous standards.

The state’s higher education systems also need to increase their partnerships with the private sector to adjust more quickly to company workforce needs. The state should:

- Improve coordination between the PreK-12 system and the different segments of higher education -- University of California, California State University and the California Community Colleges. Transfer among higher-education segments needs to be a more seamless process. Remove barriers to and increase concurrent enrollment for high school students among all higher education segments.
- Assess all secondary-school students for college readiness at the end of their junior year, as begun by the Cal State University system, and offer remedial classes for those in need during their senior year.
- Guarantee affordability. California should embrace a public policy of support for gradual, moderate and predictable fee increases for all three systems. California has been a national leader via Cal Grants and college/university aid programs, but it is dangerously close to becoming a “barbell” state that is dominated by high incomes at one end and low incomes at the other. Financial aid packages need to continue to support low-income students, and *financially needy middle-income students* should be able to receive sliding-scale benefits, as well.
- Expand the college-savings program known as ScholarShare (a 529 plan) and support changes to California tax policy to make initial contributions tax-deductible and to ensure that ScholarShare savings do not cause a loss of CalGrant awards. Implement policies to ensure the returns are in



line with other states' higher-yielding plans, such as Maryland.

- Work with the federal government to expand access to H1B visas for qualified college graduates, and develop a new category of permanent visas for persons with advanced degrees in STEM fields so that we do not lose people we educate who want to stay here.
- Make sure colleges and universities are providing classes essential for graduation, including on-line course provision. Adopt policies to shorten student "time to degree" while maintaining the same learning outcomes and educational requirements. Prioritize class enrollment for students on-track for a degree. Consider an excess-of-units surcharge, such as has been adopted in North Carolina.
- Maximize California Community College students' use of Federal Pell Grant financial aid funding. California Community Colleges have left hundreds of millions of federal Pell Grant dollars on the table because of the failure of many students to apply for these funds. Poor outreach to students, inadequate support for student aid administration, an historical perception that community college is "free" and an anachronistic application system have contributed to California's underuse of these funds.
- Remove barriers to college and university efforts both on and off campus, including proven on-line learning programs. Eliminate outdated classes, especially at the Community Colleges.
- Establish a "jobs consortium" of cutting-edge companies to create a mentoring/internship program for home-grown labor that connects STEM students in community college, CSUs and UCs to future jobs. The pipeline of rigorous STEM programs in California's education curriculum needs to be increased.

The McKinsey Global Institute report identified one more challenge for the nation's education and workforce partners—a challenge that is true for California as well.

*The configuration of the labor force will not neatly fit the requirements of employers. While company executives in interviews expressed their enthusiasm for the strength and productivity of the U.S. workforce, they also indicated a strong need for workers with specific skills and educational*

*requirements—which may be lacking in the labor force of 2020, absent changes in policies and institutions.*

*A growing source of potential matching problems among workers with postsecondary education is the fields of study they choose. Many are not obtaining the skills that will be most in demand . . . Shortages are [also] likely in a number of specific vocations that students in community colleges and vocational schools could be training for . . . In general, workers of all ages need better information on which to base their educational and training decisions.*

## WORKFORCE DEVELOPMENT

Workforce policies and programs in California are a partnership effort among the state's local workforce investment boards and one-stop centers for job seekers, their education and training partners and the private sector. Currently the state's workforce investment boards are funded through the federal Workforce Investment Act (WIA), through some state funding and, increasingly in a time of budgetary constraint, through one-time grants and foundation support.

These programs are the basic public system that helps existing workers to prepare for and find jobs and assists the private sector in helping existing workers meet their needs in terms of skills, attitude and passion.

To improve the ability of the workforce system to serve job seekers and businesses the Think Long Committee recommends the state:

- Urge the California congressional delegation to support the reauthorization of WIA with sufficient funding to meet the challenges of preparing the state and nation to meet international competition in terms of workers, skill and preparation.
- Encourage workforce boards and their partners to coordinate and collaborate within regional labor markets to avoid duplication and maximize the efficiency of scarce resources while maintaining the connection of local workforce boards to their local economies. Recent collaborative efforts by four workforce boards in Silicon Valley provide a model for combining local service provisions with regional analysis and connection to their business partners.



- Charge California's Workforce Investment Boards with understanding the growth industries in the regions they serve and develop programs that respond to the workforce needs of growth industries, focusing on high-school drop-outs, underrepresented minorities and apprentice programs in job categories that provide long-term career growth and personal prosperity.

## REAL-TIME ECONOMIC INFORMATION

Workforce development to support the California economy needs to be better connected with rapid changes in private sector needs and expectations based on real-time economic information. Workforce boards should engage with private-sector employers to improve industry and occupational forecasts to ensure that regional workforce-development programs align with regional industry-cluster needs. Other steps can include:

- Publish research online concerning workforce shortages, skill gaps and proficiencies and evaluate existing education, training and placement programs for continuous improvement.
- Develop and market an employment website offering job postings, training and employment information specific to California regions and industry sectors. Establish public information centers to guide individuals into the appropriate career program.

## REACHING MIDDLE AND HIGH SCHOOL STUDENTS BEFORE THEY DROP OUT

The public and private sectors can reduce the drop-out rate and reconnect high-school dropouts to educational training and opportunities. This is critical and can be accomplished by linking local community colleges, nonprofits and businesses with schools through formal partnerships. The state also should seek to increase the college-going rates for low-income, at-risk and minority children by supporting family education programs and after-school programs.

- Maximize existing incentives for hiring and training and set up co-op, apprenticeship and internship programs. The state should work on providing funding to develop career programs with industry standards directed toward high-skill jobs. Strengthen apprenticeship programs in current and new industry sectors such as green technology.

## INVESTING IN INNOVATION

The goal of these reforms is to support entrepreneurship and innovation and to encourage the commercialization of research and development. The state must ensure a competitive business environment that drives productivity and innovation in companies and provides support to help new businesses succeed. For example, the state can work with strong banks and profitable companies as well as with charitable foundations to mobilize private capital into the hands of small businesses.

- Before July 1, 2012, convene an Annual California Economic Summit where regional collaborative teams present their regional strategies and industry leaders offer industry-wide plans as part of an ongoing effort to review and inform the state's overall economic strategy.

## INCREASE R&D

Leading statewide collaboration to seek more research funding for universities and research institutes is an appropriate and necessary role for government. In California, government should seek a more supportive infrastructure to facilitate the commercialization of research and provide needed services to entrepreneurs, focusing on competitive emerging industries. The state should:

- Establish an ongoing matching funds program for companies partnering with the four UC Institutes for Science and Innovation and encourage innovative manufacturing clusters.
- Provide incentives for universities and government research centers to make their technology available for commercialization and remove barriers to industry-university collaboration.
- Advocate to make the federal R&D tax credit permanent.
- Enact a state R&D tax credit based on full federal conformity.

# 3

## MAKING GOVERNMENT JOB-FRIENDLY AND CALIFORNIA ATTRACTIVE TO PRIVATE INVESTMENT

Our public policy leaders need to create a level of regulatory certainty and simplicity/workability such that those responsible for making capital investment decisions will tilt even more toward California than they already do. California has a number of features that will always help draw capital to our markets including a large “market” for products and services; good weather; near unparalleled natural beauty; a superior higher education system; the home base for some of the most creative and innovative firms in the world; and many other similar attributes. However, public policy needs to be stable and provide a more open and predictable environment for job-creating business investment.

California needs to consolidate its economic development functions beyond what exists today and create a coherent “one-stop” shop for business. As other states and countries have become more competitive with California, the State needs to offer businesses real reasons to locate here, stay here and expand here. A key problem: More than 30 state agencies affect different aspects of economic development. Providing business with a single point of contact and a coherent set of procedures will strengthen the business community and help sustain and grow jobs while encouraging trade and investment. This single point of contact also should promote exports and connect California business to the global economy.

A significant hindrance to business in California, both real and perceived, is onerous and conflicting regulations. While there are important regulatory and permitting functions that must be maintained, the state’s multiple layers of regulation, overlapping jurisdictions and disparate agencies – particularly in concert with federal and local rules – conspire to create a system that effectively works against critical business requirements such as speed, certainty and efficiency.

The State can reduce the costs of doing business by eliminating duplicative and outdated government regulations through a proactive policy agenda, and should act immediately to facilitate the interaction between government and business and lessen the added burden of redundant federal and local regulations where possible.

The goal of these reforms is two-fold: (1) Without lowering standards, promote greater collaboration with the private sector, reducing time to market and enhance private-sector productivity and innovation and (2) Streamline the regulatory process to increase productivity and innovation in the public sector.

### ORGANIZE FOR JOBS AND COMPETITIVENESS

- While an attempt has been made to create a more proactive economic development strategy, there remains a need to consolidate disparate existing economic development functions into a strengthened Office of Economic Development in the Executive Branch. Serving as the single point of contact for business outreach and assistance, this office would provide one-stop “concierge service” to companies seeking to locate and expand in California. This office would align the state’s economic development activities into one organization that would work with the state’s diverse economic regions, encourage them to develop and implement customized strategies and enable action focused on each region’s unique challenges, industry mix and distinct assets. It would use existing positions and budget in current Executive Branch agencies and commissions. No new public money would be expended. Enacting AB 29 (Perez) was a promising first step and model that aligns with the call for consolidation. Enacting SB 617 to strengthen the Administrative Procedure Act was another.

- Create a Competitiveness Commission, co-chaired by the Lieutenant Governor and a private-sector CEO, to develop and implement an economic strategy with input from stakeholders from each of the state's economic regions. This Commission would help plan for investments in infrastructure, innovation and the workplace to meet the broader needs of California's regional economic clusters and lead the state's longer-term economic strategy. The Competitiveness Commission would replace the Commission on Economic Development and the Economic Strategy Panel and would be staffed by the Office of Economic Development.

### **STREAMLINE THE REGULATORY PROCESS**

- Create a Regulatory and Permit Streamlining Unit within the Office of Economic Development that would cut through red tape and organize "red-carpet service" to reduce the time it takes to navigate the permit process for job-creating projects – without reducing standards. This group also would be responsible for conducting an economic assessment of all legislation with a fiscal impact greater than \$25 million to provide policy makers with a baseline upon which to determine what additional reforms are needed. It would monitor the Office of Administrative Law to ensure that the implementation of those regulations is done in a way that minimizes cost to business and maximizes economic and job creation. It also could carry out the regulatory functions of an Office of Economic and Regulatory Analysis as suggested by the Little Hoover Commission in its October 2011 report, "Better Regulation."
- This Unit immediately should convene leaders from the cleantech industry and a cross-section of California industries, especially traditional manufacturers and labor, with state regulators at the California Air Resources Board and representatives of the Governor's Office to ensure that regulations being enacted to implement AB 32, the Global Warming Solutions Act of 2006, are done in a balanced way that minimizes cost and maximizes environmental and economic co-benefits.

- Create "plug and play" economic zones that are pre-approved for CEQA and other land-use and zoning permits. Working with local zoning authorities, the State initially should target high-unemployment areas such as the Central Valley and the Inland Empire so businesses can open, expand and cluster as quickly as possible.
- Limit "standing." California currently has the country's most permissive standing requirements, which allow nearly anyone to file a CEQA lawsuit challenging almost any project. A CEQA lawsuit should be brought only if petitioners have, and can demonstrate in court, a legitimate and concrete environmental concern about a project as well as no competitive commercial or economic interest in the project. The abuse of the CEQA permitting process is delaying jobs at a time when California's unemployment rate is the second highest in the country at more than 11%.
- Provide expedited access to the appellate courts to resolve CEQA lawsuit challenges more quickly. Similar to what is provided for the appeal of decisions by the state Public Utilities Commission (Calif. Public Utilities Code section 1759), this proposal would allow challenges to local agency CEQA decisions to be filed directly with the Courts of Appeal. Doing so would shorten significantly the process for many projects that have already complied with all of CEQA's requirements and received all of the necessary regulatory approvals. The State should authorize the appellate courts to adopt rules establishing fees to be paid by the party seeking the expedited judicial review to cover its cost. Many of these reforms are included in AB 900 (Buchanan/Gordon/Steinberg) and SB 292 (Padilla), which makes similar CEQA exemptions for a sports stadium and other large job-producing projects. In addition, SB 226 (Simitian/Vargas), which the Governor also has signed, makes a number of improvements to CEQA, particularly with respect to renewable energy projects that contribute to low-carbon growth.

- Enact legislation to require that judges who hear CEQA cases, as well as Court of Appeal justices, receive special training in CEQA matters as part of their judicial education programs, as is specified with reference to some other areas (for example, family law).
- Restrict CEQA alternative analysis projects to locations within the same jurisdiction and that are available for development in order to avoid unnecessary and irrelevant studies and “anywhere but here” strategies.
- Establish streamlined planning and concurrent CEQA/NEPA permitting processes for transportation improvement projects to be constructed within existing right of ways.

### **MINIMIZE ECONOMIC IMPACT OF REGULATIONS ON BUSINESSES**

It is imperative for California to ensure that regulations and statutes apply to all business in a predictable way. The ability of firms to absorb regulation costs and remain competitive is a significant issue and is particularly threatening to small companies.

- Require government officials to evaluate the economic impact of regulations that affect overall competitiveness, including requiring that all

proposed major regulations (e.g. potential impacts on California business enterprises likely to exceed \$25 million a year) undergo a high-quality, standardized economic analysis that is based on industry standards and play an active role in courting private-sector employers.

- Require agencies to consider all reasonable alternatives to proposed regulation, describe reasons for rejecting those alternatives and select regulatory alternatives that are least costly and burdensome, if equally effective in achieving the purpose and comply with the statutory mandate. To improve accountability, require agencies to assess and report on all new major regulations every five years to determine if they are accomplishing their respective purposes and whether those purposes remain relevant and necessary.
- As part of the immediate creation of the Regulatory and Permit Streamlining Unit, charge the office with conducting an economic assessment of all regulatory legislation promulgated in 2011-2012.

## **CONCLUSION**

In this report, the Task Force has sought to lay out the principles that should guide California’s economic strategy and offer an array of actionable items the Think Long Committee as a whole can consider for recommendation in its final report.

Together with the Brookings/McKinsey report, “An Economic Growth and Competitiveness Agenda for California” — which complements this report with a major focus on reinvigorating manufacturing and exports to the emerging economies, especially China — the Think Long Committee proposals can help build the foundation for the state’s sustained long-term growth.



