Making up for Lost Ground:
Creating a Governor's Office of Economic Development

Little Hoover Commission

February 2010

State of California

LITTLE HOOVER COMMISSION

February 25, 2010

The Honorable Arnold Schwarzenegger
Governor of California

The Honorable Darrell Steinberg
President pro Tempore of the Senate
and members of the Senate

The Honorable Dennis Hollingsworth
Senate Minority Leader

The Honorable Karen Bass
Speaker of the Assembly

The Honorable Martin Garrick
Assembly Minority Leader

The Honorable John A. Pérez
Speaker-elect of the Assembly
and members of the Assembly

Dear Governor and Members of the Legislature:

The dismantling of the Technology, Trade and Commerce Agency in 2003 may have been a fortuitous overreaction to controversy over the state's overseas trade offices. Closing the agency – and dispersing those economic development programs unrelated to the trade-office controversy – allowed local economic development organizations to establish a new role and to set bottom-up priorities for economic growth. It gave rise to promising public-private models, such as TeamCalifornia, to handle marketing activities with increased flexibility and speed and without a large agency staff and budget. Both are hallmarks of successful economic development strategies in other states.

But it also left a void, one made all the more apparent by the state's severe economic crisis, when people are looking to the state for clear signs that it is ready and able to help with programs and connections that can link local, state and federal economic development efforts. With the surviving programs now spread out among other agencies, no one person can be said to be truly in charge of those efforts. No one is setting a vision for the state's role or articulating it for business and cities and regions desperate to create new jobs. No one knows what programs are working. No one is building or following a strategy to guide and align these programs. Few on the outside even know who to call for assistance, or to find out what assistance exists.

Now is the time for the state to re-engage its local, private and federal partners to create a new economic development agenda for California. California must make up for lost ground, but not by re-establishing the Technology, Trade and Commerce Agency. The state must take the critical first step of defining what California is working toward. The governor must set a vision for economic growth and engage stakeholders to create an action plan for job-creating,

sustainable economic expansion. In the process, the state needs more professionals who can answer the phone, set up meetings and make connections for businesses calling to inquire about expanding in California or who are considering leaving. These are simple things the state should have never stopped doing. The state cannot always provide a handout, but it must do a better job with the handoff.

The state should establish a high-profile, economic development unit inside the Governor's Office that would serve as a point-of-contact for business and the economic development community, and an advocate for California as a place to grow businesses and jobs. To be effective and credible, the Governor's Office of Economic Development must include an outreach unit, equipped with strike teams with the imprimatur of the governor, which can respond to individual business needs and emerging industry issues. The California Business Investment Services (CalBIS) should form the foundation of this effort and be moved into the new Governor's Office of Economic Development. The office also must include a strategic planning and evaluation unit to track progress toward state goals and to monitor the effectiveness of the state's economic development programs. This will allow state leaders to have a more-informed discussion about moving and merging economic development resources into a single department.

These recommendations represent modest, but critical first steps that will put the state on a path to providing guidance and direction to the local economic development community, workforce officials, civic leaders, community colleges and other state actors. Collectively, they form a virtual army of job-creating agents who are energized and actively working to recruit and retain businesses for California. They are engaged. Now it is the state's turn.

Sincerely,

Daniel W. Hancock
Chairman

MAKING UP FOR LOST GROUND:
CREATING A GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

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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.

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

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.

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.

Background

A broad look at California's economy reveals the breadth of its successes: It boasts a gross state product of $1.84 trillion, nearly 13 percent of the U.S. gross domestic product in 2008.[1] In 2009, nonfarm industries supported 14,194,200 jobs.[2] In comparison to other states, California's innovation economy ranks at the top in terms of the number of patents issued and the number of start-up businesses.[3] It is pioneering green technology as global trends are moving in that direction. It has unparalleled diversity in the number and type of businesses that call California home. It is the birthplace of such influential innovators as Google, Apple, Levi Strauss, Hewlett-Packard, Facebook, Northrop Grumman, Twitter, Disney, Cisco, Genentech, Intel, eBay, YouTube, MySpace and the Gap.[4] Yet, California is losing ground. Since 2003, the state's economy has fallen from fifth to eighth largest in the world.[5]

> ***"California's economic strength lies in the size, diversity and adaptability of our economy as well as in the talent and diversity of our population."***
>
> Brian McGowan, Deputy Secretary, Business, Transportation and Housing Agency

State government is just one of many actors with an interest in the health of California's economy. The role of state government is broadly recognized for providing the building blocks of a sound economy: public education, infrastructure and consistent and transparent regulatory and tax structures. The state also offers a range of economic development services – from infrastructure loans to workforce training assistance – demonstrating its direct role in promoting and sustaining business. These programs target a wide variety of companies and industries, often in concert with local efforts to help businesses grow and to entice new businesses to locate here or keep existing businesses from leaving.

Most economic development activity happens at the local and regional levels, determined in large part by market conditions and opportunities. Still, the state often works with locals on their economic development projects, except when locals cannot find the support they need in Sacramento. This reflects the reality that since the elimination of the Technology, Trade and Commerce Agency in 2003, there has been no single point of contact for state economic development assistance and state programs have been dispersed across agencies.

Not Just One Economy

Not since the Gold Rush has California been dominated by a single economy; and it would be inaccurate today to describe the state's economy as a single entity. Rather, the state's economy is comprised of diverse regional economies, each with its own characteristics, assets, networks, labor markets and challenges.

The state's overall economy is built on the prosperity of its regions and driven largely by changes within industry sectors (groups of firms that do the same type of work) and industry clusters (geographically concentrated and interconnected businesses, suppliers and other institutions in a particular field) at the regional level. In addition to the high-tech industries of Silicon Valley, the biotech industries of San Diego and the San Francisco Bay area, the agricultural industry of the Central Valley and the entertainment industry of Los Angeles, the state supports other leading industry sectors such as aerospace, alternative/clean energy, travel and tourism and finance.

Sources: Peter Weber, member, California Partnership for the San Joaquin Valley. Thursday, August 27, 2009. Written testimony to Commission. Also, Michael Grunwald. October 23, 2009. "Why California is Still America's Future." Time Magazine. Also, Brian McGowan, Deputy Secretary for Economic Development and Commerce, Business, Transportation and Housing Agency. August 27, 2009. Written testimony to the Commission.

Rather than review the performance of those individual programs, or the broader issues of tax policy and environmental regulations that shape the state's business climate, the Commission focused on structure – how to better organize and leverage the state's many efforts.

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 on business services. Specifically, the Commission has sought to understand how improved coordination and delivery of state economic development resources can better leverage federal, local and private efforts. Improving performance and setting priorities are issues as well, but these cannot be profitably tackled until some sort of viable structure is in place.

As Peter Weber, a former Fortune 500 executive, told the Commission: "The public sector always plays a role, directly or indirectly, in setting the stage for employment-generating investment by the private sector. … Should [state government's] involvement be random and sporadic, or purposeful and systematic?"[6]

Building Agencies: Evolution of the State's Economic Development Organization

In the six years following the closure of the Technology, Trade and Commerce Agency, local economic development activities expanded, a nonprofit group, TeamCalifornia, has emerged as a budding leader and the state has yet to develop a single governance strategy to link and coordinate the state's resources, activities and assets for economic development. The state currently maintains a host of economic development programs spread across several agencies, boards, commissions, allocation committees and financing authorities. More than 10 advisory panels, boards and commissions, with a combined membership of more than 150 individuals from the public and private sectors, also provide guidance to policy-makers. This patchwork of organizations has evolved over the years primarily in response to political decisions rather than an economic strategy.

The state's first experiment with a centralized approach – the California Department of Commerce, was short-lived. Created in 1969 during Governor Ronald Reagan's administration, it saw its funding eliminated in 1974 by Governor Jerry Brown, who declared that the state did not need a second Chamber of Commerce. By 1978, after mounting criticism that the state had become anti-business, Governor Brown approved the creation of a new state Department of Economic and Business Development. The plan, based on existing but scattered programs, was drawn up by a small group of economic development professionals on a restaurant napkin during lunch, according to Wayne Schell, one of the napkin co-authors and now president of the California Association for Local Economic Development (CALED).[7]

Economic Development Boards and Commissions

More than 150 individuals serve as members or on the boards of the following state economic development organizations:

- California Commission for Economic Development
- California Commission for Jobs and Economic Growth
- California Economic Development Partnership
- California Economic Strategy Panel
- California Employment Training Panel
- California Infrastructure and Economic Development Bank
- California Small Business Board
- California State Controller's Council of Economic Advisors
- California Travel and Tourism Commission
- California Workforce Investment Board
- TeamCalifornia

The department, eventually renamed the Department of Commerce, was elevated to agency status in 1992, and, a decade later, had grown into the Technology, Trade and Commerce Agency, with a $156 million annual budget and a 259-person staff, including 12 foreign trade offices and several in-state field offices.[8]

For 25 years, the Technology, Trade and Commerce Agency's structure – which housed under one roof all of the state's economic development programs including those for small business and foreign trade – remained largely in place. It added the Economic Strategy Panel in 1993 to examine trends in regional economies and industry-sector growth to guide policy decisions for state and local workforce initiatives. The Infrastructure and Economic Development Bank was established within the agency in 1994 to issue tax-exempt and taxable revenue bonds, and to provide low-cost financing for capital costs and equipment for local government infrastructure projects, small manufacturing and processing businesses as well as nonprofit corporations.

During that period, the state's economy changed dramatically. Perceived deficiencies in the agency's policy and program performance, particularly

in its international trade programs, began to attract broader public criticism.

For several years, the ongoing expansion of the agency's foreign trade offices had drawn the scorn of the state auditor, the Legislative Analyst and the Little Hoover Commission. In 1987, the Commission noted that the administration of California's world trade programs was "informal and lacks the institutional mechanisms of accountability and coordination."[9] The State Auditor, in a 2001 review of the agency, criticized the overall lack of strategic planning and the poor coordination within the international division.[10] An in-depth examination by the Orange County Register in 2003 of the questionable performance of the trade offices brought the issue to a head politically.

The controversy over the trade offices fueled concerns in the Legislature.[11] Prodded by a looming state budget crisis and embarrassed by the newspaper's findings that the trade offices overstated their successes, the Legislature in 2003 shut down the trade offices and dismantled the agency.[12] The bulk of surviving economic development programs were moved into two agencies: the Business, Transportation and Housing Agency, and the new Labor and Workforce Development Agency, created in 2002.[13]

The Big Split

After the Legislature disbanded the Technology, Trade and Commerce Agency in the 2003-04 budget, it shifted the bulk of the surviving programs into two agencies:

Business, Transportation & Housing Agency

- I-Bank
- Small Business Loan Guarantee Program
- Enterprise Zone (HCD)
- International Trade Promotion
- California Film Commission
- California Travel and Tourism Commission

Labor & Workforce Development Agency

- California Economic Strategy Panel
- CalBIS
- California Workforce Investment Board
- Employment Training Panel

An analysis following the Technology, Trade and Commerce Agency's elimination noted that state policy-makers overemphasized international outreach at the expense of more targeted business assistance. "Policy development efforts were driven by the assumption that a more robust state involvement in international trade would boost job creation and lead to higher incomes rather than by an analysis of specific economic problems and the particular needs of businesses seeking opportunities abroad that would warrant a targeted strategic intervention by the state," according to the study.[14]

Defunct Programs

The following programs have been eliminated since the closure of the Technology, Trade and Commerce Agency in 2003.

Program	Activity
Office of Permit Assistance	Ensured that the state permit process for development projects ran smoothly and without delays. OPA was available to both permit applicants and regulatory agencies to answer questions, mediate disputes and monitor the review process. Also ensured that state agencies complied with time limits imposed by the Permit Streamlining Act. ***Closed by Legislative action, December 2003.***
Main Street	Through a public-private partnership of private investment, local government support and local nonprofit assistance, worked to revitalize historic commercial districts. ***SB 1107 (2004) re-established the program, without funding or staff, in the Office of Historic Preservation.***
Rural Economic Development Infrastructure Panel	Provided financing to construct, improve or expand public infrastructure with the intent to create jobs in rural cities and counties with high unemployment rates. The funds could be used for publicly owned infrastructure required for the construction or operation of a private development. ***Closed by Legislative action, December 2003.***
Office of Major Corporate Projects	Through the agency's regional offices, this group coordinated business retention, attraction and expansion activities on major projects that often required a "Red Team," and involved multi-million dollar investments and Fortune 500 corporations. Participated in the International Development Research Council. ***Closed by Legislative action, December 2003.***
International Trade and Investment Division	Assisted or represented the interests of California companies in foreign market transactions through trade delegations, missions, seminars and other promotional tools. The Overseas Trade Offices provided technical assistance and loan guarantees to small and medium-sized businesses engaged in export transactions. The Office of Foreign Investment tried to attract foreign companies to locate in the state. ***Closed by Legislative action, December 2003.***
Mill Reuse Program	Established to provide a structure for public-private cooperation to develop the 100 closed or abandoned lumber mills throughout California. ***Closed by Legislative action, December 2003.***
Old Growth Diversification Program	Assisted rural, resource-dependent communities that suffered economically because of the decline in the timber industry in Northern California. ***Closed by Legislative action, December 2003.***
Military Base Reuse Program	Established programs to assist the communities impacted by the closure of military installations, including grant and technical assistance programs. ***Moved to the Business, Transportation and Housing Agency; closed by budget change proposal in 2006.***
Export Development Office	Helped small and medium-sized California companies market their goods and services overseas and navigate the complex bureaucratic international trade requirements. ***Closed by Legislative action, December 2003.***
Rural E-Commerce Program	Provided matching grants to California nonprofit corporations and public institutions to aid development of an effective rural e-commerce business assistance infrastructure. ***Closed by Legislative action, December 2003.***
Small Business Loan Guarantee Program	Provided loan guarantees to banks or other lenders that make loans to small businesses for revolving lines of credit, small loans and agricultural loans. Provided management assistance and surety bond guarantees for businesses that compete for public works projects. ***Moved to the Business, Transportation and Housing Agency; unfunded in 2009.***
Manufacturers' Investment Credit	Six percent of manufacturers' investment credit (MIC) is generally unlimited and can be used to offset income or franchise tax based on the purchase or lease of manufacturing and related equipment. The credit also includes certain capitalized labor costs and "special purpose buildings and foundations." ***Although the MIC was not a program in the TTC, it also was eliminated in 2003.***

Source: Patrick McGuire, Dave Freitas and Mary Ingersoll. January 27, 2010. Personal communication with the Commission.

CPR Recommendation

The California Performance Review (CPR) proposed creating a new commerce agency which would have served as the state's primary point of contact and accountability for economic and workforce development programs. It was to be tasked with the following goals and activities:

- Prioritizing economic development spending on areas of strategic importance.
- Attracting new businesses to California.
- Improving the business climate to retain businesses in California.
- Developing a workforce that meets the needs of employers.
- Increasing the skill set of workers so they can obtain high-quality, high-paying jobs that allow them and their families to prosper.
- Creating a stronger connection between economic forecasting and worker preparation (e.g. provide a more rapid response when economic characteristics require a change in worker preparation).

Source: California Performance Review. Sacramento, CA. 2004. "A Government for the People for a Change: Form Follows Function."

Calls for Reform, Further Consolidation Continue

Following the dismantling of the Technology, Trade and Commerce Agency, proposals to reunite the old Trade, Technology and Commerce programs surfaced regularly. The first came almost immediately in the California Performance Review, Governor Schwarzenegger's vehicle in 2004 for conducting a full scale evaluation of government's performance, practices and costs.[15] The California Performance Review recommended creating a new Department of Labor and Economic Development that combined the state's economic and workforce development programs into one organization.

The new agency would have merged pieces of the Labor and Workforce Development Agency and the Business, Transportation and Housing Agency, as well as other departments, while eliminating duplicative economic development and workforce panels. Many of the proposed department's functions are carried out today through the state's patchwork of economic development programs.

Leading the State's Efforts

Since the break-up of the commerce agency, the state has primarily relied on outside efforts to support its international outreach and marketing efforts and on internal agency partnerships to provide leadership on larger economic development issues.

Governor Schwarzenegger in 2004 created the California Commission for Jobs and Economic Growth, an independent not-for-profit organization, to promote California products and services domestically and abroad, assist employers at risk of leaving the state or with in-state expansion and advise the governor on regulatory obstacles for businesses.[16] Its board includes the governor's top economic advisers and two dozen California business, labor and academic leaders. The commission opened an office in Sacramento across from the Capitol, established a Web site and an 800 number – all to carry out the governor's pledge that the commission would respond within 24 hours to reports of any company thinking of leaving or moving into the state.[17] To date, the commission has been used primarily to support the governor's activities in promoting the state economy. For example, it helped fund a billboard

campaign in Japan where the governor promoted California-grown food. The group also paid for promotional events and advertising in association with a governor-led trade mission to China.[18] The commission also has worked to promote California's industries; in 2007 it co-hosted the Pacific Economic Summit in Vancouver that showcased California "green" technology. Its Web site, however, has been inactive since late 2009 and the toll-free number routes callers to the front desk of a campaign consulting and public relations office in San Francisco.

Another effort has been the California Economic Development Partnership, an interagency team created in 2005 of cabinet secretaries from the Business, Transportation and Housing Agency, the Department of Food and Agriculture and the Labor and Workforce Development Agency to head the state's economic development efforts. The partnership became responsible for coordinating the state's economic development offices among its members and streamlining the delivery of services to local and regional partners.

Despite these efforts, Schwarzenegger acknowledged the need for a dominant agency to lead economic development planning when he signed AB 1721 (Committee on Jobs, Economic Development and the Economy) in 2007. The bill formalized the Business, Transportation and Housing Agency as the lead coordinator of the state's economic development activity – though the Legislature tried to strip that role from the agency during the 2008 budget impasse. The agency has formed a small team of less than a half-dozen borrowed staff members and funded its efforts through the budgets of the other departments within the agency, such as the Department of Motor Vehicles, to facilitate these efforts.[19] Regardless, the agency has no statutory authority or funding to lead such efforts.

In contrast, the Legislature has deemed the Labor and Workforce Development Agency, through its Economic Strategy Panel, as the appropriate nexus for the state's strategic planning, coordination and evaluation of economic development activities. The Legislature has expanded the duties of the Economic Strategy Panel over time, though in 2007, Governor Schwarzenegger vetoed a plan (AB 1606) to centralize 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.[20]

Such a comprehensive solution remains elusive. Today, California's state government remains without a principal economic development organization, though efforts continue to consolidate the state's activities and fill unmet needs created by the lack of a statewide economic development leader.

The Assembly Committee on Jobs, Economic Development and the Economy has advanced measures in recent years to require more statewide strategic planning – and coordination – for economic development. Assemblyman V. Manuel Perez, chairman of the Assembly Jobs Committee, launched an effort in 2009 to pull together key economic development and workforce programs from various agencies in a new Economic and Employment Development Department, similar to the organizational model proposed by the California Performance Review.[21]

In the absence of a central economic development voice, TeamCalifornia, a not-for-profit economic development corporation, has stepped forward to market and promote California. The organization, formed in 2006, pools relatively small contributions and resources from local economic development organizations, private companies and state agencies to ensure a California presence at international trade shows, fund advertising campaigns and establish a stronger Internet presence for companies inquiring about growth opportunities in California.[22] Operating with a $500,000 annual budget, TeamCalifornia brands itself as a key point of contact – or portal – that routes companies seeking permit assistance or site selection advice, for example, through the network of state and local economic development agencies. In this capacity, the organization serves as a logistics coordinator, given that the state has all but ended its direct support for such activities.[23]

The state has formally committed to a partnership with TeamCalifornia: the California Economic Development Partnership and the Commission for Jobs and Economic Growth both contribute $25,000 annually to support the organization's work. The organization's governing board is comprised of representatives from state agencies, as well as utilities, local workforce investment boards and colleges.

Simultaneously, California has seen the emergence of a growing network of local economic development corporations and regional planning efforts. These organizations plan and guide economic development strategy at the local and regional levels, though their activities are not necessarily linked or aligned with state goals or program priorities.

Evolution of California's Economic Development Governance Structure: A Timeline

1960s

1969: Governor Reagan creates California's first Department of Commerce.

1970s

1971: Commission for Economic Development, an advisory panel chaired by the lieutenant governor, is created by statute.

1974: Governor Brown eliminates the Department of Commerce.

1978: Governor Brown reverses course, creates the Department of Economic and Business Development.

1980s

1980: California Association for Local Economic Development formed.

1983: California State World Trade Center Commission created.

1984: Enterprise Zone program created.

1987: Little Hoover Commission issues report expressing concern over the lack of coordination and the state's return on investment in international trade programs.

1990s

1992: Governor Wilson merges the World Trade Center Commission and Department of Commerce into cabinet-level California Trade and Commerce Agency.

1993: Economic Strategy Panel created.

1994: California Infrastructure and Economic Development Bank (I-Bank) created.

1994: Economic Strategy Panel identifies California's economy as an "economy of regions" and adopts new way of looking at and directing resources to "industry clusters."

1998: Federal Workforce Investment Act requires state to establish a State Workforce Investment Board.

2000s

2001: Governor Davis renames the agency the Technology, Trade and Commerce Agency (TTC).

2002: Governor Davis creates the Labor and Workforce Development Agency.

2003: By 2003, the Technology, Trade and Commerce Agency was operating a $156 million annual budget, 259-person staff and 12 foreign trade offices. Media reports, Legislative Analyst Office, state auditor question operations and performance of the trade offices.

Legislature eliminates TTC, defunds several programs and moves remaining ones into the Labor and Workforce Development Agency and Business, Transportation and Housing Agency.

2005: Governor Schwarzenegger creates the Economic Development Partnership as a coordinating entity.

2006: TeamCalifornia incorporated as a 501(c)(3).

2008: Governor Schwarzenegger designates Business, Transportation and Housing Agency as lead economic development agency.

Governor Schwarzenegger creates Green Collar Jobs Council.

Sources: California Government Code, Sections 14980-14988, Chapter 138, Statutes of 1969. Wayne Schell. 2003. "Building a More Resilient California Economy." Sacramento, CA. California Association for Local Economic Development. Guenther Kress, Randi L. Miller, and Gus Koehler. 2005. "The Termination of State-Run International Trade Programs in California: Perspectives on Contributing Factors and Future Policy Options." Public Organization Review: A Global Journal. Volume 5, pages 139-155. The Netherlands. LAO Budget Analysis 2003-04, 2004-05. Elaine M. Howle. December 2001. "Technology, Trade and Commerce Agency." Sacramento, CA. Bureau of State Audits.

The State's Economic Development Activities

The state's economic development activities remain spread over several agencies, boards, commissions, allocation committees and financing authorities, as shown in Appendix D. Although the Business, Transportation and Housing Agency; the Labor and Workforce Development Agency; the California Department of Food and Agriculture, and the State Treasurer's Office house most economic development programs, virtually every state entity carries a piece of "economic development," whether grants by the California Energy Commission that support innovative technologies or California community colleges that provide consulting services for small business owners. Federal programs and private economic development organizations add to the roster.

Business, Transportation and Housing Agency

Following the dissolution of the Technology, Trade and Commerce Agency, many of the state's economic development programs fell to the Business, Transportation and Housing Agency. More recently, the governor tasked the agency to serve as lead coordinator of the state's economic development strategy. In this role, the agency developed a 20-year Strategic Growth Plan to map out California's infrastructure investments. The agency developed an economic work plan that identified 50 priority actions to leverage resources, expedite infrastructure, market the state and spur innovation. In the plan, the agency committed to catalogue major economic and real estate development projects throughout the state, encourage local governments to adopt economic development strategies and general planning elements and establish an interagency working group to maximize federal grant opportunities.

More recently, the agency partnered with local government leaders to develop regional economic recovery work plans to describe how local agencies are using federal stimulus dollars and to identify opportunities for leveraging state and federal funds.[24]

Several economic development programs within BTH are worth highlighting: the Infrastructure and Economic Development Bank, the Enterprise Zone Program and the state-certified sites program.

I-Bank. Governed by a five-member board of directors, the Infrastructure and Economic Development Bank (I-Bank) has broad authority to issue tax-exempt and taxable revenue bonds, and has provided $30 billion in low-cost, gap financing for capital costs and equipment since its inception. I-Bank programs target local government infrastructure

projects, small manufacturing and processing businesses, and nonprofit corporations (such as scientific research institutes and museums).

Enterprise Zone Program. The Enterprise Zone (EZ) Program, established in 1984, operates out of the agency's Department of Housing and Community Development. The program targets 42 economically-depressed areas and provides public-sector incentives, such as income tax credits to employers or preferential treatment for state contracts, to attract private-sector companies to develop in these areas. The $430 million annual program targets incentives to economically depressed areas with the aim of allowing these communities to more effectively compete for new and retain existing businesses, resulting ultimately in stronger local economies.[25] Determining the value of the programs' broader impact on job creation, poverty, public safety and community improvement has been the subject of ongoing debate in the Legislature.

California Site Certification Program. Operated through the Department of Real Estate, the California Site Certification program provides a current inventory of commercial and industrial sites that are "shovel-ready." Launched in 2009, the program was designed to expedite an often tedious and unpredictable permit process by ensuring the sites have met evaluation criteria for various commercial and industrial uses and have the support of local permitting authorities.[26] As of August 2009, two sites had been certified and another 27 were in the process of receiving certification.[27]

California Labor and Workforce Development Agency

The California Labor and Workforce Development Agency, established in 2002, brought together the Department of Industrial Relations, the Employment Development Department, the Workforce Investment Board and the Agricultural Labor Relations Board to coordinate and improve administrative oversight and accountability of workforce training, labor law enforcement and employee benefits.[28] In recommending approval of Governor Davis' Reorganization Plan to create the agency, the Little Hoover Commission nonetheless noted a shortcoming: "The Reorganization plan barely hints at the challenge of aligning the $4.6 billion the state spends each year on workforce development and the billions more it spends on economic development."[29]

The agency houses some of the state's major economic development programs, such as the Economic Strategy Panel, the Workforce Investment Board, the Employment Training Panel and the California Business Investment Services unit.

Economic Strategy Panel. The Economic Strategy Panel, established within the former Technology, Trade and Commerce Agency in 1993, examines trends in regional economies and industry-sector growth to guide policy decisions for state and local workforce initiatives. The 13-member panel is comprised of appointees of the governor and legislative leaders. Half are drawn from the private sector, including two from the small business community and two from rural areas.[30]

The panel is required by statute 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.[31] The panel, however, has not completed those specific tasks and the last strategic plan was updated in 2002. In testimony to the Commission, the labor agency suggested the panel, which has a staff of two individuals, lacks the capacity to conduct the legislative mandated studies and complete its other strategic planning functions.[32] The panel instead has focused more broadly on collecting economic data – analyzing trends in regional economies, industrial sectors and workforce needs – and relaying the information to policy-makers, such as the California Workforce Investment Board.[33]

California Workforce Investment Board. The California Workforce Investment Board (CWIB) was created as part of the federal Workforce Investment Act (WIA) of 1998, which emphasized a One-Stop Career Center system model to provide employment, education and training services to adults, dislocated workers and youth in a single location. California has partnered with public and nonprofit organizations to operate 150 such One-Stop Centers.[34]

The board is governed by 40 members appointed by the governor and legislative leadership, and represent business, labor, public education, economic development, youth activities, employment services and training agencies. The Legislative Analyst's Office has estimated that an infusion of federal stimulus dollars will bring the state's allocation of federal Workforce Investment Act job training funds to $985 million for the 2009-10 year, including $134 million for statewide employment and training initiatives. The remaining funds are routed through 49 separately governed local Workforce Investment Boards.[35] In 2007, the Little Hoover Commission found that the effectiveness of the local workforce investment boards has been uneven across the state.[36]

Employment Training Panel. Established in 1983, the Employment Training Panel funds job skills training through a levy on unemployment insurance wages paid by every private, for-profit employer in the state, as well as some nonprofits. The panel is governed by an eight-member panel, appointed by the governor and legislature, with expertise in

business management and employee relations. The program has paid more than $1 billion in training funds since its inception, trained more than 660,000 California workers and served 60,000 businesses – 80 percent with fewer than 250 employees.[37]

California Business Investment Services. California Business Investment Services (CalBIS), created in 2003 in response to the impending Technology, Trade and Commerce Agency elimination, operates out of the Labor and Workforce Development Agency with a small team of five staff members and an annual budget of $546,000.[38] Though CalBIS provides free site-selection services, the office 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. The labor agency credits CalBIS with bringing in more than $1.3 billion in investments to the state in 2007-08.[39] Recent successes include a $26 million expansion of Siemens' South Sacramento light rail car plant, where CalBIS was credited as the catalyst for the company's relationship with the governor and BTH secretary.[40] CalBIS also was identified as a key facilitator in coordinating a $100 million expansion of Bayer HealthCare's Berkeley campus which made the Berkeley location more attractive than the option of relocating out of state. Bayer credited CalBIS staff with helping them in their decision: "The role that [CalBIS] played, coordinating with amazing skill and alacrity the efforts of several local governments, private interests and economic development agencies, resulted in a positive outcome for which we are extremely grateful."[41]

Other State Economic Development Programs

In addition to the programs housed in the Business, Transportation and Housing Agency and the Labor and Workforce Development Agency, many other economic development programs are scattered throughout state government. Other important efforts are led by nonprofit or local and regional organizations, in partnership with the state.

California Department of Food and Agriculture. The California Department of Food and Agriculture (CDFA) coordinates its own trade and promotional activities, both internationally and domestically, for California-grown commodities. Though CDFA functions as a separate agency, its secretary sits on several interagency panels, such as the state's Economic Development Partnership, to coordinate economic development outreach and other activities. The agency plays an influential, but often understated, role in the marketing of California products from the state's $37 billion agriculture industry.

State Treasurer's Office. The State Treasurer oversees several boards, authorities and commissions that have direct bearing on state and local

Small Business Development Centers

California's Small Business Development Centers (SBDC) are part of the U.S. Small Business Administration's national network of small business development centers. With 38 offices throughout the state, SBDC programs offer various services to small businesses including developing business plans, creating financial projections, budgeting, addressing operating and funding challenges and packaging loans.

The state's SBDCs are sponsored by six regional offices headquartered at CSU Chico, CSU Humboldt, CSU Fullerton, UC Merced, Long Beach City College and Southwestern Community College. The California Community College's Economic and Workforce Development Programs contribute financial resources to the federal program, though the state's total contribution – as well as leadership – has dwindled significantly since the Technology, Trade and Commerce Agency collapsed, threatening the state's ability to secure and maximize federal matching funds.

Sources: Mike Roesller, director, Small Business Development Centers, California Community Colleges. Sacramento, CA. November 16, 2009. Personal communication. Also, Jim O'Neal, district director, U.S. Small Business Administration. Sacramento, CA. November 18, 2009. Personal communication. Also, California Business Portal. "Small Business Development Centers." http://www.calbusiness.ca.gov/cedpgybsbdc.asp. Accessed February 2, 2010.

economic development. The California Debt Limit Allocation Committee, for example, oversees tax-exempt, private activity bond authority for the state, including bonds issued by the California Industrial Development Bond Authority. Private activity bonds may only be used by the private sector for projects and programs that provide a public benefit. The state, however, can set priorities for how the money is allocated.[42]

Strategic Growth Council. Governor Schwarzenegger proposed and the Legislature created the Strategic Growth Council in 2008 to promote the development and growth of sustainable communities through the coordination of state activities and new grant and loan programs.[43] The cabinet-level council is composed of agency secretaries from the Business, Transportation and Housing Agency, Health and Human Services Agency, Natural Resources Agency, Environmental Protection Agency and the director of the Governor's Office of Planning and Research. One public member, appointed by the governor, also serves on the committee.

The council's workgroups focus on aligning state programs to improve air and water quality, protect natural resources and agriculture lands, increase the availability of affordable housing, improve infrastructure systems, promote public health and to encourage the planning of sustainable communities. The council also distributes Proposition 84 money to fund urban sustainable growth projects.[44] In its 2010 report, *Building California: Infrastructure Choices and Strategy*, the Commission highlighted the role that the Strategic Growth Council could play to guide infrastructure investments that meet both economic growth and environmental goals, and recommended the council's mission and membership be expanded to include other key state actors.

Office of the Small Business Advocate. The Office of the Small Business Advocate, administered through the Governor's Office of Policy and Research, serves as a liaison to and advocate for the small business community.[45] Funding for the office is contained within the governor's office budget, but with the Office of Policy and Research slated for elimination in 2010, it is not clear where this office will, or should, be relocated.

Lack of Coordination, Focus

According to some television commercials from Nevada, California lawmakers act like chimpanzees and the state's business climate will improve when pigs fly. The ads that aired in 2009 may have been tacky, but given Nevada's aggressive job-poaching strategy, not surprising. Nor was the cheeky response from California, claiming in a rival commercial that "what happens in Vegas stays in Vegas, but what happens in California makes the world go round." The ads became a story of their own, making it onto the CBS Evening News.[46]

A more striking element of the advertising war, however, was that the response from California was the reaction of a legislator from Santa Ana acting on his own, Assemblyman Jose Solorio, who used personal campaign funds to develop and place pro-California ads on cable stations and newspapers. Mr. Solorio said he was fed up not only with the tone of the aggressive ads from the Nevada Development Authority, but also dismayed by the lack of marketing and outreach of California's economic development programs to the business community.[47]

Mr. Solorio's involvement, he said, reflects a greater problem with the state's approach to economic development. "There's no one accountable to review or respond or generate our own messages in the state," Mr. Solorio told Commission staff. "There isn't a point person with enough authority to do economic development within the state or in relation to other states."[48]

Since the dismantling of the Technology, Trade and Commerce Agency (TTC) in 2003, there has not been a focal point 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, also provide guidance on how the state should spend millions of dollars on economic and workforce development programs. This fragmentation helps explain why there is no articulated vision or spokesperson for California economic development.

Not even the celebrity status of Governor Schwarzenegger has been enough to bridge these organizational gaps. The governor is an

undoubtedly powerful promotional asset. He has served as the state's top salesman in billboards and TV ads to boost state tourism. The governor made headlines in 2004 for sending a moving truck with his image plastered on the side to Las Vegas to entice businesses back to California and he has drawn swarms of fans and news crews at overseas trade missions. His 2005 visit to a trade show in China nearly turned into a mob scene when he appeared at a booth featuring California-grown strawberries (It also led to a strawberry import agreement).[49] The state's reliance on a one-man, personality-driven approach to economic development may mask deeper, structural issues that are likely to become more apparent under a different administration.[50] "Star power alone will not suffice to attract foreign firms to California or to sell more products abroad," according to a study about the state's role in international trade.[51]

The fragmentation and diffused authority that characterize today's collection of economic development activities in California 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 incapacity of the state 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 assistance with permitting or navigating regulations.
- The diminished capacity of state contacts and staff since the Technology, Trade and Commerce Agency closed to provide help to businesses and local economic development agencies, and to leverage local, federal and private resources.

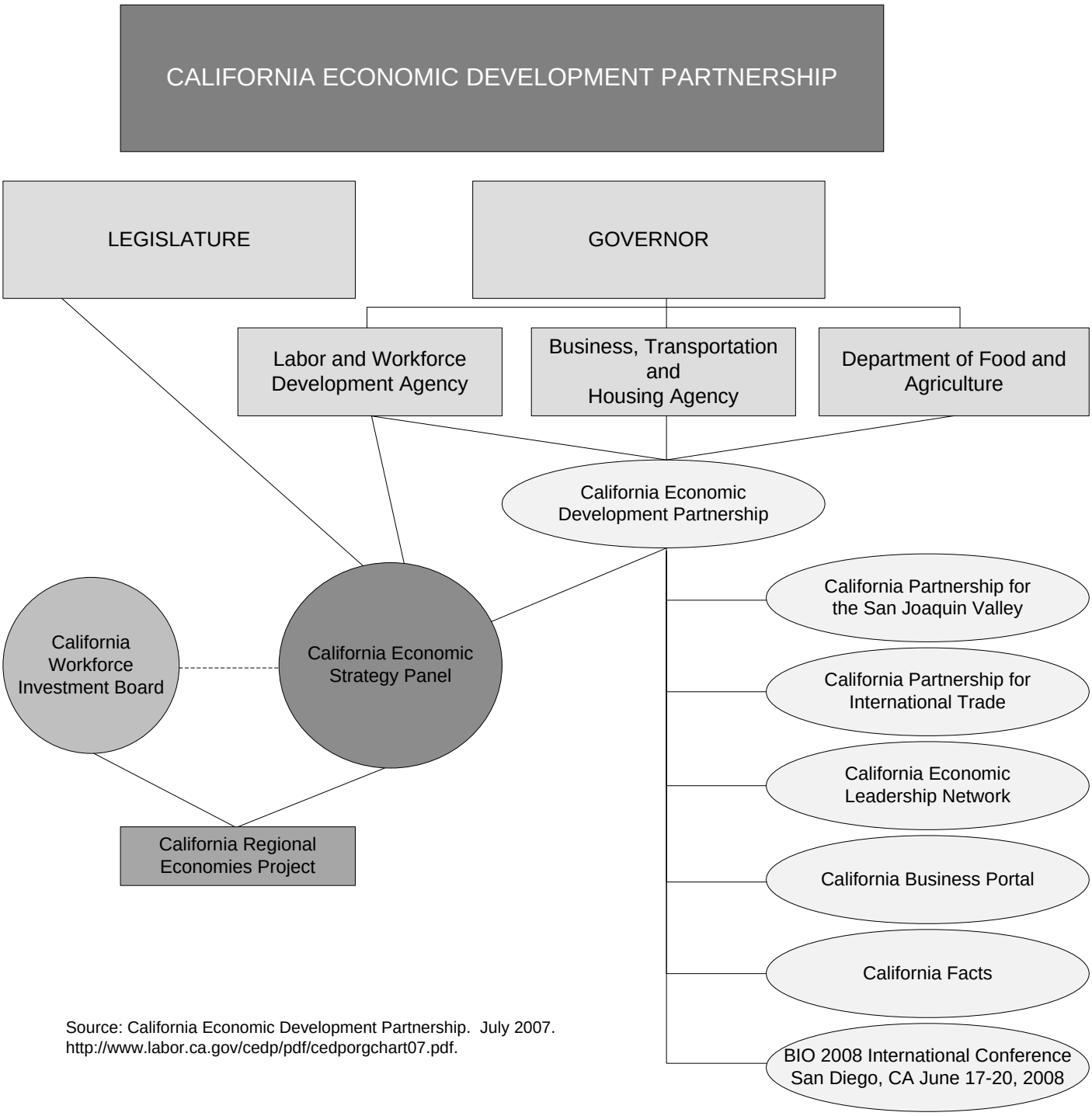
Though a large central agency for economic development in California did not prove ideal, the current approach is not optimal, either. In the absence of a formal agency, two nonprofit groups that partner with the state – TeamCalifornia and the California Commission for Jobs and Economic Growth – separately have asserted themselves as the go-to source for interested businesses to learn about growth opportunities in

California, further convoluting the message from the state. The public-private model shows promise in handling certain aspects of implementing a state economic development strategy, however, the current arrangement also has led to overlap and confusion. The toll-free number for the California Commission for Jobs and Economic Growth, for example, routes callers to the front desk of a campaign consulting and public relations office.[52]

Another approach to economic development coordination – cross-agency partnerships – can be difficult, conceptually and practically. Government entities are naturally protective of their turf and funding for collaborative efforts often is limited, with existing funding tied to specific, usually siloed programs. The Commission heard that such coordination efforts often focus on managers too high in the organization, and such efforts often are glued together by dint of the personalities involved, making them vulnerable to turnover in the governor's cabinet.[53]

The most recent attempt, the California Economic Development Partnership, was established in 2005 by Governor Schwarzenegger as an interagency cabinet team to coordinate economic development efforts across departments. But the partnership lacks authority, resources – even a phone number. It also has been criticized as another layer added to an already byzantine structure.[54] "There is a perception of regional leaders and statewide leadership groups that the state policy-making and strategic planning process is fragmented, bifurcated between the [California Economic Development Partnership] and other agencies, and other elements of the state structure related to the Governor's Office and the California Commission for Jobs and Economic Growth," according to a 2007 report about the barriers to a statewide economic development strategy. [55]

Without a mechanism to formalize a network such as the Economic Development Partnership, such structures appear messy and lack an obvious entry point. The organization's flow chart lacks both organization and flow.



Source: California Economic Development Partnership. July 2007. http://www.labor.ca.gov/cedp/pdf/cedporgchart07.pdf.

Six years on, the organizational structure for economic development in Sacramento has not evolved since the elimination of the Trade, Technology and Commerce Agency. Two separate and distinct agencies – Business, Transportation and Housing and Labor and Workforce Development – cover most of the state's economic development footprint. The potential for confusion is no more apparent than in the agencies' nearly identical Web sites for business-growth information: business.ca.gov at Business, Trade and Housing, and calbusiness.ca.gov at Labor and Workforce Development. The agencies are unclear about which is accountable for the state's economic development efforts. When testifying before the Commission, the lead economic development official at Business, Trade and Housing was unable to speak with authority or clarity about the state's vision for economic growth.[56] 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.[57]

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."[58]

Lack of Guidance From State

The Commission heard repeatedly from the economic development community about its desire for the state to exert leadership to guide and focus decision-making and investments about job and business retention, expansion and attraction. "We're getting no help from the state in terms of direction [and] marketing," Bill Bassitt, president and CEO of the Stanislaus Economic and Workforce Alliance, told the Commission.[59]

Expert witnesses pointed to the state's inability to communicate a comprehensive vision for economic development and to implement an action plan as impediments to California's economic recovery and growth. The state often stresses the importance of such long-term planning – but for others.

The state, in fact, requires cities and counties to file annual reports updating their General Plans for growth and development, and encourages them to include an economic development roadmap in the plans.[60] "An effective [economic development] element will establish a consistent set of policies that provides general direction to local

government on how the community can focus resources to retain local business, attract new industries, support the tax base, and sustain the ability to provide public services for current and future residents," according to the Governor's Office of Planning and Research, which collects the information.[61]

Only 62 of 538 California cities and counties have updated an economic development element in their general plan since 2005, representing less than 12 percent of local governments.[62] The largest entity, Los Angeles County, went without an economic development plan since 1987, until county supervisors embraced a new strategy put forth in December 2009 by the Los Angeles County Economic Development Corporation (LAEDC).

The emergence of local economic development corporations, such as LAEDC, and regional planning efforts, such as the California Partnership for the San Joaquin Valley, are helping shape a local agenda for economic growth, often starting with a strategic plan to focus vision, set goals for action and define measures of success. The work, however, does not leverage or link into the state's priorities or tools for economic growth. This is not for a lack of desire from local leaders. A 2007 report on statewide coordination of economic development found: "Regional stakeholders are not sure about state roles, how things are coordinated, and what the entry points are in the policy-making process. They do not perceive an overall economic policy framework and nor is there a consistent mechanism for state-regional input and collaboration for strategy and implementation of recommended economic action agendas by the state." [63]

Though Governor Schwarzenegger has created strategic growth plans that focused attention on infrastructure needs, the state has not officially put forward an economic development strategy since 2002. Attempts at revising and updating those plans have been ignored or shelved, and have failed to engage the Legislature as well as various parts of the administration. In 2003, the state's Economic Strategy Panel drafted guiding principles and metrics for a new plan. (See Appendix E). The California Center for Regional Leadership convened top leaders from the public and private sector, including cabinet secretaries, to issue in 2005 a "statewide action agenda for economic vitality," but now is defunct. The Assembly Committee on Jobs, Economic Development and the Economy issued its own draft economic development strategy. It noted in a March 2009 report:

> California's recovery is dependent on the success of the private sector to create and retain quality jobs and, thereby increase state revenues and strengthen local economies. The state currently has an unorganized

> variety of programs and services designed to assist in community, economic and workforce development activities. Without a single entity responsible for ongoing monitoring, it is not reasonable to assume that agencies, departments, boards, commissions and other government entities will behave differently than in the past. Further, this strategy is based on strong participation by local and regional players who cannot meet their objectives without the state first 'getting its act together.'[64]

Many Tools, but Not Aligned

In the absence of a unified approach, many agencies and programs appear to be self-directed by "leaderless teams" that provide resources on a first-come, first-served basis.[65] The piecemeal approach has put California in a reactive mode, with the state responding to individual business situations. In the process, the state has missed the chance to guide and shepherd resources to capitalize on industry-growth opportunities or to address emerging issues.

The dispersion of the state's resources complicates efforts to move with speed and flexibility. Take the example of the Infrastructure and Economic Development Bank (I-Bank), which has broad authority to issue tax-exempt and taxable revenue bonds, and has provided $30 billion in low-cost, gap financing for capital costs and equipment since its inception in 1994. I-Bank programs target local government infrastructure projects, small manufacturing and processing businesses, and nonprofit corporations, including scientific research institutes and museums. Although the federal government limits the amount of tax-exempt bonds that a state can issue, the state has been able to meet the entire demand for I-Bank financing, which is awarded on a first-come-first-served basis.[66] The lack of competition for I-Bank financing raises questions about the strategic use and marketing of this resource.

By contrast, the Enterprise Zone program is highly competitive: The state received 15 applications for four enterprise zones that expired in 2009.[67] Arguably the biggest form of direct financial assistance the state provides to businesses, an Enterprise Zone designation brings with it income tax credits to employers for 15 years as well as other benefits. The state caps the number of enterprise zones at 42 and debate about the program's effectiveness and appropriate size is an enduring discussion. For this study, the Commission was more concerned with the organizational location and strategic deployment of the program as an economic development asset. Since the elimination of Trade, Technology and Commerce, the Enterprise Zone program has been

administered by the state's housing agency, which tries to balance two objectives – business development and reinvestment in declining inner cities. Despite the demand by communities for Enterprise Zone status, decisions ultimately are made on a case-by-case basis, rather than by an overarching strategy that could leverage the program with other resources to target economic growth.

One of the largest economic development tools at the state's disposal comes in the form of job training, yet these programs remain organizationally isolated across state government, located in separate silos at the Employment Training Panel, the California Workforce Investment Board and the Department of Rehabilitation as well as vocational programs in the state prisons.

Many job-training programs are rooted in a human services culture tied to helping needy people obtain employment, not linked strategically to a growing industry sector. Though workforce training programs are beginning to evolve toward a demand-driven model based on business needs, California continues to experience a shortage of skilled labor in virtually every sector of the economy.[68] This disconnect has been recognized for many years. In 2004, the California Performance Review (CPR) observed that the state operates 30 different job training programs in 13 different state entities. Operating the programs in administrative silos "creates a risk that workers will be training for jobs that will not exist and that employers will be unable to find skilled workers," according to the CPR.[69]

The lack of integration of workforce programs into a larger economic development strategy has become even more critical as the federal and state government invest heavily in workforce development programs as a remedy to the recession. The Legislative Analyst's Office has estimated that an infusion of federal stimulus dollars will bring the state's allocation of Workforce Investment Act job training funds to $985 million for the 2009-10 year, an amount that includes $134 million for statewide initiatives.[70]

Much of that money will get routed through local Workforce Investment Boards. Though the Commission has previously found that WIB effectiveness has been uneven across the state,[71] the local workforce panels represent an army of community contacts. The boards are comprised collectively of hundreds of community-based business, education and labor officials. The state, however, cannot maximize their energy and leverage their dollars without better planning and direction. Part of that equation includes the state's network of 100-plus community colleges. Despite the expectation that community colleges serve as a training ground for a skilled workforce, the state's community colleges

typically function independently. "People put so much hope in us," said Jeff Cummings, dean of career and technical education at the College of the Siskiyous, in northern California. But when the state puts out the call to train more welders, the college doesn't know whether to train 30 or 300: "We don't know if we're undershooting or overshooting."[72]

A potential breakthrough in workforce-economic development alignment has been the Green Collar Jobs Council, created by Governor Schwarzenegger in 2008, under the purview of the California Workforce Investment Board. The council serves as an intergovernmental partnership charged with developing a comprehensive strategy and aligning resources – including federal stimulus dollars – to prepare the state's workforce for emerging "green" jobs.[73] The effort at linking workforce dollars with efforts of other agencies, such as the Energy Commission, is noteworthy, though it remains to be seen if the ad hoc council can sustain itself and deliver long-term results.

The volume and reach of state resources is vast and at times surprising – the Commission was intrigued to learn of the obscure California Alternative Energy and Advanced Transportation Financing Authority, which provides for low-cost financing for alternative energy and transportation projects in the state. Even a seemingly simple task of cataloguing the state's array of economic development programs proved daunting. The only comprehensive reference guide available is a 140-page book stitched together in 2007 by the Assembly Jobs, Economic Development and the Economy Committee – not an obvious go-to source for outsiders, though the catalogue was designed to "assist community and business leaders identify potential programs, services and initiatives." It can be found deep in the California Assembly Web site.

No Single Point of Contact

Finding help to navigate the system remains difficult. The Commission heard that under the current system, businesses interested in expanding or staying in California as well as economic development professionals do not know where at the state to go for assistance. The message, the Commission was told, was that the state is indifferent toward businesses. "Why call when you won't get a response?" a participant asked during a roundtable the Commission held with Southern California economic and workforce development leaders.[74]

When the calls do come in – to organizations as varied as the Office of Small Business Advocate or the Lieutenant Governor's Commission for Economic Development – they often get routed to the California Business Information Services (CalBIS) office, in the Labor and Workforce

Development Agency. CalBIS has developed a reputation in the business community – and within state government – as a liaison to state regulatory agencies and local governments. The office operates with such a low profile that many potentially interested parties may be unaware it exists. But with a staff of five, it is not clear it has the capacity to be successful if more people called on its services. CalBIS is the remnant of what was once a network of 40 such economic development contacts spread across the state as part of the Technology, Trade and Commerce Agency. "To have only five people devoted to that role is inexcusable," Bill Allen, president and CEO of the Los Angeles Economic Development Corporation told the Commission.[75]

Nor does CalBIS have sufficient staff to proactively identify issues before businesses consider leaving the state, or to call top businesses to solicit input and impress upon companies how valuable they are to the state, as do other economic development organizations with more capacity. Mr. Bassitt said that while California's economy ranks in the top 10 globally compared to other countries, it is unlikely that Germany, Italy or France would have only five people involved in economic development. "That's just beyond comprehension. It indicates to me that the policy-makers in Sacramento just don't get it," Mr. Bassitt said.[76]

The erosion of state contacts and staff since the Technology, Trade and Commerce Agency closed, along with ongoing budget cuts, also has hurt the state's ability to leverage local, federal and private resources, participants at an advisory committee meeting told the Commission. This threatens the state's ability to maximize federal funding from the U.S. Small Business Administration to sustain a network of a small business outreach centers.[77] The U.S. Department of Agriculture also provides funds for marketing efforts, but money is left on the table when the state's Food and Agriculture Department is too short-staffed to apply for grants.[78]

The state still provides a large catalogue of economic development assistance, but the Commission acknowledges that the list of state economic development incentives for businesses is shrinking. As the Commission heard, it will take more than new programs or marketing to equip and position the state for recovery. "The resources are here," said Mike Bushey, chairman of TeamCalifornia and an economic development specialist at Southern California Edison, in testimony to the Commission. "I don't think there is a strategy in place of how you deploy them."[79]

Solutions

The dismantling of the Technology, Trade and Commerce Agency in 2003 follows a familiar storyline in California state government: Fix an agency scandal by terminating the agency. The remedy, however, can exacerbate other problems. The 2002 uproar over a large Oracle software contract prompted the Legislature to dissolve the Department of Information Technology, which led to a fragmented information technology strategy that produced poor results and even less accountability over troubled technology projects. When the Commission examined the state's administration of information technology in 2008, it made recommendations to centralize technology planning across all agencies and place a strong chief information officer in charge of the effort – recommendations that were embraced by the Governor's Office and endorsed by the Legislature in 2009.

The Legislature also shuttered the Technology, Trade and Commerce Agency because of turmoil – the questionable performance of the state's overseas trade offices. The resulting arrangement is hardly optimum: a tangle of programs dispersed across agencies – and few defend it. But the need or desire to rebuild a centralized state commerce agency is not as obvious as it was for information technology. The Commission heard from state and local economic development officials, as well as representatives of key state economic development programs, that the closure of the Technology, Trade and Commerce Agency may have been a fortuitous over-reaction to the trade-office affair. It allowed an informal network of local economic development associations and regional collaborations, such as the California Partnership for the San Joaquin Valley, to emerge and establish bottom-up priorities for economic growth. It also gave rise to a promising public-private marketing effort, TeamCalifornia, to fill the void of promoting California products and industries at international trade shows without the hassle of state-agency politics and budgets.

The absence of a traditional commerce agency in Sacramento provided an opportunity to evaluate new governance models that might better position the state for long-term prosperity as its economy emerges from the recession, allowing the state to try something entirely new based on what has worked elsewhere.

The State as a Wholesaler

The California Association for Local Economic Development (CALED), whose members represent city, county and regional economic development organizations, says the state should confine itself to the role of a service "wholesaler," leaving the actual delivery of services to local economic development organizations that are more in tune with the specific needs of individual business.

"Wholesale" activities include:

- ✓ Developing a dynamic state economic development strategy.
- ✓ Investing resources into the local business service delivery network to build and support capacity.
- ✓ Working with local organizations to create incentives that support California's infrastructure.
- ✓ Acquiring, analyzing and distributing economic data.
- ✓ Researching economic development issues confronting California.
- ✓ Focusing public and policy-makers' attention on areas of greatest need.
- ✓ Providing leadership in smart growth and sustainability.
- ✓ Enhancing and supporting local economic development capacity in the delivery of international marketing and investment opportunities.

Source: Wayne Schell, president and CEO, California Association for Local Economic Development. Sacramento, CA. 2003. "Building a More Resilient California Economy Based on Strong Businesses, State Leadership and Effective Local Economic Development."

A dozen states considered leaders in economic development have incorporated "critical success factors" in their governance models such as:

- Private sector leadership.
- The governor acting as a convener.
- A strategic plan organized around leading industry clusters.
- Communications and information sharing to build trust and understanding among stakeholders.[80]

Florida, for example, closed its 300-person commerce agency in 1996 and created Enterprise Florida, Inc., a not-for-profit partnership funded by Florida's business community and state government. The agency serves as the state's principal economic development organization, responsible for strategic planning and coordinating resources. It operates a staff of 80 and accomplishes its mission through a network of economic development organizations located throughout the state, as well as overseas. Its board, chaired by the governor, consists of top business, economic development and government leaders from throughout Florida.[81]

A key concept from the Florida experience – an emphasis on organizing resources, not managing people and programs – is worth pursuing, because economic development activity transcends organizational boundaries, and can involve federal, state and local governments as well as the private and nonprofit sectors. The command-and-control structure of a traditional state agency hierarchy typically lacks the agility to effectively harness all these moving pieces, especially when each new project introduces new players, both inside and out of government.

Strategic Planning for Economic Development: State Best Practices

	Strategy	Structure
ARIZONA	Moving Arizona Forward: A Comprehensive 10-year Approach -Industry Clusters -Economic Diversity -Innovation -Global Competitiveness	Commerce and Economic Development Commission (Public-Private Partnership)
FLORIDA	Roadmap to Florida's Future: A Five-Year Strategic Plan -Global Commerce -Innovative Entrepreneurship and Venture Capital -Education/Commerce Development -Business Climate -Rural Development -Smart Growth	Enterprise Florida, Inc. (Public-Private Partnership) responsible for plan and annual updates
INDIANA	Accelerating Growth: Increase Per Capita Income to National Average by 2020 through: -Innovation -Talent Development -Investment	Indiana Economic Development Corporation (Public-Private Partnership)
GEORGIA	Diverse State-Regional Strategies -Workforce Development -Access to full range of government assistance, information and tools for economic development	State Department of Economic Development with12 service-delivery regions
MASSACHUSETTS	Community Preservation Act (economic, environmental, investment fund) Global Massachusetts 2015 (global competitiveness and partnerships, innovation/R&D, talent development/retention)	13 Regional Planning Agencies Statewide public-private leadership initiative
NORTH CAROLINA	Four Cornerstones of Economic Success -Globally Competitive Workforce -Investment in science and technology -Competitive business climate -Attractive communities	Interagency Economic Development Groups and Public-Private Economic Development Board
OHIO	Turnaround Ohio: Strategy for Job Creation -Develop jobs for the future -Opportunity for young people -Boost wages -Entrepreneurship -Economic Infrastructure	Unified budget for economic development Governor's Business Council (drawn regionally)
OREGON	Oregon Business Plan -People (workforce and education) -Place (quality of life) -Productivity (business costs/climate) -Pioneering innovation and entrepreneurship	Oregon Business Council (private) working with Oregon Innovation Council and state government
PENSYLVANIA	Ben Franklin Technology Partners/Keystone Innovation Zones -Technology-based economic development (capital, technical assistance, commercialization) -Regional zones to promote innovation	Ben Franklin Technology Development Authority (public-private)
TENNESSEE	State Strategic Economic Development -Regional approaches to job growth -Target high-growth industries -Organize collaborative initiatives focused on business development	Jobs Cabinet (multiple state agencies)
WASHINGTON	The Next Washington: Statewide Regional Economic Strategy -Education/training -Clusters -Global market access	State government and regional public-private initiatives

Source: Trish Kelly and Todd Schafer, California Center for Regional Leadership. Sacramento, CA. September 17, 2007. "California Economic Leadership Network." Pages 28-30.

The Commission also heard testimony about creating a special revenue stream for a state economic development office, along the lines of the California Travel and Tourism Commission, a public-private marketing venture funded through a sales tax assessment on rental cars, hotel rooms, restaurants, attractions and retail shops.[82]

The options for restructuring California's economic development activities are intriguing, all but one. Based on input from hearing witnesses and experts, there is little value that could be gained from reconstituting the previous Technology, Trade and Commerce Agency and consolidating the state's economic development programs under one roof. "Instead of moving the boxes around, we need to get our arms around the macro goals – make it clear what function needs to be filled and build a structure around it," Business, Transportation and Housing Agency Secretary Dale Bonner said at the August 2009 Innovation Summit in San Francisco.[83]

More interest was shown in developing a network in which the state strengthens linkages between organizations and programs. This function is less costly and more appropriate for the state than trying to provide a direct service. As the Commission heard from leaders of state economic development programs, "our job is facilitating."[84]

The merit of a centralized approach remains intuitive and compelling, and deserves further discussion and consideration. Recent legislation to consolidate the state's economic development programs into a single agency follows a theme expressed by the California Performance Review as well as work by this Commission about the creation of the Labor and Workforce Development Agency, which put a focus on incorporating the state's multibillion-dollar workforce training programs into an economic development strategy. Properly aligning these elements to maximize their collective value is an ongoing concern. As a first step, however, building a strategy that can harness existing programs can provide value and improve outcomes as the broader structural issues are debated.

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."[85] 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.[86]

The Commission was warned that efforts to create a new umbrella agency would be met with skepticism. William Bassitt, CEO of the Stanislaus Economic Development and Workforce Alliance, put it bluntly

in testimony to the Commission: "Please do not recommend such a structure until or unless the state actually adopts a strategy that reflects seriousness about meeting the needs of businesses and encourages a pro-business attitude." Doing so would only hurt the state's credibility with the private sector, he said.[87]

Building on and formalizing an already existing state-led network of public and private partners, however, can better connect local service providers with consumers of economic development assistance. Instead of insulating department managers in an agency structure, a state network can take advantage of the increased reach and specialization that exists in the current diffused structure that will allow the state to respond more quickly to situations and adapt to changing needs – without incurring the capital costs of a commerce agency with numerous field offices. "Networking can help government evolve from a one-size-fits-all service provider to a one-stop portal for myriad providers," according to former Indianapolis Mayor Stephen Goldsmith, an advocate for modernizing government bureaucracies.[88]

Based on input from state leaders, expert witnesses and stakeholders, the essential functions of California's economic development portfolio 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.
- Improving the marketing of state 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 set the policy agenda and serve as the visible national and international point of contact for existing or prospective corporations and small businesses, as well as local, state and federal economic development leaders. The Commission heard repeatedly during the course of its study that there is no one person at the state to call for this type of assistance or leadership. Creating a pipeline to the governor would be a first step, with a simply named "Governor's Office of Economic Development" – obvious to outsiders and insiders as 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 must serve as the clearinghouse for accountability of state economic development programs, staffed with trained professionals who can direct callers and set up meetings with real people in charge of real programs and services.

The Commission heard that the state needs to make a dramatic gesture to the outside world to show that someone in Sacramento is in charge and accountable for the state's economic development activities.[89] The Governor's Office of Economic Development, therefore, should not be viewed as an additional bureaucratic layer or as hollow posturing. It must be a credible networking operation carrying the imprimatur of the governor, serving as an ambassador, a match-maker, a strike team and a 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 the small business that needs help navigating a state permitting process. The state cannot always provide a handout, but it must do a better job with the hand off.

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 are tasked with critical roles, but organizationally are buried within the Labor and Workforce Development Agency. The Governor's Office of Economic Development also must partner with and bolster support of TeamCalifornia's efforts at marketing 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 (See Appendix F). Formed after the demise of the Technology, Trade and Commerce Agency, CalBIS operates out of the Labor and Workforce Development Agency with a small team of five staff members. 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 by a

series of action teams, led by a team leader within the Governor's Office of Economic Development – who carries the authority of the governor to encourage cooperation – and comprised of representatives from other economic development program areas in existing departments, to respond to immediate and emerging issues affecting industries and specific companies.

The teams can be structured as the situation demands, but should be designated by the new governor to reinforce the authority behind the team leader. This model puts the governor in the role of convener. Teams can represent regional industry sectors, innovation clusters, specific projects of statewide importance and/or emergency business development following natural disasters. The teams would not have budget or direct-line authority over state economic development programs, but must carry the weight of the governor in dealing with other state agencies to pull together incentive packages or job-growth strategies.

The desire from the business community for customer friendliness and accessible information – having well-trained and knowledgeable personnel to help move projects along – remains a high priority, the Public Policy Institute of California's Max Neiman found in his research.[90] Indeed, Mary Ingersoll, executive director of TeamCalifornia, told the Commission that the state can go a long way by being more responsive to individual business inquiries.[91]

"Is every business that expands outside of California or moves from the state an indication of there being something wrong? If not, then at what point would we see a business departure or failure to attract a business as a reflection of something being amiss? …If we don't expect or want every business location decision to result in a move to California, then which ones do we get miffed about?"

Max Neiman, senior fellow, Public Policy Institute of California

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. Currently, the understaffed Economic Strategy Panel is charged by statute with designing a strategic plan, but has not done so since 2002. A statewide strategic planning 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 panel's better known role – analyzing labor market data to identify industry-growth opportunities – will play a critical role in helping shape the larger strategic plan, but the panel should not lead the effort. The plan must be developed with input from stakeholders across the state – from business, education and labor – to increase buy-in and legitimacy.

The effort should be directed in partnership with an outside entity, such as the California Association for Local Economic Development (CALED). Oregon, for example, has tapped the Oregon Business Council, a private entity, to work with state government and business leaders to develop

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.

and continually update a strategic framework to build a competitive, innovation-driven economy, with the goal of creating more quality jobs.[92]

The work of designing such a statewide action plan for California can begin immediately by building on the many efforts of organizations that already have laid out strategic plans and guiding principles. This includes, but is not limited to, local economic development organizations, the state Economic Strategy Panel, the California Center for Regional Leadership and the Assembly Committee on Jobs, Economic Development and the Economy.

Without a strategic plan, the California's economic development programs will continue to drift along, unconnected to and potentially undermining other policy goals.

The strategic planning exercise also must be more than the mere production of a report. Too many of those already exist. It must be a living document that provides the focus and attention of policy-makers, creates demand for action and is embraced and executed by the governor and the administration. No strategic planning effort is complete without an assessment and evaluation component to ensure that the goals and objectives are achieved and on track. 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 groups to develop appropriate metrics to evaluate programs for efficiency and effectiveness. It is critical for the Governor's Office of Economic Development to establish what the state should be working toward. Those outcomes can be as varied as job creation, personal income growth, the state's share of patents, unemployment rates or home ownership. "Without a workable, guiding, operational concept of economic development objectives, it will be difficult to develop coherent policies that can be evaluated rigorously," Mr. Neiman told the Commission.[93] It will be the job of the Governor's Office of Economic Development to lead efforts to develop and define these measures of success.

For the Legislature, there remains the difficult task of sorting out program performance and responding to it – encouraging successful programs to flourish, while retooling or eliminating troubled programs. Though the Commission did not examine the performance of individual economic development programs, it recognizes the criticality of the

Legislature to conduct a thorough review of those programs. With the Governor's Office of Economic Development identifying measures of success for the state's economic development strategy, there will be a continuing need for the Legislature to review the programmatic overlap and questionable added value of the numerous economic development boards and advisory committees. With appropriate staffing, the Economic Strategy Panel can contribute to the program evaluation process as well. This task becomes more essential if future restructuring efforts are considered to merge economic development programs into a single agency. 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 heard that policy-makers and political leaders hold inconsistent views of the state's role in economic development and cited this disagreement as one possible contributor to the lack of a clearly defined state strategy on economic development. There is a perception that policy-makers view the state's role in economic development from one of three disparate perspectives:

- Economic development is "corporate welfare."
- The state's role in economic development should be limited to minimizing taxes and reducing regulations.
- The state should use its resources to foster economic growth and competitiveness.[94]

This presents opportunities and challenges to work with policy-makers to define the appropriate state role and governance approach. A beginning step is to raise the general awareness about the state's diverse economy and its toolbox of economic development resources. In terms of history, politics and regionalism, the dynamics of economic growth in California are on par with the complexity and importance of the state's water issues. The nonprofit Water Education Foundation serves as a clearinghouse for policy information, briefings and tours to illuminate water issues, but 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 – even tours – about key state economic assets, California's regional economies and the state's competitive advantages and disadvantages to other states and countries.

To establish and promote a business-friendly environment to create and retain good quality jobs, the Los Angeles Economic County Economic Development Corporation, in fact, included economic literacy and outreach to state and local stakeholders as a key plank of its recent strategic plan.[95] A broader statewide education effort could include state partners such as the Economic Strategy Panel, legislative policy committees and the Assembly's Robert M. Hertzberg CAPITOL Institute. External partners could include TeamCalifornia, CALED, the California Workforce Association and the state Chamber of Commerce.

California Partnership for the San Joaquin Valley

In 1996, the state Economic Strategy Panel recognized that the California economy is based on diverse regional economies – not a single, statewide economy – with industry clusters that compete globally, i.e. biotechnology in San Diego, information technology in the Bay Area, entertainment in Los Angeles, agriculture in the Central Valley.

This new way of looking at the economy, coupled with the lack of a strong state hand in economic development, only increased the importance of and emphasis on locally driven efforts to market California's products and services. Still, the policy-makers took special notice in 2005 of the state's agriculture heart in the San Joaquin Valley – an area with higher distress indicators than Appalachia – and formed a coordinating entity that has become a model for state-regional collaboration for economic growth and competitiveness.

In June 2005, a governor's executive order created the California Partnership for the San Joaquin Valley, led by a 40-member board of directors, all appointed by the governor, comprised of state cabinet secretaries, local government officials and civic leaders.

With $5 million in state funds, the partnership developed a comprehensive, 10-year economic action plan that focuses on growing competitive industry clusters, investing in and aligning education and workforce skills, and addressing housing, land use, agriculture and infrastructure so growth is more sustainable and addresses quality-of-life issues (i.e., air and water quality).

Among the partnership's successes:

- Creating a strong identity for the region.
- Seeking and securing a larger share of state resources, such as $1 billion for Highway 99 improvements.
- Winning approval and designation of five new enterprise zones.
- Making progress in developing land-use guidelines and an integrated regional water plan.
- Coordinating an integrated approach to economic development, workforce development and K-12 education.

Based on the San Joaquin Partnership's work, the California Economic Development Partnership and the nonprofit California Forward have called on the state to replicate the model in other regions of California and build a statewide governance network to coordinate and oversee these efforts. Others find merit in a regional, collaborative approach but question the sustainability of such a project without dedicated funding, not to mention turf rivalries of local governments.

Source: California Forward. May 19, 2009. "Can Local Success Save Our State: Local Profiles in Innovation."

Conclusion

California benefits from its top-flight universities, a reservoir of scientific and engineering creativity, and venture-capital and public support for research and development. California is clearly a leader in innovation and entrepreneurial growth, regardless of how the state government organizes itself in Sacramento or its lack of strategic planning. But the state can and should have an important role in ensuring that California maximizes its economic potential through improving not only the delivery of its economic development resources, but its leadership. Sustaining California's lead position remains in question, and state leaders can no longer take California's advantages for granted. Students are coming out of school unprepared to learn what is needed for the skilled jobs in industries that the state must count on – and encourage – to expand California's economy. California's lead in the global economy is anything but assured, more so as rival and neighboring states mobilize to best the Golden State.

The marshalling of California's resources and entrepreneurial spirit begins by taking small, but critical steps toward an appropriate governance structure that is built around a vision for the future that California must work to achieve.

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.

The Commission's Study Process

The Commission initiated this study in the summer of 2009 to review the organization and coordination of the state's current economic development activities among different agencies. The study maintained a narrow focus on an organizational evaluation of the state's coordination efforts, as opposed to a broader evaluation of how the state's tax or environmental policies shape the business climate in California. Through this study, the Commission sought to identify organizational opportunities to harness and match California's existing strengths with an economic development strategy to better position the state for long-term economic prosperity.

As part of the study, the Commission convened two public hearings. At the first public hearing, held in August 2009, the Commission discussed the organization, coordination and marketing of the state's current economic development activities. At the second hearing, in October 2009, the Commission discuss governance issues among the various key state agencies charged with managing economic development activities and examine how successful those agencies are in achieving their goals. Hearing witnesses are listed in Appendix A.

In addition to the hearings, the Commission also held additional public meetings. The Commission convened a subcommittee meeting in October 2009 where staff from CalBIS, I-Bank, the Department of Housing and Community Development, the Department of Food and Agriculture and the Office of Small Business Advocate discussed opportunities for better aligning state resources.

The advisory committee meeting, held in Los Angeles in November 2009, brought together more than 20 local economic development stakeholders from the Southern California region to discuss the accessibility of state services from the local perspective. Participants shared with the Commission their thoughts on the current and ideal state leadership role in economic development. A list of experts who spoke at the Little Hoover Commission public meetings is included in Appendix B.

Commission staff received valuable feedback from a number of experts representing various components of California's economic development system, from both inside and outside of government. The Commission greatly benefited from the contributions of all who shared their expertise,

but the findings and recommendations in this report are the Commission's own.

All written testimony submitted electronically for each of the hearings, and this report is available online at the Commission Web site, www.lhc.ca.gov.

Appendices & Notes

- ✓ ***Public Hearing Witnesses***
- ✓ ***Little Hoover Commission Public Meetings***
- ✓ ***Selected Acronyms***
- ✓ ***California Economic Development Programs: An Organizational Chart***
- ✓ ***Guiding Principles, Goals and Indicators for State Government Investment in Economic Development***
- ✓ ***Letters in support of CalBIS***
- ✓ ***Notes***

Appendix A

Public Hearing Witnesses

Public Hearing on Economic Development
August 27, 2009

William "Bill" Allen, President and Chief Executive Officer, Los Angeles County Economic Development Corporation

Bruce Kern, Executive Director, East Bay Economic Development Alliance

Brian McGowan, Deputy Secretary for Economic Development and Commerce, Business, Transportation and Housing Agency

Max Neiman, Associate Director, Public Policy Institute of California

Peter Weber, member, California Partnership for the San Joaquin Valley

Public Hearing on Economic Development
October 22, 2009

William Bassitt, President and Chief Executive Officer, Stanislaus Economic Development and Workforce Alliance

Michael Bushey, President, TeamCalifornia and Manager of Economic Development, Southern Californai Edison

Jamie Fall, Deputy Secretary of Employment and Workforce Development, California Labor and Workforce Development Agency

Mary Ingersoll, Executive Director, TeamCalifornia

Bill Lockyer, California State Treasurer

Bruce Stenslie, President and Chief Executive Officer, Stanislaus Economic Development and Workforce Alliance

Appendix B

Little Hoover Commission Public Meetings

Economic Development Subcommittee Meeting – October 21, 2009
Sacramento, California

Dave Freitas, Assistant Secretary, California Business Investment Services, California Labor & Workforce Development Agency

Stanton Hazelroth, Executive Director, California Infrastructure and Economic Development Bank

Kristin Johnson, Region Director, Northern California Small Business Development Center

Marty Keller, Director, Office of Small Business Advocate, Governor's Office of Planning and Research

Robert Tse, Deputy Secretary for Trade Development, California Department of Food and Agriculture

Chris Westlake, Deputy Director for Financial Assistance, California Department of Housing and Community Development

Economic Development Advisory Committee Meeting – November 9, 2009
Los Angeles, California

Bruce Ackerman, President and Chief Executive Officer, Economic Alliance of the San Fernando Valley

William "Bill" Allen, President and Chief Executive Officer, Los Angeles Economic Development Corporation

Chito Cajayon, Dean, Economic & Workforce Development, Los Angeles Community College District

Bill Carney, President and Chief Executive Officer, Inland Empire Economic Partnership

Jamil Dada, Vice President, Investment Services, Provident Bank

Joyce Dillard, interested citizen

Lucy Dunn, President and Chief Executive Officer, Orange County Business Council

David Flaks, Vice President of Policy & Strategy, Los Angeles Economic Development Corporation

Ofelia Gomez, Employment Service Representative, Hub Cities Consortium

LaTonya Johnson, Workforce Development Board Liaison, Riverside County Workforce Investment Board

Bob Judevine, Interim Director, Santa Ana Regional SBDC Network

Timothy Kelley, Executive Director, Imperial Valley Economic Development Corporation

Mel Layne, President and Chief Executive Officer, Greater Antelope Valley Economic Alliance

Larry Lee, Business Services manager, SELACO Workforce Investment Board

Steve Masura, Redevelopment Manager, City of Santa Fe Springs

Arthur Montreal, Media Community Outreach Coordinator, SASSFA WorkSource Center

Tod Sword, Project Manager, Southern California Edison

Judy Turner, Director of Partnerships and Programs, California Space Authority

Jan Vogel, Executive Director, South Bay Workforce Investment Board

Wallace Walrod, Vice President of Economic Development & Research, Orange County Business Council

Barry Waite, Business Development Manager, City of Carson

Clifford Weiss, Deputy Director, Los Angeles Community Development Department

Will Wright, Director of Government and Public Affairs, American Institute of Architects

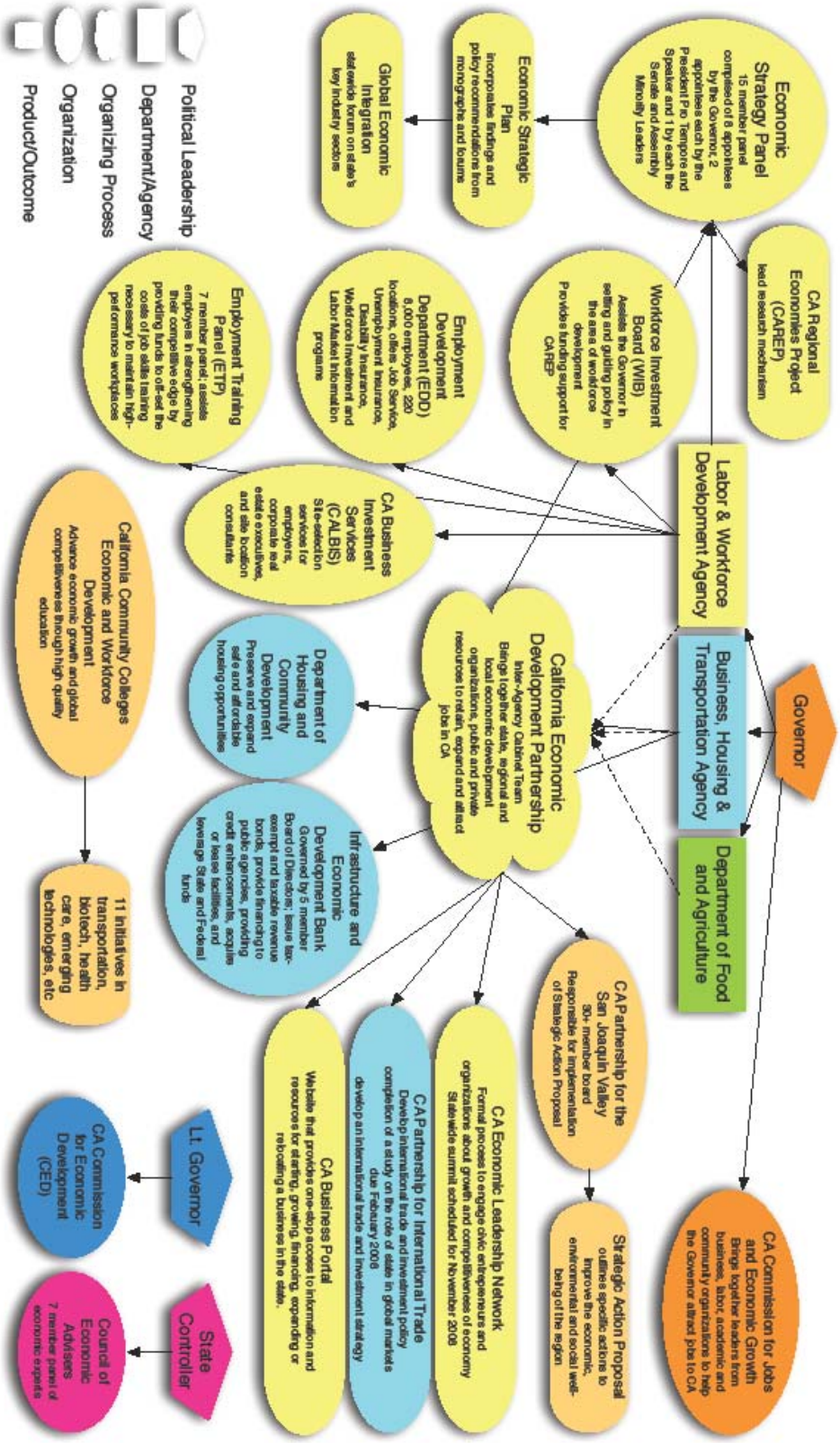
Appendix C

Selected Acronyms

BTH: California Business, Transportation and Housing Agency
CAEATFA: California Alternative Energy and Advanced Transportation Financing Authority
CalBIS: California Business Investment Services
CALED: California Association for Local Economic Development
CDFA: California Department of Food and Agriculture
CDLAC: California Debt Limit Allocation Committee
CEFA: California Educational Facilities Authority
CHFFA: California Health Facilities Financing Authority
CIDFAC: California Industrial Development Financing Advisory Commission
CPCFA: California Pollution Control Financing Authority
CSFA: California School Finance Authority
CTCAC: California Tax Credit Allocation Committee
CWIB: California Workforce Investment Board
EDD: Employee Development Department
ETP: Employment Training Panel
EZ: Enterprise Zone
HCD: California Department of Housing and Community Development
I-Bank: Infrastructure and Economic Development Bank
IDB: industrial development bonds
LAEDC: Los Angeles County Economic Development Corporation
LWD: California Labor and Workforce Development Agency
OSBA: Office of the Small Business Advocate
STO: California State Treasurer's Office
TTC: Technology, Trade and Commerce Agency
WIA: Workforce Investment Act (federal)

Appendix D

California's Economic Development Programs: An Organizational Chart



Appendix E

Guiding Principles, Goals and Indicators for State Government Investment in Economic Development

(Economic Strategy Panel, June 20, 2003)

Preamble

The California economy changed profoundly in the 20th Century, due in large part to the hard work, innovative capacity, entrepreneurial spirit and diversity of our people. These same qualities will drive radical transformation in our economy in the 21st Century. Yet our public policy framework remains rooted in the past. The State's governance must reflect new global economic, social, technological and budget realities, including an expanded understanding of what constitutes state and regional competitive advantage. Our challenge is to define the role of State government policies and investments in this new environment.

Guiding Principles

State government policies and investments shall strive to achieve regional economic prosperity, improved quality of life, social equity and sustainable use of land and resources. Accepting that economic development is a long-term process and that our prosperity is equated as a high quality of life for all Californians, State government policies and investments should:

- be made with a sustained and long-term perspective;
- acknowledge the differences in the State's diverse regional economies and residents, and facilitate growth and equity for all California communities;
- be based on sound economic information and analysis;
- ensure stewardship of the State's valuable and scarce natural resources; and,
- be transparent and demonstrate clear accountability.

Goals

The goals of state government policies and investments shall be to foster an innovation-based economy that enhances California's economic leadership and will provide for:

- sustainable economic growth for all of our regions;

- quality jobs for more people;
- improved global competitive advantage;
- higher quality of life, including environmental quality, adequate housing and increased wealth for all, resulting from an equitable distribution of opportunities; and,
- improved and efficient utilization of human, financial capital, physical infrastructure and technological assets.

Economic Indicators to Measure Progress of the Goals

Economic Indicators for Sustainable Economic Growth for All of Our Regions include:

- rise in real per capita income in each of the State's nine economic regions compared to the level of increase for competitor national and global regions;
- increase in new business formation or expansion for each of the State's nine economic regions compared to the level of increase for competitor national and global regions;
- increase in number, size and diversity of minority-owned businesses for each of the State's nine economic regions compared to the level of increase for competitor national regions;
- reduction of the percentage of households below the federal poverty line in each of the State's nine economic regions compared to the level of decrease for competitor national regions; and,
- increase in private sector investments such as venture capital and business lending for each of the State's nine economic regions compared to the increase for competitor national and global regions.

Economic Indicators for Quality Jobs for More People include:

- increase in "quality" jobs that pays 150% of the region's median hourly wage and provides health coverage in each of the State's nine economic regions compared to the level of increase in competitor national regions;
- reduction in the gap between high and low income and high and middle income households (measured as a ratio of the average income of the top 5% of households to the bottom 20% of households and top 5% of households to the middle 20 % of households, respectively) in each of the State's nine economic regions compared to the level of decrease in competitor national regions; and,
- increase in jobs in all wage classifications in each of the State's nine economic regions compared to the level of growth of jobs in competitor national region.

Economic Indicators for Improved Global Competitiveness include:

- increase in exports and direct foreign investment for each of the State's nine economic regions compared to the level of increase for competitor national and global regions; and,
- increase in business and tourism travel from out-of-state for each of the State's nine economic regions compared to the level of increase in competitor national and global regions.

Economic Indicators for a Higher Quality of Life, Including Environmental Quality, Adequate Housing and Increased Wealth for All, Resulting from an Equitable Distribution of Opportunities include:

- increase in the percentage of households that are homeowners and increase in affordable housing in each of the State's nine economic regions compared to the level of increase in competitor national regions;
- decrease in housing-to-job commute time and distance in each of the State's nine economic regions compared to the level of decrease for competitor national regions; and,
- improvement in the quality of life in each of the State's nine economic regions compared to the level of improvement for competitor national regions measured by reduction in crime rates, access to health care coverage, increase in recreational opportunities and improvement in environmental conditions.

Economic Indicators for Improved and Efficient Utilization of Human, Financial Capital, Physical Infrastructure and Technological Assets include:

- increase in investments in physical infrastructure, including telecommunications capacity, in each of the State's nine economic regions compared to the level of increase of investments in competitor national regions;
- increase in technology transfer investments for each of the State's nine economic regions compared to the level of increase for competitor national and global regions; and,
- increase in the level of basic and information literacy for each of the State's nine economic regions compared to the level for competitor national and global regions.

Appendix F

Letters in Support of CalBIS

SIEMENS

September 25, 2009

Mr. Doug Hoffner, Acting Secretary
Labor and Workforce Development Agency
State of California
801 K Street, Suite 2101
Sacramento, CA 95814

Dear Mr. Hoffner,

We are one of the few companies currently expanding our operations and hiring employees in California. We manufacture light rail vehicles for North America, are the market leader, and we have been operating in South Sacramento for 25 years.

The California Business Investment Services (CalBIS) agency played an important role in our recent $26 million expansion. This expansion allowed us not only to in-source a critical component to our light rail vehicles, it also positions us well to address emerging needs in the transit market – namely, high speed rail.

CalBIS was the catalyst in our establishing a strong and ongoing relationship with Governor Schwarzenegger and Business, Transportation & Housing Secretary Dale Bonner. CalBIS helped us set up a meeting between Governor Schwarzenegger and our Siemens AG CEO Peter Löscher and a meeting with Secretary Bonner and head of global high speed rail, Edzard Lübben, in Germany in March.

Since then, we have hosted both Governor Schwarzenegger and Secretary Bonner at our plant in Sacramento, and we are a resource on high speed rail to both the Governor's office and the BT&H agency.

This is mutually beneficial, as we can showcase our proven high speed rail technology, and California officials can easily learn about what is proposed to be one of the largest public works projects in history.

We look forward to continuing our relationship with CalBIS.

Best regards,

Oliver Hauck, President & CEO
Siemens Transportation Systems, Inc.
A Siemens Industry Business, Mobility Division

Siemens Transportation Systems, Inc.

7464 Fruitridge Road
Sacramento, CA 95826

Bayer HealthCare

September 30, 2009

Doug Hoffner, Acting Secretary
Labor & Workforce Development Agency
801 K Street, Suite 2101
Sacramento, CA 95814

Dear Secretary Hoffner:

On behalf of Bayer HealthCare, I would like to extend sincere thanks for the significant assistance provided to us surrounding our recent decision to maintain manufacturing processes in the East Bay, investing over $100 million in our Berkeley campus.

As you know, Bayer's Board of Management faced a decision-point this past August surrounding the locating of manufacturing upgrades for production of future versions of Kogenate FS, our biologic drug for treatment of hemophilia. The Board weighed the option of moving this process to an out-of-state, contract manufacturing organization, versus investing locally at our existing Berkeley site.

An analysis of very competitive proposals was conducted and, as we were pleased to announce with you at our side, the decision was ultimately made to keep this manufacturing in Berkeley. The investment, the largest by Bayer HealthCare in Berkeley to date, will be made over the course of the next four years on facility upgrades, new equipment and state-of-the-art technologies.

Early on in the deliberations, your office – through California Business Investment Services – played a significant role in identifying and facilitating all potential avenues for the extension of economic incentives to make the "California" proposal as competitive as possible. Specifically, your Agency worked to identify opportunities for expansion of Oakland's existing Enterprise Zone into West Berkeley and Emeryville, serving as a "pivot point" for all discussions and activity. Such expansion will not only benefit Bayer, but will also be a stimulus for growth of biotechnology and other green technology business in the region. Further, other incentives which will have a profound impact on our business, such as job training and "economic development" utility rates were identified and secured.

In short, the efforts of your office – combined with the help and enthusiasm of Governor Schwarzenegger and other state agencies such as Housing and Community Development – were a vital component of this initiative and Bayer's ultimate decision to keep this investment in California. The role that your Agency played, coordinating with amazing skill and alacrity the efforts of several local governments, private interests and economic development agencies, resulted in a positive outcome for which we are extremely grateful.

Finally, I would be remiss to not specifically mention both David Freitas and Mather Kearney of CalBIS. Special kudos to them for their tireless work on this issue; they represent your office and the interests of the State of California extremely well.

Again, we sincerely appreciate your assistance in this endeavor.

Regards,

Derek Naten
Director, State Government Affairs

Derek Naten
Director State Government Affairs
Bayer HealthCare LLC
1201 K Street – Suite 1030
Sacramento, CA 95814

Tel 916-447-1611
Fax 916-447-1681

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