

# **Assembly Committee on Jobs, Economic Development and the Economy**

**DATE:** February 5, 2015

**TO:** Interested Parties

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

**RE:** Briefing on the Informational Hearing "*Overview of the California Economy*"

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On Wednesday, February 11, 2015, the Assembly Committee on Jobs, Economic Development and the Economy (JEDE) will be convening its first hearing of the 2015-16 Session. The objective of this informational hearing is to provide Members with a foundation from which to undertake the committee's primary missions of overseeing current state programs and evaluating legislative proposals.

During the course of the hearing, committee members will be briefed on the California economy by state and federal public policy advisors, an economist, and executives from three California small businesses. Presentations are designed to provide a snapshot of the state economy, including demographic and economic trends that have the potential to have lasting consequences on the state's global competitiveness and access to private investment. A public comment period will follow the six scheduled speakers in order to provide an opportunity for other economic development professionals, businesses, and the general public to add their voices to the dialogue.

This memorandum provides general information on the state economy, the structure of the hearing, invited witnesses, key policy issues, and recommendations for additional follow-up actions. The appendix includes a number of fact sheets developed by the JEDE staff, as well as a chart on federal discretionary and mandatory spending provided by the National Conference of State Legislatures, and a summary of 2015 economic development priorities for nearly a dozen stakeholder groups, compiled by the California Association for Local Economic Development.

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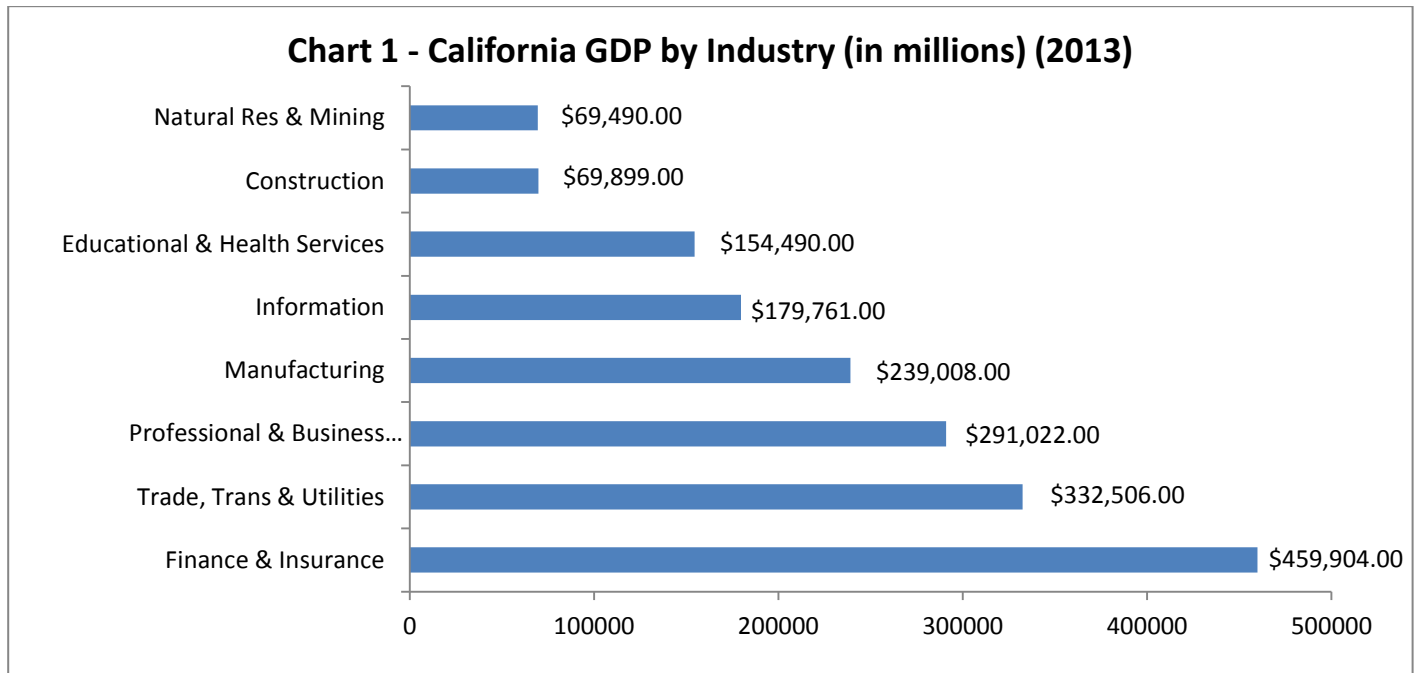
## **The California Economy**

California is home to over 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 2013, this diverse group of business owners and workers produced \$2.2 trillion in goods and services; \$168 billion of which were exported to over 220 countries around the world.

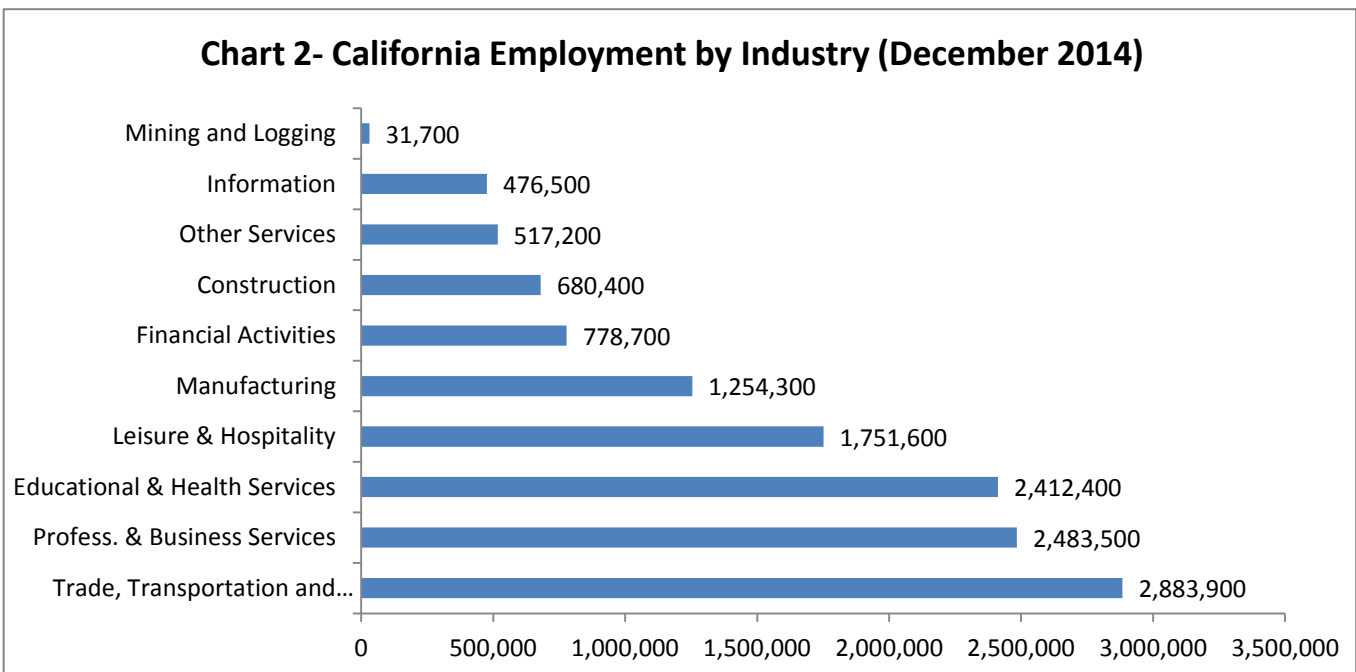
California's diversity advantage also extends to the range of geographies and dominant industry sectors. Many policy makers and economists describe California as having not a single economy, but having a highly integrated network of a dozen or so regional economies. While biotech has a comparative advantage in some regions, information technology drives growth in others. If California were a country, its 2013 GDP would place it 8th in the world – larger than Canada, Mexico, Russia, India, and Australia. Compared to most other states, California's economy has consistently demonstrated that it has the depth and breadth of workers and businesses to drive markets, especially in the area of technology.

## Review of the Numbers

Economies can be described in a number of ways. **Chart 1** shows the financial value of different private industry sectors. In 2013, the most recent data available on industry GDP, the finance and insurance sector made the largest economic contribution to the state's overall GDP. Business establishments in this sector are involved in raising funds, pooling risk, and facilitating financial transactions including real estate. California is unique among other states in that the second through fourth industry positions also provide significant economic value to the economy. In 2013 these sectors were the trade, transportation, and utility sector, followed by professional and business services and manufacturing sectors.



Another way to look at the state's economy is through employment by private industry sectors. **Chart 2** displays California's largest private industry sectors based on reported jobs in December 2014.



As the two charts illustrate, the ranking of high economic value and high employment sectors are similar, but not identical. The trade, transportation, and utility sector employs the largest number of people (ranked 2<sup>nd</sup> in GDP), followed by the professional and business services sector (3<sup>rd</sup> in GDP) and educational and health services sector (6<sup>th</sup> in GDP).

There are other ways to look at the California economy including, but not limited to, the value of wages paid, comparative future job or economic growth, impact on the environment, relevance to global trade and foreign investment, and industry sectors that serve as workforce entry points for youth, workers with limited skills, and immigrants.

In difficult economic times and when tracking economic capacity for growth, policy makers often closely track unemployment rates. In the recession, the state unemployment rate hit a high of 12.4% in February of 2010, which was only the second time since the 1970s that the state rate was above 10%. In December 2014, the most recent studies available, the state reported a seasonally adjusted rate of 7.0% as compared to the U.S. rate of 5.6%.

The lowest unemployment rate among California counties in December 2014 was 3.4% in Marin. Sixteen other counties had rates below 6.0% in December. The highest unemployment rate for the month was 21.0% in Imperial County. The comparable California rate (not seasonally adjusted) was 6.7%. Thirty-eight counties recorded a decrease in their unemployment rate between November and December 2014. Over the year, the unemployment rate decreased in all of the 58 counties.

As the December 2014 numbers show, many areas of the state have recovered from the recession and are experiencing new economic growth. Other areas of the state, however, including counties with substantial inland areas, continue to report unemployment numbers significantly above the state average. Developing policies to address the needs of underperforming and expanding economies can be challenging and require different economic approaches and metrics for measuring success. Supporting business development and job growth for all areas of the state are two of the primary policy issues JEDE Committee Members try to address in overseeing the implementation of state programs and review of legislation. *Additional details on the California economy can be found in Appendix 2*

#### Agriculture – A Cross Cutting Sector

Another key economic driver in California is the agriculture sector, with 2013 production valued at \$46.7 billion, accounting for 17.3% of total U.S. agricultural output. In 2013, agriculture employed an estimated 348,900 people in the state. California is the country's largest agricultural producer and exporter, and a global leader in specialty crops. Agricultural products were one of California's top 5 exports in 2013, totaling \$13.7 billion in exports, a \$1.8 billion (15%) increase from the previous year.

Agriculture's contribution to the overall state economy is also reflected in the private industry sectors graphed in **Charts 1 and 2** including manufacturing and professional and business services. One estimate, by researchers at Butte Community College, is that California's agriculture value chain contributes nearly \$300 billion annually to the economy and accounts for nearly 2.5 million jobs across 800 different job titles. *Appendix 3 includes a fact sheet on California's top ranked agriculture sector.*

## Small Business

Small businesses play an essential role in California's regional economies and industry sectors, having generated an annual payroll of \$204.1 billion in 2012. One of the challenges public policy makers have in discussing small businesses is the variety of definitions of small business, which often vary by program and industry. Small businesses are in some cases defined by their number of employees and in other cases they are defined by gross receipts and/or other financial data.

As **Chart 3** illustrates, the actual employment size of the greatest number of businesses is very low. Nearly 90% of all businesses have fewer than 20 employees. The 20 employee threshold is also important relative to job creation. Separate research undertaken by the U.S. Census Bureau and the Kauffman Foundation have shown that net new job creation is reported to be highest among businesses with fewer than 20 employees.

Chart 3 - 2011 Business Profile By Size (excludes non-employer firms)						
Area Description	Employment Size	Number of Firms	Percent of Firms	Employees	Percent of Jobs	Annual Payroll (\$1,000)
United States	Total	5,684,424		113,425,965		\$5,164,897,905
California	Total	689,568	12% of U.S. Firms	12,698,427	11% of all U.S. Jobs	\$663,570,657
United States	0-4	3,532,058	62% of U.S. Firms	5,857,662	5% of U.S. Jobs	\$230,422,086
California	0-4	429,139	62% of CA Firms	702,508	5.5% of CA Jobs	\$35,472,447
United States	<20	5,104,014	89.7% of U.S. Firms	20,250,874	17.8% of U.S. Jobs	\$732,759,369
California	<20	614,538	89.1% of CA Firms	2,386,296	18.7% of CA Jobs	\$99,417,066
United States	0-99	5,585,510	98.2% of U.S. Firms	39,130,875	34% of U.S. Jobs	1,478,844,420
California	0-99	672,360	97% of CA Firms	4,587,628	36.1% of CA Jobs	194,611,832
United States	<500	5,666,753	99.6% of U.S. Firms	54,998,312	48.4% of U.S. Jobs	\$2,169,353,973
California	<500	683,999	99.1% of CA Firms	6,331,871	49.8% of CA Jobs	\$280,857,823
United States	500+	17,671	0.3% of U.S. Firms	58,427,653	51.5% of U.S. Jobs	\$2,995,543,932
California	500+	5,569	0.8% of CA Firms	6,366,556	50.1% of CA Jobs	\$382,712,834

Source: U.S. Census <http://www.census.gov/econ/susb/index.html>

Small businesses play differing roles within industry sectors. The bullets below show the top three industry sectors for California small businesses (employing 0-99 employees) by number of businesses:

- The real estate and rental and leasing sector had the highest percentage of small businesses in California, consisting of 98.1% of the firms in the sector.
- The health care and social assistance sector had the second highest percentage of small businesses in California, consisting of 97.8% of the firms in the sector.
- The professional, scientific, and technical services sector had the third highest percentage of small businesses in California, consisting of 97.7% of the firms in the sector.

Based on the number of employees, the top three industry sectors for California small businesses (employing 0-99 employees) are:

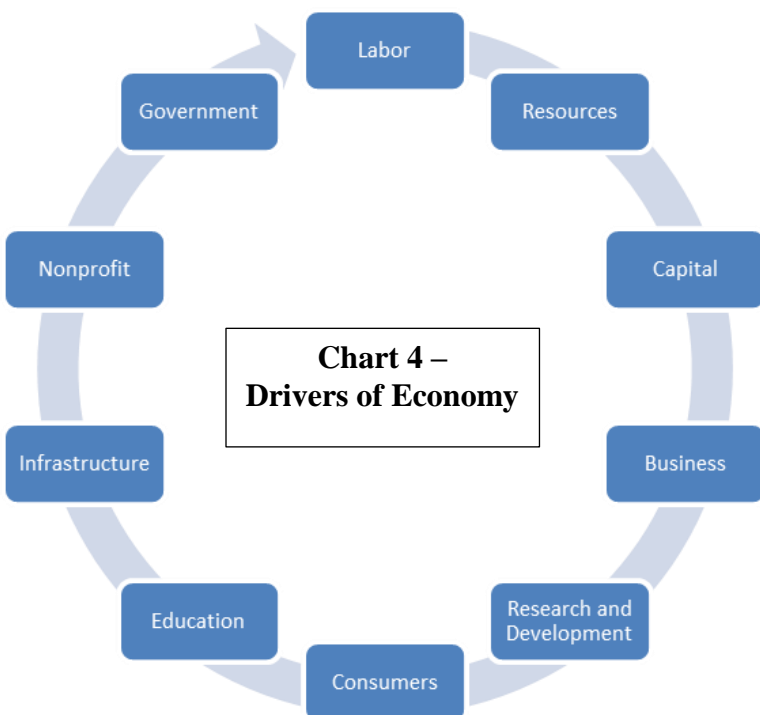
- The accommodation and food services sector, which had the highest number of workers employed by small businesses in California, with a total of 676,837 employees, consisting of 48% of employment in the sector.
- The health care and social assistance sector, which had the second highest number of workers employed by small businesses in California, with a total of 574,968 employees, consisting of 33% of employment in the sector.
- The professional, scientific, and technical services, which had the third highest number of workers employed by small businesses in California, with a total of 488,362 employees, consisting of 43% of employment in the sector. *Appendix 4 includes a fact sheet on California small business.*

Future Growth

Future growth of the California economy is highly linked to the state's adaptation to globalization, including the state's ability to link goods and services across state and regional boundaries, as well as to prepare a rapidly changing workforce for the 21<sup>st</sup> Century economy. The Employment Development Department (EDD) has forecasted that California will add over 18 million jobs between 2008 and 2018, which includes the 1.1 million jobs lost during the recession.

At a more refined level, the health or quality of the state's future economic growth is linked to the strength of those industry sectors that have external markets, as well as domestic. EDD describes these trade-related sectors as the state's "economic base" sectors, which include professional services, manufacturing, and transportation, among others.

California's anticipated economic growth brings new challenges and competing priorities. **Chart 4** illustrates the inherent link between 10 key drivers of the California economy including capital, resources, labor, and infrastructure. All 10 elements are important to the overall health



of the economy. While weakness in one element can be offset by higher capacity in another, overall, all elements must maintain some level of competency. The balance of the entire circle is important. Two challenges to this balance are workforce readiness and infrastructure.

A 2013 report by the Little Hoover Commission (LHC) forecasted that California's workforce will be underqualified to meet the needs of the state's future economy. Based on current student enrollment numbers for certificates and degrees, the deficit of qualified workers will grow to 2.3 million by 2025. In response to this finding, the LHC recommended the development of a new master plan for higher education with the overriding goal of increasing the number of Californians with degrees, certificates, and diplomas to meet the state's future needs.

The 2013 U.S. Infrastructure Report Card by the American Society of Civil Engineers gave California infrastructure an overall grade of "C" and identified a \$650 billion investment gap over the next 10 years. In 2006, the same study identified California's annual infrastructure investment need to be \$37 billion per year. Six years later, the projected need nearly doubled to \$65 billion per year. Compounding the impact of California's investment gap are the substantial new infrastructure investments being made in other states and nations, including the upgrade of the seaports and distribution networks in Southeastern U.S. and the expansion of the Panama Canal.

### **Framing the Issue: Recognizing Opportunities and Challenges**

In the post-recession economy, California faces a national and global economic environment that is significantly different from that of a decade ago. In the future, capital will increasingly become more geographically dispersed and California's singular dominance in technology and innovation has already shifted. 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 trends that are redefining 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 the impact on the environment will continue to put increasing pressure on the development and deployment of alternative and lower carbon fuels.
- Deepening income inequality will result in costly outcomes, most adversely affecting women, minorities, immigrants, the disabled, and the formerly incarcerated, and thus require the diversion of public resources to address unemployment, poverty, social unrest, and violence.
- 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 in other industrialized nations.

While the state has many positive attributes, including a world class public education system, 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.

The next economy will potentially 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.

### **Hearing Specifics**

The JEDE Committee's February 11, 2015, hearing will be organized around six presentations, addressing three themes: Defining the California economy, effective utilization of federal funding, and an assessment of small business development.

The hearing will begin with brief introductory remarks by the Members of the Committee. **Mr. Mac Taylor**, California's Legislative Analyst, and **Dr. Jerry Nickelsburg**, economist with the UCLA Anderson Forecast, will then open the discussion with an overview of the California economy, including data on the current state economy, profile of the private sector, and a forecast of the state's potential economic future. Once framed, Members of the Committee will have an opportunity to further advance the dialogue with the witnesses around key economic and demographic trends.

Expanding on the state revenue discussions in the first panel, **Ms. Molly Ramsdell** with the National Conference of State Legislators will provide an overview of the federal budget, highlight major program areas, and present issues of state interest in the coming year in the economic and workforce development areas. Following these three presentations, the Members will hear from three small business executives including: **Scott Hauge** with CAL Insurance and Associates, Inc, **Dave Petree** with Cloak and Dagger, and **Ehsan Gharatappah** with Cellpoint Corporation. These executives have been asked to discuss their professional experiences and provide insight into programs, services, and circumstances that support and/or challenge their success. *Presenter background materials available at the time of publication can be found in the Appendices. Appendix 6 includes a chart on federal funding available to states. Appendix 7 has a copy of Dr. Nickelsburg's PowerPoint presentation.*

The hearing schedule also includes a public comment period, which will allow other stakeholders to engage with the Members of the Committee. Persons interested in providing testimony during the public comment period can either sign-up through the JEDE Committee Office at least 24 hours prior to the hearing, or on the sign-in sheet at the Sergeants desk during the hearing. Written comments may also be submitted to the JEDE office up until April 7, 2015.

### **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 and demographics provide both opportunities for

engaging in international commerce, as well as challenges such as obtaining business capital, hiring a workforce skilled in emerging technologies, and accessing quality infrastructure to support the exchange of products, services, and ideas. Among other issues, the Members may want to consider the following:

- Where are the opportunities for enhancing California business and worker competitiveness and support for their economic integration within the broader global marketplace?
- 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 of the state?
- 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?
- How can the state enhance the conditions necessary to support business start-ups, microenterprise and small business development?
- Does the state have an appropriate game plan to attract private capital to meet the state's significant infrastructure needs?
- What economic opportunities do trade-related industries represent and how can the state support local and regional efforts to capitalize on those advantages?

### **Possible Follow-up Actions**

As noted earlier, presentations during the February 11, 2015, hearing will provide an overview of the California economy including information on business development; state revenues and expenditures; and discretionary and mandatory federal program funding. During the course of the hearing, a variety of issues will be raised and recommendations for future actions discussed. Below is a list of possible recommendations to help focus the discussion and inspire creative, yet practical next steps. The list is not intended to be adopted in total, but rather to offer suggestions about how these issues may be addressed.

1. ***Infrastructure Finance***: Introduce legislation to strengthen existing and establish new financial tools for developing infrastructure that supports the state's economic development activities. World-class infrastructure plays a key role in business attraction and expansion and state, regional, and national competitiveness suffers as access to and the quality of infrastructure declines. The Committee could host one or more roundtables to learn how communities in California and other states use alternative financing models to build and maintain community and economic development-related infrastructure. Roundtable participants could include economic developers, investors, government leaders, port of entry operators, builders, workers and other stakeholders who would discuss successful models, gaps, and areas for improvement.
2. ***Support Smaller Size Businesses***: Establish and maintain an open dialogue with small and micro businesses. Introduce legislation to encourage state agencies to partner with the existing network of federal technical assistance providers including the Small Business Development Centers, Women's Business Development Centers, and the Veterans Outreach Centers. Among other issues, these centers can provide small businesses with technical assistance on marketing, management, and finance. Introduce legislation to provide the State Small Business Advocate with stronger tools for advocating on the behalf of small businesses before state rule making agencies. Hold a hearing to oversee the state's



use of \$168 million in federal small business finance funds. Introduce legislation to provide a new source of private capital to small businesses in lower income communities.

3. ***Reframe Workforce Development:*** Work in partnership with related Assembly policy and budget subcommittees on how to reframe the education, training, and workforce development systems. 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 within the state's regions. Ensure that training and education opportunities are inclusive of the emerging, younger, and more diverse workforce of California's next economy. Include education and workforce development as central features of the state's court ordered activities to reduce and maintain a lesser number of incarcerated individuals. In acting now, the Committee can leverage the unique circumstance resulting from the significant policy alignment of the Governor's workforce initiative, the federal Workforce Innovation and Opportunity Act, the work of the Community College Board of Governors' Task Force on Workforce, Job Creation, and a Strong Economy, and the policy and priorities approved by the Legislature for the Community Colleges and state Workforce Investment Board in 2012 and 2013, respectively.
4. ***Connect to the Global Economy:*** Work collaboratively with policy-related Select Committees on economic development policies and programs that foster foreign trade, global supply chains, and private investment. Hold hearings or roundtables to keep abreast of federal funding opportunities for trade promotion, impact of trade agreements on the California economy, infrastructure improvements to the state's goods movement corridors, and changes in immigration rules on EB-5 investment visas and entrepreneurship. Introduce legislation to encourage foreign trade zones and economic development activity in partnership with EB-5 Regional Centers.

### **Reports related to Presentations**

- ***California Facts, by Mac Taylor, California State Legislative Analyst (December 2014):*** The report is 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; the gap between high income households and very low-income households in California is greater than in the U.S. as a whole; California has regained the jobs lost between July 2007 and early 2010, but due to population growth, the state still has an unemployment rate above pre-recession levels; in general, California firms received venture capital funding exceeding the capital received in the other 49 states combined; and the state government's largest source of revenue continues to be the Personal Income Tax. [www.lao.ca.gov](http://www.lao.ca.gov)
- ***Five-Year Infrastructure Plan, prepared by the Department of Finance (January 2015):*** The report is a five-year infrastructure plan presenting the Governor's proposal for investing \$57 billion in state infrastructure. The plan covers key state infrastructure and maintenance expenditures that have been deferred as a result of the recession. The report recommends the allocation of funds for each of the state agencies towards specified projects. More specifically, projects laid out in the plan include new courthouses in 14 counties, highway and rail system maintenance and improvement, high-speed rail segments, seismic retrofits, CHP and DMV office replacements, new water treatment and plant system upgrades, flood control developments, and renovation projects for several California Community Colleges. [www.dof.ca.gov](http://www.dof.ca.gov)
- ***California's Workforce Strategy (June 2013):*** The federal Workforce Investment Act (WIA) requires the Governor, via the State Workforce Investment Board, to submit a WIA/Wagner-Peyser Act strategic

plan to the U.S. Department of Labor that outlines a five-year strategy for the investment of federal workforce training and employment services dollars. California's plan provides a look at the dynamics of California's future economy based on regional industry and occupational trends. A primary objective of the strategy is to reduce the skills gap through enhanced collaboration between the education, training, and workforce development systems. Two of the recommendations are to increase shares of training funds available for emergent science and technology sectors, and to work with businesses and organizations to develop industry recognized skill and readiness standards. [www.cwib.ca.gov](http://www.cwib.ca.gov)

- ***Partners Project on Public-Private Partnerships (June 2008)***: The Public-Private Partnerships Project is a two and a half-year initiative by the National Conference of State Legislatures (NCSL) to help state legislatures and their staff better understand public-private partnerships. The initiative, which included two phases from 2008-2011, focused on existing, successful PPP models for public transportation systems and wastewater projects. One outcome of the initiative was that the NCSL produced *A Toolkit for Legislatures*, which is a collection of guidance, counsel and best practices to assist states interested in implementing PPP projects. The NCSL website includes detailed summaries of meetings, research, and other activities of the initiative. <http://www.ncsl.org>
- ***CALED 2015 Economic Development Legislative Priorities (January 2015)***: This chart summarizes the economic development priorities of various economic development stakeholder groups. The top priorities of The California Association for Local Economic Development (CALED), who hosted the stakeholder meeting, are Enhanced Infrastructure Financing District legislation and ensuring that economic development be considered in the implementation of the federal Workforce Investment and Opportunity Act. Top priorities of Assemblyman Eduardo Garcia, Chair of JEDE, include small business development and leveraging workforce training to lower prison recidivism rates. The California State Association of Counties is focusing on transportation funding, broadband access and adoption, and addressing poverty and homelessness at a county level.

### **Materials in the Appendix**

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

- Appendix 1 - ***Agenda*** for the February 11, 2015 hearing, "Overview of the California Economy"
- Appendix 2 - ***California Economy Fast Facts***, prepared by JEDE
- Appendix 3 - ***California's Agricultural Economy Fast Facts***, prepared by JEDE
- Appendix 4 - ***California Small Business Fast Facts***, prepared by JEDE
- Appendix 5 - ***2015 Economic Development Legislative Priorities***, prepared by CALED
- Appendix 6 - ***Federal Funding: Discretionary and Mandatory*** chart, prepared by Molly Ramsdell, National Conference of State Legislatures
- Appendix 7 - ***Forecast of California Economy*** PowerPoint, prepared by Dr. Jerry Nickelsburg, UCLA Anderson Forecast
- Appendix 8 – ***Biographies of the Speakers***, compiled by JEDE

### **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.

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