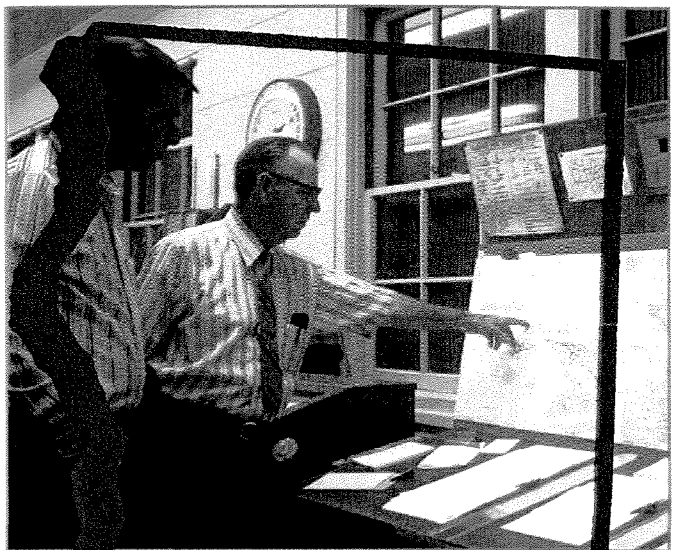
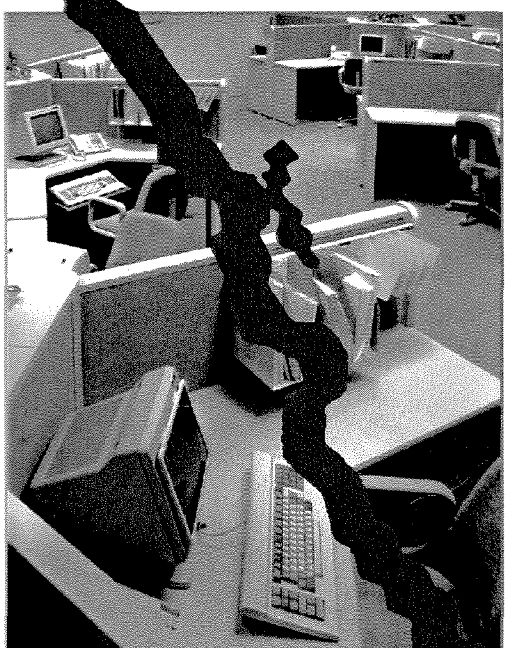
2001

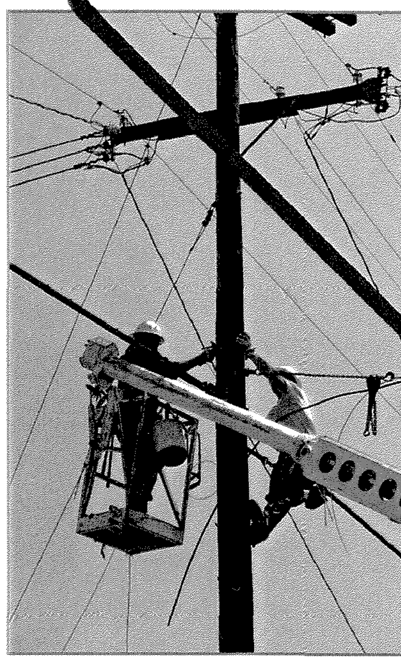
The State of the California Economy

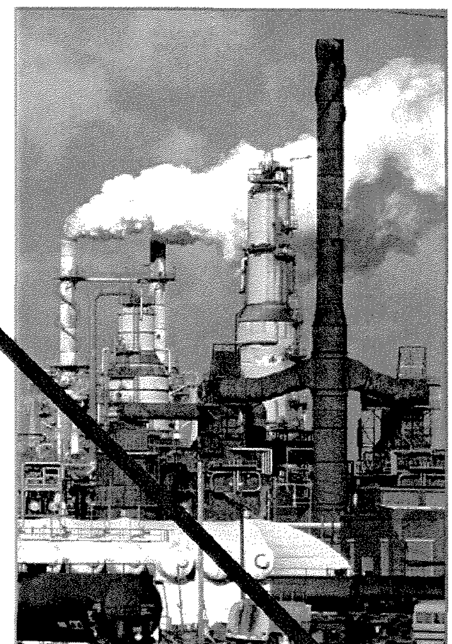
Assembly Committee on Jobs, Economic Development and the Economy

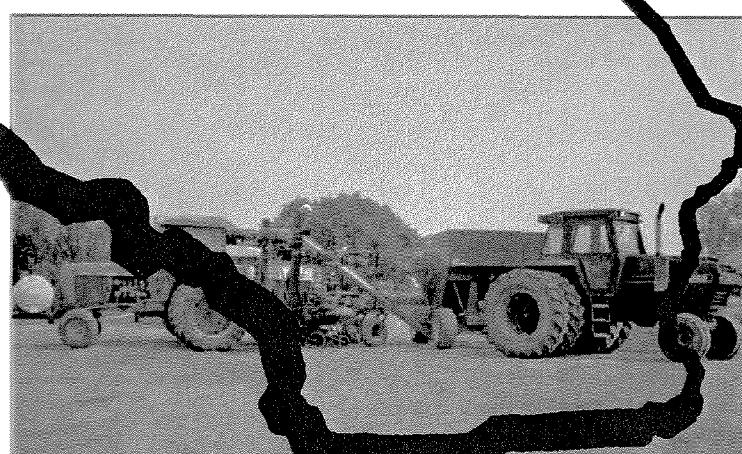
THE STATE OF THE CALIFORNIA ECONOMY











ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

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THE STATE OF THE CALIFORNIA ECONOMY

AGENDA

NOVEMBER 8, 2001, 1:00 P.M. – 4:00 P.M., SACRAMENTO
STATE CAPITOL, ROOM 437

Opening Remarks
The Honorable Sarah L. Reyes, Chair

The State of the California Economy
A General Overview of Developments in the California Economy
Elizabeth Hill
Legislative Analyst

Summary Findings of the Governor's November 2nd Economic Summit
The Honorable Maria Contreras-Sweet
Secretary, California Business, Transportation, and Housing Agency

Private Sector Perspectives
Jack Stewart and Elise Rhodes
California Manufacturers & Technology Association and Baxter Bioscience, Inc.

Terri Taylor-Solorio
President and CEO, California Travel Industry Association

Jack King
National Affairs and Research Division, California Farm Bureau Federation

Tom Gilmore
Partner, Gilmore Associates

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The State of the California Economy
Agenda
November 8, 2001

<u>The State of Regional Economies</u>
Marney Cox
Chief Economist, San Diego Association of Governments

Lee Harrington
President & CEO, Los Angeles Economic Development Corporation

Robert Sakai
Director of Technology and Trade
Bay Area Economic Development Alliance for Business

David Spaur
President & CEO, Fresno County Economic Development Corporation

<u>The Statewide Workforce</u>
Mike Curran
Director, North Valley Private Industry Council

Ray Worden
Director, Long Beach Workforce Investment Board

<u>Closing Remarks</u>
The Honorable Sarah L. Reyes, Chair

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State of the California Economy

A Summary Report to the
Speaker's Task Force on the Impact of Terrorism on California
December 5, 2001

The past year has been difficult for the California economy. The year began with a slowdown in business investment and overall economic activity, most notably in the state's technology sector and in leading manufacturing industries such as aerospace. Workforce shortages quickly reversed course and became a stream of laid-off workers in select industries and geographic regions of the state. Personal incomes have declined faster than employment, affecting projected state budget revenues. But despite this swing of the economic pendulum toward slowdown, California's economic fundamentals remained strong and most observers expected, at most, a mild recession followed by a recovery noteworthy of the state's economic resilience.

The events of September 11th dealt an unexpected blow to the state's economy. The direct economic casualties of September 11th were tourism and travel-related sectors and those regional economies that depend heavily on those sectors. By introducing heightened uncertainty into the economy, the events of September 11th undermined the return of consumer confidence and spending. Early estimates are that the state is likely to lose 263,700 jobs due to September 11th and up to 400,000 if consumer and business spending is slow to recover.

On October 11th, 2001, this Committee held an informational hearing to assess the health of the state's information technology industries. Just as surely as California achieved world fame through the success of its IT economy, the slowdown in IT, punctuated with high profile layoffs and bankruptcies, had become the subject of clear concern before the events of September 11th. The Committee received testimony from the American Electronics Association, the Silicon Valley Manufacturers Group, Intel Corporation, the California Employment Development Division, the Technology, Trade and Commerce Agency, and the Silicon Valley Workforce Investment Board. That hearing made clear that the conditions for recovery in technology industries are in place. As Ash Padwall of AeA stated, interest rates are low and continue to fall, energy is stable, our colleges and universities continue to forge technological breakthroughs and train tomorrow's champions of innovation, and California IT sector remains good business for smart and sound investors here and abroad. Nevertheless, the state could certainly take steps to stimulate new technology manufacturing. The

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state could also support more timely local response to the plight of a workforce that had been suddenly jolted out of work and could use immediate employment services.

On November 8th, the Committee appropriately held an informational hearing to assess the state of the California economy across several regions and industry sectors in light of the pending recession and the events of September 11th. The Committee welcomed testimony from representatives from several regional economic development corporations, from different industry sectors, and from workforce investment boards charged with managing our most prized economic resource in California – our workers. From restaurants and hotels to the state's flagship technology companies, rising unemployment has been the most troubling indicator of our state's economic health. From October 2000 to October 2001, the state unemployment rate has risen from 4.9 percent to 5.7 percent.

Testimony presented to the Committee suggested that this recession will not be as deep or as prolonged as the "restructuring" recession of the 1990s. Most economists concur that recovery will begin in Spring of 2002. Nonetheless, personal income continues to decline at a rate more rapid than employment, and the effects of uncertainty on consumer confidence may affect the length of the recession.

Regions of the state have been affected differently due to their specific industrial and workforce composition. Regions that rely heavily on travel and tourism-related services have suffered more directly from September 11th, as have those industries' predominantly low-wage workers. Regions that rely heavily on dot.com industries face challenges that stem from the pre-September 11th drop-off in cyclical demand and business investment.

Bob Sakai, Technology and Trade Director for the East Bay Alliance for Business, noted that despite the growth of biotech, office vacancy rates have been rising due to the fall of dot.com. In one year, unemployment in San Jose leaped from 1.6 percent to 6.4 percent, and financing for small business, a vital engine of job creation, is stagnant. The Bay Area also suffered a contraction of the regional convention and tourism industry caused by the September 11th attacks. At least 3,000 hotel and restaurant workers have been laid-off since the attacks. Many more are working reduced hours that do not secure medical and other benefits.

Marney Cox, Chief Economist for the San Diego Association of Governments, testified that the San Diego region fared relatively well prior to September 11th due to its reliance on biotechnology and industries other than manufacturing and dot.coms. Terrorism, however, dealt a severe blow to the San Diego economy, in particular to the region's cross-border and visitor related businesses. The regional tourism sector employed 135,000 workers prior to September 11th; that number has since declined between 15 to 30 percent. Border wait times have doubled, and border crossings are down 30 percent. Particularly affected are small, south San Diego retailers that rely on one-day, border crossing shoppers. Overall, the ranks of the unemployed in the San Diego region is expected to increase 50 percent to over 60,000 workers, a rise in the unemployment rate of 3.3 to 4.5 percent.

Lee Harrington, President and Chief Executive Officer of the Los Angeles County Economic Development Corporation, identified multiple points of the Los Angeles area economy that are reeling. Prior to September 11th, the regional economy grappled with announced departures of aerospace manufacturing in Long Beach, Hawthorne and Lancaster, falling direct international trade due to weak Asian demand, and out-migration of motion picture and television production. The slight increase in unemployment before September 11th became a sharp spike after September 11th. Los Angeles' high concentration of tourism and travel dependent businesses – lodging establishments, restaurants, and theme parks - is only part of the story. The contraction of airline flight schedules has meant cuts in commercial aircraft orders and in the airline workforce at a nodal point in the nation's passenger and cargo air transportation infrastructure. LAX projects a decline of 35 percent in commercial air travel – approximately 25 million passengers, many of them business travelers and foreign tourists, who spend six times as much as domestic visitors. Increased airport security has also slowed "just-in-time" inventory management, raising costs for clients of Los Angeles area air cargo services. Waning consumer confidence continues to dampen sales in the retail sector. In all, unemployment stands at 5.9 percent, compared to 5.2 percent one year ago.

The Central Valley continues to be the outlier among the state's regions. David Spaur, President and CEO of the Fresno County Economic Development Corporation, warned that the Central Valley lags developments in the state economy by as much as 12 months. The effects of the recession will likely hit the Central Valley as the remainder of the state pulls through recovery. The state of the Central Valley economy is unique among regional economies. While most regions of the state prospered in the late 1990s, much of the Central Valley languished in double-digit poverty. According to Mr. Spaur, the barriers to growth continue to be easily recognizable. Water allocation reductions of 70 percent have forced financial institutions to keep close watch on agricultural loans. Air quality standards in the absence of offset measures limit the availability of manufacturing alternatives. The perception of unreliable or expensive energy left the region less competitive as a new business site location and caused several business expansion projects to be put on hold. Many of these expansion projects were cancelled after September 11th. Coupled with limited infrastructure, these challenges to Central Valley economic development suggest that the region is not currently positioned to accommodate a projected long-term population explosion in the following decades.

By industry sector, manufacturing exhibited signs of weakness before September 11th. Jack Stewart, President of the California Manufacturers and Technology Association (CMTA), cited the loss of 76,600 manufacturing jobs in the last year - 10,000 in the month before September

11th, 13,000 in the following month. Venture capital investment in the Silicon Valley, for example, fell 75% from last year's levels. The concerns of manufacturers, however, extend beyond September 11th and the cyclical downturn in the economy. Manufacturers continue to be concerned with the effects of increased energy costs and regulatory fees and taxes.

Travel and tourism services were the most impacted sectors by the events of September 11th. Terri Taylor-Solorio, President of the California Travel Industry Association, testified that 1.1 million jobs are provided by restaurant, hotel, amusement, retail, and convention center sectors that depend both on travel and consumer confidence. Despite the contribution of these service sectors to the economy, the state is far from leveraging the potential benefits of this sector. California's $7.2 million in state tourism promotion expenditures ranks 31st in the nation. By comparison, the state of Hawaii, ranked 2nd, spends $61 million on tourism; Florida, ranked 3rd, spends $59.7 million; and New York, ranked 8th, spends almost $20 million. Successive months of stunted business and tourist travel mean further across-the-board job cuts among predominantly low-wage workers who staff the state's travel and tourism businesses. Also impacted are local government revenues that rely heavily on tourism and hotel tax revenues.

The state's $27 billion agriculture economy continues to be primarily confronted by market conditions that precede September 11th. Jack King of the California Farm Bureau Federation testified that the strong dollar and weakening overseas demand, foreign subsidies, higher energy costs, regulation, and water management are the more pressing issues affecting the health of state agriculture. Other than lost produce due to the temporary grounding of planes after September 11th, the general weakening of demand due to failing restaurants and decelerating international markets may affect agricultural prices.

Suggestions and Recommendations

In her testimony, Legislative Analyst Elizabeth Hill reminded the Committee that the timing of stimulus measures and budgetary constraints must be considered in responding to the state's recession. First, stimulus must be fairly immediate if it is to take effect before the anticipated recovery in Spring of 2002. Tax reductions, she noted, need not only to be carefully considered against foregone revenues. The stimulus of tax reductions is diluted by leakage to out-of-state taxpayers and the federal government. Nevertheless, tax reductions could be financed by eliminating inefficient items from the state's $30 billion in tax expenditures.

Having the tools of monetary policy and deficit spending at its disposal, the federal government is likely to provide relief of its own to California. In addition to pending federal action, testimony presented to the Committee suggested several policy state options for stimulating the economy.

Accelerate Already Budgeted Public Works – Expediting transportation, housing, and other infrastructure projects emerged as an immediate policy option for stimulating the economy. Several witnesses noted that particularly in transportation, the state has an opportunity to infuse construction and supplier networks by targeting project backlogs for regulatory streamlining. Improving the "speed to market" of transportation projects, as coined by Secretary Maria Contreras-Sweet, will require assurances of adequate personnel in CALTRANS, projects that are planned and ready for implementation, and emergency streamlining measures like those deployed in response to the energy crisis. Witnesses also indicated the stimulus effect of expediting permitting for private sector projects by committing permitting agencies to deadlines within the next 90 days.

Augment California's Tourism Budget – The ultimate remedy to the recession in travel and tourism sectors is the recovery of tourist and business travel to California. The California Travel Industry Association has asked for an augmentation of at least $15 million to the Technology, Trade and Commerce Agency to advertise travel in California beyond the 10 to 12 months available with current state funding matched by industry.

Incentives for Security – Recovery of the travel and tourism sector is likely to respond to visible investments in security at airports, theme parks, and large, public gathering venues. Across the state, companies are investing in added security equipment and personnel. The state might consider a state sales tax exemption for new purchases of security equipment in the travel and tourism sector.

Tax Incentives to Stimulate Manufacturing and R&D – CMTA notes that California is one of four states that taxes purchases of manufacturing equipment. CMTA supports a 6 percent sales tax exemption on equipment used in manufacturing, research and development, and the expansion of telecommunications. CMTA argues that this exemption would attract new manufacturing and high paying jobs to California. This exemption would also welcome voluntary tax exemption by local governments of their sales tax portion on equipment used in manufacturing, research and development, and the expansion of telecommunications.

Two-year Moratorium on New Increased Fees and Taxes – Given expected cuts in state programs, departments may be tempted to increase regulatory fees to offset reduced revenues. CMTA argues that new increased fees and taxes would deter a timely recovery by the private sector.

Increased Use of Bond Financing – Among the limited tools available to provide economic stimulus, the state might increase the use of bond financing to maintain and expand expenditures on infrastructure projects.

Improve Workforce Assistance - The need for employment services by the workforce is urgent and requires expeditious use of discretionary dislocated worker funds. Many dislocated workers are technicians hired under "tight" labor market conditions and trained to perform specific tasks without certification or, in some cases, without improvement in language skills. Immediate certification or language training would allow these workers mobility in the marketplace. Mike Curran of the North Valley Workforce Investment Board and Ray Worden of the Long Beach Workforce Investment Board, however, agreed that the state has yet to institute clear policies and a well-managed, responsive state system to govern the timely use of discretionary workforce funds to meet these needs. Workforce funding decisions are often sporadic or default to outdated formulas that fail to put resources where they are most needed, when they are most needed.

Review Funding Formulas for Worker Training - Funding formulas for specific occupation training in adult education and community colleges were also identified as obstacles to upgrading skills to retrain workers for career in critical shortage occupations. Training of new workers and retraining of dislocated workers in machinist, auto mechanic, and nursing occupations is impeded by funding formulas that favor higher student-teacher ratios and lower investments in specialized training equipment (i.e. clinical lab equipment). While these formulas may work in most traditional occupational training, they may inadvertently create a training bottleneck in some of the most demanded professions, thereby deserving review.

Maintain Support for Housing – The housing construction sector is often considered a social need rather than a contributing industry to the economy. Tom Gilmore of Gilmore and Associates, L.L.C., observed that roughly $100,000 of goods and services is generated for every low- to moderate-income unit of housing built. The state is still experiencing a housing shortage. In light of the decline in construction volume and employment for September – down 25.8 percent and 6,700 from August - the state should consider maintaining its support of housing, either by protecting budgetary housing items or by simplifying bureaucratic process that slow or distort legislative intent to build housing.

Expedite Federal Specialty Crop Assistance Funds – Securing markets at home and abroad has never been more important to California agriculture. The state expects to be the executor of a $64 million federal grant for assistance to specialty crop growers. Timely implementation of the "Buy California" Program will help to consolidate state markets for state producers. Roughly one-fifth of state agricultural production is exported, and lost ground in international markets will be exceedingly difficult to recover due to generous subsidies received by foreign producers. California agriculture would benefit by fortifying existing markets and by developing new market footholds abroad.

In the early 1990s, California proved its economic resilience to the nation and to the world by emerging from the unprecedented challenges of defense downsizing. At its worst point, the state unemployment rate reached 9.7 percent; nearly 550,000 jobs were lost. Although no one expects this recession to be as deep or prolonged as in the early 1990s, the relative effect of sudden increases in unemployment, drops in personal incomes, and economic uncertainty are just as troubling to state policymakers as they were a decade ago.

We know that the state's response must be immediate, and we know that it must be targeted. We must attend to the needs of workers that are displaced, and where possible, better mobilize training resources to capitalize on downtime and to protect and improve the versatility and productivity of our workforce. We must also keep in mind that, despite this downturn, the fundamentals of the economy are solid. The state's response should be sound and targeted in light of the greater strength and vitality of our economy.

Market cycles and terrorism may dent our short-term prosperity, but they cannot affect the true and impervious entrepreneurial spirit of the greatest economy in this great nation. As the State does its part to make air travel more secure, passengers will return to the skies and to California as they resume their everyday business in our economy, the fifth largest in the world. Consumer confidence and business demand will return and surpass pre-September 11th levels. The California economy is one of the most dynamic economies in the world, having the most innovative and productive workers in the world. The California economy will grow and will prevail.

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Overview

A General Overview of Developments in the California Economy

Elizabeth Hill
Legislative Analyst

Summary Findings of the Governor's November 2nd Economic Summit

The Honorable Maria Contreras-Sweet
Secretary, Business, Transportation, and Housing Agency

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BIOGRAPHICAL SKETCH:

Elizabeth G. Hill

Legislative Analyst
State of California

Elizabeth Hill earned a bachelor's degree, with honors, in Human Biology from Stanford University and a master's of public policy degree from the University of California, Berkeley. Following her academic training, she was a Fulbright Scholar in Stockholm, Sweden conducting research into innovative Swedish transportation policies. She commenced a career in state government in 1976, joining California's Legislative Analyst's Office as a program analyst focusing on criminal justice. Following specializations in other policy areas, she was appointed California Legislative Analyst by the Joint Legislative Budget Committee in 1986.

As Legislative Analyst, she serves as a nonpartisan fiscal advisor to both houses of the state Legislature, and oversees the preparation of annual fiscal and policy analyses of the State of California's budget and its various programs. Her office also is charged with the responsibility of preparing analyses for all initiatives and constitutional measures qualifying for the state's ballot.

She is an active member of the Association for Public Policy and Management, currently serving as Vice President, the National Academy of Public Administration, and the National Association of Legislative Fiscal Officers. In 1997 she was recognized as a "Public Official of the Year" by *Governing Magazine*. She currently serves on the advisory boards of the Public Policy Institute of California, the Goldman School of Public Policy at UC Berkeley, and the Sacramento Center of the University of Southern California.

March 2000

California's Economic Outlook Pre and Post September 11

Presented To:

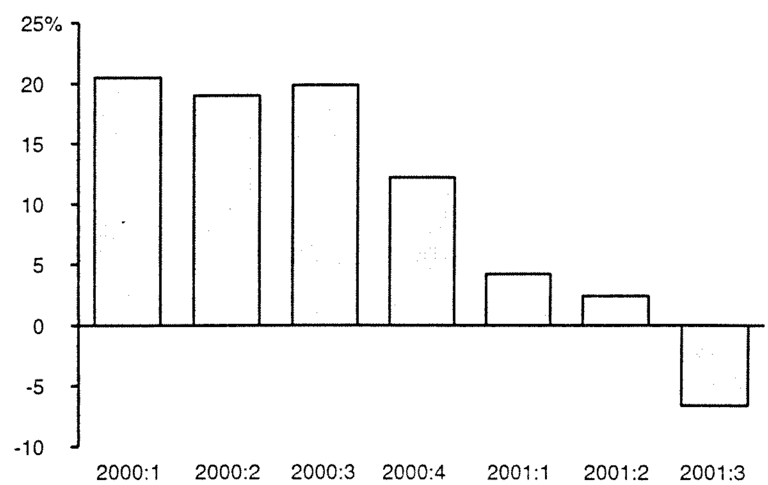
Assembly Committee on Jobs, Economic Development, and the Economy

National and State Economies Now in a Mild Recession

- ☑ Prior to the September 11 attacks, California had been experiencing economic softness.

- ☑ For example, withholding payments, which are an indicator of current job and wage trends, have been decelerating throughout 2001(see chart below), due to slowing employment, wages, and declining stock options, particularly in the high-tech industries.

Year-Over-Year Percent Change in Withholding, By Quarter



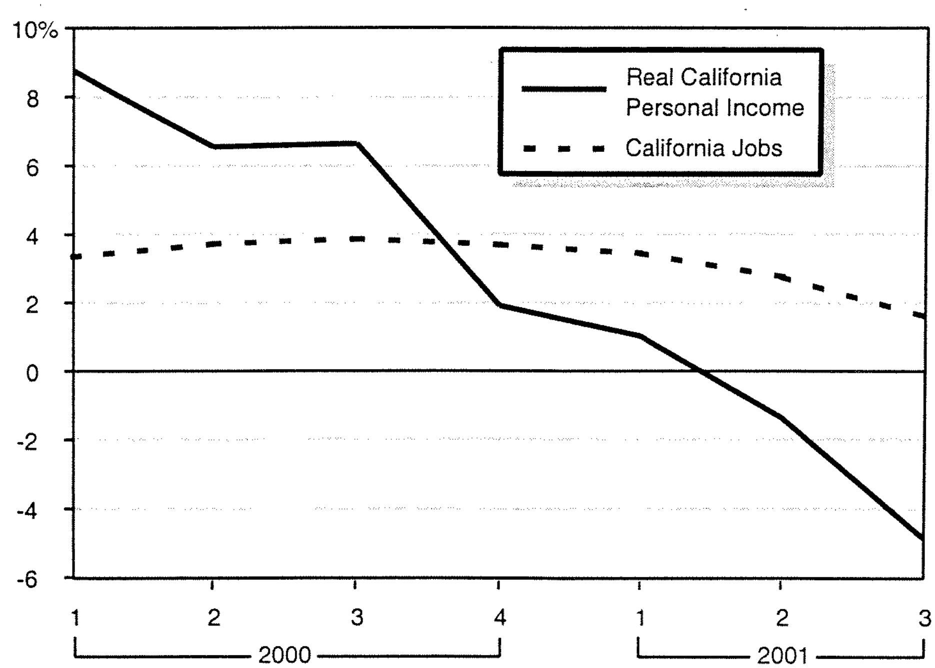
- ☑ Following the September 11 attacks, however, weakness has intensified and spread to many other industries, particularly those related to travel and tourism.

- ☑ Thus, California—as well as the rest of the nation—is now in a mild recession.

☑ ***Slowdown's Effect on Income More Pronounced Than for Employment.*** As shown in the chart below, personal income adjusted for inflation has declined more rapidly than employment. This has significant implications for the state budget.

Recession's Impacts–Mild Job Losses But Severe Income Declines

Year-Over-Year Percent Change, by Quarter



Recovery Expected Early Next Year— But Uncertainties Abound

☑ ***Consensus Outlook.*** The national recession will give way to a moderate recovery beginning next spring.

☑ ***California to Follow Nation.*** We expect that California's economy will emerge from its downturn when national spending recovers.

- This is not like the early 1990s, when recovery was delayed because California was undergoing massive restructuring in its defense, banking, and housing industries.

☑ ***Huge Uncertainty Regarding Outlook.***

- No one knows how long consumers and businesses will remain cautious in the wake of the September 11 attacks and the current problems being experienced with mail delivery.
- It is unclear how the stock market decline will "play out" in terms of its effects on consumer confidence and spending in this state.

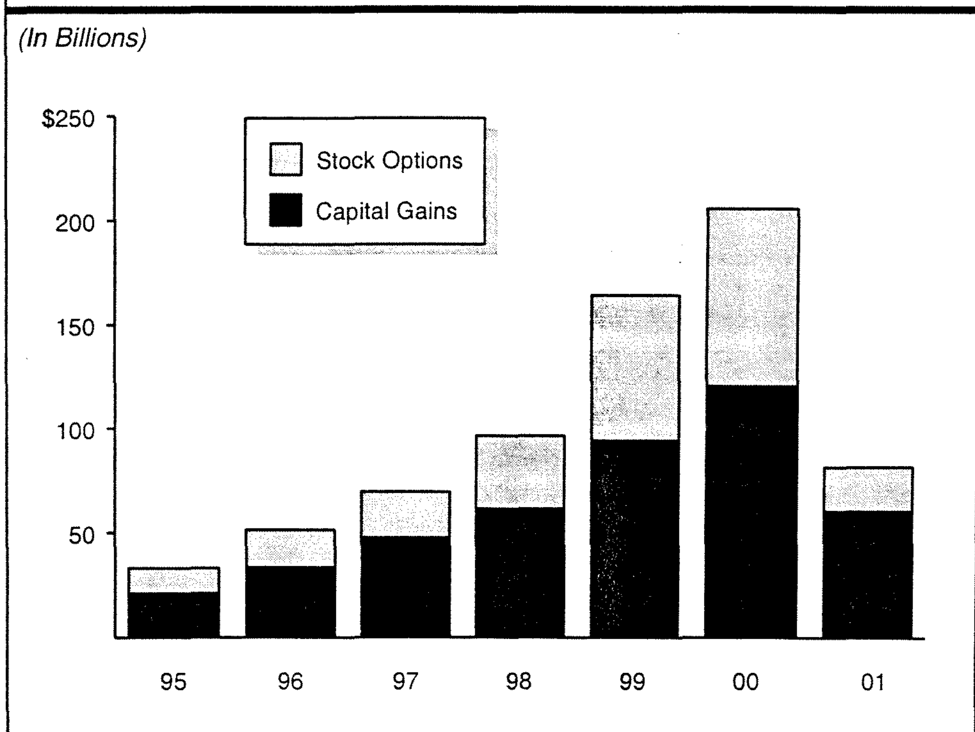
Budget Will Be Hit Hard

- ☑ The economic slowdown—even if relatively mild—will have a substantial adverse effect on state revenues, which are highly sensitive to the economy.

- ☑ This effect will be magnified by the major stock market declines that have occurred, particularly in the high-tech industries.

  - The stock market declines are particularly significant since capital gains and stock options accounted for more than 22 percent ($17 billion) of state revenues in 2000-01 and were estimated to total $12 billion this year. The chart below shows the pattern of realizations since 1995.

Capital Gains and Stock Options Tumble in 2001



Budget Will Be Hit Hard *(continued)*

- ☑ Revenue receipts for the May-through-September period are running over $1 billion below estimates. Monthly shortfalls will likely expand in the months ahead, easily exhausting the projected current-year reserve of $2.6 billion.
- ☑ Prior to the recent deterioration in revenues, the 2002-03 budget was already facing a $3.7 billion "operating shortfall" (that is, expenditures in excess of revenues).
- ☑ The administration has indicated the range of the 2002-03 budget problem is from $8 billion to $14 billion.
- ☑ Given the severe budget constraints facing the state next year, it will be important to carefully weigh the benefits of any proposed economic relief or stimulative measures against the budgetary costs involved.

State Economic Stimulus—Cautionary Notes

- ☑ ***Timing and Details Are Key.***

- ☑ ***State Tools Are Inherently Limited.*** The state lacks the tools available to the federal government, including monetary and deficit-financed spending policies for non-capital outlay purposes.

- ☑ ***Benefits From State Tax Reductions Are Diluted Due to "Leakages."*** The full impact of state tax reductions is generally muted due to leakages to out-of-state taxpayers and the federal government.

- ☑ ***General Spending Options.*** Two broad spending-type options include (1) accelerating certain expenditures that would otherwise occur, such as appropriations for capital projects, and (2) the increased use of available bond financing.

- ☑ ***Inefficient Tax Expenditures Could Be Eliminated and Used to Finance Tax Rate Reductions or Other Measures.*** In the current year, it is estimated that tax expenditures related to state programs total $30 billion.

- ☑ ***Despite Providing Private-Sector Economic Stimulus, State Tax Reductions Do Not Generally Pay Their Way.*** Positive impacts on the economy must be weighed against the negative economic effects of reduced government spending caused by the tax cuts.

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The Honorable Maria Contreras-Sweet

Secretary
California Business, Transportation and Housing Agency

Maria Contreras-Sweet was appointed in January of 1999 by Governor Gray Davis to direct one of the most powerful agencies of state government, overseeing business regulation, transportation and housing.

She is responsible for a budget of $12.4 billion and a workforce of more than 47,000. Were her Agency listed on the Fortune 500, it would rank 145th.

Secretary Contreras-Sweet helped the Governor put forward the largest transportation and housing augmentations in the state's history - $6.8 billion and $500 million respectively. These major programs that she manages are aimed at traffic congestion relief and home ownership. In response to a growing consumer need, she championed the Governor's efforts to create the Department of Managed Health Care and the Office of Patient Advocate - a watchdog over HMO's and the medical industry that will assure a more responsive and accountable health care system.

Capitalizing on Secretary Contreras-Sweet's ability to bring people together from both the public and private sectors, the Governor appointed her Chair of the Commission on Building for the 21st Century. The Governor has charged the Commission to develop a comprehensive, long-term plan to meet California's transportation, building and technology needs for the next 20 years. As Chair of the California Complete Count Committee for the 2000 Census, the Secretary mobilized an aggressive campaign strategy drawing strong support from local and community-based organizations. This resulted in one of the most successful efforts of any state in the nation.

The Secretary is the first Latina in California history to be a member of a Governor's cabinet.

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CALIFORNIA
MANUFACTURERS
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ASSOCIATION

Jack M. Stewart
President
California Manufacturers and Technology Association

The California Manufacturers and Technology Association (CMTA), a statewide, non-profit, mutual benefit association, has a proud 83-year history as an advocate for the men and women whose ideas and innovations make the world run, and whose spirit has created the most dynamic economic engine in history.

Jack Stewart is President of the California Manufacturers and Technology Association. Named to the President's position by the CMTA Board of Directors in March of 1998, Mr. Stewart has been with the Association since 1992 as Executive Vice President and Chief Operating Officer. As such, he was responsible for managing all association functions including legislative advocacy, communications, membership, administration and finance. As Executive Vice President, he also developed new programs and refined existing programs offered by CMTA's Service Corporation, a wholly-owned, for-profit subsidiary of the California Manufacturers and Technology Association. One such addition is a CMTA energy service program that reflects the historic era of competitive California electricity markets.

Working with the CMTA's Board of Directors, Mr. Stewart developed a pro-active strategy for reforming California's business climate by creating an aggressive, pro-manufacturing public relations program and mobilizing statewide grassroots operations among California companies and other associations. The effort, entitled "CMTA for Jobs," has resulted in the enactment of important pro-business reforms such as an investment tax credit for California manufacturers, reform of the often onerous environmental regulatory system, overhaul of the state's workers' compensation system, deregulation of the state's electricity energy markets and the reform of California's restrictive and burdensome overtime rules.

From 1984 through 1991, he served as Chief Deputy Director of the California Department of Commerce where he managed the State's economic development programs. Appointed by Governor George Deukmejian, Mr. Stewart was responsible for developing and implementing programs to stimulate California's economy and create new employment opportunities for California workers.

Mr. Stewart held various legislative positions, both in Sacramento and Washington, D.C. He was Chief Consultant for the California Senate Select Committee on Business Development from 1983 to 1984 and Staff Director of the California Senate Minority Leader's Office from 1981 to 1983. From 1974 to 1980 he lived in Washington, D.C. where he served on the staffs of Congressmen Arlan Strageland of Minnesota, Guy Vanderjagt of Michigan and Phillip Crane of Illinois.

Mr. Stewart was born in Johnstown, Pennsylvania and currently resides in Sacramento, California with his wife Diane, and their two daughters, Victoria and Alexandra. He is a veteran of the U.S. Navy and a graduate of the University of Pittsburgh.

CALIFORNIA
MANUFACTURERS
& TECHNOLOGY
ASSOCIATION

November 1, 2001

Governor Gray Davis
State Capitol
Sacramento.CA 95814

Dear Governor Davis:

Thank you for inviting me to participate in the "Partnership for California's Future: An Economic Summit." I am looking forward to an engaging forum as we discuss proposals for California's economic recovery.

The California Manufacturers & Technology Association brings to the discussion ideas and insights generated by its member companies. These ideas are meant to provide an immediate stimulus for our faltering economy without causing a negative impact on the state's budget.

As reported in the Department of Finance' s October Bulletin, manufacturing employment in California declined by 63,000 jobs during the past year with more than 10,000 of those job losses occurring in September. High tech jobs have been hit the hardest.

And, according to just released data from the National Venture Capital Association, venture capital investment in the Bay Area has dropped 74 percent from its high in mid-2000.

High taxes, high regulatory fees and high energy costs have created a situation where California is ill prepared to cope with the pitfalls resulting from poor consumer confidence, a weakening economy and the fallout from the September 11 attack on America.

We need action now. We're losing jobs and wasting opportunity. This summit presents an invaluable opportunity to identify and fix the underlying problems in our State.

As a long time Capitol observer, I have seen the Legislature make policy decisions when the state is awash in red ink and, quite frankly, it becomes the "unhappiest place on earth". But just as California families and corporations are making the hard choice to spend less, it's time for our government to do the same.

Cooperation between the business community and state policy makers is imperative for a united front on future economic policies and I trust the Economic Summit will be the start of that cooperation.

Attached are documents outlining CMTA's three main proposals to the summit.

- Implement a Sales Tax Exemption on Manufacturing, Processing and Telecommunications Equipment
- Reduce Electricity Rates and Provide Customer Choice in Energy
- Declare a Moratorium on New and Increased Regulatory Fees and Taxes

I have also included a fourth paper on Workforce training issues that are important to California manufacturers.

Again, thank you for your initiative in calling the Economic Summit. I look forward to a healthy discussion on collective solutions to the state's economic woes.

Sincerely,

Jack M. Stewart
President

Attachments (4)

California Manufacturers and Technology Association
Economic Summit, November 2, 2001

Recommendation for Sales Tax Exemption on Manufacturing Equipment

Summary: Manufacturing and technology strength is essential to a strong California economy. Historically, our state has been a world leader in these industries, which include electronics, biotechnology, aerospace, food processing and the production of goods of every description. A strong manufacturing base brings high paying jobs and produces an enormous positive ripple effect in the state's economy. A sales tax exemption for the purchase of capital equipment would quickly stimulate economic growth in this sector.

Problem: California taxes the purchase of manufacturing equipment while 46 states do not. Many of the 46 also provide tax credits to entice manufacturing expansion to their states. While California's Manufacturers Investment Tax Credit law provides some companies a partial offset against sales tax liability, California's tax burden in this regard is one of the worst four in the country and much heavier than that of any other industrial state. With respect to telecom equipment, 20 states provide more favorable treatment.

Proposal: Institute a sales tax exemption for purchases of equipment relating to manufacturing processes, research and development and relating to telecommunications expansion.

Benefits: Such an exemption would greatly enhance California as a location to build new facilities, to expand existing sites or to engage in research and development. It would accelerate the growth of broadband access to underdeveloped parts of the state. It would bring a direct and immediate incentive for expansion to all companies in the manufacturing, processing and telecom sectors.

California Manufacturers and Technology Association
Economic Summit, November 2, 2001

Recommendation for Managing High Costs of Electricity

Summary: This year industrial customers of SCE and PG&E received rate increases of 80 to 100%, devastating many businesses. On September 20, the CPUC suspended the right of California businesses to purchase electricity from non-utility suppliers. CMTA recommends that rates be lowered and customers maintain the right to contract for energy supplies and/or self-generate to manage high prices, increase reliability and improve the quality of service.

Problem: Before recent increases, rates reflected cost-differentials between customer classes, related to differences for capacity, time of use and line losses. These cost differentials could have been preserved by increasing rates for all classes by an equal percentage. Instead, the CPUC shifted costs from small customers onto large industrial customers. (This cost-shift was not necessary to protect 130% of residential usage as required by state law.) The combination of this cost-shift and new on-peak pricing caused some industrial customers costs to more than double. As a result, businesses are laying off employees and shifting production out of state. (See the Energy Casualty Report at www.cmta.net).

When direct access was suspended on September 20, the CPUC warned customers with earlier signed contracts that retroactive suspension, or excessive fees based on future (not past) DWR costs could be imposed, threatening the economic viability of the direct access contracts. Also, customers who are incurring multi-million dollar obligations to install self-generation and improve reliability are being threatened with potential fees for future DWR costs.

High utility rates, the potential for excessive exit fees, and no ability to contract for electricity at competitive prices threaten California industry in both the short and long term.

Proposals: The CPUC should reopen the most recent rate case and impose equal percentage increases from rates in effect prior to January 1, 2001, or roll-back rates for industrial customers so that no class incurs an average increase more than 50% from last year. The revenue shortfall from that reduction should be spread equally among all other customer classes.

CMTA recommends that CPUC not impose fees on direct access or self-generation customers related to future DWR purchases. All customers with existing direct access agreements should be permitted to continue with these arrangements, including renewals of such agreements. CPUC may impose fees on direct access and self-generation customers only to recover actual costs of electricity already consumed by such customers. This protects all customers from cost-shifting and preserves the right to competitive choice of energy supplies.

Benefits: More businesses will fail or leave California unless electricity prices are rapidly reduced to more competitive levels. Especially during periods of shortage and high prices, the economy will benefit if businesses are able to forecast costs and achieve price stability.

California Manufacturers and Technology Association
Economic Summit, November 2, 2001

Recommendation for Moratorium on New and Increased Business Fees and Taxes

Summary: During times of budgetary pressure, government may attempt to shift costs to business. In order to protect the economy, and ensure the effectiveness of economic stimulus measures, CMTA recommends that a two-year moratorium on new business fees and taxes be instituted.

Problem: State agencies are being asked to submit plans to the administration for 15% cuts in general fund revenues. To offset this loss, agencies may attempt to impose new fees or taxes on the regulated community. Such cost shifting undermines the ability of business to weather difficult economic times and leads to further erosion of the state's economy.

One CMTA member was concerned that an annual $2,000 Department of Conservation fee for mining facilities would simply be increased to make up for revenue losses and eliminate any need for department expense cuts.

Another example is the Department of Toxic Substances Control (DTSC) and its steady drop in fee revenue. Rather than scale back program activities or staff, it is likely that DTSC will offset this loss with new or increased fees on the shrinking number of businesses it regulates.

In lean times these are the policies that are so often embraced when there isn't enough money to go around.

Proposal: *Impose a two-year moratorium on new fees and taxes.* During this period, any new costs associated with legislative mandates should be absorbed in existing revenues. This approach is consistent with many of the Governor's actions on 2001 legislation.

Direct agencies to refrain from using administrative fines and penalties to backfill general fund cuts.

Benefits: Fee-based cost shifting to businesses to offset revenue losses will lead to further economic dislocation in the short term and will slow economic recovery. In addition, the opportunity to achieve real savings and efficiencies in government programs will be lost. The economic stimulus measures adopted by the state will more likely succeed if other costs of doing business stay the same or decline.

California Manufacturers & Technology Association
Economic Summit, November 2, 2001

Recommendations For Workforce Issues

Summary: The California Employment Training Panel (ETP) is an important statewide economic development program that ensures employers have the trained workers they need to compete in the global economy. Numerous studies have validated the measurable benefits from the ETP program for enhancing both worker skills and the competitiveness of businesses. In addition to the ETP, the California Workforce Investment Board seeks to improve the skills, knowledge and expertise of the personnel who staff workforce investment systems in the state. The Board has indicated that it will seek to build local capacity through a comprehensive mix of outreach strategies.

Problem: The Employment Training Tax on employers was established solely for the operation of the ETP program. However, EDD, the Department of Social Services (DSS) and the Department of Industrial Relations (DIR) also receive appropriations from the Employment Training Fund (ETF) through the Budget Act. The 2001-2002 Budget Act had a particularly detrimental impact on the ETP program through its transfer of $61.7 million from the Employment Training Fund to DSS for CAL-Works. These fund transfers have increased despite the fact that program demand has exceeded available funding for a number of years.

In addition, while federal law and the California Implementation Plan recognize the importance of using Workforce Investment Act monies for incumbent worker training projects, the state Workforce Investment Board has not yet developed the guidelines necessary to foster a systematic statewide approach to incumbent worker training under WIA

Proposal: Protect the Employment Training Fund from fund transfers for purposes other than the program's statutory intent of increasing worker skills and promoting the competitiveness of California's employers.

The California Workforce Investment Board should work through its sub-committee structure to develop guidelines for effective incumbent worker training programs.

Benefits: The Employment Training Panel Program is the primary statewide program available for the training of existing workers within the state's businesses. Protecting full funding for the ETP program and adding a complementary incumbent worker training component under WIA will ensure that these important economic development programs are available to California's employers and lay the foundation for economic recovery.

Assembly
California Legislature

COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

SARAH REYES, CHAIRWOMAN
31ST DISTRICT - FRESNO

Elise Rhodes

Director
State Government Affairs, Western United States
Baxter Bioscience

Elise Rhodes currently serves as Baxter Bioscience's Director of State Government Affairs for the Western United States. In the role, Ms. Rhodes is charged with overseeing all Baxter Bioscience legislative and regulatory issues.

Baxter Bioscience is one of the largest Bioscience companies in the world. Headquartered in Glendale, California, Baxter employs more than 2,000 people in California and 10,000 employees in over 30 countries. Baxter Bioscience has sales of approximately $2.2 billion in 2001 and is projected to grow to $10 billion by 2010.

Prior to assuming her position at Baxter, Ms. Rhodes was the Western Regional Manager for the Warner-Lambert Company. She came to Warner-Lambert having previously served for eight years as legislative staff with the California legislature.

Ms. Rhodes completed her Bachelors and Masters degree in Accounting at the California State Univerity.

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Terri Taylor-Solorio

President and CEO
California Travel Industry Association

Terri Taylor-Solorio began her career in Hospitality and Association Management in 1987, as the Director of Meetings and Conventions for the California Manufacturers Association. She went on to manage the meetings and conventions for the clients of Nossaman, Guthner, Knox and Elliott, Law and Lobbying firm, in their Association Management division. During that time she worked with the American Desalting Association, WateReuse Association and the California Special Districts Association.

In 1998, Taylor-Solorio joined The Messersmith Group, Inc. as an Account Executive working with both the California Travel Industry Association (CalTIA) and the California Association of Mortgage Brokers (CAMB), and in September of 1998 became the full- time Executive Director of CalTIA. Currently, she serves as the Association's President and CEO.

Terri is a Certified Meeting Professional and is active on the Board of Directors of Meeting Professionals International/Sacramento, and has in the past served as a chair on several committees as well as been a committee member for MPI/S. Taylor-Solorio is also a member of the American Society of Association Executives (ASAE) and the Travel Industry Association of America (TIA). She is currently a member of TIA's Governmental Relations Committee.

Terri is also involved in the community by way of community theatre as a choreographer of Best of Broadway, which is a long-standing Sacramento event that donates proceeds to several community charities.

Testimony to
The Assembly Committee on Jobs, Economic Development and the Economy
Thursday, November 8, 2001

Terri Taylor-Solorio
President & CEO
California Travel Industry Association Executive

Good afternoon and thank you for this opportunity to testify. My name is Terri Taylor-Solorio and I am the President/CEO of the California Travel Industry Association (CalTIA).

CalTIA is the voice and vision of tourism in our state. Our members represent every segment of the industry, and every inch of our Golden State's 12 tourism regions. To give you a sense of the breadth of our members...they include everything from Disneyland and Universal Studios to the Napa Valley Wine Train and Hilmar Cheese Visitor Center, from Hyatts, Hiltons, and Best Westerns to quaint and scenic Bed & Breakfast Inns, from the San Francisco and Los Angeles Convention and Visitors Bureaus and the Gilroy Visitors Bureau, Chambers and VisitorWelcome Centers. Our members include companies such as Avis, Amtrak, Gray Line Tours, Hornblower Cruises and Events, Ironstone Vineyards, Bubba Gump Shrimp Campany, Heavenly Ski Resort, South Coast Plaza and Sunset Magazine, just to name a few. As you can see, our industry includes Accommodations, Destinations, Publications, Advertising, Marketing and Public Relations companies, Restaurants, Retail, Transportation, and Tour & Travel Companies. Our members also include the leading trade associations for each industry segment, such as the California Restaurant Association, the California Ski Industry Association, the California Hotel and Lodging Association as well as Meeting Professionals International.

Travel is a fundamental freedom of all Americans. One of our industries top priorities at this point, is to reassure the public of their safety and security while traveling. At the same time, we know that our industry has a dramatic effect on the vitality of California's economy, and we believe that the following actions will address both of these concerns.

1. California's tourism budget must be augmented by a minimum of $15 million

Consider these facts:

- California is the most visited state in the US
- 293 million domestic & international travelers visited California in the year 2000
- $75 billion is infused annually into California's economy from travel and tourism spending
- 1.1 million jobs come from the travel and tourism industry
- $4.9 billion is generated for State/local tax revenues directly from travel and tourism

California Tourism's budget from the State is $7,200,000

Compared to other State Tourism budgets, California ranks 31 in budget position. For example, other states rank and budget the following:

State	Rank	Budget
Oklahoma	24	10,338,264
Maryland	15	13,453,570
Missouri	10	16,449,060
New York	8	19,939,100
Florida	3	59,794,710
Hawaii	2	61,000,000

Illinois ranks number 1 at $61,059,000.

Our industry is not holding out an empty hand. Industry leaders banded together and in 1995 the Legislature adopted the Tourism Marketing Act—giving the travel industry authority to create the California Travel and Tourism Commission (CTTC) and assess itself to fund tourism promotion. In 1997, Self-assessment was passed by California's travel and tourism businesses. Today, with CTTC funding, California's tourism marketing budget is doubled and as a result the CTTC has an impressive set of accomplishments. Highlights include the "Adventures in Wild California" IMAX film, production of 17 informative publications for travelers making plans to visit California, reaching close to 6 million people, production of key research reports, and the list goes on. In addition, with the matching funds from the industry, California climbs form 31st in rank of tourism budgets to 13th. Today, the return on the joint investment is an impressive $350 for every $1 spent.

As you may know, the CTTC agreed to spend $5 million from its 2002 budget to launch an urgent advertising campaign that is now scheduled to begin next week and run for a 10 to 12 week period. This campaign is geared to "brand" California to our residents and will consist of television ads, newspaper, radio and other marketing programs to reach a large volume of in-state residents. The program will be greatly enhanced by industry support to leverage every dollar.

The augmentation will allow for the campaign to continue beyond the 10 to 12 week run, will replace the spending of future funds, and will allow the coverage to be increased to reach the key Western United States potential visitors. The augmentation will help to move California's promotion of the State to a year round campaign.

2. Exemption for the California Division of Tourism from any current or forthcoming budget or staffing cuts.

We believe that the office of tourism would suffer greatly with cuts in either staffing or resources. We realize that the state as a whole needs to work together to minimize the state budget, however, this particular department is crucial to rebuilding the states economy.

3. Postpone the second phase of the minimum wage increase.

It is becoming increasingly difficult for small businesses to keep their doors open as a result of the recent events. A postponement of six months to a year of the 50 cent raise in minimum wages can make a dramatic difference for many California companies.

4. Give Californians a 4-day tax holiday

Incentive to spend! Excellent way to get the "ball rolling".

5. Provide a business meal tax credit or a deduction/credit for personal travel expense.

A tax credit for either or both, business meals or personal travel expenses for travel taking place in California for the period of September 11, 2001 to December 31, 2002, is an incentive for people to get back, as close as possible, to business as usual.

All in all, our suggestions do more than impact the points that I've outlined. Our ideas, if implemented, will show Californians that our Governor, our political leaders, and our state, cares about the people who live and work here. Leading by example, we will rebuild the confidence of Californians.

The Governor and Legislative leaders should be taking an active, supporting role by showing support and promoting our state as the number one destination that it is!

Assembly
California Legislature
COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
SARAH REYES, CHAIRWOMAN
31ST DISTRICT - FRESNO

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COMMITTEE SECRETARY

Jack King

National Affairs and Research Division
California Farm Bureau Federation

Jack King is manager of the California Farm Bureau Federation's National Affairs and Research Div. King has been with the California Farm Bureau for 20 years serving in his present position since 1994. The California Farm Bureau Federation is a voluntary, general farm organization that represents more than 40,000 California farm families. The National Affairs Division represents the organization in federal legislative and regulatory matters as well as trade and commodity issues.

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Statement presented to
Assembly Committee on Jobs,
Economic Development and the Economy

Jack King,
California Farm Bureau Federation
November 8, 2001

I am pleased to be here and the California Farm Bureau Federation is especially pleased that you have included agriculture in your discussions on the state of the California economy.

Agriculture is a vital cog in California's economy in terms of jobs, revenue, and tax receipts. And, it is the hub of economic activity for hundreds of communities throughout California. Through boom periods and downturns, farming has been a steady engine, providing more than a million direct jobs on farms, packing sheds, cotton gins, processing plants and in the transportation of products. This past year, California generated over $27 billion in farm revenue. The multiplier effect of this economic contribution would place the overall value at $200 billion.

There are some other important attributes as well. Many of California's farm commodities take on added value---canned or dried fruit, grapes into finished wines; processed nuts and pre-packaged salads. The added revenue stays in the state in the form of local jobs, state income and personal property taxes. What happens on our farms also touches the state's major urban areas, such as jobs in the Port of Long Beach and Oakland. Farm exports account for 35 percent of the volume at the Port of Oakland.

Agriculture is a major buyer of products as well---irrigation supplies, farm equipment, boxes and packaging materials.

While agriculture is a steady and reliable segment of our state's economy, that contribution cannot be taken for granted. The long-term health and viability of our industry is critical and certainly deserves the attention of your committee.

Agriculture was definitely affected by the Sept. 11 terrorist attacks. And, though in most instances the effects were localized and uneven, the events startled our industry and served as a wake-up call to the vulnerability that agriculture faces. Most of our products are perishable requiring timely handling and shipping.

When our country's airplanes were grounded on Sept. 11, many high-valued products were stranded--- flowers, seafood, strawberries, specialty herbs. The grounding of agricultural aircraft produced a scare, caused inconveniences, but the on and off nature of suspensions allowed some needed work to be done, such as cotton defoliation and crop spraying. Agricultural aircraft play an important role throughout the year. If the suspension had lasted longer, cotton producers could have been seriously impacted.

As our country adjusts to the new realities of border security it's bound to affect the flow of our products into Mexico and Canada in terms of delivery and return times and the eventual cost of transporting the products.

The September events occurred when California's seasonal farm employment needs were beginning to decline. When our employment numbers head back up at the start of the new production year, we anticipate that some problems could occur, in the form of delays for workers traveling from Mexico to California either as day laborers or those re-entering the country as green card holders. We understand the need for greater border security, but hope that any delays will be kept to a minimum. If the process becomes too time consuming or onerous, eligible green card holders may simply choose not to come to work in California.

California producers could also face some of the subtleties of international diplomacy. A few years ago when the United States declared its war on drugs in conjunction with Columbia it resulted in agreements to import more of that country's flowers, to the detriment of our flower growers. Who knows what the fate of our pistachio growers will be if the United States decides to forge a new relationship with Iran or other countries? Other crops could be affected in a similar manner.

Meanwhile, an unintended consequence of the terrorist attacks could be a greater interest in purchasing U.S. and California-grown products out of patriotism or concern for food safety. We strongly support the "Buy California" program and believe it holds great promise for the state's farmers and ranchers.

Perhaps the greatest impact of the Sept. 11 events has been the overall slowdown in the state and the nation's economy. USDA has issued a report showing that farm prices have declined by 10 percent overall since Sept. 11. Closer to home, California producers who sell directly to restaurants have felt the immediate effects of the drop in business. In addition, any economic fallout that spreads to other countries is bound to hurt our exports. Over the past several years, our farmers have felt the effects of the weak Asian economies. Certainly, U.S. and world consumers will continue to eat, but in a weak economy they alter their food choices which could hurt our specialty crops. Some California commodities such as beef, quality wines, plants and other nursery products have done well as a result of the strong U.S. economy of the past few years, but those gains could be quickly lost in a weakened economy.

The economic problems hit California farmers and ranchers well before our economy faltered. The strong dollar, weak overseas demand, foreign subsidies, sharply higher energy costs and regulatory burdens have combined to severely strain the state's farm economy. Some commodities have been especially hard hit, such as cotton, oranges, raisins, prunes and other dried fruit, garlic, apples, pears, almonds, walnuts, grapes, flower production and many vegetables.

This past January, the California Farm Bureau established a Farm Crisis Task Force to look for ways to deal with the problems. Our task force cited the need for relief from high energy costs, regulatory and tax relief, more aggressive trade representation, creation of a farm safety net and sound direction in the state's water policy as key components of short and long-term solutions.

Fortunately, the California legislature approved much needed tax relief. That was important and a critical first step. The legislation will lead to $50 million in annual savings. Your efforts are greatly appreciated.

The energy situation has improved, but California farmers and ranchers still face rates that are much higher than most of their competitors. California products are highly regarded around the world, but the costs of production combined with the strong dollar make it increasingly difficult for our farmers to compete in world markets and against foreign competition. The costs of compliance with state and federal regulations are often overlooked, but the effects can be devastating. The state legislature should undertake a study on the cost and effects that regulations have on California agriculture.

In Europe, farmers are considered an important part of the social fabric and steps are taken to ensure their viability. I believe we hold many of those same values dear in the United States, such as sustaining small rural communities and retaining open space, but our actions suggest otherwise. If we are to remain economically viable the issues that affect our competitiveness must be addressed.

Sometimes choices are made between enhancing jobs and local economies and protecting agriculture versus pursuing environmental idealism. Saw mills have closed throughout California in the interest of placing our forest off limits. Right now, decisions are being made within our national Forest Service as to whether trees that were burned by the Star fire in El Dorado County should be cut as salvaged lumber or left to stand and decay. If the decision is made to salvage the trees, jobs would be created at the Collins Lumber Company and elsewhere, but some groups are arguing against the salvage operation. It seems that the preferred alternative is to buy Canadian lumber.

In Tulelake, many of the town's jobs have been lost because water was cut off to supply added water to two species of fish. During past droughts, limited water supplies were shared between all water users to aid and sustain all parties. This time around all the water went to the fish. The federal Endangered Species Act trumped all other water uses. As a result, farmers are hurting, farm worker jobs have been lost and the local economy is suffering.

In many communities agricultural production or timber harvests are the backbone of the local community. When those activities are curtailed the viability and infrastructure of the entire community is threatened.

Recently, Congress allocated $64 million to aid the state's producers of specialty crops. The block grant program provides a unique opportunity to deliver short and long-term assistance to farmers and ranchers. The California Department of Food and Agriculture and the state legislature will have discretion in how the funds are allocated. Farm Bureau believes the funds should benefit as many farmers and ranchers as possible within the guidelines set by Congress. The funds should be dispersed immediately and should not be used to replace existing government funding or as backfill to replace monies shifted to other programs and priorities. The 2002 planting season is right around the corner. Farmers need certainty. There should be no

delay in getting the funds into the hands of those who can do the most good for specialty crop farmers. Farm Bureau's funding priorities fall into five general areas:
Market Promotion – Domestic and International The key to success in agriculture is demand in the marketplace. There is a need to allocate funds to both domestic and international promotion of California agricultural products. Our Farm Crisis Task Force supported greater awareness of U.S. and California-grown products among our own consumers. The fact is, consumers today have little awareness of where their food comes from or who produces it. We support greater public awareness and support for California-grown products. "Buy California" is a program that can deliver those results. The more informed the public is, the more likely they are to support California's farmers and ranchers when they make their food purchases.

California produces 58 percent of the nation's total fruit and nut production and nearly 40 percent of the nation's total vegetable production. Our nemesis is unfair subsidies, particularly by the European Union. EU producers of horticultural products reap $15 billion in annual subsidies and other government assistance. Our fruit producers receive no such assistance. One of the best ways to help farmers is to help them sell more of what we produce to overseas markets. We support using these funds to support market development programs here and abroad.

Pest/Disease Eradication and Exclusion At any given time, California battles serious pests like the glassy-winged sharpshooter, red imported fire ants, many species of fruit flies and Africanized bees to name a few. Eradication costs are expensive after pest infestations occur. Farm Bureau has consistently supported ways to make strong pest exclusion and detection programs even stronger. The first line of defense against unwanted pests and disease is our inspection services at California's airports, seaports and highway border stations. One of the best ways to help our farmers is to strengthen our inspection programs to protect our farms and food supply.

Education and Food Safety Promotion Agricultural literacy is a major challenge in California where few people have a direct link to the farm or ranch. California has a number of excellent programs to educate and inform the urban populace about agriculture. Programs like the California Foundation for Agriculture in the Classroom reach out to teachers, students and administrators to reconnect them to our industry and the contributions farmers make to their lives. We also need to more actively promote programs such as the 5-A-Day program to help grow healthy children and adults with better eating habits.

Research You can't talk about California agriculture's success and preeminence as an agricultural state without mentioning the importance of research. Research and experimentation are the underpinnings of our success. California is unequalled in the research and educational system, which has encouraged and supported our phenomenal agricultural growth in the 20th century. California farmers and ranchers need research more than ever. With water supplies growing scarcer by the year and additional demands being placed on farmers by the state's growing population, we need research to unlock the answers to future challenges. Clearly, some of these funds should be earmarked for additional agricultural research.

Methyl bromide Methyl bromide is perhaps the most scrutinized and strictly regulated pesticide of the last decade. Methyl bromide is an important tool for California agriculture. It is important in combating a wide range of pests and diseases such as fungus, mites, beetles, mealworms and roundworms. While use of methyl bromide in this country is scheduled to end in 2001, other developed nations are not due for a full ban until 2005, and developing nations not until 2015. Researchers have been scrambling to develop a viable alternative to methyl bromide before the ban is implemented, though no workable option has surfaced.

We need further development of "field research" to expedite the discovery of viable alternatives, an analysis to determine where potential alternatives are in the approval process, and an economic impact analysis to determine the affect of the ban on California agriculture and food production.

Clearly, we need to make the most of this one-time $64 million opportunity.

We face challenges in California agriculture. But, we also face opportunities such as the "Buy California" program. Thank you for examining the economic issues and for your continued support for California agriculture.

Assembly
California Legislature

COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

SARAH REYES, CHAIRWOMAN
31ST DISTRICT - FRESNO

Tom Gilmore

Manager
Tom Gilmore and Associates, L.L.C.

Tom Gilmore's background is in architectural design, property asset management, and development. Mr. Gilmore was the founder and principal of Gilmore Design Associates in New York City for ten years. Mr. Gilmore came to Los Angeles in 1991, working as an architectural design consultant for Sentinel Real Estate Corporation and later became President and Chief Operating Officer of the Hertz Group investment real estate firm.

Tom Gilmore helped form I.J.C. Associates, L.L.C in 1995 (changing its name to Tom Gilmore and Associates, L.L.C. in 1998) in order to pursue acquisition and rehabilitation opportunities of under-utilized historic properties in Downtown Los Angeles and Hollywood. Completed acquisitions made by Gilmore Associates include the Bank District project (600,000 square feet of historic buildings at Spring and Fourth Streets which have been converted into 240 loft housing units); the former Clifton's Cafeteria Building on Seventh Street; the Hollywood Equitable Building at the corner of Hollywood and Vine; St. Vibiana's Cathedral at Main and Los Angeles Streets; the El Dorado Hotel on Spring Street; the Palace Theatre on Broadway; and the Rowan Loft Building Project in downtown Los Angeles.

Mr. Gilmore is a Commissioner of the Los Angeles Homeless Service Authority and Board Member of the Southern California Institute of Architecture, LA Architecture Magazine, Grand Performances, Los Angeles Athletic Club, and Project Restore.

Tom Gilmore
Manager, Tom Gilmore and Associates, L.L.C

Thursday, November 8th, 2001

RE: Summary of testimony before Committee on Jobs, Economic Development and the Economy

- **Economic development and housing in urban centers**
  Increasingly, the future economic development of the State will require a new focus on the increasingly dynamic relationship between existing urban centers and mixed-use, mixed-income housing product.

- **Leveraging private capital with public incentives**
  The vast reservoir of private capital remains untouched with regard to mixed-use urban development because public incentives are particularly focused on non-profit, and 100% affordable housing projects. Urban revitalization will be dependent on intelligent mixed-income housing projects in order to ensure a vital broad-based economic environment.

- **Legislative intent and 'real world' results**
  Important legislation, such as the State's Downtown Rebound Program, is often intended to address one problem and many times is unrecognizable after completing its course through the bureaucratic process.

- **Anticipating net benefits of legislation**
  State funding for economic development often contains conditions and requirements that negate its net benefit to developers. Strategies must be developed to ensure that "good development" is at least as profitable and perhaps more profitable than "bad development".

Assembly
California Legislature
COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
SARAH REYES, CHAIRWOMAN
31ST DISTRICT - FRESNO

The State of Regional Economies

Marney Cox
Chief Economist, San Diego Association of Governments

Lee Harrington
President & CEO, Los Angeles Economic Development Corporation

Robert Sakai
Director of Technology and Trade
Bay Area Economic Development Alliance for Business

David Spaur
President/CEO, Fresno County Economic Development Corporation

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Assembly
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COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
SARAH REYES, CHAIRWOMAN
31ST DISTRICT - FRESNO

Marney Cox

Chief Economist
San Diego Association of Governments

Mr. Cox is the Director of Regional Economic Planning and Research and Special Services for the San Diego Association of Governments. Mr. Cox has been with the agency since 1979.

As SANDAG's Chief Economist he acts as the primary spokesperson for agency's economic research, polices and actions. On a day to day basis, Mr. Cox is responsible for managing work programs in the areas of demographic and economic forecasting; local and regional economic development strategies; growth management strategies and impact simulations; regional infrastructure needs of the local economy; and public finance, including issues in state-local fiscal reform

Recently, under Mr. Cox's direction, SANDAG has published two important documents: *San Diego Regional Economic Prosperity Strategy*, a plan focused on raising the region's standard of living, and *Achieving Fiscal Reform in California*, a proposal for a new state-local tax system designed to provide incentives to sustain economic prosperity, manage growth, and provide public services and infrastructure.

Mr. Cox also serves as the Director of SANDAG's non-profit corporation, SourcePoint. SourcePoint is the oldest and most successful corporation of its kind in the United States. In this position, he is responsible for marketing geodemographic data bases of the San Diego region and providing specialized consulting services to a wide range of private clients and public agencies. SourcePoint's consulting services include economic development strategies, market feasibility studies, fiscal and economic impact assessments, Housing Elements, and transportation modeling for circulation elements.

Mr. Cox is a member of the Board of Directors of the East County Economic Development Council; he serves on the Girard Foundation's K-12 Policy Advisory Committee; he is a past member of the Francis W. Parker Board of Trustees; and prior to joining SANDAG, Mr. Cox worked for the Economic Research Bureau of the Greater San Diego Chamber of Commerce.

Mr. Cox earned a Master's and Bachelor's Degree in Economics from San Diego State University.

To:	**Assembly Committee on Jobs, Economic Development and the Economy**
From:	**San Diego Association of Governments** **Marney Cox, Chief Economist**
Date:	**November 8, 2001**
Location:	**State Capital, room 437**
Subject:	**State of Regional Economy**

The question of whether the US economy would escape a recession appears to have been settled by the September 11 terrorist attacks. The national economy was already teetering on the brink when the attacks occurred. The heroic efforts required to clean up after the attacks and restore services will not compensate for the thousands of jobs lost as worried consumers and workers shun travel and recreation.

The national consumer sediment index has dropped 20 points during September, half of which occurred after the 11th. If sustained over a quarter a drop of this magnitude can take two percentage points off GDP growth. So, now most economists expect both the third and fourth quarters to register declines in output.

To help determine what kind and size of policy actions may be required to counter the slowing economy, it is necessary to understand the nature of the slowdown, before and after September 11th as well as any unique challenges that individual regions may be experiencing.

Prior to September 11th the national economy's weakness were declines in the manufacturing sector and the slowdown in business investment. All that prevented a broader economic downturn was modest growth in consumer spending and the resilient service sector. Both of these areas were badly damaged by the terrorist attacks. Consumer confidence has dropped and some service sectors—travel, tourism, financial—have been hit hard.

Prior to September 11th the San Diego economy had not slowed as quickly as the nation's. Simply, our region is not a major manufacturing center and our participation in the dot com investment boom was not as significant as many other region's, so the decline was not as great.

Although the signs of a local economic slow down were visible prior to September 11 most impacts were mild with a gentle slope. Since the 11th our economy has been hit hard from two angles. First, San Diego is a noted visitor destination, and the travel and convention business has declined dramatically. Local visitor related businesses have estimated their sales declined by 15 to 30 percent. The decline means fewer hours worked or job losses in restaurants, hotels, convention centers, cruise ships and terminals, retail outlets, entertainment establishments and amusement parks. In total the visitor and entertainment industries employed nearly 135,000 people in San Diego before September 11 one the regions largest employers.

The consumer spending slowdown and the reduction in visitors will further impact state and local government revenues, due to a reduction in sales and transient occupancy taxes. Many local governments in the San Diego region are trying to estimate the magnitude of the revenue decline. Although the impacts will vary from city to city depending on the presence of retail centers and hotel/motels, at a minimum, most local governments are now expecting no growth, and up to a 4 percent reduction over last year's revenue. Equal reductions are expected in transient occupancy tax revenues.

The other area of our economy hit hard in the aftermath of September 11 is the businesses and residents along our border with Mexico. Prior to the 11 there were 5 to 6 million crossings per month. The number of crossings has declined by about 30 percent. The need for heightened security has at times resulted in a doubling of border wait times. During the workweek, the vehicle lines to cross the border begin to expand at about 3 am and can take up to 4 hours to cross. To get across the border faster, people have resorted to walking and riding bikes. At times there are 2,000 persons waiting in the pedestrian lines and one of the 24 crossing gates has been dedicated to bikes. Once across these people must then find transportation to their destination, which is usually the San Diego Trolley or bus system.

The inconvenience of crossing the border has resulted in a significant reduction in non-essential trips, such as visiting friends and family, as well as dinner, entertainment and shopping.

Together, for example, these two impacts will likely create significant challenges. The initial reaction by businesses on the San Diego side of the border was to reduce the number of hours worked. This short-term solution is currently giving way to layoffs. We expect the unemployment rate in the region to rise from 3.3 percent to 4.5 percent, increasing the number of unemployed persons in the region by 50 percent to over 60,000.

The impacts of the recession, in most cases, are expected to be steep, yet short. The economy is on the downside of a V shaped decline, the face of a recession. The components of the stimulus package in place before September 11 and the additional steps planned or taken since September are expected to stabilize the national economy and get it back on a moderate growth track. Although the exact size of the national fiscal stimulus package is not yet known, it could represent between $300 and $400 billion total, including tax cuts, spending initiatives, and bail outs. In addition, the private sector is doing its part to stem the recession, with price discounts in areas such as no interest rate financing on the purchase of a new automobile, discount airfares and discount travel packages. All designed to lure the consumer back to the marketplace. The nature and timing of the stimulus package price discounts should insure a short recession, and put most elements so the economy back on a growth path, except the border.

The border's problems will not be solved by proposed and enacted stimulus package. The problem along the border is wait times. To solve this problem requires very focused polices, some short term, some longer term. To stave off business closings, immediate financial assistance is necessary. The financial assistance should be made available with very low to no interest charges, and the processing time from start to finish (check in hand) should be no longer than one week. The longer run requires the dedication of more resources at the border checkpoints.

Resources that would allow for all gates (vehicle and pedestrian) to be open, 24 hours a day if necessary, at all crossing points, but especially at San Ysidro and Otay Mesa.

Add additional inspectors to each gate with the objective of reducing processing time and increasing flow.

Expand the technological capabilities of the inspection agencies to improve security and traffic flow. Technology improvements may be most effective if developed to assist American citizens crossing the border.

Expand the hours of operation at the Otay mesa border crossing

Reduce the loss of trained personal by correcting any salary inequities among competing inspection agencies.

Lee Harrington

President & CEO
Los Angeles County Economic Development Corporation (LAEDC) & The World Trade Center Los Angeles-Long Beach (WTCA)

Mr. Harrington is responsible for strategic direction and operational success of the LAEDC, a countywide private non-profit economic development organization. Mr. Harrington also provides leadership through partnering with the region's many economic development and business assistance service providers. He represents the region on Team California, a statewide economic development consortium, and CALED, the state's economic development professionals association.

Mr. Harrington serves on the boards of the Pepperdine University School of Business and Management, the Tomas Rivera Policy Institute, Gateway Cities Partnership, the San Gabriel Valley Economic Partnership, the Economic Alliance of San Fernando Valley, the South Bay Economic Development Partnership, the Los Angeles Private Industry Council, LA Prosper and CALED.

Mr. Harrington chairs the Role of Government Subcommittee of the E-Commerce Committee, formed by former Governor Pete Wilson, to determine how California can be the nexus of the electronic community by facilitating access to information and resources by a diverse population through maximal use of electronic capabilities. Mr. Harrington is also a member of the Speaker's Commission on State and Local Finance formed by former Assembly Speaker Antonio Villaraigosa to formulate recommendations to the legislature and to broaden the constituency for fiscal reform in California.

Prior to joining the LAEDC, Mr. Harrington served as Senior Vice President, Operations and Support for the Southern California Gas Company, the nation's largest natural gas distributor, responsible for all pipeline, customer service, engineering, research, and support functions. He holds a law degree from the University of Southern California, where he served on Law Review, and an undergraduate degree in Political Science from the University of California at Santa Barbara.

November 1, 2001

LAEDC
ECONOMIC DEVELOPMENT FOR THE REGIONS OF LA COUNTY

Los Angeles County Economic Development Corporation

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Los Angeles, CA
90071

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Website
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The Honorable Gray Davis
Governor, State of California
State Capitol
Sacramento, CA 95814

Dear Governor Davis:

To help support your Economic Summit on November 2, I wanted to provide you with some of the key strategies that emerged from the public-private panels and work groups that convened today at Los Angeles County's Economic Action Summit. More than four hundred public and private sector leaders from the region were involved. Work plans and report cards are being developed for successful implementation.

LAX/ Visitor Recovery

LAX must once again become the safest and most user friendly airport in the world. The visitor, particularly the business visitor, is critical to our economic recovery.

An "L.A." visitor campaign and business visitor support network must be implemented immediately to recreate interest in coming to Southern California. The state should fully fund the "Visit California" campaign.

Public Works Projects

We must accelerate all possible public works projects at all levels of government during the next six months to infuse money into the economy, create construction and related supplier jobs, and improve public and business confidence in recovery. Caltrans was identified as the agency with the largest amount of available funding and project backlog. Fastracking, design-build and moving stalled projects out of the way were identified as the keys to success. Creating strong executive authority at all levels of government to provide leadership and cross-jurisdictional cooperation to more forward is essential. The Governor must implement all available emergency authority to remove bureaucratic red tape from the process, similar to the actions taken to respond to the Northridge earthquake. Someone reporting directly to the Governor should be identified to "make it happen". The LAEDC and LA County Board of

Supervisors has agreed to create a liaison to work directly with your appointee.

Greenlighting Private Sector Projects

Expedite to the maximum extent possible private sector projects at the County and local level to create infusion of private capital, create construction and suppliers related jobs and build confidence in the business community to "invest in California and the region". Create local red teams to ensure that all necessary agencies, state, regional and local are working together to issue project permits within the next 90 days. Small business has even more difficulty than large business to navigate the process. Local or regional ombudsmen would greatly speed permitting. Encouraging agencies to commit to deadlines on permits is a proven model used in some jurisdictions.

Rapid Workforce Redeployment

Implement the new "Work Source" advertising campaign and one stop access to all 8 Regional Workforce Investment Boards in LA County and their one-stop centers now. Also create local media partnerships to provide public service announcements. Connect dislocated workers with new job openings which match their skills to help employers and job seekers succeed. Coordinate the effort with the 7 regional economic development organizations in LA County to create the linkages and identify gaps in the program.

As Governor, request the U.S. Department of Labor to expand customized training program funding under the Workforce Investment Act for businesses and industry consortiums.

I am pleased to see that your focus areas are a mirror image of those we tackled today. Obviously, the State of California can play a critical role in visitor recovery, moving major public works projects forward, helping streamline permit processes to stimulate private sector investment and rapid redeployment of workforce.

I know you agree that "a strong economy is everybody's business".

Sincerely,

Lee Harrington
President & CEO

OUTLOOK FOR THE LOS ANGELES ECONOMY

Jack Kyser
Chief Economist
LAEDC

November 1, 2001

What's On The Mind Of Business?

<u>Pre – 9/11</u>

- Increased workers' comp cost
- Higher electricity costs
- Permitting process
- Workforce quality

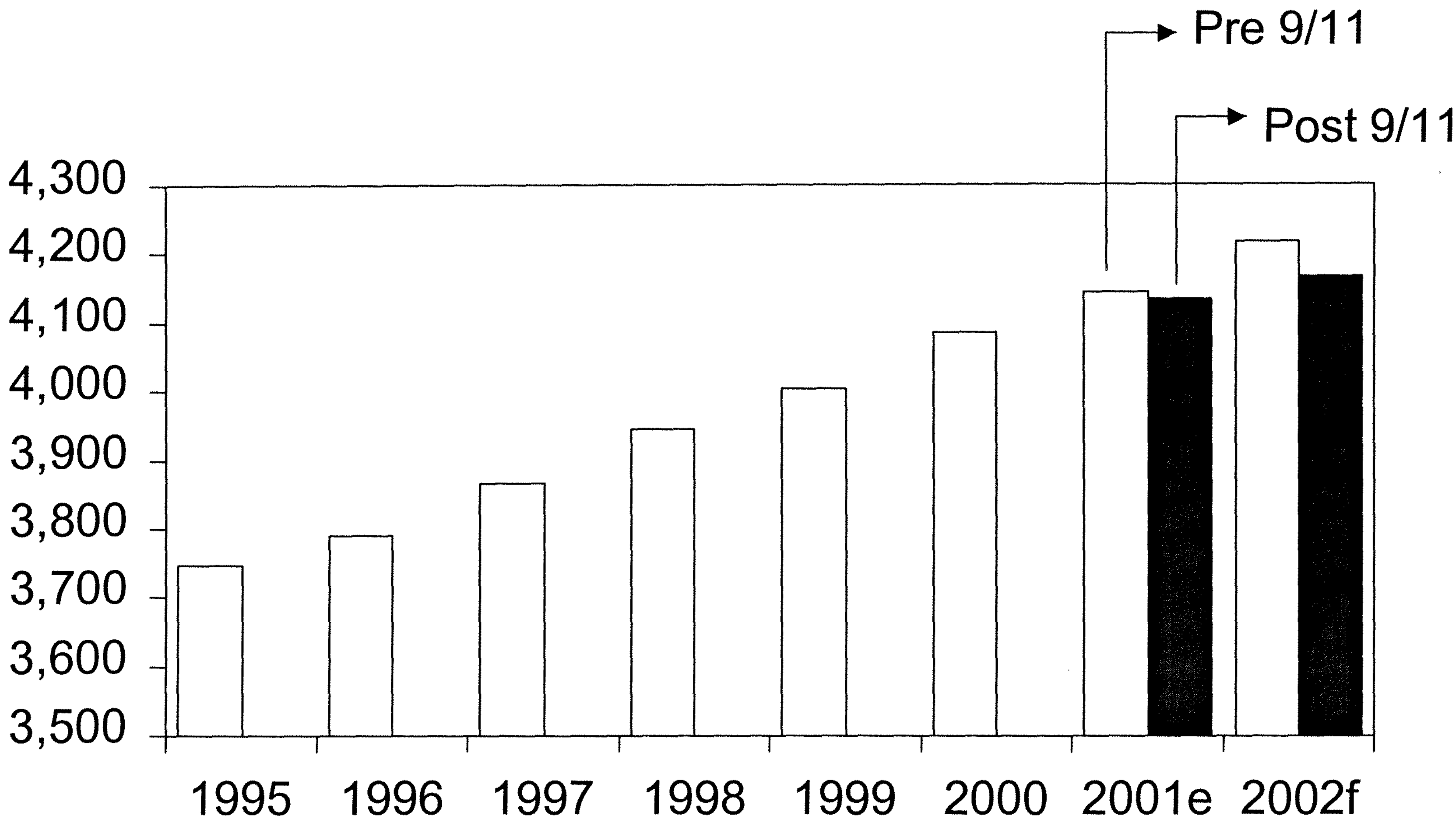
<u>Post – 9/11</u>

- Financing
- Travel by air (cost & time)

Industries/Activities Impacted By 9/11 Attack

- Travel & Tourism
  - Airlines
  - Hotels
  - Other Travel-related
- Consumer Spending
  - Retail
  - Services
- Local Governments
  - Revenue short falls
  - State budget problems 2002/03
- Commercial Aircraft Mfgr.
- Logistics
  - Increased security = Increased transit times
  - Higher costs for security
  - "Not quite just in time" = Higher inventory costs
- Nonresidential real estate -- slowdown in leasing
- Insurance -- costs of coverage

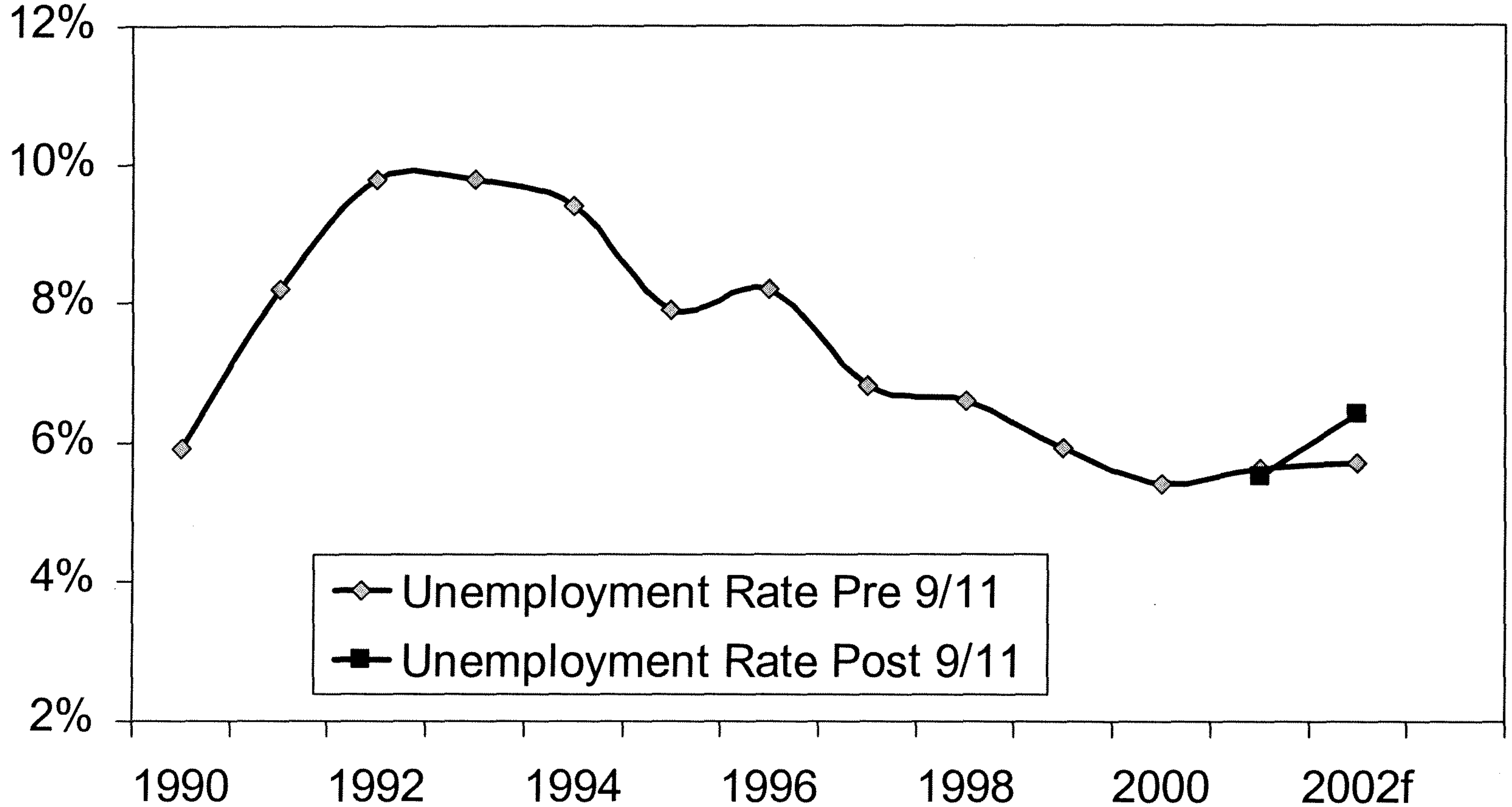
TOTAL NONFARM EMPLOYMENT IN LOS ANGELES COUNTY



TNE Peak: 1990 4,133.3

LAEDC

UNEMPLOYMENT RATES IN LOS ANGELES COUNTY

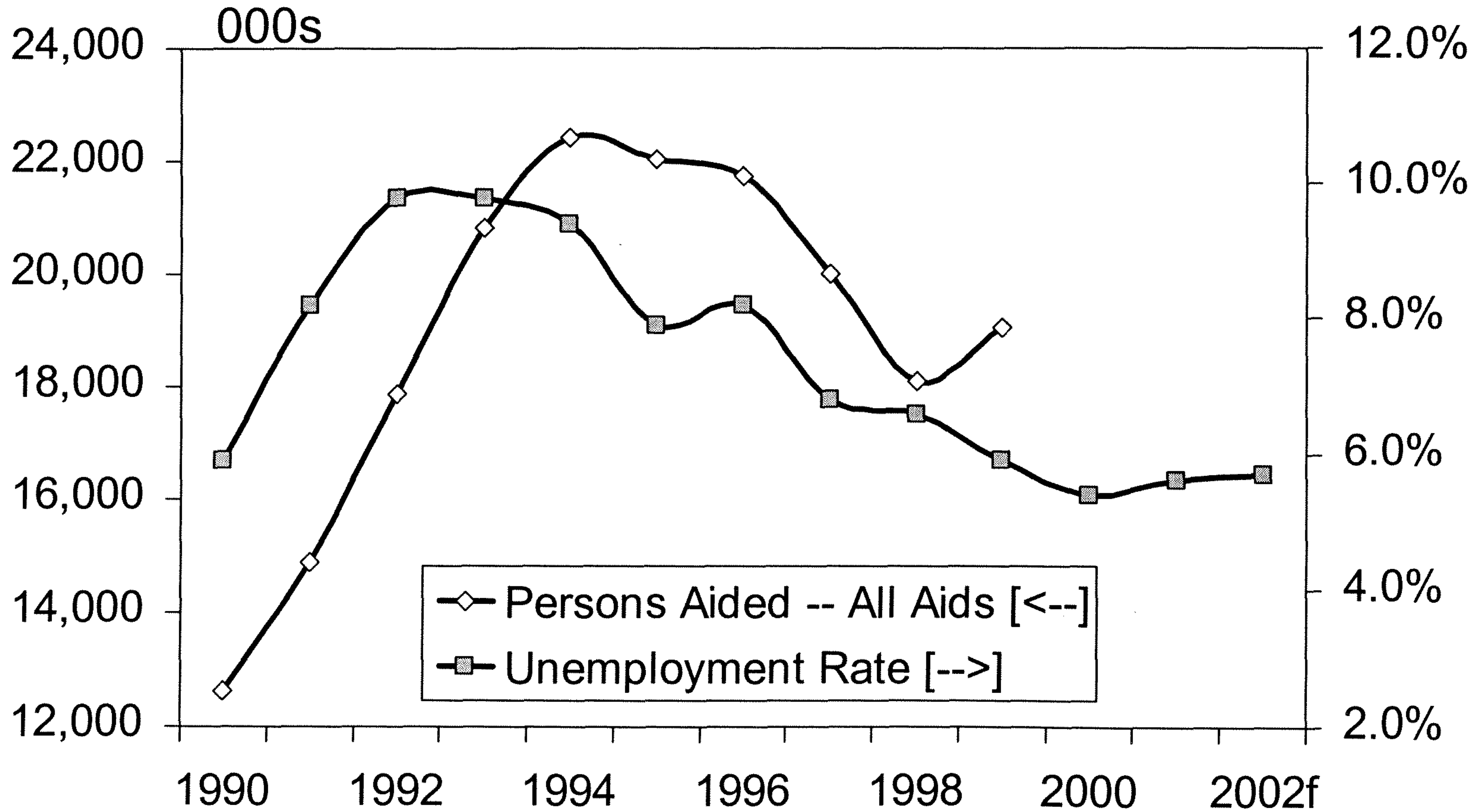


19,000

Sources: L.A. County DPSS, LAEDC

LAEDC

UNEMPLOYMENT RATES & DEMAND FOR SOCIAL SERVICES IN L.A. COUNTY



Sources: L.A. County DPSS, LAEDC

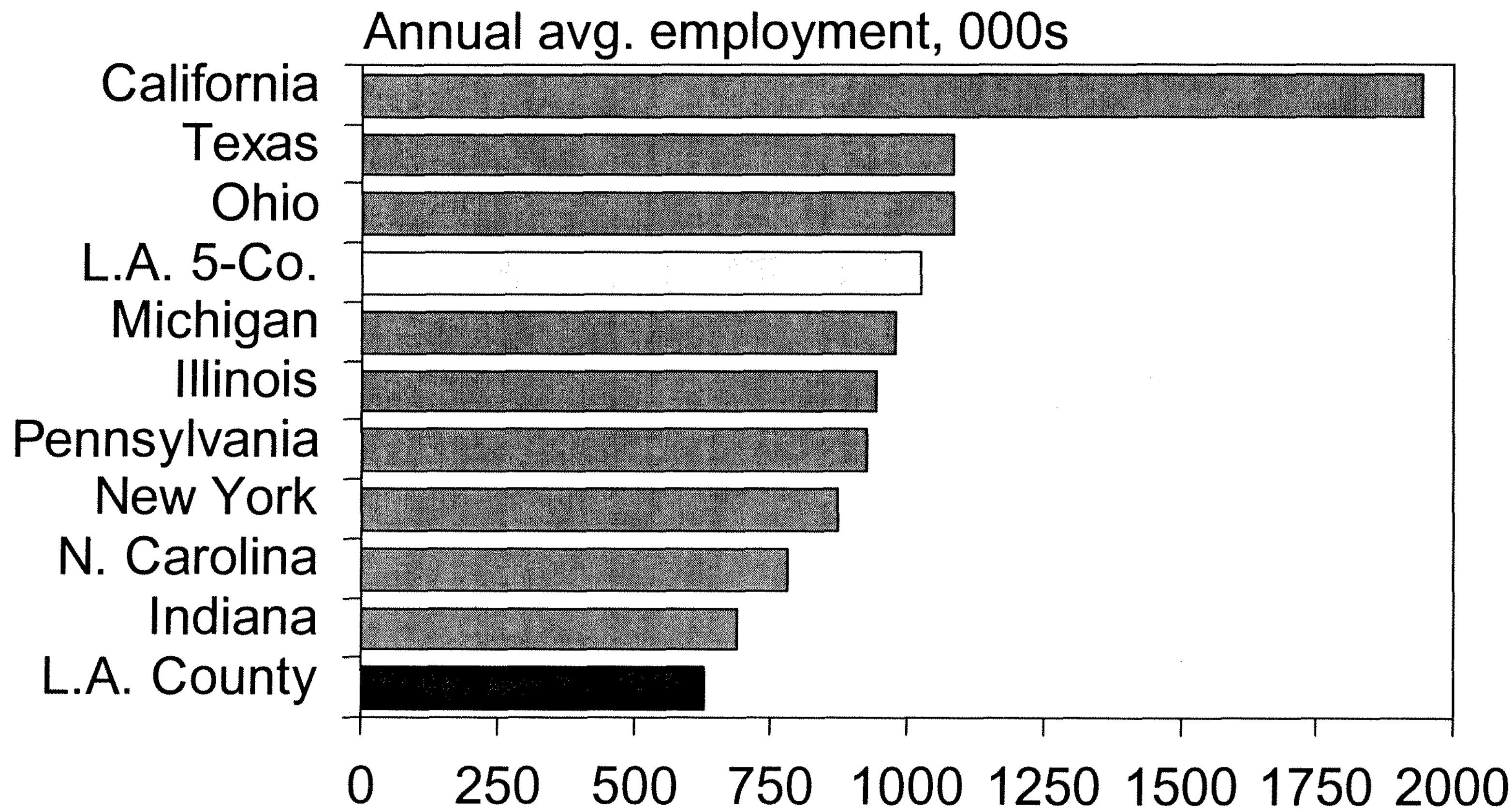
LAEDC

Employment Size Profile of Some Impacted Industries in L.A. County

	Establishments	1-49 workers	500+
Air transportation (sch. & nonsch.)	215	170	8
Air transport support activities	120	96	2
Hotels & Motels	931	783	10
Scenic & Sightseeing transport	58	58	0
Travel agents	1,228	1,212	0
Tour operators	226	212	1
Convention & Trade show org.	181	167	1
Retail trade	27,869	26,359	7
Food svc. & drinking places	14,723	13,786	3

LAEDC

MANUFACTURING STILL IMPORTANT IN THE LOS ANGELES AREA: 2000



Sources: U.S. Dept. of Labor, BLS

LAEDC

ECONOMIC BASE OF SOUTHERN CALIFORNIA

Cluster	Industry/County	L.A.	Orange	R-SB	Ventura	Total
	Bus. & Prof. Mgmnt. Svc.	476.1	174.3	78.2	32.8	761.4
C+	Tourism	279.4	119.4	90.9	18.6	508.3
C+	Health Services, Bio-med	298.8	99.5	76.6	19.1	494.0
C+	Direct International Trade	290.7	---	---	---	447.2
	Wholesale Trade (exc. Apparel, autos & toys)	202.9	84.2	40.1	9.7	336.9
C+	Technology	157.3	93.2	13.2	13.9	277.6
C+	Motion Picture/TV Prod.	255.3	2.9	2.3	0.8	261.3
	Financial Services	111.3	45.3	14.6	6.1	177.3
C+	Apparel/Textiles Design, Mfg. & Wholesaling	143.5	23.7	3.1	1.9	172.2
C	Fabricated Metal Products	89.9	36.8	22.6	8.5	157.8
C	Agric./Food Products Mfg.	64.3	18.1	29.7	22.1	134.2
C	Furniture Mfgr & Whlsle.	40.1	12.5	11.2	1.0	64.8
C	Auto Parts Mfg. & Whlsle.	27.3	14.4	7.0	2.0	50.7
C	Jewelry Mfg. & Whlsle.	10.3	1.0	0.0	0.0	11.3
C	Toy Mfg. & Whlsle.	8.4	1.0	0.1	0.1	9.6
	Petroleum Prod. & Refining	8.0	0.3	0.0	0.2	8.5

LAEDC

Projected Performance of the "Export Industry" Base of the Los Angeles Area

	Poor		Moderate		Strong	Problems? Pre 9/11	Problems? Post 9/11
Business & Prof. mgt. Svcs.		X					
Tourism	X						X
Health Svcs./Bio-med			X				
Direct intl. trade		X				X	X
Technology:							
Classic aerospace				X		X	
Technology				X			
Motion picture/ TV prod.					X	X	X
Financial services		X					
Apparel/Textile design/mfg.		X				X	

UPDATE TO THE ECONOMIC FORECAST, OCT. 2001

The U.S. Economy: Prior to September 11th, there was a debate about the direction of the nation's economy, as some favorable signs were beginning to appear. However, the attack has caused billions of dollars in losses, in destroyed commercial real estate, lost jobs, disruptions to both the financial markets and industries, not to mention the personal traumas that have resulted. While the distress is concentrated in New York, the waves have rolled across the country. There are a number of factors that will have to be considered in assessing the future course of the U.S. economy, including:

1.) The "fear factor" that has overtaken millions of Americans and has manifested itself in anxiety over flying, working in high rises, or going to places where large crowds are assembled.

2.) There is also a "bunker mentality" over the potential for future rounds of terrorist attacks that might follow U.S. coalition military action against Afghanistan or other countries harboring terrorist groups.

3.) There is the return of "big government," a natural reaction to the vulnerability and insecurity that have become pervasive. This will redirect some resources from the private sector.

4.) The military and intelligence capability of the U.S. will be raised to a level not seen since the Vietnam War or even World War II, diverting the nation's attention and resources away from the previously front-burner issues of health, education and the environment.

While government bailouts will help in the short term, the industries most seriously hurt by the terrorist attack, some of the problems these sectors face will last longer than a few months.

The U.S. economy has been teetering on the brink of a recession since the Summer of 2000, due to the tech sector crash, problems of over-investment, and declining corporate profits. It is now quite likely that the nation's output contracted in the 3rd quarter of 2001, and this trend will continue in the 4th quarter and the first quarter of 2002, yielding the nation's first recession since the Gulf War. GDP growth in 2001 is placed at 1.0 percent, falling to 0.2 percent in 2002. The Federal Reserve Board has cut short-term interest rates 9 times in 2001, and further cuts are quite likely by the end of the year.

The U.S. economy's slow growth/recession will last approximately 21 months, starting from the middle of 2000 and stretching to the Spring of 2002. Although the contraction itself will not be that long in duration (about 9 months) the fallout in terms of unemployment, business failures, personal bankruptcies, and non-performing loans will cause considerable distress.

The international economic situation: With the U.S. economy tipping into a recession, the shock waves will resonate throughout Latin America, Asia, as well as in the European Union and Canada. The fact that the world's second largest economy, Japan, has fallen back into a recession will compound the hardships of the less developed countries in Asia. Japan's economic problems also have implications for California because it is a major trading partner.

The California economy: The State's economy was slowing visibly at mid-2001, reflecting the tech sector crash, sluggish activity in international trade, lackluster trends in nonresidential real estate, and mixed levels of consumer spending. The Bay Area was also coping with a real estate "bubble" in both the residential and nonresidential sectors. On the positive side of the ledger, new home construction and tourism were seeing modest growth. One concern is that there has also been some deterioration in the State's business environment. Firms in investor-owned utility service territory were coping with much higher electric rates, while other costs for business such as the employment tax and workmen's compensation insurance were also on the rise.

The September 11th attack has dramatically changed the outlook for the state. The most visible impact has been on the tourism and business travel industries. Airlines are cutting flights and staff, hotels are experiencing very low occupancy rates and are also cutting staff, and there have been multiple cancellations of business shows and conventions. A particularly painful loss is that of international tourists who spend more on average than domestic travelers. The ripple impact of all this is enormous, with the potential for a significant loss of tax revenues for city and county governments. This is distressing, given the perilous condition of the State's finances going into the upcoming budget year.

The Federal Reserve Board has continued to aggressively cut interest rates, while a package of economic stimulus will be forthcoming from the Federal Government. However, the limiting factors on any upswing in the State's economy will be the time it takes for various stimulus programs to kick-in, how long it will be before there is an improvement in consumer confidence (and a willingness to travel by air), the unwinding of the investment "bubble," and the stabilization of the tech sector. It could be mid-2002 before the latter occurs.

As a result, the 2001-02 forecast for the State has been revised downward to "recession" levels -- paralleling the forecast for the nation. Nonfarm employment growth is now estimated at 1.9 percent or 277,600 jobs in 2001, while the forecast for 2002 calls for an increase of 1.4 percent or 213,100. Job losses are expected in the manufacturing and transportation - communications - public utilities sectors in both years. The State's unemployment rate should average 5.2 percent in 2001, moving up to an average of 5.9 percent in 2002. New homebuilding should inch up to a total of 149,000 units in 2001, then drop back to a total of 141,000 in 2002. As to the resale housing market, overall home price appreciation should flatten out, driven by the unwinding of the "bubble" in the Bay Area.

Like the nation, California will be in a recession during the last half of 2001, and into the first quarter of 2002. While there are no "state product" numbers to use as a marker, nonfarm employment is the best proxy to use. There could be year-to-year declines in this measure during the fourth quarter of 2001. The Bay Area should feel the most pain, given the slump in tourism and business travel on top of the tech sector crash.

There will be industries in the State that will see an increase in business as a result of the September event. These include technology (for security, advanced communications, and intelligence gathering applications), and "classic" aerospace. While there will be no return to "Cold War" style assembly lines, the State's research and development capabilities will serve it well in the new environment.

The Los Angeles County economy: The County's economy was also slowing at mid-2001, with the causative forces being declines in international trade, the deflating of the dot-com bubble, and the "de facto" strike in the motion picture production industry. On the plus side, new homebuilding and nonresidential construction were both running ahead of 2000 levels, while there has been modest growth in tourism.

Like the State, the County's economy has been seriously impacted by the September attack. The local travel and tourism industry has been a focal point, with significant workforce reductions being announced. The airline situation has also caused problems for the air cargo industry, in terms of increased security precautions, longer transit times, and resulting higher costs. Increased security at the two local ports has also exacted a cost. In addition, consumer spending has weakened. As a result, many cities are expressing concern over the near-term implications for their budgets.

The 2001-02 forecast for Los Angeles County has been revised downward, again to recessionary levels. Nonfarm employment growth is now estimated at 1.1 percent or 46,800 jobs, while the forecast for 2002 calls for a 0.9 percent gain or 35,200 jobs. Like the State, there will be declines in the manufacturing and transportation - communications - public utilities sectors in both 2001 and 2002. The County's unemployment rate should average 5.5 percent in 2001, moving up to an average of 6.4 percent in 2002. The 2001 forecast for new homebuilding remains unchanged, however, at 18,600 units. For 2002, however, there will be a decline to 16,000 units. Resale home prices increased by 4.8 percent during the first half of 2001, while the unit sales trend has been somewhat erratic. Given the favorable mortgage rate situation and the shortage of housing in the County, there should be continued modest price increases into 2002.

The real estate sectors in the County most at risk would be retailing, and office in some sub-markets. The former will be coping with a continued consumer focus on value, and the relentless push by value retailers such as Wal-Mart and Target to expand in the County.

There will be industries in the County that will see an increase in business into 2002. These include technology and "classic" aerospace. Indeed, the September event has strengthened prospects for some existing defense programs in the County, including the C-17 military cargo plane, the FA-18 fighter (fuselage produced in Los Angeles), and the Global Hawk unmanned aerial vehicle. A selection of the prime contractor for the Joint Strike Fighter is pending, and the program will move into the design/engineering/manufacturing phase. While the planes will probably not be assembled in the County, there will be a significant amount of sub-contracting done locally.

There should also be a higher level of production activity in the motion picture industry in 2002. While the Director's Guild contract expires July 1, the guild has already started contract talks with the Motion Picture Producer's Association to avoid the production disruptions caused by the threat of writers and actors strikes in 2001. In addition, Canada is looking at cutting back on some of the tax incentives that have attracted lower-budget film and TV production activity.

City of Los Angeles

CITY HALL
LOS ANGELES, CALIFORNIA 90012

JAMES K. HAHN
MAYOR

November 6, 2001

VIA FACSIMILE
916-319-2190

The Honorable Sarah I. Reyes
31st Assembly District
ATTN: Pedro Villegas
State Capital
P.O. Box 942849
Sacramento, CA 94249-0001

Dear Assemblymember Reyes:

Thank you very much for your invitation to appear before the Committee on Jobs, Economic Development and the Economy this Thursday. Unfortunately, I will not be able to attend due to pre-existing obligations here in Los Angeles.

Committee members might, however, be interested in reviewing the report prepared by the Los Angeles Economic Impact Task Force and submitted to Mayor Hahn last week. The Task Force was composed of a cross-section of Los Angeles business, labor, and civic leaders and chaired by attorney George Kieffer. In its full 229-page report, the Task Force provided a comprehensive analysis of the current state of the Los Angeles economy, and provided the Mayor with a set of recommendations on how to respond to the current downturn. The full 229-page report is available on the Mayor's website at www.lacity.org/mayor. A copy of the executive summary is enclosed with this letter.

In the coming weeks, I will be coordinating on behalf of the Mayor's Office with other city officials to form and execute an implementation plan around these recommendations. I will look forward to keeping you informed of our progress, and to coordinating these efforts with those undertaken by your committee.

The Honorable Sarah I. Reyes
31st Assembly District
November 6, 2001
Page Two

Additionally, Mayor Hahn will be in contact with you to discuss with you areas of the Task Force Report which have statewide implications.

Thank you very much. I look forward to working with you and your staff. If I can be of any assistance, please do not hesitate to contact me at (213) 978-1965.

Sincerely,

Joy Chen

JOY CHEN
Director of Economic Recovery

JC:bhn

Attachment

LOS ANGELES ECONOMIC IMPACT TASK FORCE

Executive Summary

Submitted to:
MAYOR JAMES K. HAHN

OCTOBER 30, 2001

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This report could not have been possible in three weeks time without the contributions of the hundreds of individuals who gave of their time and counsel. In addition, we gained valuable data and analysis from members of the following institutions:

Center for Regional Employment Strategies
Office of the Chief Administrative Officer of the City of Los Angeles
Community Development Technology Center
Economic Roundtable
Los Angeles Alliance for a New Economy
Los Angeles Area Chamber of Commerce
Los Angeles Community Development Department
Los Angeles Community Redevelopment Agency
Los Angeles Convention and Visitors Bureau
Los Angeles Economic Development Corporation
Los Angeles World Airports Department
Mayor Hahn's LA Business Team
Pacific Council on International Policy
Rand Corporation
UCLA Anderson Graduate School of Management
UCLA School of Public Policy and Social Research

EXECUTIVE SUMMARY

As the United States continues its recovery from the devastation of the September 11, 2001 terrorist attacks, our Los Angeles community grapples with how to deal with the double impact of an accelerated economic recession and the threat of more terrorism.

On the security front, Mayor James Hahn and the City Council have moved swiftly to bolster security at the airport, harbor, and public places. The Mayor has reviewed water testing facilities, emergency preparedness programs, and put in place other programs to ensure safety. As Chair of the US Conference of Mayors' Task Force on Airport Security, the Mayor has led the call for federalization of airport security workers.

On October 5, 2001, the Mayor appointed the Los Angeles Economic Impact Task Force and directed the Task Force to: (1) assess the economic state of the City in the aftermath of September 11; (2) develop recommendations to mitigate the impacts on the economy; and (3) present these recommendations by the end of October.

Our findings and recommendations are summarized below.

I. ECONOMIC IMPACT ASSESSMENT

U.S. Impacts

The terrorist attacks will have significant short-term impacts on the economy and result in certain long-term structural changes.

In our estimation, newly revised data from the federal government reveal that in July and August of this year the local economy already had entered what has been the first investment-led recession since World War II. At the time, recessionary circumstances were masked by consumer spending which despite a negative wealth effect from the collapse of technology and other equities, was continuing to increase at a 2% annual rate, largely by borrowing against rising home equity.

New data shows that, in the one month just prior to the September 11 attacks, US payroll employment fell by 199,000, an ominous development since it is more than three times the average of 55,000 job cuts during the three previous months.

Then came the terrorist attacks on September 11. The collapse of consumer and business confidence in the wake of the attacks is hitting a variety of industries. Reflecting the decline in consumer confidence, retail sales in September fell 2.4%. Manufacturing production contracted by 1.0% for the month of September, representing its twelfth consecutive monthly decline, and matching a record for the longest continuous decline set in 1945.

Given the high level of uncertainty, we have prepared two alternative forecasts. Both incorporate a recession.

Our **Most Likely** forecast incorporates a mild recession by historical standards. The economy is expected to decline from third-quarter 2001 through first-quarter 2002. Real GDP growth turns moderately positive in the second quarter of 2002 before a modest recovery begins in the second half of the year. This forecast projects a recession whose total peak-to-trough decline is comparable to that experienced during the 1990-91 business cycle.

The recession could turn more severe than anticipated if consumers remain apprehensive for an extended period and businesses delay investments further than expected. To accommodate this alternative scenario, we have created a **Prolonged Pessimism** scenario. This scenario incorporates a four-quarter recession with the depth more severe and the recovery delayed into late 2002.

Los Angeles Impacts

In recent weeks, Angelenos have read newspaper accounts on the impacts of the September 11 attacks on the local economy. Local hotel employee unions report job cuts of 40% of their members. Nationally, airlines have announced a 20% reduction in flight schedules, with significantly greater cuts in Los Angeles. Downtown hotels report room occupancy rate drops of 33%. Restaurants report holiday party reservation decreases of 25%.

While such reports offer a snapshot of the situation in selected sectors, they do not provide any indication of how these impacts will play out in the Los Angeles economy in the near future. The projections we make in this report are based on local news accounts and industry interviews, and on sophisticated econometric modeling in an attempt to best project the economic impacts over the next 12 months. The detailed data and analyses appear in the Appendix of our full report.

The industry most impacted by the September 11 attacks has been, and will continue to be, travel and tourism. Hotels and lodging places, eating and drinking places, theme parks, airlines and restaurants are major beneficiaries of travel and tourism spending. These industries are characterized by a disproportionate representation of low-wage workers.

The Los Angeles economy depends highly on international tourism and trade, and foreign tourism has slowed dramatically. Foreign travelers to Los Angeles are important consumers of direct output, purchase a substantial share of intermediate output from supplying industries, and provide jobs for thousands of people. Each foreign tourist on average spends six times as much as each domestic tourist. Global growth is slowing and Japan and much of the rest of Asia is in recession. Exports to Asia represent 45% of California's total exports, over half of which is contributed by Los Angeles. By comparison, only 25% of US exports go to Asia.

The commercial aircraft industry and their related supplier represent another highly exposed sector for Los Angeles. Almost 12% of aircraft and parts workers in the U.S.

are located in Los Angeles. Thousands of other jobs in fabricated metals are dependent on the industry. Commercial aircraft orders are being cut as airlines lay off workers and downsize capacity.

Los Angeles is being hit in the entertainment industry as well. With television networks losing money due to uninterrupted news coverage of the recent terrorist attacks and corporate advertising budgets being cut, advertising revenues will experience a severe plunge in the months ahead. One-third of the national advertising industry resides in Los Angeles, primarily because of the high concentration of television commercial production here.

There are sectors where Los Angeles is well positioned to capture additional business. Northrop Grumman is a principal member of the Lockheed Martin Joint Strike Fighter team, recent recipient of the largest defense procurement in US history. High-tech reconnaissance aircraft, unmanned craft sensors, ultra-sensitive communications devices and other precision instrumentation are a long-term area of expertise for the greater Los Angeles area. Regional demand for security personnel, both public and private, will increase, providing new employment opportunities.

The below table summarizes our projection of impacts:

Summary Los Angeles Impacts Relative to Baseline (Pre-September 11) Outlook
October 1, 2001 through September 30, 2002

	Most Likely Scenario	Prolonged Pessimism Scenario
Total Job Losses	76,300	110,500
Job Losses: Travel/Tourism Industry	23,600	28,800
Job Losses: Aircraft Production and Parts	5,400	7,400
Job Losses: Radio/TV Production Including Advertising	4,500	6,200
Cumulative Personal Income Loss Due to Lost Payroll Hours	$19.1 billion	$23.2 billion
Unemployment Rate (Baseline= 5.8%)	7.5%	8.1%

In short, we project at least a three-quarter recession, and recommend that contingencies be developed for an extended downturn. However, we also note that due to the diversity of our economy, the Los Angeles region is better-positioned from an economic standpoint than California or the nation as a whole.

II. RECOMMENDATIONS

The Task Force recommends that the Mayor and City Council undertake three principal **Initiatives** to mitigate the impacts of September 11:

1. **Assist LA's Impacted Workers and Businesses**
2. **Stimulate LA's Economy**
3. **Market LA**

We make two other recommendations that are equally important: (1) a mechanism for implementation; and (2) a partnership with the City Council.

Initiative #1. Assist LA's Impacted Workers and Businesses

Much of the immediate economic pain felt in Los Angeles in the post September 11 period has been borne by the families of thousands of workers who suddenly have lost their jobs or whose work hours have been radically reduced. Our findings indicate that sources of relief for workers and businesses are largely available through existing public and private programs. These services are available to workers whether or not they belong to a union.

However, neither workers nor businesses are fully aware of the range of programs available to them. Further, the relief agencies themselves, public and private, are not always aware of the full range of programs available to their clients. Therefore, while make certain important recommendations regarding additional relief below, our principal focus in this Initiative revolves around coordination and communication.

Among our recommendations:

- Publicize Relief Centers and Other Existing Programs
- Form and Implement a Business and Worker Impact Response Team
- Provide Relief to Airport Concessionaires

In addition, we suggest mechanisms for funding these actions, including lobbying for benefits in federal legislation and identifying sources of revenue in existing City budgets.

Initiative #2. Stimulate the LA Economy

While the federal government, in particular, is responsible for economic stimulus programs, there are certain measures the City can and should take to stimulate the overall local economy. These include the expediting of public and private construction projects.

The City of Los Angeles can begin by expediting the log of at least $1.2 billion in infrastructure projects that the City already has planned and funded. Funding for these projects has been secured through the passage of recent bond measures. The City should fast-track these projects and encourage other local agencies to expedite the $2 billion-plus in other projects which they have planned and funded. We estimate that these $4 billion in projects will result in approximately 11,000 new jobs.

Private construction projects should be expedited as well, with a particular focus on those projects that provide much-needed new housing affordable to LA's workforce. The inability of the local housing industry to keep pace with job growth poses a major problem for the local economy, and experts point to local regulatory barriers as a key obstacle. The City must resolve these barriers so that housing and other quality projects can be completed.

To further stimulate construction and to ease the financial burden on LAX, we also recommend that the Board of Airport Commissioners reverse the policy of the previous administration and accept federal Airport Improvement Project grants. This move will bring added infrastructure capital and other dollars to LAX.

We recommend that the City:

- Fast-Track Ready-to-Go Infrastructure Projects
- Reverse Current City Policy and Accept Federal AIP Grants
- Fast-Track Selected Private Projects
- Upgrade the Security Infrastructure in LA
- Upgrade and Professionalize LA Security Careers

While not so directly related to the impacts of September 11, we also recommend certain longer-term steps in connection with the City's economic development policy:

- Create a 21st Century Infrastructure Investment Master Plan
- Stimulate Needed New Housing
- Leverage Publicly-Owned Land for New Business Development
- Use Public Infrastructure to Leverage Sustainable Industrial Growth
- Enhance Existing Web-Based Maps with Upcoming Private Projects
- Institute More Detailed Tracking of Industry and Employment Data

Initiative #3. Market LA

It is apparent to the Task Force that much of the economic downturn experienced by Los Angeles in the post-September 11 period is not a direct result of the physical impacts of the terrorist acts of that day, but from the psychological factors that have led foreign tourists to stay away from Los Angeles, and Angelenos to remain in their homes.

The Task Force therefore believes it imperative that the City act to address these psychological impacts through marketing efforts that encourage consumers and businesses to return to life as usual.

We recommend that the City:

- Do Everything Possible to Make LAX Friendly for All Travelers
- Lobby the State for Full Funding of "Californians Visit California"
- Promote Local/Regional Tourism: "Rediscover LA"
- Lead Trade Delegations to Asia and Mexico
- Promote Local/Regional Holiday Shopping
- Promote Confidence: Reinstate the Van Nuys Air Show
- Mount a Public Safety Campaign

Implementation

Just as the Mayor's efforts to mitigate the economic impacts of September 11 did not begin with this Task Force, neither should they end with this Task Force. The sudden and sharp negative fall-out of the September 11 attacks necessitate swift action. This is not the time for business as usual. Particularly because the stimulus and marketing measures we have proposed are intended to infuse new dollars into the local economy, the ripple effects of these measures will be greatly magnified with expedited implementation.

In order to insure action, responsibility and accountability for implementing these and future recommendations should be held by one person or office with sufficient authority and access to remove bureaucratic barriers and cut red tape.

We recommend that the City:

- Place Responsibility With a Single Person or Office
- Locate and Re-Allocate Any Unused Funds in City Government
- Substantially Upgrade the City's Lobbying Capacity
- Partner More Effectively With the Rest of the Region

A Partnership with the City Council

Finally, the Mayor will require the involvement and approval of the City Council in effecting many of these recommendations. Because Councilmembers must interface on a day-to-day basis with constituent businesses and workers, they often are in the most direct position to offer advice and counseling. The City Council has long taken a strong interest in economic development of all kinds. Whoever has responsibility for implementation of these recommendations should coordinate on a regular basis with appropriate Council representatives. In conjunction with appropriate Council committee and staff, certain of these proposals should be developed into legislation.

Assembly
California Legislature
COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
SARAH REYES, CHAIRWOMAN
31ST DISTRICT - FRESNO

Robert G. Sakai

Technology and Trade Director
Economic Development Alliance for Business (EDAB)

Robert Sakai has worked on business retention, labor market information, base closure mitigation, and trade for the Economic Development Alliance for Business since 1990. Currently serving as EDAB's Technology and Trade Director, his projects include creation of an environmental technology business incubator, establishment of a non-profit to provide manufacturing extension services, and the creation of the Bay Area Regional Technology Alliance (BARTA). Currently, he is organizing a project to collect, analyze and disseminate economic data specific to the East Bay region of the San Francisco Bay Area. He is also a member of a steering committee managing a three county biotechnology industry cluster study as well as steering committee to establish the Tri-Valley Technology Enterprise Center (TTEC).

Mr. Sakai's work in international trade and investment has focused on assisting local governments with international issues, building stronger ties between East Bay institutions and their global counterparts, attracting foreign investment and helping East Bay products reach foreign markets. He has organized several trade missions to Asia and has hosted a number of inbound missions from around the world.

Mr. Sakai received his AB degree in history from Harvard College, a MA degree in Sociology from the University of Hawaii, Manoa, and a MCP degree in City Planning from the University of California, Berkeley. He has taught both at the University of Hawaii and UC Berkeley and has received several research grants and fellowships.

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Testimony to
The Assembly Committee on Jobs, Economic Development and the Economy
Thursday, November 8, 1:00 to 4:00 p.m.

Robert G. Sakai
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Madam Chair, members of the Committee, thank you very much for this opportunity to speak to you. My name is Robert Sakai and I am the Technology and Trade Director for the Economic Development Alliance for Business (EDAB), an economic development organization representing Alameda and Contra Costa Counties on the eastern side of the San Francisco Bay.

I am also here on behalf of the California Association for Local Economic Development (CALED), representing over 300 economic development organization throughout the state. On behalf of CALED I would like to enter for the record, a list of recommendations prepared for your consideration.

Current Status

The Bay Area impacts have been widely reported. Due to the collapse of dot.com companies as well as the impact of the September 11 events on international business travel and tourism, besides the immediate impacts, many economists have predicted that the Bay Area will suffer longer than the rest of California and the country.

In response to your request to comment on the pre-, and post- September 11 economic impacts to our regional economy, EDAB conducted an informal poll of members and non-members. The results are anecdotal but they do provide an up-to-date view of what has happened as well as some practical recommendations from the ground level.

First of all, the consensus is that it is too early to assess the impact or to accurately project what will be happening in the coming year. Prior to September 11, the consensus seems to have been that the economy would recover in the first part of 2002. Now, some businesses are still planning on the basis of a recover in 2002, others feel no turnaround is possible until mid 2003. The businesses in our economy are no longer in sync.

Second, there is agreement that September 11 did not change the main issues. The adequacy of roads, housing, energy, water and schools still needs to be addressed. The underlying strengths of our region also remain. September 11 severely aggravated the problems of business and consumer confidence, but not the fundamentals of our economy.

Third, it is important to deal with business recovery and workforce assistance separately and simultaneously. The workers being displaced will not necessarily be the same ones filling new jobs. As an example, some cities have businesses that have seen little impact, but at the same time have many residents that have been laid off in businesses located elsewhere.

Some indicators of immediate local impact

- The Japan External Trade Organization (JETRO) and the Hong Kong Trade Development Council (HKTDC) have both seen cancellations or reduced participation in international missions.
- There has been a significant decline in the prices of high-end real estate, but even in these conditions the demand is still there for affordable housing.
- WARN notice information shows a steep increase – 2yrs ago 700 layoffs. Last year 7,500 layoffs. This year 17,000 expected.
- California State University Hayward reports a large surge in enrollments.
- Corporations and foundations that normally support local non-profits, a key element in the social services safety net, have sent large amounts to support New York relief efforts causing significant funding gaps for local services.

Bay Area cannot be characterized by blanket statements

- Although both the Tri Valley and Silicon Valley saw vacancy rates go from almost zero in 2000 to the 7% range in the third quarter, there is a wide variation. Tenants in the TechMart in Santa Clara report an 80% vacancy rate, while Hacienda Business Park in Pleasanton reports only about a 7% vacancy rate.
- Oakland Class A office space has seen about a 5% vacancy rate for the last three quarters. A few blocks away, Emeryville has gone from 2% vacancy rates to 27%.
- There are differences due to industry concentrations. The South of Market area in San Francisco has been hit hard due to dot.com collapse, although there are indications that biotech is beginning to move in.
- There are differences within industries. Within biotech, large companies with capital reserves and revenue streams have not been affected. Chiron still has several hundred job listings. Small companies needing funding are not in such good condition and may not survive. The lack of mezzanine financing is hurting companies in other industries as well.
- Telecom is nationally recognized to be in decline, yet UTStarcom is seeing revenues increase. This is because 90% of their business is in China. Other companies with significant overseas markets also seem to have been buffered from the full force of the downturn.

Recommendations

From EDAB's perspective the main impediment to economic recovery is confidence – consumer, and perhaps even more importantly, business. There are both short term and long term solutions. In addition to the CALED recommendations, which are detailed in the document, the EDAB respondents offered a few additional comments.

Shore up the safety net for workers and businesses

- *Unfreeze federal funds available for employment services.* There is an immediate and dire need to provide adequate funding for the safety net. Release federal grant money for retraining displaced tech workers.

- *Provide funding for business support services such as Manex.* One local metal fabrication company has seen its business drop 65% over the past year. Manex assistance in realizing cost-cutting efficiencies can mean the difference between survival and bankruptcy for such companies.

Build on strengths and attack basic issues

The events of 9/11 have not changed the Bay Area's underlying economic strengths and weaknesses. Much can be done to improve business and consumer confidence by building on our strengths and aggressively addressing the longer term issues threatening the competitiveness of the Bay Area and the State.

- *Relax job creation requirements for awarding Industrial Development Bonds financing.* IDB financing is needed now more than ever to prime the economic pump. At present the allocation is not being fully used due to State imposed requirements for job creation. Right now these funds are needed for job retention. Since this program does not require State funds, it should be made more accessible, and used to the maximum extent.

- *Give CIDFAC the authority to allocate funds directly.* Currently industrial development bond projects go monthly to CIDFAC for authorization and then wait for the twice-yearly meetings of CIDLAC to receive an allocation. Eliminating a wait of up to 7 months to get the allocation from CIDLAC will make these funds more attractive to business and a better tool for stimulating the economy.

- *Restore funding to the infrastructure bank and invest in public works projects.* Roads, public transit, energy generation, water supply, and affordable housing continue to be major impediments to the future well being of the economy. Moving aggressively to solve these basic issues now, will not only create jobs and help restore business and consumer confidence in the short term, but will create competitiveness for all our major industries far into the future.

- *More aggressive marketing.* Public perception based on one-sided and exaggerated press reports has significant detrimental impacts when business leaders act on the basis of that information. A vigorous campaign to get the full story out is needed not only to inform out-of-state businesses, but also to restore the confidence of local businesses.

- *Provide funding for trade service organizations to help companies reach international markets.* Economists see the fall off of international business as a weakness in California's economy. It has also proven to be a source of strength. Trade was one of the main forces pulling California out of the early mid-90s recession and it may do so again. China's market, for instance, is projected to continue growing at 7% and to become the world's largest economy in the not too distant future. Companies diversified in global markets not only have a bigger marketplace, but are better buffered against future downturns in the national economy.

- *Maintain funding for technology innovation.* Although unreasonable expectations for profits in the technology sector led to the current downturn, that doesn't mean that technology innovation will not continue to create new markets and jobs. New products and industries led the state out of recession in the mid-1990s and they are needed to do so again. Programs such as the California Technology Investment Program (CalTIP) were created at that time in response to a recession caused by defense reductions and base closures. Since that time CalTIP has proven successful in commercializing innovative products and creating jobs. For example:

    1. Just recently KLA Tencor reported that a $150,000 grant from CalTIP was responsible for retaining 15 jobs. They anticipate 180 more jobs will be created in the near future in this project to develop the next generation of semiconductor test equipment.
    2. Calimetrics has more than doubled its employment base to 60 workers, raised $35 million in funding and been issued 80 patents on the basis of modest CalTIP funding.

    Both CalTIP and the State's Regional Technology Alliances deserve additional support.

Summary

This is not only a crisis, but also an opportunity to address some of the major issues facing the California economy. Some actions, such as employment services are needed immediately for mitigation. Others will not only help restore business and consumer confidence now, but will strengthen the State's competitive position far into the future. In all cases, actions that do not impact the State's general fund, such as unfreezing federal funds for employment services and making administrative adjustments to the Industrial Development Bond program should be undertaken immediately.

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David Spaur

President & CEO
Fresno County Economic Development Corporation

David Spaur is the President and CEO for the Economic Development Corporation serving Fresno County. Mr. Spaur is responsible for implementing economic development strategies, marketing and recruiting new target industries, promoting business retention and expansion and securing public and private resources for Fresno County.

Before joining the EDC in June 2001, Mr. Spaur was the President and CEO of the Economic Vitality Corporation of San Luis Obispo County Inc., a private non-profit corporation based in San Luis Obispo, California. In May of 2001, Mr. Spaur was elected to the International Economic Development Council (IEDC) Board of Directors. The new organization was formed by the unification of the Council for Urban Economic Development (CUED) and the American Economic Development Council (AEDC).

He previously served as the Director of MEGACORP, the City of Mesa Economic Development program in Arizona, and was responsible for developing an international business recruitment and foreign trade zone program. He also served as President of the Greater Flagstaff Economic Council, Business Development Officer for the Money Store Investment Corporation, Inc., Economic Development Director for the County of Placer, California, and several other public and private sector positions in business, economic development and urban planning.

Mr. Spaur obtained his Bachelor of Arts degree in Planning from California State University, Chico, and went on to graduate from the University of Oklahoma Economic Development Institute, the National Development Council and the Thunderbird Global Leadership Program. He is nationally accredited as a professional Certified Economic Developer CED™ and Economic Development Finance Professional EDFP™.

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Legislative Briefing
COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
Assemblywomen Sara Reyes, 31^{st} District

November 8, 2001 1:00-4:00 P.M.

Presenter:
David L. Spaur CEcD, EDFP
President & CEO
Economic Development Corporation *Serving* Fresno County, Inc.

Briefing Points:

1.) Fresno County Overview
2.) State of the Regional Fresno Economy
3.) Challenges facing the Central Valley

Fresno County Overview

Located approximately three hours south of Sacramento in the heart of the San Joaquin Valley between the rivers of the Kings and San Joaquin, Fresno County is served by both Interstate 5 and Freeway 99. Comprising 3.8 million acres and supporting a population of 628,600 in 15 cities and another 176,400 living in unincorporated areas for a total population of approximately 805,000 residents.

Total labor force represents 398,600 employed, 56,300 unemployed for an effective unemployment rate of 14.1 percent with a seasonal fluctuation between 14 and 18 % typically and as high as 22% percent during recessionary times.

Fresno County is the largest Ag producing county by dollar volume in California, totaling $3.4 billion annually. Median adjusted gross income per individual is $21,694 and household income of $29, 970 with a per capita income of $20,330 (1998 figures). Fresno County is among the lowest ranking income per capita counties in California ranking 41^{st} out of 58 Counties.

Major Employment Sectors

Employment Sectors	# of jobs
Services	**77,900**
Trade	**70,500**
State-local government	**60,700**
Manufacturing	**31,300**
Construction	**16,900**
FIRE	**14,500**

State of the Regional Fresno Economy

Fresno is perceived by many, along with it's Valley neighbors, as a the "State's Poverty Capital" as cited in a recent Contra Costa Times article published Sunday, October 21, 2001.

Job development and economic development has historically been difficult but was made even worse during the Energy Crises that struck hard last February which resulted in several company expansions to go on hold until September 11, 2001 when projects were cancelled. Since 9-11 we have had some activity and inquiries but for the most part activity is less than 10 % of what it was a year ago when the EDC was able to create 1,900 jobs. Year to date, June thru October the EDC hasn't been able to close one project and no net new jobs.

Tourism and business travel has been cut by 60% or 2/3rds. Construction and housing starts remain strong but typically lag behind the rest of the State by as much as 12 months. Recovery also lags behind the State by as much as 12 months on the average.
Fresno County can expect recovery from a recession to follow 18 months behind the rest of the state. The Nation is predicted to sustain a short-term recession until second quarter 2002 with recovery to start in June of 2002. Therefore, Fresno can expect to suffer the effects of a recession until June of 2003.

Normally, population growth alone would sustain most communities but in an agricultural rich environment, and slow by comparison personal income and job growth, Fresno County lags below the state average of $29,000 to $39,000 in median income. This lag factor presents several challenges for the many communities and residents of Fresno County and the Central Valley in particular.

Challenges facing the Central Valley

By the year 2040 the California Central Valley, comprised of the Sacramento Valley north to Redding and the San Joaquin Valley south to Bakersfield will out pace the population of the Bay Area, estimated to be 9.3 million by 2040, as compared with the Valley estimated to be 12 million by the end of 2040. While the rest of California deters growth along the coastal areas and forces population and housing growth toward the center of the state, the net result has been a two decade long drop in personal income to $20,364 vs. $41,129 enjoyed by our neighbors to the west in the Bay Area. The result is that the San Joaquin Valley has become the poorest region in the state. As of today, there are no plans to change the fate and destiny of 2040 from occurring.

Cal Fed has reduce water allocations by 70% next year artificially forcing an agricultural recession to start this winter and the major banks and financial institutions to place agricultural loans on a credit-risk watch further tightening working capital, equipment loans and eliminating debt refinancing. Air Quality standards, while necessary, have been tighten by Federal EPA standards with out any off-sets or measures for equipment loans to install Best Available Technology Measures and transportation measures to ease thru-traffic for interstate, intrastate and NAFT commerce.

9-11 was a sad, sudden and sever event. The slow approach of the year 2040 is also a severe event if allowed to continue unchecked. Long range planning for land use, transportation, air quality, water, education/training and a statewide approach to a jobs housing balance is required and should be mandated to remain healthy, competitive and a world leader in the global economy.

Conclusion

The energy crises have left California as the least competitive economic development location in the nation. Major companies that want to supply the California market have dropped Fresno from their site location list and selected locations with in overnight striking distance from Reno, Las Vegas and Phoenix. Companies with Headquarters in California, who normally would consider expansions in California are forced to diversify and spread their assets to other states to avoid another energy crisis, labor shortage or housing crises.

We need to return California to a level of competitiveness and strengthen our future housing markets, agricultural resources and population centers with out marginalizing our residents by further promoting existing and future centers of poverty.

The Local Economic Impact of the September 11th Events

There is no way to predict the exact economic fallout of the incidents on September 11, 2001. Some industries, particularly those collaterally involved in the terrorist incidents, were initially impacted and then returned to a nervous status quo. Other companies have not felt a substantial impact but may at some future date, as a result of subsequent events.

Locally, the long-term economic impact will depend upon the stability of the parent companies, most of who are not locally based. In analyzing the industries that have the greatest potential for negative economic impact and therefore mass-layoffs, I believe the industries to observe are the following:

Financial concerns: The Stock Market was initially negatively impacted as it slid many points, to a 10-year low. Then, at least partially due to a patriotic resurgence, the Market began an upward, buying trend. As long as the government and the President, in particular, continue to articulate clearly their plan for political correction the Market should remain fairly strong. If the leading economic indicators (such as home sales and automotive sales) do not recover quickly enough, there may be a subsequent downward correction.

The Fortune 1000, 500 and 100 companies listed on the DOW, NASDAQ, Over-the-Counter, etc. have their main offices in other areas of the U.S. Therefore, Fresno should be able to avoid direct impact. If the larger companies move toward restructuring or bankruptcy, then the local market will be affected as well.

Banks should recover well partly due to the continuing lowering of the interest rates by the feds. As long as Greenspan is mindful of the recessionary trends, and adjusts rates as a result, the negative impact should be negligible.

The local impact should be secondary to any activity restriction or economic impact occurring at the parent company level.

Airline companies: The airline companies will have a slow recovery period due to lingering fears, non-corrected security concerns, changes in policies, etc. Fresno has one airline, Allegiant, that has been affected by the drop in tourism, specifically to Las Vegas. The occupancy rate in Las Vegas is generally 65%; since the terrorists' attacks the occupancy rate is 30-35%. There have been thousands of workers in the service industries who have been laid off. Jay Leno is offering a free show to encourage tourists to come back to Vegas.

The local impact may be pronounced for Allegiant and for the commuter planes' parent companies. Since the Fresno Airport has not been one of the areas targeted by hijackers there should be a slow return to normalcy. If there are subsequent events, the decline may become more long-term.

Automobile sales: Auto sales have been slowing but the peak period for purchasing automobiles is in the spring anyway. The recent events in New York do not appear to have had an impact on Fresno County auto sales.

Petroleum/energy: Experts are concerned that energy costs will escalate as resources are diverted to support the armed conflict that's imminent. California, including Fresno, is in the middle of the Governor's costly bailout of the utilities. The taxpayers will have an added burden if taxes are added to gasoline to support a war effort. Elevated energy costs could create an additional major strain on the local manufacturers. At this point, the OPEC leader, Saudi Arabia has promised to make up any shortcomings in oil supplies.

The escalating energy costs are already adversely impacting the agricultural concerns. As these and other costs continually increase, the profit margin for the farmers is dramatically decreasing. This has resulted in severely restricted options for farmers. For example, tomato farmers had a $.17 profit margin...not even enough to make growing tomatoes a viable option.

The local impact on potentially rising energy costs could be substantial, partly due to a poorly conceived PGE bailout pushed through by the Governor and a continuing push to rescue the second of the poorly operated energy companies, So. Cal Ed. If taxes are added to the already substantial gas taxes locally, travel and trucking costs will rise again. This will give-way to additional problems for high-energy consumption organizations.

Retail trade: Prior to September 11th, there were already substantial concerns about declining sales expressed by retailers. President Bush has asked the public to go about their daily lives...and that will improve the outcome eventually. The retail recovery may also be contingent on the absence of other large-scale terrorist acts prior to Christmas.

If a building, such as the Sears Tower in Chicago, were to be the recipient of an attack, the public's fear may escalate and remain for a great deal longer. The psychological impact of additional acts even as the nation is at heightened alert, may be too much for the public psyche to handle. That might curtail all but essential retail activity.

Locally, the month of October should provide a gauge on the local affect.

IT technology companies: An important factor that has precipitated an earlier than expected turn toward recession is the impending Microsoft court settlement. There are many who believe that the Microsoft prosecution aided in the collapse of the burgeoning high-tech, dot-com companies.

The uncertainties about terrorist attacks in cyberspace will continue to adversely affect the economics of DOT-coms. A new government position is being created to address Internet sabotage. This position and the department that supports it will have direct links to the FBI and CIA to procure and share information about Internet messaging relative to impending terrorist acts.

Locally, the company that is most involved with IT issues is Pelco. They are already providing surveillance cameras in buildings, planes, etc. Pelco should actually benefit from the recent terrorist events.

Trade: For obvious reasons, our trade issues will create deepening problems for the local area. Indonesia has provided a good market for some of our fruits, nuts and vegetables. With the largest Muslim population in the world, retaliatory attacks by the U.S. will probably bring on sanctions from countries such as Indonesia. Additional security concerns may also hamper the movement of trade items.

Construction: The housing market in Fresno has been strong. There has been some affect on the market due to recent incidents. However, the lowering interest rates may continue to make the market stable. Locally, the Fresno market should remain strong, as it is not in the obvious target regions for terrorism either. Although there are a large number of the 3700 cropdusters located in the San Joaquin Valley.

Services: Locally there was an initial decline in socializing, which led to a decline in going to the movies, eating out, etc. However, that was an initial dip only. As of last week, home improvement stores were reporting increasing activity.

Locally the impact on services in general should be limited to responses to specific acts.

Health care: Costs are already increasing, while nursing personnel are declining. Health care services are high-energy consumption and will be impacted if consumer spends declines further. Since many medical procedures are elective, consumers may begin to decline additional services in an effort to curtail expenditures.
Locally, the areas' large hospitals may be affected if things worsen.

In essence, the local industries are fairly well insulated from the events of September 11, 2001. Most of the companies that received bad news on September 11th are working toward a better future. With time, and the absence of future attacks, the economy may recover the ground its lost since then.

Assembly
California Legislature

COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

SARAH REYES, CHAIRWOMAN
31ST DISTRICT - FRESNO

The Statewide Workforce

Mike Curran
Director, North Valley Job Training Consortium Private Industry Council

Ray Worden
Director, Long Beach Workforce Investment Board

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Michael Curran

Director
NOVA Workforce Board
Sunnyvale, California

As Director of the North Valley (NOVA) Job Training Consortium since 1986, Mike Curran has overseen the continuous expansion of NOVA programs in the Silicon Valley region to meet the challenges of workforce development caused by the rapid evolution of technology and business opportunities.

NOVA has been recognized for its high-quality, entrepreneurial approach to customer-driven, outcome-oriented service delivery, including a Presidential Award as one of the country's Outstanding Training Programs. In 1995, Mike was honored as the "Job Training Professional of the Year" by the National Alliance of Business. In 1999 NOVA received national recognition as the recipient of the Enterprise Council's Quality Award for its efforts to embed the Malcolm Baldrige framework in its day-to-day operations and in its strategic alliances. Mike has served on the Board of Directors for the California Workforce Association since its inception.

TESTIMONY TO THE CALIFORNIA STATE ASSEMBLY
COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
November 8, 2001

Presented by Mike Curran, Director of the NOVA Workforce Board

Recommendations for actions by the State of California to improve the capabilities and opportunities for the workforce investment system and the workforce it is committed to serve:

1. **Continue the development of a strategy statewide that is aimed at enhancing the skills of all workers, not just those unemployed.** Both the Workforce Investment Act and the low unemployment rates of the past few years have motivated our Workforce Boards to invest more in skill upgrades and career ladders (particularly for the working poor), in addition to employment/reemployment assistance. With this strategy we are more relevant to and gain leverage from our businesses and our economy.

2. **Invest in Training, Part 1: In this knowledge-based economy, there is no better time or opportunity for people to upgrade their skills than when they are sidelined by unemployment.** This works for technicians who were hired in a "full-employment" era without full certifications and were then trained to work in proprietary systems doing less complicated tasks. This also works for those in "dead end jobs" who have very limited English/literacy proficiency, and who will likely remain in those jobs if they do not improve their communication abilities.

3. Invest in Training, Part 2: The workforce investment system does little to create jobs. Instead, it creates the talent to fill the jobs created by both the marketplace and federal economic stimulation initiatives. **We should use this time and investment opportunities to enhance the assets of that talent pool and improve our future economic competitiveness.**

4. **Legislators should get out to California's One-Stop Centers, and the One-Stops should better educate our legislators:** While NOVA's 6% unemployment rate is not extraordinarily high, 80% of these people were working four or five months ago. They want to be working; they expect to be working; they need to be working. Even when not working, one still has to write checks for the highest mortgages and rents in the nation. All too often the people in Sacramento do not share the same sense of urgency as our customers. The State needs to develop

clear policies on how it uses its discretionary funds, and expedite the processes to get those funds where they are most needed. They do make a difference!

5. **Shape and capitalize on the national economic stimulus efforts:** The federal government appears ready to deploy a strategy for economic stimulation by making more financial resources available to localities and consumers. Currently, the House and Bush Administration propose stimulus legislation that does not include employment training resources, while proposals in the Senate by both Senators Kennedy and Wellstone recommend $2 billion. The State should advocate for the inclusion of these training resources. Also, California should be prepared to jump on this opportunity. (This does not mean the goal is to "give the dollars away" or that "any spending is good spending." What it does mean is that it is the opportunity to augment our State's workforce assets by using these resources with an investment attitude that prepares our workers and businesses for future opportunities.)

6. **Build upon our existing systems:** Workforce-related funding from federal economic stimulation efforts should be channeled through California's Workforce Investment Boards, the public/private partnerships that oversee workforce investment in our communities. Such investment would both benefit from their expertise and build their capabilities.

7. **Address some of the structural problems that are creating workforce shortages in critical areas:** For the most part, our schools (and in particular the adult education and community college systems) are financed through formulas that encourage larger class size and reduced technology investments. As a result, even though we know that we are and will be experiencing a shortage of machinists, auto mechanics and nurses (as examples), there are long waiting lists to get into these trainings. In fact, I understand that community colleges "lose" more money training nurses than training in any other occupation due to the requirements for low teacher-student ratios and the need for clinical labs and dedicated space. It is ironic that we have published major reports talking about the healthcare crisis, yet we have a good number of dislocated workers wanting new careers in the nursing field and they are looking at a waiting lists well over a year long.

8. **Put the resources where they are most needed:** There needs to be a change in the funding formula that distributes dislocated worker funds. The current funding formula is left over from the Job Training Partnership Act and is not relevant to the new requirements. As an example, it is heavily influenced by percentages of individuals who are long-term unemployed, but long-term unemployed individuals are no longer eligible to be served with WIA dislocated worker funds. The results of this is that, while NOVA has received the highest increase of worker dislocation in the State, this year (July, 2001) we also received the highest reduction (25%) in funding.

Assembly
California Legislature

COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

SARAH REYES, CHAIRWOMAN
31ST DISTRICT - FRESNO

Ray Worden

Director
Long Beach Workforce Investment Board

Ray Worden joined the City of Long Beach as its Training and Employment Development Officer in March of 1998. He has over twenty years of experience in employment and training administration and policy development. Prior to his assignment in Long Beach, he was the Executive Director of the New Hampshire Job Training Council, New Hampshire's statewide job training organization. He is a past Deputy Director of the National Commission for Employment Policy – a Presidential Commission based in Washington, D.C., and also served as Deputy Manager of the Job Training Partnership Administration for the State of Oregon.

Ray sits on several national and state boards including the Board of Directors for the US Conference of Mayors' Employment and Training Council, The Workforce Excellence Board and California Workforce Association. He is past chair of the National Governors' Association of Workforce Development Administrators and past President of the New England Training and Employment Council. He has acted as an advisor to the US Department of Labor on a broad range of issues ranging from performance management to regulatory reform.

Mr. Worden has received numerous national and regional awards for his work on behalf of at-risk youth, victims of domestic and sexual violence, and persons with disabilities including the 1992 DOL Presidential Award for Outstanding Training Program. In 1998 he was awarded the national Systems Building Award by the National Association for Workforce Development Professionals for his tireless work to further the professional development of the job training system.

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TESTIMONY TO
STANDING COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

NOVEMEBER 8, 2001
BY
RAY O WORDEN
WORKFORCE DEVELOPMENT BUREAU MANAGER
CITY OF LONG BEACH, CA

Thank you for the opportunity to share with you the workforce challenges facing the City of Long Beach in the aftermath of the September 11 tragedy.

I would like to preface my remarks with three pieces of context.

First, this past year my Chief Elected Official, Mayor Beverly O'Neill led a national task force reviewing the "skill gap" issue facing our employer community. Skill Summits were conducted across the nation in major metropolitan areas, drawing together key business, organized labor, education, community and government leaders. The purpose of these summits was to examine what could be done to increase the supply of skilled workers. Over the last several years an increasing number of employers had expressed tremendous frustration in the inability to attract skilled workers. From Kansas City to Boston to New Orleans to Long Beach-Los Angeles area the complaint was strong and consistent. The suggested solutions (that I will touch on later) were complex and challenging. The bottom line is (as Mayor O' Neill stressed in her report to her fellow mayors across the country) "we have a silent crisis that is growing at epidemic proportions and if not addressed will fundamentally erode our nation's ability to remain competitive in years to come!"

The second piece of context is the (new?) Workforce Investment Act legislation. WIA was passed in the summer of 1998 and is just now hitting stride here in California. Despite all good intentions the state of California (the largest, most complex workforce delivery system in the nation) has yet to establish many of the fundamentals of a well-managed state system. State reporting systems are given over to local operators to establish "minimum" acceptable operations; confusion over policy directives have put California way behind the rest of the nation in its WIA readiness; and lack of timely allocations of resources impede proper planning and decision-making at the local level; in fact, unacceptably lengthy delays in promised discretionary awards have given the appearance of a huge inventory of unspent resources. This has lead to a national crisis of confidence in the workforce system ability to deliver resulting in a congressional rescission costing this state potentially millions of dollars in workforce funding.

Finally, I think we are all aware that since spring of this year the economic conditions facing the workforce delivery system have considerably softened. Foot traffic at the Long Beach One Stop Center has risen steadily from 7000 persons in February to over 9000 in August. Our rapid response unit has also seen an increase in lay off activity prior to 9/11. Some of the downsizing activity was related to the energy crisis (which particularly hit Long Beach hard) such as the closure of our Georgia Pacific wallboard plant, but most were part of the downturn in the local economy with closure of a hospital, relocation of a manufacturing unit to Mexico and several small business concerns folding. Even our major employer, Boeing had also announced in late spring a 1200 person reduction in their commercial manufacturing operation.

Turning to the workforce challenges we face today in light of 9-11, I begin by sharing with you a survey of businesses undertaken by the City of Long Beach. Our Mayor and Workforce Development Board wanted to hear directly from the businesses as to the impact of 9/11 on their businesses. For the most part the results of this impact study of over 1100 businesses suggested that overall the events of 9/11 had minimally impacted their operations with the notable (and expected) exception of tourism/travel related businesses where over 62% had experienced a significant decline in business. (A copy of the survey is provided for your review.) There are two observations from the survey that I would highlight.

First, most businesses indicated a "status quo" view of economic activity for the six months – neither growth nor reductions. Second, there were some limited sectors of growth related to "home entertainment and furniture " purchasing, and one of our largest manufacturing employers, Snug Top, reported a significant increase in orders for the pickup shell product.

I think it is important to have good data when responding to a crisis. The fear factor has already impacted the productivity of our workers. The survey put conjecture in check and allowed us to target our efforts more effectively.

We also need to sort out the short-term impact from the overall health of the economy.

I would like to end with three sets of observations/recommendations.

First, and foremost, we knew before September 11th that workforce issues were becoming significantly more challenging. I mentioned earlier that Mayor O'Neill had convened a Skill Summit for the greater Long Beach-Los Angeles area. We learned from research by a noted national economist that during the last decade 97 percent of California's labor force growth was attributable to foreign-born workers. Further, nearly half of the new foreign–born workers entering the workforce in the Long Beach-Los Angeles labor market are high school dropouts. This research, Growth and Change in California and Long Beach/Los Angeles Labor Markets by Dr. Paul Harrington, paints a troubling picture for economic growth for our region and our state. **We need to enact new aggressive strategies to upgrade the skills of our emerging workforce to ensure that employers will have the workers necessary to meet the competitive demands of the present and future.**

Second, we have been drifting in the implementation of WIA in this state. We have many local success stories and many dedicated state staff. However, there is no WIA system in this state and the lack of timely planning information, sound and functioning state operating systems, and last minute (and many times after the fact) funding decisions. This leads to tremendous lost opportunities to maximize these valuable resources. Local business leaders are often amazed (and sometimes discouraged to participate) by the absence of basic information and the last minute nature of funding notifications. **We need to call on the Governor and his State Workforce Investment Board to convene a local/state task force to assess current operating deficiencies and put into place an operating improvement plan.**

Finally, we have seen the economic landscape change significantly over the past six to eight months. With the impact of 9/11 our situation has become very challenging. Displacements are reaching into the six figures in the greater Los Angeles region. Welfare recipients, young adults and those lacking basic skills are even more vulnerable in this labor market. As we pull ourselves out of this recession, and we will, we need to employ every tool to expedite this recovery. The breath of the challenge requires us to look to temporary public jobs that are tied to skill training. However, Congress has yet to see the seriousness of the unemployment situation in their discussions to date. Income maintenance alone will not rebuild the confidence in those jobless individuals nor put the necessary dollars back into the local economy. **We need to encourage our Congressional representatives to support efforts to add workforce assistance efforts to Economic Stimulus Package being debated before Congress including funding for public service employment.**

I am convinced that with all of the talent at the local and state level that if we focus on the full facts of the current economy, get the necessary systems in place, and employ the full range of workforce strategies, we will not only quickly return to economic optimism but also provide our employer community with a world class workforce for generations to come.

Thank you for the opportunity to come before you today. And God Bless America!

Assembly
California Legislature
COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
SARAH REYES, CHAIRWOMAN
31ST DISTRICT - FRESNO

CALIFORNIA WORKFORCE ASSOCIATION

The California Workforce Association (CWA) is a non-profit organization representing California's local workforce development partnerships. CWA's mission is to build comprehensive and effective workforce development systems by providing policy and technical support to its members and to policy makers at the federal, state, and local levels.

CWA's membership includes California's 50 local Workforce Investment Boards, the state Workforce Investment Board, over 100 One-Stop Career Centers, training providers, local school districts, community based organizations, community colleges, local and state agencies, and other partners in workforce development in California. We have recently reorganized CWA to include a broader spectrum of members, and have established 5 learning communities to encourage better peer-to-peer support, accelerated learning and sharing of best practices.

The Association provides training and technical assistance, sponsors major workforce conferences, and develops strategies to enhance system building in local communities. We train over 2500 individuals annually on policy, research, and best practices related to employment, training, economic development, welfare-to-work and system building.

In the last four years, CWA has become a key player in the workforce policy arena at the state and federal levels. State and federal agencies, non-profit organizations and local agencies often consult us for our input and perspective. Our staff and members sit on many Boards of Directors of organizations dedicated to excellence in workforce systems.

CITY OF LONG BEACH

WORKFORCE DEVELOPMENT BUREAU

SEPTEMBER 11

IMPACT STUDY REPORT

Produced by
The Greater Long Beach Workforce Development Bureau

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The Greater Long Beach
Workforce Development System

September 11 Impact Study Report
City of Long Beach – Workforce Development Bureau

The results of the Impact Study are based on the responses of 569 Long Beach business representatives. The original sample consisted of 1,100 employers; hence, a response rate of 52% was achieved. A stratified sampling technique was utilized to help ensure that each industry would be represented in proportion to its presence in the City of Long Beach. See Appendix A for survey questions.

Magnitude of Impact on Business Demand

Of the 569 surveyed, 64% reported that demand for their product or service was impacted very little or not at all by the September 11 events and aftermath. Seventeen percent indicated somewhat of a decrease; and 19% reported a notable decline in business demand. When considering the impact within industries, the proportions of those significantly affected were very similar to the citywide figures, with percentages ranging between 11 and 23 percent. However, 62% of tourism/travel related businesses experienced a significant decline in demand for their product or service. Graph 1 illustrates the impact by industry.

City Wide Staffing Plans

Thirty-three percent of, or 189, Long Beach employers reported plans to hire additional staff prior to September 11. Of this group, 40% have decreased their hiring plans or are no longer planning to hire in the near future. Although a small proportion of the total respondents, it is worth noting that 3% of these employers actually increased their recruitment plans in response to current conditions; furthermore, of those who were *not* planning to hire before the events of September 11, a diminutive 1% are now hiring additional staff.

Only 7% of, or 41, employers in the sample reported plans to downsize their business before the events of September 11. On the positive side, 7% of employers in this group have decreased their downsizing plans or are currently not planning to downsize at all. Nonetheless, 24% of these employers have actually increased the magnitude of their plans, and 5% of those employers who had *no* prior layoff plans are now downsizing.

The following information contains specifics regarding staffing trends by industry. Graph 2 and Graph 3 are attached to aid between industry comparisons. It is clear from these graphs that employment in the service, manufacturing and transportation industries, as well as the tourism/travel sector, was heavily impacted by the events of September 11.

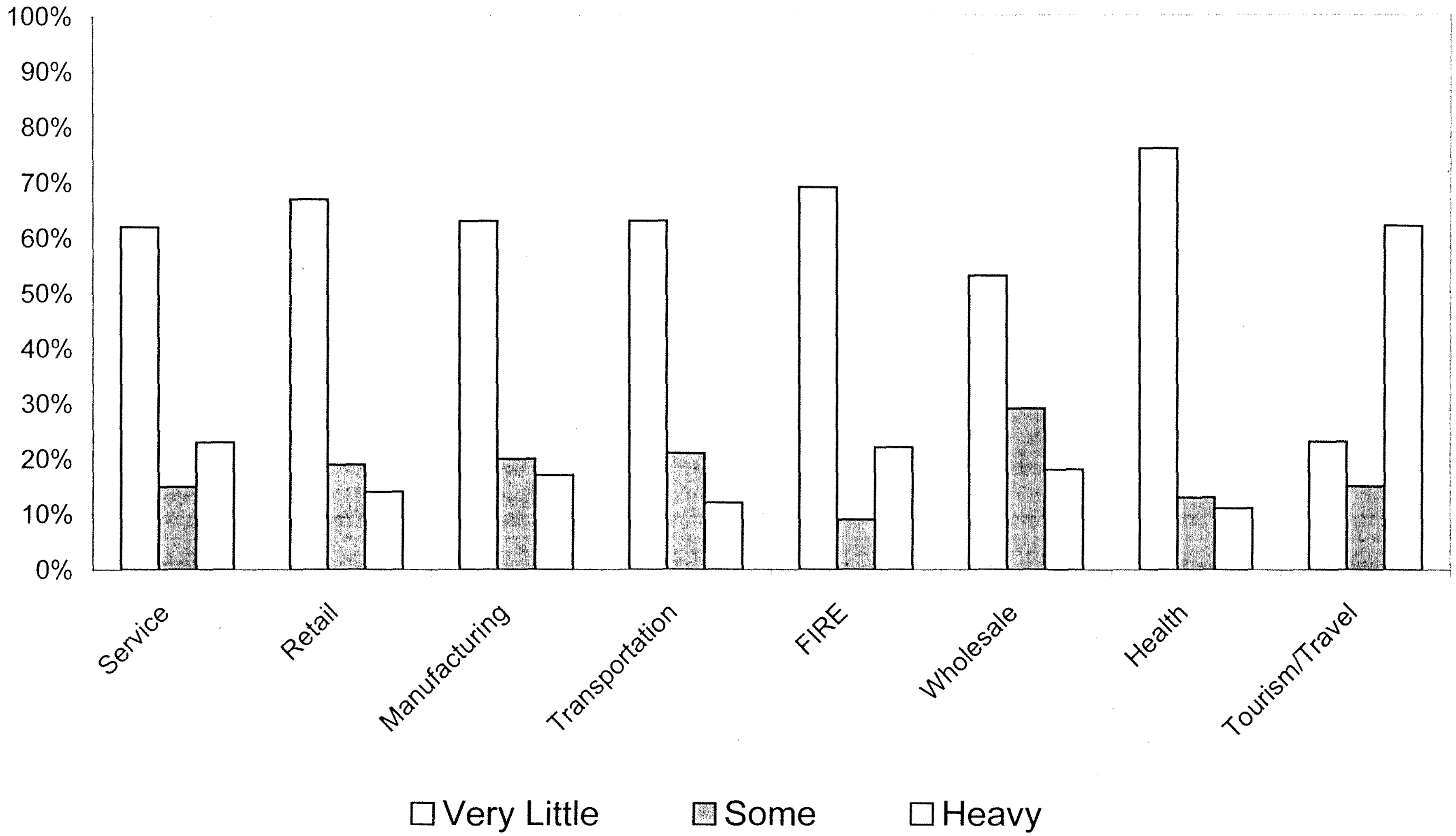
<u>Service Industry</u>

Respondents: 317   Industry Response Rate: 59%

Within the service sector, 29% of businesses were planning to hire before September 11. Of these employers, 49% have reduced their hiring plans or are

The Greater Long Beach Workforce Development System

GRAPH 1
Magnitude of Impact on Business Demand



no longer planning to hire in the near future. Four percent are planning additional increases in staffing, and 1% of those previously *not* planning to hire are now recruiting. This conflicting information is most likely due to the type of service offered and the location of the business, as those located in the downtown and Belmont Shore areas have experienced a greater negative impact.

Ten percent of employers surveyed said they were planning to downsize before September 11th. In response to the September 11 events, 21% percent of these employers have increased the magnitude of their downsizing plans. Six percent of employers with no previous layoff plans are now planning to downsize their business.

Eighteen percent of employers in this sector expect their industry to expand over the next six months, 59% expect it to remain stable, and 21% anticipate declines. Two percent declined to predict.

Retail Trade Industry

Respondents: 145   Industry Response Rate: 46%

Forty-two percent of employers in the retail industry were planning to hire prior to September 11. Thirty-six percent of those originally planning to hire additional staff have decreased their hiring plans or are no longer planning to hire in the near future. Only 2% have increased their original hiring plans.

A mere 3% of employers surveyed in the retail industry were planning to downsize before September 11. Of these employers, none reported increases in the number of layoffs, and 20% actually reported decreases in their downsizing plans since September 11. However, 5% of the businesses not originally planning layoffs are now downsizing. Again, these discrepancies are most likely due to the location of the business within the City.

Eighteen percent of respondents expect their industry to expand, 61% expect it to remain stable, and 16% anticipate declines over the next six months. Five percent did not respond.

Manufacturing Industry

Respondents: 30   Industry Response Rate: 66%

Thirty percent of respondents were planning to hire prior to the September 11 events. Thirty-three percent of these employers have decreased their hiring plans. None of those surveyed increased their hiring plans.

Ten percent of businesses reported plans for downsizing before September 11. Although this was not an overwhelming proportion, a surprising 100% of these employers have increased the magnitude of their original downsizing plans. In addition, 7% of those who were not planning to hire before September 11 now plan to downsize.

Twenty percent of those surveyed expect their industry to expand over the next six months, 57% expect it to remain stable, and 23% predict declines.

Transportation Industry *

Respondents: 24   Industry Response Rate: N/A

Only 13% of businesses in the transportation industry were planning to hire before September 11. Nevertheless, 100% of these employers have decreased their hiring plans or are no longer planning to hire in the near future. None of those surveyed increased their hiring plans.

Thirteen percent of employers planned to downsize before September 11. Thirty-three percent of these employers increased the number of planned layoffs after September 11, and 5% of those not originally planning layoffs are now downsizing.

Over the next six months, 21% percent expect their industry to expand, 54% expect it to remain stable, and 21% anticipate declines. Four percent declined to predict.

* Data for this industry includes responses from those employing custom brokers, freight forwarders, shipping agents, and stevedores.

FIRE (Finance, Insurance, and Real-Estate) Industry

Respondents: 23   Industry Response Rate: N/A

Forty-three percent of FIRE businesses were originally planning for additional staff. Twenty percent of these employers decreased their hiring plans or are not planning to hire in the near future. However, an equal amount of these employers have increased the number of new staff members they plan to hire; thus, suggesting that the positive and negative impacts on this industry are counteracting each other.

Zero employers in this sector reported plans to downsize before or after September 11th.

Seventeen percent of respondents predict that their industry will expand over the next six months, 57% expect it to remain stable, and 22% predict declines. Four percent did not respond.

Wholesale Trade Industry

Respondents: 17   Industry Response Rate: 53%

Forty-one percent of wholesale trade businesses intended to hire additional staff before the September 11 events. Following September 11, 43% of these employers have decreased their hiring plans or are no longer planning to hire. None of those surveyed increased their hiring plans.

Zero employers in this industry reported plans to downsize before or after September 11.

Eighteen percent of representatives from wholesale trade businesses expect their industry to expand, 59% expect it to remain stable, and 23% anticipate declines over the next six months.

Healthcare Sector

Respondents: 36   Industry Response Rate: 40%

Thirty-five percent of employers in healthcare related businesses were planning to hire before the events of September 11. A mere 6% is currently not planning to hire in the near future. None of the employers from this group reported increases in their hiring plans, but 3% of those originally *not* planning to hire before September 11 are now recruiting.

Zero healthcare establishments reported prior layoff plans. A minor 2% claimed to have current downsizing plans.

Over the next six months, 13% anticipate that their industry will expand, 74% expect it to remain stable, 9% expect it to decline, and 4% did not respond.

Tourism/Travel Sector

Respondents: 86   Industry Response Rate: N/A

Standing apart from the rest of the industries investigated, the events of September 11 are still weighing heavy on the tourism/travel sector. Of the 33% who were originally planning to hire additional staff, 71% reported that they have decreased their hiring plans or are now not planning to hire in the near future. Nevertheless, 3% claimed they are increasing their hiring plans in an effort to further promote their business and combat industry declines.

Only 5% of those surveyed were planning to downsize before the events of September 11. Fifty percent of these employers have increased their layoff plans. Most noteworthy is that an additional 16% of travel/tourism related businesses are now planning to downsize in response to the September 11 events.

Twelve percent of respondents expect the tourism/travel sector to expand over the next six months, 49% expect it to remain stable, and 37% fear continued declines. Two percent declined to predict.

APPENDIX A

SEPTEMBER 11 IMPACT SURVEY

1. HAS THE DEMAND FOR YOUR PRODUCT OR SERVICE DECLINED SINCE THE SEPTEMBER 11^{TH} ATTACKS ON AMERICA?

1	2	3	4	5
NOT AT ALL				VERY MUCH

2. WERE YOU PLANNING TO HIRE ANY NEW EMPLOYEES BEFORE THE EVENTS OF SEPTEMBER 11^{TH}?

   YES NO

   (IF YES) WHICH OCCUPATIONS WERE YOU PLANNING TO RECRUIT FOR?

   ______________ ______________ ______________

   HOW HAS THE AFTERMATH OF THE SEPTEMBER 11^{TH} ATTACKS ALTERED THESE PLANS?

   PLANS REMAINED THE SAME
   DECREASED HIRING PLANS
   NOT PLANNING TO HIRE IN THE NEAR FUTURE
   HIRING MORE (OCCUPATION)____________________

3. WERE YOU PLANNING TO DOWNSIZE ANY AREAS OF YOUR BUSINESS BEFORE THE EVENTS OF SEPTEMBER 11^{TH}?

   YES NO

   (IF YES) WHICH OCCUPATIONS WERE AFFECTED?

   ______________ ______________ ______________

   HOW HAS THE AFTERMATH OF THE SEPTEMBER 11^{TH} ATTACKS ALTERED THESE PLANS?

   PLANS REMAINED THE SAME
   DECREASED DOWNSIZING PLANS
   NOT PLANNING TO DOWNSIZE AT ALL
   INCREASING THE DOWNSIZE (OCCUPATIONS) ____________________

4. DOES YOUR COMPANY EXPECT ITS INDUSTRY TO EXPAND, DECLINE, OR REMAIN STABLE OVER THE NEXT SIX MONTHS?
   DECLINE REMAIN STABLE EXPAND

5. IS YOUR BUSINESS IN NEED OF OUTPLACEMENT, DOWNSIZING OR FINANCIAL SERVICES?
   YES NO
   IS YOUR BUSINESS IN NEED OF RECRUITMENT AND TRAINING SERVICES?
   YES NO

6. IS THERE ANY OTHER ASSISTANCE YOU MAY BE IN NEED OF?

Assembly
California Legislature

COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

SARAH REYES, CHAIRWOMAN
31ST DISTRICT - FRESNO

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Additional Submitted Testimony

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November 8, 2001

California Legislature – State Assembly
Committee on Jobs, Economic Development and the Economy
Public Hearing on the State of the California Economy
Submitted by Richard D. Broome
Vice President, Corporate Affairs
The Hertz Corporation

Chairwoman Reyes and Committee Members, Thank you for receiving Hertz' testimony on the effect of the Company's car rental business in California and policy changes that can help overcome those effects on our business and the economy, generally. Our experience suggests there is a real "September 11 effect" on airport-based car rental business, in California and the rest of the nation that persists to this day. However, it is our opinion that a more important factor is the economic slowdown in the United States, which was accelerating in the weeks leading up to September 11, but was certainly made worse by the attacks and their consequences. The trend in California tracks closely to our experience elsewhere.

Many leading travel industry companies in the airline, hotel and car rental industries have taken matters in their own hands to accelerate a recovery by offering lower prices and publicizing their availability, as well as reducing costs. It is our view that government – federal state and local – can best help the tourist industry, including Hertz, by implementing policies that help improve air travel safety, stimulate the national economy and generally allow businesses to operate more efficiently without sacrificing important consumer and environmental protections. We believe the California legislature and Governor Davis, by approving and signing into law, respectively, AB 491 & 1258 in the most recent legislative session, have helped car rental customers and companies for both the short and longer term.

90% of Hertz' car rental business in the United States is generated at airports and California is Hertz largest U.S. market. When the federal government suspended civilian air travel for several days beginning September 11, that had an immediate, negative impact on our business. While Hertz, and many other car rental companies, rented tens of thousands of vehicles to travelers stranded at airports, those rentals could not make up for all of the business lost when people couldn't fly. All told, our business was off by over 40% for the first few days after September 11, with some airport locations in California, most notably San Francisco, Los Angeles (Hertz' two largest locations nationally) and San Jose, being off more than that.

Airport car rental business has steadily recovered since the first week after September 11, but it is our expectation that business will plateau below pre-Sept 11 levels. As was the case immediately after the attacks, business at the larger airports – and this is true around the country – are weaker than medium and smaller airports. Non-airport car rentals have held up in most locations since September 11, with some locations reporting stronger business than usual, and others reporting lower levels of activity, particularly locations in popular tourist areas.

Overall, it is our experience that tourist travel has recovered more quickly than business travel. This may be due to the price incentives offered by the airlines, and supported by price reductions for hotels and rental cars, and a sense that some immediate steps have been taken to improve security. However, the slower recovery of business travel is the leading indicator that corporations, concerned about their profitability and short term prospects, are restricting travel to control costs. At this point, most businesses do not have policies specifically restricting domestic travel due to safety concerns; rather it is economic factors that are driving corporate travel decisions. It is for this reason, primarily, as well as an analysis of leading economic indicators, which demonstrates to us that overall economic issues are having the greatest effect on car rental and other tourist-related businesses.

It is unclear what the future holds for the car rental business in California and nationally. There is no sign from our reservation or actual rental data to indicate that business will be restored to pre-September 11 or Year 2000 levels in the foreseeable future. We will continue to help attract business in the upcoming holiday season by announcing this week a Holiday Rates program that should help stimulate demand for the November 20-24 and December 20-25 periods. Overall, it is possible that we will not see a full recovery before the summer of 2002 and that is assuming an improved economy and a full restoration of the public's confidence in air travel safety.

As a result, Hertz has implemented cost measures, including, regretfully, staff reductions and lowered fleet levels. The staff reductions amount to less than 10% of our U.S. car rental employees, and we have reduced fleet by turning back vehicles earlier than anticipated and delaying the fulfillment of new vehicle orders. We have not yet, at this point, cancelled any vehicle orders. Unlike the airlines or hotels, car rental companies have an advantage of being able to reduce, over time, their largest fixed cost – vehicles – and more easily adjust to mid and longer term drops in rental demand.

It is our expectation that the travel industry will continue to take steps to stimulate demand, including appropriate pricing strategies and publicity. However, it is clear to us at Hertz that over the long term the public's confidence in air travel safety and the economy will be the linchpins to a full recovery in the travel industry. In these areas, the government can play an important role, in both small and large ways, to create the conditions for improvement and take steps that can help travel businesses operate more efficiently.

We do not believe that means that the federal government should be prepared to bailout the car rental industry. While some in our business advocate a car rental bailout package, we believe such an effort inevitably takes away taxpayer money from the more important needs to improve security, fight terrorism and help improve the economy. Relief for our business should come in the form of legislation and regulation that addresses these broader concerns, as that is what it will take to get Americans flying, staying in hotels and renting cars. More focused relief should come in the form of law changes that enable us to run businesses more efficiently, which will not only benefit the companies, but also our customers.

In fact, the California legislature and Governor Davis approved two law changes this year that will help car rental companies and their customers. The first bill, AB 491, enables new car rental facilities to be built at over-crowded airports with a modest user fee on renters. These so-called consolidated facilities can have many advantages by reducing over-crowding on airport roads, thereby improving security, reducing car emissions near terminals and improving the efficient movement of human and vehicle traffic at airports. The law also permits a modest price increase for the collision damage waiver product for larger vehicles, reflecting the increased cost of repairs, while at the same time reducing renters' exposure to liability for stolen rental vehicles and for vehicles that are out of service after being damaged. These changes will have a long term, beneficial effect for both car rental companies and renters.

AB 1258 addressed a more immediate concern. With travelers stranded on September 11 renting an unprecedented number of vehicles for one-way travel, car rental companies saw their fleets dislocated as cars were driven all over the country. Thousands of California-plated cars were driven out of state, many of them to the east coast, and thousands of foreign-plated cars were driven here by California residents who wanted to get home from airports all over the country.

This situation, while problematic for car rental companies for a number of reasons, is particularly acute in California where the law prohibits the in-state rental of foreign-plated vehicles. With huge numbers of our California rental fleet spread out across the continent, the only way we could meet customer demand, even though demand was off as stated above, was to rent foreign-plated cars.

It was fortunate that this situation unfolded while the legislature was still in session. During the two days leading up to adjournment, AB 1258 was crafted permitting car rental companies to rent foreign-plated vehicles until the end of the year. Implementation of the law was dependent on findings by the Department of Motor Vehicles and the Air Resources Board that the need existed and environmental quality would not be impaired, respectively. Governor Davis signed the bill into law and the DMV and Air Resources Board made their findings. The new law will enable Hertz to meet customer demand through yearend, including the important upcoming holiday periods, and the law is an example of government/business partnership that works to the benefit of all Californians and visitors to the state.

Looking ahead, it is clear that much of the government work to improve air travel safety, fight terrorism and stimulate the economy will happen in Washington, D.C. Nevertheless, the state government in Sacramento undoubtedly has an important role to play in all of these areas. With respect to the travel industry, and the car rental business specifically, we intend to approach the Davis Administration and legislative leaders with proposals that can reduce regulatory burdens without sacrificing consumer or environmental protections. Such proposals would be advanced with the express purpose of allowing car rental companies to operate more efficiently in California, thereby reducing the cost of our product and services to our customers. These changes would also help to improve our profitability, which has been significantly impacted by the September 11 attacks and the slowed U.S. economy.

We very much appreciate the legislature's willingness to listen to our concerns and perspective. We look forward to working with government leaders in Sacramento to help restore confidence in travel and the economy, and to help deliver an even more cost effective product to car rental customers in California.

STATE OF CALIFORNIA

CALIFORNIA COMMUNITY COLLEGES
CHANCELLOR'S OFFICE
1102 Q STREET
SACRAMENTO, CA 95814-6511
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November 8, 2001

The Honorable Sarah L. Reyes, Chair
Committee on Jobs, Economic Development, and the Economy
State Capitol, Room 2117
Sacramento, California 95814

Dear ~~Assemblymember~~ Sarah Reyes:

I was pleased to learn that the Committee on Jobs, Economic Development and the Economy is holding a public hearing on the state of the California economy. The challenges facing the State today clearly require attention from us all.

As California's largest workforce provider, the California Community Colleges are ready, willing, and able to help revive the California economy. Since the beginning of the recession of the early 1990's, the millions of students we have brought into higher education and delivered into the workforce have been indispensable to the shifts in the California economy that marked the last 10 years. As the state's businesses begin to reposition themselves again to strike out in new directions, the community college system is positioned to help define and serve their workforce needs.

I am respectfully submitting a statement for the record of today's hearing because I strongly believe that the California Community Colleges will make an essential contribution to restoring California's economic health. Although our role is sometimes taken for granted, we are an essential resource to the state that becomes particularly vital at times like this.

I am also providing for you and members of the Committee a copy of *The State of the California Community Colleges Address* that I presented in October to community college leaders. It provides an historical perspective and data that I think might be useful to you in your assessment and discussion of stimulating the state's economy. Also enclosed is the *2001-02 California Community Colleges Occupational Programs Guide* containing specific information about the programs and services we offer to California students and businesses.

I look forward to working with you and the Committee to address the challenges facing California. With your support, the community college system will make a defining difference in the social and economic success of this great state.

Sincerely,

Tom

Thomas J. Nussbaum
Chancellor

cc: Members, Committee on Jobs, Economic Development, and the Economy
Members, Board of Governors

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STATEMENT OF THE CALIFORNIA COMMUNITY COLLEGES

Submitted to the Honorable Sarah Reyes, Chair, and Members of the Assembly Committee on Jobs, Economic Development and the Economy for the Record of the Public Hearing on the State of the California Economy, November 8, 2001

On behalf of the Board of Governors and the 108 colleges in our system, I want to assure the Committee on Jobs, Economic Development and the Economy that the California Community Colleges stand ready once again to help revive the California economy.

The California Community Colleges system, enrolling more than 2.5 million students each year, is the state's largest workforce provider. Our degree and certificate programs in more than 175 fields provide Californians a vast array of occupational choices. We see it as our business to respond to the changing needs of California's economy, continually modernizing our programs to accommodate new ways of operating within existing industries and developing new programs as they are needed to enable emerging industries to grow.

California entered the recession of the early 1990's with an economy dominated by defense, aerospace, and manufacturing and emerged with one centered on high tech, international trade, entertainment, tourism, and professional services. The California Community Colleges have trained literally millions of people to enter and staff those industries. Today, programs in biotechnology, computer technology, media arts and technologies, engineering, the health professions, and the service industries are in high demand at our colleges all over the state.

The California Community Colleges are playing another critical role in positioning the California economy to rebound by raising the level of computational, language, and learning skills of the state's workforce. The acquisition of specific skills to perform a specific job in a specific industry is no longer sufficient to ensure job security and the potential for advancement. With the dramatic quickening of the pace at which job skills become obsolete, the ability to reason, adapt, and contribute to change have become the most valuable and sought after employment skills of all. We offer these skills to those who come to us to train for their first careers, those who return to position themselves to move into new careers, and at worksites all over the state to help employers develop and motivate their incumbent workers.

Through Industry-Driven Regional Collaboratives and other initiatives of the California Community Colleges Economic Development Network (Ed>Net), community colleges are uniquely positioned to be responsive to changing industry needs. As long as we are provided the resources to keep our programs vibrant and to accommodate anticipated growth, we can assure California and its industry that our graduates will be ready to meet the challenges of a changing economy.

Submitted by Thomas J. Nussbaum, Chancellor

CALIFORNIA
ASSOCIATION FOR LOCAL
ECONOMIC DEVELOPMENT

550 Bercut Drive, Suite G ❖ Sacramento, CA 95814
Phone: (916) 448-8252 ❖ Fax: (916) 448-3811
website: www.caled.org

November 7, 2001

To: Governor /Legislature
State and Local Policy Makers

Re: "Jobs Now": An Action Plan for California's Future

Consumer confidence can and will be buoyed by actions taken by the federal, state, and local governments, even if the actions taken do not have an immediate impact. Any economic stimulus will not show results for at least 18 months after it takes affect, but consumers will show more confidence if their leadership demonstrates effort and confidence in response to the economic issues at hand. The current downturn in California's economy should not only be viewed as a time for short term solutions but must also be seen as an opportunity to reinvent state economic development policy to better reflect long-term economic initiatives for California.

Managing an economic crisis by "investing" additional resources along with leveraging existing resources is a must. In the business world it is a known fact that you must invest money to make money. The long-term economic future of the state depends upon a state/local partnership of a targeted economic development stimulus package. Cutting State/Local budgets should not be the entire strategy. A focus must be placed on what actions and strategies we can enlist that will impact the economy in the short term for the benefit of the long term.

The Governor recently initiated an economic stimulus program called *"Partnering for California's Future."* The California Association for Local Economic Development is pleased to be able to present to you our partnership program that envisions a series of solutions and initiatives that can be implemented to help California not only through the current economic downturn but also to help protect against and be ready for future economic down turns.

Sincerely,

Wayne Schell
CALED President/CEO

development boards and local economic development councils;

- Provide speaker resources for local annual economic development annual events;
- Use TeamCalifornia as a sounding board for new ideas and opportunities to support local economic development;
- Fight for funding resources to support regional economic development corporation programs;
- Act as intermediary/ombudsperson on local economic development issues with other state agencies;
- Conduct regional roundtables and input forums through CALED chapters;
- Utilize local economic developers to brief and train Agency staff on local programs and activities.

Attached is an updated version of our 1995 White Paper *Building Economically Competitive Communities*. We sincerely hope you will view this input from CALED as a way for the Davis Administration to put its mark on the reinventing of state and local economic development to better fit a 21st Century economy. We wish you the best for your administration of the Trade and Commerce Agency.

Sincerely,

Bill Carney, Chair

"Jobs Now": An Action Plan for California's Future

November 2001

The economy needs help now!! California's economic development professionals are recommending these actions to help return our economy to its traditional vibrant condition.

The following include a mix of actions that leverage existing programs and funds, push for immediate administrative actions, as well as includes a selective investment of new state funds in achieving JOBS NOW.

Action: Call a Special Session of the Legislature to Address California's Economic Challenges

Business and consumer confidence will be enhanced by the State assuming a strong leadership position and taking specific actions to create, and quickly implement, a **"Jobs Now"** Action Plan

Action: Bolster Consumer Confidence By Publicizing California's Many Current Economic Successes

We need a (state/national/international) media outreach strategy with a multitude of positive stories and initiatives. The economy is not "dead." Many communities are still reporting continued job growth. A media strategy aimed solely at tourism advertising is limited to one industry and is not enough to restore people's confidence to spend. We need to develop positive statewide messages and sound bites on current business strengths, retention, and expansion, emphasizing the importance of California business to the State's economy.

The State should immediately allocate $10 million to conduct an ongoing media marketing and promotions campaign, encouraging business attraction, expansion, and retention in California. The economic development community, through the California Association for Local Economic Development, is positioned to implement this strategy using its existing Power of California program. California needs a substantial promotional vehicle to carry the message of business opportunity—as it currently exists and as it will be strengthened by implementations of the Governor's comprehensive economic enhancements.

Action: Leverage Local Economic Development Successes

California's businesses and its economy need help now. Many small businesses, in particular, are in shock over recent economic and political events. Although help is being considered on many fronts, most proposed programs are on timelines that may be too long to adequately stave off more dire situations.

- **Create the Local Economic Assistance and Development program (LEAD).**

  The LEAD approach would go straight to the local level where most businesses are making their decisions and living with their problems. Turn to the regional economic development corporations as the point of contact and to the local economic development professionals for guidance and service delivery. Give them a relatively small amount of funding to leverage immediate service delivery and even more resources.

The LEAD program would provide flexible funding for local job preservation and creation efforts, relying on the creativity of our development professionals, communities, and businesses to stretch limited resources and uncover new economic opportunities. By modifying the legislation, procedures, forms, and processes used in a recently successful job creation and investment program, the State can quickly direct resources to where they can do the most good. Nine million ($9,000,000) should be allocated for a two-year program, with each county receiving a minimum of $75,000 per year. The remainder of the allocation could be distributed based on the same formula used successfully in the Job Creation Investment Fund program.

Action: Strengthen the Economy by Addressing Economic Inequities

The State should readdress issues that could dampen economic recovery or will have significant negative impacts upon California's economy. Policy that may have seemed sound in a strong expanding economy could cause major dislocations for weaker and more vulnerable businesses.

- **Create Prevailing Wage Regions for parts of California that are not economically equivalent or affiliated with the Greater Bay Area or Greater Southern California regions.**

- **Reduce the cost of Workers' Compensation.**

  Over the past few years, these costs have been creeping back up. The Workers' Compensation system is basically a huge tax on business in terms of a percent of payroll. The current system takes away from California's competitiveness with other states.

- **Address local government finance issues.**

  Local government finance is a mess and detracts from community competitiveness.

Action: Stimulate Job Creation Through Targeted Business Support

These actions are designed to encourage enterprise development in targeted areas. California needs a concentrated focus that will help our manufacturers compete in today's markets. By helping companies cope with changing market conditions and maintain their competitiveness, we can preserve California jobs. It is particularly important to stimulate job creation through our key innovation sectors. One approach to address these issues is to expand the availability of funding through use of the State's bonding authority. The recommended actions use existing programs and leverage outside funding through selected new efforts.

- **Implement a Bond for Jobs.**

  The State Economic Development Finance Authority would be responsible for managing the Bond for Jobs program, as well as acting as a conduit for leveraging investments from community reinvestment dollars (banks), PERS, STERS, and the State Treasurer. Specific program components could include:

  - Using interest from the program to support local economic development networks and programs that will develop stimulus projects.
  - Leveraging a secondary market that will put over $100 million back into California's economy by re-capitalizing local revolving loan funds.
  - Considering a new direct loan program, loan guarantees, and loan-to-loan programs
  - Expanding the use of letters of credit, enhancements, linked deposits, and insurance incentives
  - Encouraging SBA participation, i.e., to purchase SBA-guaranteed first trust deeds or the non-guaran-

teed portion of SBA loans or to guarantee machinery, equipment, and working capital.
- Developing new international trade export financing
- Establishing targeted economic development infrastructure grants and loans

- **Allow targeted businesses to immediately expense their capital investments (2- to 3-year program).**

  Rather than use any kind of depreciation schedule or expensing depreciation over the life of the equipment, an immediate benefit would provide new incentives for business to invest now.

- **Strengthen the Targeted Manufacturer's Investment Credit**

  Add wholesale distribution (logistics), material-handling equipment, energy-related, back office (financing, real estate, and insurance) as covered businesses.

- **Expand the allocation for the Regional Technology Alliance Programs to assist targeted technology companies.**

- **Restore funding to California's Manufacturing Technology Centers to provide technical assistance to struggling companies.**

- **Create a Sustainable Infrastructure Fund.**

  Designate $150 million of lottery proceeds to create a sustainable loan fund to finance infrastructure projects for distressed areas and rural communities. Interest earnings from the loans will be used to support local economic development efforts to identify and support these projects. The program could be modeled after AB31—The Central Valley Infrastructure fund.

- **Retain and expand welfare-to-work incentive fund program to support innovative job creation community efforts.**

- **Allow companies to take a tax credit for their support of regional economic development organizations to help attract private investment in local economic development.**

Action: Support Job Creation Through Administrative and Implementation Procedures

The State can have significant impacts on the economy by becoming more efficient and "user-friendly" in response to extraordinary times. By taking a fresh look at the intention of existing programs and the goals of the legislation that created them, State agencies could become re-grounded in their direction and break down barriers that sometimes separate intent from effective implementation. For example:

- **Delay the implementation of SB 975 (prevailing wage law).**

  This bill, chaptered this year, says that any time a "public subsidy," i.e. local assistance in the form of tax waivers, rebates, credits, or any other public assistance is given, prevailing wages must be paid to all contractors. The law basically negates the benefits of many state-offered assistance programs, such as Enterprise Zones, Manufacturer's Investment Tax Credits, as well as many local programs, such as the use of Redevelopment Agency benefits and personal property tax rebates.

➢ **Leverage credit financing.**

Using a "market-driven" approach, the State could provide interim low-cost assistance with credit enhancements that would enable local governments to borrow in the market on their own.

Keeping pace with the demand for regional and local infrastructure is a major challenge for job creation efforts. Rather than assume that the State should make direct appropriations to fund the California Infrastructure and Economic Development Bank, it is possible to develop funding mechanisms that would leverage existing state assets, thereby allowing local governments affordable access to credit markets.

For example, many communities already have land zoned for industrial development, but the cost of extending water, sewer, and roads is prohibitive for both individual businesses and the local government. Leverage credit financing could help meet this need. It is estimated that the leverage on such an approach would be at least 10 private dollars to every public dollar, with the job creation ratio of one job for every $25,000 - $50,000 of public/private investment.

➢ **Increase the Economic Development Allocation within the Industrial Development Bond Fund Program and Streamline the Application Process**

- Shorten Industrial Development bond and Infrastructure Bank review periods and cycles.
- Reallocate Industrial Development Bond funds, putting more emphasis on economic development.
- Simplify the Industrial Development Bond Process.

➢ **Advocate that the Public Utilities Commission restore and enhance Economic Development dollars into rate-payer cases for all California utilities.**

➢ **Set up a procedure to waive various state program requirements and extend administrative deadlines for projects which create jobs in targeted areas.**

➢ **Establish a Rural Job Creation Strike Force.**

This would be a talent pool of public and private 'business assistance experts"—that could be rapidly deployed on an as-needed basis to provide financial and technical expertise that would normally be unaffordable to a rural community. An integral objective would be to build and retain a long-term local capacity to solve local problems, without growing the state bureaucracy.

➢ **Streamline the California Infrastructure and Economic Development Bank application and review process.**

Establish flexible repayment and technical assistance programs that address the difficulties of finding immediate sources of repayment for loans and/or bonds. The recently approved "fast track" process set up to encourage power plant construction should serve as an example.

➢ **Immediately implement SB 661 (Alarcon) stimulating a secondary market for existing revolving loan funds.**

➢ **Activate and expand the Rural Investment Tax Exemption.**

Action: Stimulate Job Creation Through Effective Use of Workforce Development Funds

Recent State actions have brought economic development and workforce professionals and their programs into new partnerships. California should build on these new true collaborations by adding flexibility and refocusing funding for this process.

- **Support funding for the Job Creation Investment Fund Component of the State's welfare reform program using Welfare-to-Work funding.**

- **Support and expand the simplification and flexibility of the Employment Training Panel Program.**
  - Significantly simplify the approval process for Employment Training Panel projects by allowing staff to approve contracts up to $500,000.
  - Create the "ETP Express" program—a menu of standard training curriculums and standard contracts under ETP so companies using these options can apply and be approved quickly. Guarantee that a company meeting the standard qualification criteria can have an approved contract and begin training 21 days or less from the date they are deemed qualified to participate in the program.
  - Create a formal set-aside of marketing and implementation funds for regional economic development organizations that are willing and qualified to directly promote and fund training contracts for local business.

- **Immediately distribute existing workforce funds (i.e., the 15% Governor's Discretionary Funds and Rapid Response Funds.)**

- **Actively work with Federal Department of Labor to suspend performance standards allowing local Workforce Investment Board to serve higher wage dislocated workers.**

- **Require that any new emergency Federal workforce funds coming to California be distributed to local areas within 30 days of receipt.**

Action: Implement a State Competitiveness Strategic Plan

In addition to the **Jobs Now** program, California should immediately develop long-term strategies for its continued economic competitiveness as outlined in the soon to be released **Economic Developers' Jobs Tomorrow** program

CALED BOARD 2001-2002

CALED BACKGROUND

CALED was organized in 1980 by a "handful" of state, local and federal economic developers to provide a forum for building a network of local economic development organizations in California. The "handful" of economic developers amounted to under 25 people in the whole state, representing about 10 organizations. In fact, there were so few economic developers at the time that it was difficult to find enough people to make up a 25 member board of directors for CALED. Leadership and resources for creating CALED was provided by the State Department of Economic and Business Development, Office of Local Development.

Today in CALED has over 950 members of which there are over 300 "full time" economic development organizations, the majority of who were established since 1990.

CALED MISSION STATEMENT

CALED is the premier statewide professional economic development membership organization dedicated to advancing its members' ability to achieve excellence in delivering economic development services to their communities and business clients.

CALED
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Kahl/Pownall Companies
KAHL POWNALL ADVOCATES

November 8, 2001

Assemblywoman Sarah Reyes
Chair, Committee on Jobs, Economic Development
and the Economy
State Capitol
PO Box 942849
Sacramento, CA 94249

Re: Written Testimony for Today's Hearing

Dear Ms. Reyes and Members:

On behalf of our client Hertz Corporation, we respectfully submit its comments on the business of vehicle rental and the California economy.

Sincerely,

Frederick M. Pownall

Enclosure

Research Consultants & Advocates
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Sacramento, California 95814
TEL 916/448-2162 · FAX 916/448-0577

November 8, 2001

California Legislature – State Assembly
Committee on Jobs, Economic Development and the Economy
Public Hearing on the State of the California Economy
Submitted by Richard D. Broome
Vice President, Corporate Affairs
The Hertz Corporation

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Overall, it is our experience that tourist travel has recovered more quickly than business travel. This may be due to the price incentives offered by the airlines, and supported by price reductions for hotels and rental cars, and a sense that some immediate steps have been taken to improve security. However, the slower recovery of business travel is the leading indicator that corporations, concerned about their profitability and short term prospects, are restricting travel to control costs. At this point, most businesses do not have policies specifically restricting domestic travel due to safety concerns; rather it is economic factors that are driving corporate travel decisions. It is for this reason, primarily, as well as an analysis of leading economic indicators, which demonstrates to us that overall economic issues are having the greatest effect on car rental and other tourist-related businesses.

It is unclear what the future holds for the car rental business in California and nationally. There is no sign from our reservation or actual rental data to indicate that business will be restored to pre-September 11 or Year 2000 levels in the foreseeable future. We will continue to help attract business in the upcoming holiday season by announcing this week a Holiday Rates program that should help stimulate demand for the November 20-24 and December 20-25 periods. Overall, it is possible that we will not see a full recovery before the summer of 2002 and that is assuming an improved economy and a full restoration of the public's confidence in air travel safety.

As a result, Hertz has implemented cost measures, including, regretfully, staff reductions and lowered fleet levels. The staff reductions amount to less than 10% of our U.S. car rental employees, and we have reduced fleet by turning back vehicles earlier than anticipated and delaying the fulfillment of new vehicle orders. We have not yet, at this point, cancelled any vehicle orders. Unlike the airlines or hotels, car rental companies have an advantage of being able to reduce, over time, their largest fixed cost – vehicles – and more easily adjust to mid and longer term drops in rental demand.

It is our expectation that the travel industry will continue to take steps to stimulate demand, including appropriate pricing strategies and publicity. However, it is clear to us at Hertz that over the long term the public's confidence in air travel safety and the economy will be the linchpins to a full recovery in the travel industry. In these areas, the government can play an important role, in both small and large ways, to create the conditions for improvement and take steps that can help travel businesses operate more efficiently.

We do not believe that means that the federal government should be prepared to bailout the car rental industry. While some in our business advocate a car rental bailout package, we believe such an effort inevitably takes away taxpayer money from the more important needs to improve security, fight terrorism and help improve the economy. Relief for our business should come in the form of legislation and regulation that addresses these broader concerns, as that is what it will take to get Americans flying, staying in hotels and renting cars. More focused relief should come in the form of law changes that enable us to run businesses more efficiently, which will not only benefit the companies, but also our customers.

In fact, the California legislature and Governor Davis approved two law changes this year that will help car rental companies and their customers. The first bill, AB 491, enables new car rental facilities to be built at over-crowded airports with a modest user fee on renters. These so-called consolidated facilities can have many advantages by reducing over-crowding on airport roads, thereby improving security, reducing car emissions near terminals and improving the efficient movement of human and vehicle traffic at airports. The law also permits a modest price increase for the collision damage waiver product for larger vehicles, reflecting the increased cost of repairs, while at the same time reducing renters' exposure to liability for stolen rental vehicles and for vehicles that are out of service after being damaged. These changes will have a long term, beneficial effect for both car rental companies and renters.

AB 1258 addressed a more immediate concern. With travelers stranded on September 11 renting an unprecedented number of vehicles for one-way travel, car rental companies saw their fleets dislocated as cars were driven all over the country. Thousands of California-plated cars were driven out of state, many of them to the east coast, and thousands of foreign-plated cars were driven here by California residents who wanted to get home from airports all over the country.

This situation, while problematic for car rental companies for a number of reasons, is particularly acute in California where the law prohibits the in-state rental of foreign-plated vehicles. With huge numbers of our California rental fleet spread out across the continent, the only way we could meet customer demand, even though demand was off as stated above, was to rent foreign-plated cars.

It was fortunate that this situation unfolded while the legislature was still in session. During the two days leading up to adjournment, AB 1258 was crafted permitting car rental companies to rent foreign-plated vehicles until the end of the year. Implementation of the law was dependent on findings by the Department of Motor Vehicles and the Air Resources Board that the need existed and environmental quality would not be impaired, respectively. Governor Davis signed the bill into law and the DMV and Air Resources Board made their findings. The new law will enable Hertz to meet customer demand through yearend, including the important upcoming holiday periods, and the law is an example of government/business partnership that works to the benefit of all Californians and visitors to the state.

Looking ahead, it is clear that much of the government work to improve air travel safety, fight terrorism and stimulate the economy will happen in Washington, D.C. Nevertheless, the state government in Sacramento undoubtedly has an important role to play in all of these areas. With respect to the travel industry, and the car rental business specifically, we intend to approach the Davis Administration and legislative leaders with proposals that can reduce regulatory burdens without sacrificing consumer or environmental protections. Such proposals would be advanced with the express purpose of allowing car rental companies to operate more efficiently in California, thereby reducing the cost of our product and services to our customers. These changes would also help to improve our profitability, which has been significantly impacted by the September 11 attacks and the slowed U.S. economy.

We very much appreciate the legislature's willingness to listen to our concerns and perspective. We look forward to working with government leaders in Sacramento to help restore confidence in travel and the economy, and to help deliver an even more cost effective product to car rental customers in California.

Smurfit-Stone Container Corporation

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November 6, 2001

Honorable Sarah Reyes, Chair
Assembly Committee on Jobs, Economic Development
and the Economy
Sacramento, CA 95815

RE: Exemption from Sales Tax for Manufacturing and Processing Capital Equipment

Dear Ms. Reyes and Committee Members:

Smurfit-Stone Container Corporation is an integrated paper company with 15 facilities in California manufacturing paper products with recycled content. We also have seven recycling/processing facilities (Smurfit-Stone Recycling Company) that collect recovered materials and process them for feedstock to end-users such as our three California mills.

As a national company, we not only face competition from other paper manufacturers, but also within geographical areas of our company itself. When weighing whether to expand, or keep open, a facility which would include replacement or additional capital equipment purchases, factors such as sales tax, energy costs, labor costs, etc. are taken into account and weighed against other plants within the company for overall viability.

Below is an example of what a General Manager at one of our California location is currently facing:

"Due to the high cost of labor in California (140% more than Midwest / East for Printers), it is imperative that we be the low cost producer. We just recently lost our second largest account as a result of factors mentioned below.

Our only hope to remain competitive is to be very productive, with low waste, and have state-of-the-art equipment. We have a chance to save our second largest account if we can retool ourselves to meet their needs. We have the following problems:

- *California sales tax on capital equipment - The purchase of equipment to accomplish this task will cost approximately $12,000,000. The sales tax on that purchase will be approximately $900,000. Our sister plant in the Midwest will not have that expense. As a result our equipment will cost 8% more than the alternative of consolidating.*

- *Electricity cost for the new equipment will cost $750,000 more than the current electric tariff rate which is an additional $750,000 more than what we paid in 2000 for electricity for a total of $1,500,000. Our utility bill will be approximately $900,000 over our Midwestern plant on an ongoing basis.*

- *MIC tax credits are not usable by our company. The key is cash flow. The cost problems along with smaller West coast volume overwhelm the freight cost to ship from the Midwest*

These issues make it very difficult to survive in this state! However, a sales tax exemption on capital equipment would help with the numbers when justifying capital expenditures and ultimately keep 250+ individuals employed in this facility."

This is only one example of how a sales tax exemption of on manufacturing capital equipment would aid Smurfit-Stone and keep Californians employed.

Smurfit-Stone also supports the inclusion of processing capital equipment for sales tax relief. While recyclers do not have the large monetary capital equipment charges that might be associated with larger manufacturing plants such as our example above, the principal is the same – this is one cost that is taken into account when justifying the continued existence of a facility. A material recovery processing plant (recycling plant) converts recovered materials into a new product or a different form that is then used as feedstock for another product. Our recycling facilities collect, process and ultimately provide quality feedstock for mills in the Western Region. These types of recycling plants are also a major contributor to the State efficiently and economically managing its wastes, and in reaching its ultimate 50% recovery goal.

Although, I was unable to attend the November 8th hearings, I hope the above examples will aid in your deliberation of this issue. This is an important issue to Smurfit-Stone's operations in California and our ability to justify the expansion or retention of California facilities and our ability to continue jobs in this State.

Please let me know if you have any questions, and I look forward to the continued discussion of this issue.

Sincerely,

Jarrell

Karen L. Jarrell, Manager
Legislative Affairs – Western Region

Pacific Bell
1215 K Street, Suite 2200
Sacramento, California 95814
Phone (916) 341-3400

Melba Muscarolas
President
State Relations

PACIFIC BELL

November 8, 2001

The Honorable Sarah Reyes, Chair
Committee on Jobs, Economic Development and the Economy
State Capitol, Room 4112
Sacramento, CA 95814

Dear Assemblymember Reyes:

Pacific Bell would like to thank you for spearheading the November 8, 2001, meeting of the Committee on Jobs, Economic Development and the Economy. Your proactive effort to explore ways in which to strengthen the economy is very encouraging and we commend you for your hard work.

Pacific Bell, like most other companies, is feeling the pinch in these tighter economic times. What concerns us the most, however, is that the growth of our company and the telecommunications industry as a whole is not only stymied by the economic downturn, but is also hampered by the actions of the California Public Utilities Commission.

For example, the CPUC recently announced its intention to revisit our price-cap regulation plan and potentially revert Pacific Bell to rate-of-return regulation, an outdated method that the state rejected more than ten years ago. Our current price-cap regulation is working and is a system that protects customers while also providing incentives for companies to innovate and invest. Reverting back to the old method would curtail competition in the industry, resulting in less investment and innovation—the backbone to a healthy economy.

To address the challenges facing our state's economy, California must look at all the contributing factors that impact business—the regulatory environment is one of these factors. In times like these, we can't afford to turn back the clock and take a risk on harming the economy further.

Sincerely,

Melba Muscarolas

cc: Members, Committee on Jobs, Economic Development and the Economy

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November 5, 2001

The Honorable Sarah Reyes
Chairperson
Assembly Committee on Jobs, Economic Development and the Economy
State Capitol
P.O. Box 94849
Sacramento, CA 94249-0094

Dear Assemblywoman Reyes:

This is in response to the message to Chuck Halnan from Pedro Villegas of your office. In his message, several questions are raised about the proposal that I described in testimony before your Committee at a hearing in San Jose on October 11th.

The proposal would complement the existing Manufacturers Investment Credit (the MIC) by adding a 6% sales tax exemption (equal to the state's share of sales tax) for future acquisitions of productive assets, including manufacturing equipment and also research equipment (not only that of manufacturers currently eligible for the MIC, but all research equipment acquired by any business). The sales tax exemption for research assets would also complement the existing research income tax credit, which applies to labor and materials employed in research, but not equipment.

Among the advantages of this sales tax exemption proposal is that, unlike the MIC (which is dependent upon corporate income tax liability against which it can be offset), the exemption would provide an immediate stimulus for added investments in manufacturing and R & D in California by all businesses; not only those currently profitable, but also those currently suffering losses. It also offers a unique stimulus that only the state can provide – the federal package now being developed in Washington D.C. cannot directly reduce sales taxes (only the states collect such taxes). Expressed differently, this would offer an additional stimulus above and beyond any enacted by federal law, and would help direct added manufacturing and research investments to California. The new products and technology emanating from the added productive assets will, in turn, lead to a faster return to economic growth in the state. Intel's senior management firmly believes that it will require new technology and products to emerge from the down economy faster and stronger.

This proposal will, by the time you receive this response, have also been aired at the Governor's Economic Summit, held November 2, at which time trade groups, such as the California Manufacturers and Technology Association (CMTA), will have offered their favorable endorsements. In this regard, given the growing support for the sales tax proposal, Jack Stewart of CMTA plans to appear at the November 8th hearing on the state's response to the current condition of the California economy to address this topic. Jack will appear in lieu of Intel (representing the interests of only a single company).

Specific questions posed include:

1. How does the proposal "pencil out"? Would it pay for itself?

The answer to this question depends upon the standard by which the determination of cost/benefit is made. Under typical static revenue estimating, it would be reasonable to assume that this proposal could cost as much as the MIC, which in the last available tax expenditure list had an annual cost of $381M. This, of course, is not the precise cost, because the MIC by its nature, as an investment tax credit, applies to some items on which sales tax would not be paid – also, the proposed sales tax exemption would apply to a broader scope of research assets than the MIC. Nonetheless, this is a good "ballpark" number, until a more specific estimate is obtained. Additionally, the last year analyzed for tax expenditure purposes is one in which the economy was much more vigorous, and thus, the cost of the MIC was higher, given the level of equipment purchases, than would likely be the sales tax exemption as businesses now find capital budgets constrained by the recession. Nonetheless, taking the static number as is, would indicate that the $381M, from one perspective, is an additional cost to the state; however, from another point of view, it would also provide the same dollar amount as a stimulus to the CA economy producing new investments equaling well over fifteen times that dollar figure (and this takes into account none of the indirect effects from the investments, such as job retention, service sector stimulus, etc.).

When viewed instead from a dynamic viewpoint, the determination of whether the provision pays for itself is much different. The MIC was originally proposed as a 6% sales tax exemption, and emerged later in the legislative process instead as an investment credit - an analysis (performed by AUS Consultants and funded by a California utility company) of the proposed 6% exemption concluded that the cost to the state would be exceeded by the benefits within four years, and over a ten-year period, benefits to the state would exceed the cost by $3.1B. The analysis, in addition, concluded that the exemption would increase Gross State Output by $1B dollars in the first year, and 5.5% over the long-term. Furthermore, the study predicted at least a 14.9% increase in new equipment purchases due to the exemption. The Executive Summary of this analysis is attached for your information (and a full copy, including the balance of 34 additional pages, will be provided at your request).

2. What is the federal government discussing to provide relief/stimulus to manufacturers?

The federal government is still developing its stimulus package. The House has passed its bill, and the Senate is expected to engage in a Finance Committee mark-up soon, after which the Senate must pass its bill, and then a conference committee would resolve any differences between the House and Senate versions. The bill would then be ready for the President's signature. This process should be completed before year-end.

Provisions currently under consideration that could affect manufacturers, among other taxpayers, include an accelerated depreciation first-year "bonus", corporate Alternative Minimum Tax (AMT) repeal, and a three-year extension of the net operating loss (NOL) carry-back period. Accelerated depreciation could be said to positively affect decisions to invest in new productive assets, but it will greatly depend upon the "bonus" amount (now proposed to be from 10% to 30% in the first year). In any event, as stated above, the federal legislation will not provide any stimulus directly through sales tax relief (sales taxes are not federal taxes). The sales tax exemption, therefore, would complement any federal depreciation change and could help assure that new productive assets could be favorably added in California relative to other states. The two other federal items being discussed – AMT repeal and NOL carry-back – would have no direct bearing on the addition of new productive assets.

3. What would be the expected result in terms of job creation and other indicators of economic development and activity?

The MIC was an antidote for the recession of the early nineties, and over the last eight years helped add well over the 100,000 new manufacturing jobs in the state anticipated by the legislation.. Each downturn has its own unique characteristics (and this one especially so, given the unprecedented events of September 11th), but the proposed sales tax exemption could produce similar employment effects long-term, and help retain California employment in the short-term. Interestingly, the analysis, discussed above, based upon its stated assumptions, concluded, in part, that keeping the sales tax in effect for manufacturers deprives Californians, on average, of 281,000 new jobs per year.

4. What qualitative and quantitative differences are there between a sales tax exemption for manufacturing research property and all research property?

As noted above, currently, the MIC only applies to research property of manufacturers (however, I have seen no break-out of how much of the $381M MIC annual cost is with respect to research property of manufacturers versus manufacturing assets). For businesses other than manufacturers, there is no current tax provision to aid such research investments. It is clear other businesses perform research and need sophisticated equipment to do so, but because there is no current provision applicable to such R & D property, it is unknown to what degree such current equipment is in place, nor the amount that would be added, if provided a 6% stimulus. It is, however, clear that Intel not only responded to the MIC's passage in 1993 by adding over a half-billion dollar new manufacturing investment in Santa Clara, but also by significantly expanding our research campus in Folsom. Non-manufacturers performing research could reasonably be expected to similarly respond to the proposed sales tax stimulus for research investments. Notably, many such non-manufacturing companies could be currently experiencing losses, and the proposed sales tax exemption would help them access increased dollars available for immediate use in such R & D investments.

5. Are there any indications local entities would be willing to provide an exemption for these properties as well?

As proposed, the legislation would enable, but in no way mandate, the participation of local entities with respect to their shares of sales tax. In Intel's experience, in other contexts, local entities may wish to provide an extra stimulus for the deployment of additional productive assets in their locations, and accordingly, provide an exemption of their sales tax shares; however, that determination would be left to those entities and their elected or administrative officials. We know of no current specific expressed interest of local entities to participate, but believe in the event it could occur in the future, this legislation should contemplate, and if necessary, enable this result (rather than having to amend the legislation later to permit this result).

Your continuing interest in this topic is greatly appreciated. If you have further questions, please contact Ray Rossi (408-765-1193 or ray.g.rossi @intel.com).

Sincerely,

Ray Rossi

Ray Rossi
Director, External Tax Affairs
Intel Corporation

Impact for the California Economy of an Exemption for the Manufacturing Sector from the 6 Percent Sales Tax on Machinery and Equipment Spending

Prepared for:

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Prepared by:

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August 1993

Impact for the California Economy of an Exemption for the Manufacturing Sector from the Sales and Use Tax on Machinery and Equipment Spending

August 1993

Executive Summary

The purpose of this study is to estimate the benefits that would be realized by the California economy if the manufacturing sector was granted an exemption from the existing sales and use tax on machinery and equipment spending. The exemption analyzed in this study was based on *AB 1313. Sales and use taxes: exemptions: manufacturers.*

Manufacturers in California currently pay a 6 percent state sales tax on purchases of machinery and equipment. AB 1313 would exempt manufacturers from this sales and use tax on "... tangible personal property used by a qualified person primarily in any stage of the manufacturing, processing, refining of property". This legislation would essentially provide a 6 percent reduction in the effective purchase price of machinery and equipment used in research and development, testing, and production. According to the U.S. Department of Commerce Annual Survey of Manufacturers, new capital expenditures for machinery and equipment in California totaled nearly $7.3 billion in 1991.

Elimination of the sales and use tax on manufacturing investment produces a significant incentive for new spending on machinery and equipment. Eliminating the sales tax substantially improves the after-tax rate of return for a investment in new machinery and equipment. Assuming a given revenue stream that would be generated as a result of the investment, the 6 percent reduction in the cost of machinery and equipment that would be provided by an exemption from the sales tax provides a 29 percent increase in the after-tax rate of return.

The opportunity for higher after-tax rates of return will stimulate investment. Based on a review of the literature on investment response to changes in taxes, the investment elasticity with respect to the after-tax rate of return is estimated to be 0.51. This elasticity indicates that a 10 percent increase in the after-tax rate of return for an investment would result in a 5.1 percent increase in new spending on machinery and equipment. Applying this elasticity to the 29 percent increase in after-tax rates of return caused by eliminating the 6 percent sales and use tax would result in a 14.9 percent increase in spending on new machinery and equipment.

This spending on new machinery and equipment would increase Gross State Output, create new jobs throughout the California economy, generate additional household income, and ultimately increase net tax revenue for California.

- **An exemption from the sales tax for manufacturers will result in increased spending for new machinery and equipment in California.**

  - The increase in the after-tax rate of return for investment provided by the elimination of the 6 percent sales tax would result in a 14.9 percent increase in spending for new machinery and equipment over baseline levels where the baseline is predicated on a continuation of the sales tax.

  - Assuming the exemption becomes effective on July 1, 1994, total spending for new machinery and equipment in California would increase from $342 million (1993 dollars) in 1994 to just over $1 billion (1993 dollars) by 2004. This estimate assumes that 50 percent of the value of purchases of new machinery and equipment would be supplied by California businesses.

- **Increased spending on new machinery and equipment would stimulate investment in structures and would increase gross output through an expansion of capital stock.**

  - Although spending on construction of most structures is not included in the sales tax exemption provided by AB 1313, the increase in machinery and equipment investment would result in a gain in construction spending in California of $96 million (1993 dollars) in 1994 which would rise to $285 million (1993 dollars) by 2004.

  - Gross output in the California economy will increase as spending on new machinery and equipment expands capital stock and thereby the productive capacity of the economy. In 1995, the first full year after the exemption is granted, almost $2.1 billion (1993 dollars) of additional output will result from the increased productive capacity. By 2004, the increased capital stock would generate $32.7 billion (1993 dollars) in additional real output.

- **The expansion in manufacturing output and investment resulting from the sales tax exemption will increase gross output for the entire economy as the dollars spent by manufacturers circulate through all the other sectors of the California economy.**

  - The exemption for manufacturers from the sales tax would cause total Gross State Output to increase by $1 billion (1993) dollars in 1994. This effect will grow dramatically over time as new machinery and equipment enters production and the capital stock expands. By 2004, total Gross State Output would be $77 billion (1993 dollars) higher than if the sales tax were not eliminated. In effect, exempting manufacturers from the sales tax will increase California state output by nearly 5½ percent by 2004.

- **Expanded output will create new jobs for Californians.**

  - The expansion of real output caused by eliminating the sales tax on investment would create 500,000 new jobs for Californians by the year 2004. Job creation will accelerate as output expands. However, between 1994 and 2004, an average of 281,000 new jobs would be created annually as a result of the sales tax exemption.

  - Conversely, keeping the sales tax in effect for manufacturers would deprive Californians, on average, of 281,000 new jobs per year.

- **Increased output and new jobs would create additional real income for Californians.**

  - In 1994, the new spending on machinery and equipment by California manufacturers would cause California household income to increase by $310 million (1993 dollars). By 2004, the additional real household income generated by the sales tax exemption would total $22 billion (1993 dollars).

- **California taxpayers would benefit from eliminating the sales tax on manufacturing investment in machinery and equipment.**

  - Granting an exemption from the sales tax for manufacturers will result in foregone sales tax revenues for the state treasury. However, these lost sales tax revenues would be more than offset by revenue gains resulting from the investment stimulus provided by the exemption.

  - In the initial years of the exemption, the state treasury would lose more revenue than it gains because of the time it takes for new investment to produce large increases in output. However, if the exemption is kept in place, the crossover point would be reached by year-end 1995, and the early period revenue losses would be more than recovered during 1987. By 2004 the sales tax exemption for manufacturers would provide a revenue surplus of $3.1 billion (1993 dollars).