Executive Summary

The gap is growing between California's performance and its golden potential. Since 2003, California has slipped from its position as the world's fifth largest economy to eighth, a dynamic that bodes ill for California's competitiveness and long-term prosperity.

California's people, their ideas and industriousness, and the businesses and jobs they create, are the engine that drives the state's diverse and ever-evolving economy. The state plays two important roles. It should foster a supportive environment by investing in and demanding results from public education, providing infrastructure and creating clear and consistent regulatory and tax structures. And in a more targeted role, the state should provide economic development support to help cities and regions grow existing businesses and industries, retain jobs that could move elsewhere and attract new businesses.

During its study process, the Commission heard substantial criticism about the state's business climate – an issue the Legislature and governor must continue to address. This study, however, focuses more specifically on how the state can better organize and harness the business services it offers, whether infrastructure loans, workforce training assistance, or marketing and permitting assistance, and how it can better work in concert with local and regional economic development efforts.

California's state government needs to nurture the business innovation that creates jobs and sustains a quality of life that has made it the envy of the world. California must do so not just to weather the current downturn, but to ensure that it remains a world-class economy that produces opportunities for its own people as well as those who move here to contribute their talent and energy.

The current economic crisis has made clear that just when the state's programs and services are most needed, they are not delivering their true value, in large part because they are not organized in a way that the businesses and cities can use them – or even find them.

As the state struggles to generate jobs and regain its economic momentum, increased attention has focused on how the state manages and markets its economic development programs since the state disbanded the Technology, Trade and Commerce Agency in 2003. Currently, there is no single location where the state's economic development programs come together. Instead, the state's economic development activities are spread out over several agencies, boards, commissions, allocation committees and financing authorities. More than 10 advisory panels, boards and commissions, with more than 150 combined members from the public and private sectors, provide guidance on how the state should spend millions of dollars on economic and workforce development programs. This fragmentation helps explain why state government lacks a vision or voice for California economic development.

The diffused authority that characterizes the state's collection of economic development activities create numerous problems, including:

- The inability of the state to design and implement a statewide strategy that can facilitate economic growth.
- A void in leadership and accountability that diminishes the state's ability to coordinate activity and shepherd resources, and to evaluate the overall effectiveness of the state's economic development efforts.
- The state's lack of capacity to promote, guide or align delivery of services. The state possesses a large, but largely unknown, toolbox of economic development resources. Resources generally are provided on a piecemeal basis, first-come, first-served.
- The lack of an obvious point of contact in Sacramento for businesses, local economic development organizations or even other state-level actors to learn about and access state economic development programs, or find help to resolve permitting issues or navigating regulations.
- The diminished ability to provide help to businesses and local economic development agencies, or to leverage local, federal and private resources.

The Commission heard repeatedly from the economic development community about the growing need for the state to exert its leadership to guide and focus decision-making about job and business retention, expansion and attraction. As Bill Allen, president and CEO of the Los Angeles County Economic Development Corporation told the Commission: "There will be a global economic recovery. The question is, will California get its fair share of that recovery? As presently organized, staffed, planned and budgeted, I don't believe we will."

What many stakeholders are demanding is not a new state agency. The merit of a centralized approach – reassembling under one roof many of the state's economic development programs – is intuitive and compelling, and one that deserves further discussion and consideration. The Commission is not necessarily opposed to such a move, but building a new agency is not the right answer at this time. The urgency of the current situation requires a more immediate response to engage state leaders to define a strategy for the state's economic growth, then to build an appropriate structure around that vision. As Bruce Stenslie, president and CEO of the Economic Development Collaborative of Ventura County, told the Commission, "Speaking with a single voice does not mean there has to be a single agency." In conversations with Commission staff, Labor and Workforce Development Agency Secretary Victoria Bradshaw also questioned the need to create a centralized state economic development entity. "Where it's located is less important than how it operates," she said.

Governance Has Been Fluid

The state has wrestled with how to collect its economic development activities since 2003, when the Legislature dismantled the Technology, Trade and Commerce Agency following longstanding criticism of the agency's overseas trade offices. The Legislature eliminated the agency's international outreach program, but many other economic development programs survived and were moved into two agencies: Business, Transportation & Housing (BTH), and Labor & Workforce Development (LWD). Other economic development programs can be found in agencies as varied as the California Department of Food & Agriculture and the State Treasurer's Office.

Attempts have been made to bring the top leaders of some of these agencies together to forge a unified strategy, but collaborative efforts have had trouble gaining traction and generating stable leadership. The latest iteration has been the California Economic Development Partnership, established in 2005 by Governor Schwarzenegger as an interagency cabinet team to coordinate economic development efforts across departments. The partnership lacks authority, resources, even a phone number. The partnership has been criticized as adding another layer to a fragmented structure. As of 2010, the state's organizational structure for its economic development effort has not evolved since the trade agency disbanded. Two separate and distinct agencies – Business, Transportation and Housing, and Labor and Workforce Development – cover most of the state's economic development footprint, in an arrangement that at times borders on rivalry. The confusing overlap is no more apparent than in the agencies' nearly identical Web sites for business-growth information: business.ca.gov at the business agency and calbusiness.ca.gov at the labor agency.

Schwarzenegger acknowledged the need for a dominant agency to emerge for economic development planning when he signed AB 1721 in 2007, formalizing the Business, Transportation and Housing Agency as the lead coordinator of the state's economic development activity. Though the Legislature stripped that role from the business agency during the 2008 budget impasse, Governor Schwarzenegger separately placed the Business, Transportation and Housing Agency in charge of economic development. Still, the agency has no statutory authority or funding to lead, and it has been able to assemble only a handful of staff members for this purpose, funded through the budgets of the other departments within the agency, such as the Department of Motor Vehicles, to facilitate these efforts.

The Legislature has deemed the labor agency, through its Economic Strategy Panel, as the appropriate nexus for the state's strategic planning, coordination and evaluation of economic development activities. The Economic Strategy Panel examines trends in regional economies and industry sector growth to guide policy decisions for state and local workforce initiatives. Among its statutory duties, the panel is required to issue a biennial strategic plan for the state's economic development activities and measure the performance of all state policies, programs and tax expenditures intended to stimulate the economy. The panel, however, operates with a staff of two and has not completed those specific tasks, though it has been the subject of repeated legislation in recent years – vetoed by the governor – to undertake a new strategic planning effort. In 2008, Governor Schwarzenegger vetoed AB 1606, which would have centralized the state's economic development programs under the panel. In his veto message, the governor said AB 1606 represented a piecemeal approach when a more comprehensive solution was needed.

This solution, however, has yet to emerge. When testifying before the Commission, the lead economic development official at Business, Transportation and Housing was unable to speak with authority or clarity about the state's vision for economic growth. At a subsequent Commission hearing, a top workforce official from Labor and Workforce Development also had difficulty readily identifying who is in charge of economic development for the state.

Forging Ahead

The story arc of the governance of the state's commerce agency has parallels in other parts of government. In the information technology arena, the 2002 Oracle lobbying scandal prompted the Legislature to dissolve the Department of Information Technology, producing a fragmented information technology strategy with poor results and even less accountability over troubled technology projects.

Unlike the Commission's recommendations for information technology – to centralize technology planning across all agencies and place a strong chief information officer in charge of the effort – the need or desire to rebuild the Technology, Trade and Commerce is not as obvious. In conversations with state and local economic development officials, the implosion of the Technology, Trade and Commerce Agency may have been a fortuitous over-reaction to the overseas trade office controversy. It allowed an informal network of local economic development associations and regional collaborations to emerge and set bottom-up priorities for economic growth. It gave rise to a public-private marketing effort, TeamCalifornia, to fill the void of promoting California products and industries at international trade shows without a large agency budget or staff. The absence of a traditional commerce agency in Sacramento also provided an opportunity to examine other governance models that might better position the state for prosperity as its economy emerges from the recession.

Instead of a traditional, top-down bureaucracy, a more agile entity is needed that can function as a convener and coordinator, not a provider of economic development services. Based on the input from state leaders and local economic development professionals, the essential functions should include:

- Developing a vision for economic growth and a strategic plan that leverages the state's economic development programs with local, regional, federal and private efforts.
- Designating a visible, point-of-contact and liaison for information about business growth opportunities, economic development assistance, and navigating permitting issues and regulations.
- Marketing the state's economic development programs and business opportunities.

To perform these functions, the Commission recommends the immediate creation of a lean, nimble economic development unit within the Governor's Office. This high-level and high-profile office would serve as the visible national and international point of contact for existing businesses, large and small, as well as local, state and federal economic development leaders. It would set policy for the state's economic development activities, integrating them with other state growth and infrastructure priorities.

The Commission heard repeatedly during the course of its study that there is no one agency at the state to call for this type of assistance or leadership. Creating a pipeline to the governor is a first step, through a Governor's Office of Economic Development, simply named to make it obvious to outsiders and insiders that it is the authoritative source for inquiries about business growth opportunities. A well-publicized phone number and a robust Web site are essential to elevating the office and establishing its lead role in economic development. The Business, Transportation and Housing Agency would no longer function as the lead economic development entity, nor would the Labor and Workforce Development Agency. The Economic Development Partnership would no longer be necessary, as its role would be filled by the new Governor's Office of Economic Development. The California Commission for Jobs and Economic Growth also should be disbanded. Moving forward, other economic development panels and advisory groups may prove superfluous or obsolete and should be considered for elimination.

The Governor's Office of Economic Development, by its actions, must establish that it is not an additional bureaucratic layer or a hollow gesture. It must be invested with the imprint and influence of the governor. It must be a credible networking operation, staffed with experienced and capable professionals. It should be opportunistic, serving as an ambassador, match-maker, strike-team and portal that connects businesses and economic development consultants with local, regional, state, federal and private sector resources – be it the coffee-maker manufacturer thinking about leaving the state, a city manager putting an incentive package together to lure an automaker to town, the state legislator whose field office received an inquiry from a business interested in moving to the district, or a small business trying to resolve permit disputes. The state cannot always provide a handout, but it must do a better job with the handoff.

Specifically, the Governor's Office of Economic Development would pull core functions from the California Business Investment Services (CalBIS) and the Economic Strategy Panel (ESP) – entities that currently are tasked with critical roles but organizationally are buried within the state's Labor and Workforce Agency. The office also should partner with and bolster TeamCalifornia's efforts to market California abroad.

CalBIS was lauded during the Commission's study for serving as one of the few entry points for local economic development organizations and businesses seeking state-level assistance. Formed after the demise of the trade agency, CalBIS operates out of Labor and Workforce Development with a small team of five staff members. Though the office provides site-selection services to prospective businesses and economic development consultants, CalBIS has developed a broader reputation in the business community – and within state government – as the go-to liaison to state regulatory agencies and local governments.

CalBIS should form the foundation of a more robust outreach unit that must be included in the Governor's Office of Economic Development. The outreach unit should be organized through a series of action teams, led by a team leader within the Governor's Office of Economic Development and rounded out by representatives from other economic development program areas in existing departments, who can respond to immediate and emerging issues affecting industries and specific companies.

Teams should be designated by the governor and organized to meet specific needs, such as regional industry sectors or innovation clusters or emergency business development following natural disasters. The teams' mission should be to focus expertise and resources to address specific issues. The teams should not carry budget or direct-line authority over state economic development programs, though they should carry the weight of the governor in dealing with other state agencies to pull together incentive packages or job-growth strategies.

The Governor's Office of Economic Development must include a policy arm to articulate how the state government views its role in the economic recovery, to establish priorities and begin developing a long-term strategic plan to execute the governor's vision for economic growth and increased competitiveness. A statewide strategic planning and competitiveness effort must have the full force of the governor behind it in order to engage stakeholders to do the heavy lifting of implementing the plan. The plan must be developed with input from stakeholders across the state – from business, education and labor – and the effort should be developed in partnership with an outside entity, such as the California Association for Local Economic Development (CALED). Without a strategic plan, the state's economic development programs likely will continue to drift, unconnected to and potentially undermining other policy goals.

Strategic Planning for Economic Development

The key elements of a strategic plan for statewide economic development should include:

- A statement of economic goals that recognizes and reflects the state's collection of regional economies.
- A list of key industries in which the state must focus its economic development efforts.
- A prioritized list of proposals for legislation, regulations and administrative reforms necessary to improve the business climate and economy of the state.
- Outcome measures to evaluate the effectiveness of the state's economic development programs and progress on strategic goals.
- Governance strategies to foster job growth and economic development covering all state agencies, offices, boards and commissions that have economic development responsibilities.
- A mechanism to review and update the strategic plan as a living document.

Source: Government Code Section 15570. Also, California Center for Regional Leadership. September 17, 2007. "California Economic Leadership Network." Page 26.

No strategic planning effort is complete without an assessment and evaluation component to ensure that goals and objectives are achieved and on track. Likewise, the strategic plan must be regularly reviewed and updated to reflect the dynamic nature of California's economy. The Governor's Office of Economic Development must engage agencies, the Legislature, the Office of the Inspector General, the Bureau of State Audits and other oversight entities to develop appropriate metrics to evaluate programs for efficiency and effectiveness. Such outcomes can be as varied as job creation, personal income growth, the state's share of patents, unemployment rates or poverty rates. It will be the job of the Governor's Office of Economic Development to develop and define these measures of success.

In the Legislature there remains the difficult task of assessing program performance and encouraging successful programs to flourish, or retooling or eliminating troubled programs. Though the Commission did not examine the performance of individual economic development programs, it recognizes the central role of the Legislature to conduct a thorough review of those programs. The Legislature will need to continually assess the programmatic overlap and weigh the value of the state's numerous economic development boards and advisory committees. The infusion of federal stimulus dollars into job-training programs underscores the need for an aggressive legislative oversight role, building on the work of the Office of the Inspector General, to ensure that both economic and workforce development efforts meet targets to bolster the long-term economic growth of California.

Bi-partisan agreement on an economic action agenda is not expected to come easily. The Commission understands that policy-makers and political leaders hold a range of views on the state's role in economic development and cited this lack of consensus as one possible contributor to the lack of a clearly defined state strategy on economic development.

A first step is to raise the general awareness about the state's toolbox of economic development resources and its diverse economy. The state has many distinct economies and their needs and interaction with each other are every bit as complex as California water policy. Though the nonprofit Water Education Foundation serves as a clearinghouse for policy information, briefings and tours about state water resources, there is no similar entity to advance the Capitol community's understanding of economic development and the state economy. To bridge this knowledge gap, the Governor's Office of Economic Development should coordinate and enlist the help of internal and external sponsors to host forums, workshops and tours to educate policy makers, legislative aides and department staff about key state economic assets, California's regional economies, the state's competitive advantages and what is required to sustain innovation. Potential state partners could include the Economic Strategy Panel, legislative policy committees and the Assembly's Robert M. Hertzberg CAPITOL Institute. External partners could include TeamCalifornia, CALED and the California Chamber of Commerce.

Conclusion

California's size, proven record of innovation and entrepreneurship, premier education research facilities, diversity and talent provide a powerful base for economic development. California's business climate continues, meanwhile, to deteriorate and its reputation suffer. Broader issues of taxation, regulation, education and transportation all factor into improving the perception and reality of California's long-term prosperity. In the short term, however, the state must improve its economic development operations to harness and match California's existing strengths with a long-term economic development strategy. The state government is never going to be – nor should it be – the go-to source for corporate subsidies. But the Commission heard from the stakeholders who do the heavy lifting of selling California to prospective companies, that businesses do want to hear from "the state." They are waiting for an answer.

Recommendations

Recommendation 1: The state must create a high-profile office for economic development.

- ❑ The Governor's Office of Economic Development should bring together some of the critical functions of existing state economic development entities. The office should:
  - ✓ Establish in the Office of the Governor a small coordinating entity, rather than form a new separate agency.
  - ✓ Serve as the visible point of contact for existing and prospective businesses, and economic development leaders at the local, state and federal levels.
  - ✓ Use a well-publicized Web site and phone number.
  - ✓ Pull together experienced and trained economic development professionals to quickly deliver high-quality services.

Recommendation 2: A series of Action Teams must be created within the Governor's Office of Economic Development.

- ❑ CalBIS should be moved from the Labor and Workforce Development Agency to the Governor's Office of Economic Development and serve as the foundation for a more robust outreach unit. The Action Teams should:
  - ✓ Serve as liaisons to other state, local, federal and private efforts, with no program or budget authority.

- ✓ Connect local, regional, federal and private efforts with other state programs.
- ✓ Be structured as the governor deems appropriate to implement the economic development strategic plan. Teams could be designated by region or industry cluster, or formed on an ad hoc basis for special projects of statewide significance or to respond to economic recovery following a natural disaster.
- ✓ Be led by a team leader within the Governor's Office of Economic Development, with other staff pooled from existing departments and program areas based on their expertise, the teams 1) need to respond reactively to businesses interested in expansion or relocation and 2) need to reach out proactively to large and existing businesses, and the economic development community, to monitor local needs, and 3) need to help businesses navigate permitting and regulatory issues.

Recommendation 3: A policy unit must be created within the Governor's Office of Economic Development to develop a statewide vision for economic growth.

- ❑ Transfer certain statutory responsibilities for strategic planning from the Economic Strategy Panel to the Governor's Office Economic Development. The policy unit should:
  - ✓ Coordinate the development of an economic development strategy with bottom-up input from public and private entities.
  - ✓ Catalogue and promote the state's toolbox of economic development resources.
  - ✓ Coordinate the development of outcome measures to evaluate performance of the state's economic development programs to achieve the state's vision for economic growth.
  - ✓ Work with the Legislature on further restructuring of economic development programs based on performance outcomes.

Recommendation 4: The Governor's Office of Economic Development must serve as an advocate for big-picture prosperity and economic growth. The office should:

- ❑ Serve as a representative on the Strategic Growth Council.
- ❑ Serve as the state's lead representative on TeamCalifornia, bolstering the state's support for the public-private effort.
- ❑ Expand the knowledge base of the Capitol community by coordinating policy briefings and training sessions, partnering with public and private entities, such as:
  - ✓ Economic Strategy Panel.
  - ✓ Legislative policy committees.

- ✓ Robert M. Hertzberg Capitol Institute.
- ✓ California Association for Local Economic Development.
- ✓ Chambers of Commerce.