

POLICY RECOMMENDATIONS TO
CREATE CA
MANUFACTURING JOBS



“What would it take from Sacramento for private sector innovation economy employers to grow technology and manufacturing jobs in California?”

- Gov. Jerry Brown Administration

INTRODUCTION

In Silicon Valley, a “game changer” is a cutting-edge product or a new process that leap-frogs the competition. California must thoughtfully enact a series of game changers to propel California back to prosperity and international prominence.

Silicon Valley competes globally for customers, and it competes for jobs against other nations and states. During the past decade, competitor states like Texas added 1.25 million private sector jobs and Arizona added 265,000. California had a net loss of 53,000 jobs during the same time period.

To successfully compete, we must emulate what other states and nations are doing to attract high-skill, high-wage, high-tech and manufacturing jobs that ultimately help create more jobs across many sectors. And, we must enact a series of game changers that will help make our state a leading economic engine once again.

The 335 CEOs who comprise the Silicon Valley Leadership Group have little interest in ideological extremes that lurch our state left or right. Rather, we stand ready to work with Governor Brown and the Legislature on game changing solutions that move California forward.



TAX AND REGULATORY POLICY

With the help of a Cabinet-level position and Board of Business Advisors, create a specific Technology and Manufacturing Jobs Strategic Plan - with incentives for companies - that is competitive with other states. A top level Administration position is necessary to lead the development – and implementation - of a strategic plan to help California companies expand in the state, instead of elsewhere. Other states are extremely aggressive in enticing companies to expand within their borders and California needs a timely, competitive response.

Create a Strategic Plan for Economic Development in California (e.g. LA EDC model, LA County). It is no surprise that California is being out-manuevered by neighboring states in the competition for jobs. California needs to have what Los Angeles County has recently put in place: a consensus economic development strategic plan engaging a wide range of stakeholders. This is a critical step in setting the foundations for California’s long-term growth.

Create an Office of Regulatory Streamlining to make the regulatory process and procedures more efficient; create consistency where administrative rules are duplicative or overlap; and reduce burdens to businesses. (e.g. Oregon model). Ad hoc measures to rein in unnecessary regulatory burdens have been generally unsuccessful. In contrast, in the course of 6 years, Oregon’s Office of Regulatory Streamlining revamped the state’s regulatory framework to save that state’s businesses more than 100,000 of hours of time per year, 1.4 million sheets of annual paperwork no longer submitted to the state and an estimated \$15 million in annual business cost savings.

Return to a 40-hour weekly overtime rule to bring the state back in line with the rest of the nation and create more options for employees who wish to work more hours during fewer days. The 40-hour weekly overtime rules would allow flexibility that would benefit employers and employees. Overtime still could be paid for more than 10 hours worked in a day or 40 hours in a week.

Protect and expand workers' compensation insurance reforms by offsetting increased costs with additional changes to the system. In recent years there has been a spike in premiums and a return to unsustainable rises in costs, which could threaten the pace of economic recovery especially for small businesses. New analysis and policy solutions should be investigated.

Create incentives for infill development and housing through CEQA reform to further ensure the success of AB 32 and SB 375. The California Environmental Quality Act is intended to identify and avoid significant environmental impacts of new development. In areas where it is environmentally beneficial to direct growth, there is widespread consensus that CEQA can unnecessarily add time and money to the development process. CEQA reform for infill proposals could shorten the entitlement timeline, reign in additional costs and as a result, spur economic development associated with infill housing and development.

Extend the clean tech sales tax exemption (SB 71) to all California manufacturers. California has an opportunity to expand on the success of SB 71, which allows tax exemptions for renewable and clean-tech businesses, by extending the manufacturers exemption to all businesses and practices such as research and development. California is one of only a few states that taxes manufacturers on job-creating investments in plants and equipment.

Improve and enhance the California Research and Development Tax Credit to spur long-term investments in research and manufacturing. Research and development (R&D) is the innovation lifeblood of California. But growing numbers of R&D facilities are heading to other countries and states. California has an opportunity to remain competitive by bringing the current state R&D tax credit to full federal conformity at 20 percent.

Protect and improve California’s single sales apportionment factor formula. Protecting the single sales factor will help California operate on a level playing field with other states to stimulate business and industrial growth, help attract business into the state, help retain and expand business and industry and create increased job opportunities. With one of the highest corporate tax rates in the U.S., California must continue to seek innovative ways to improve competitiveness by ensuring a lower corporate tax rate relative to other states.

Provide direct cash grants to spur investments by start-ups in lieu of income tax credits since many start-ups cannot utilize credits due to their lack of profits. California should build a business climate which favors grants over income tax credits. With a grant, 100 percent of the incentive can be used immediately. Competitors like Texas issue grants.

EDUCATION

Fully implement a robust longitudinal data system that can be used to evaluate educational programs, practices, pathways and outcomes for students from pre-kindergarten through workforce. Further delay in bringing the state’s longitudinal system on line, and building it out to include other aspects of education and training, will be disastrous. With longitudinal student-level data we can measure the effectiveness of our decisions, including instruction, curriculum, training and achievement. We need to measure what is working and why.

Establish clear lines of authority between state and local education agencies, through reforms that would include changes to the state's educational governance system and the creation of a more reliable per-pupil funding system. The time is right to undertake K-12 governance reform via statutory changes. Those changes can be derived from recent work by commissions and research institutions, which call for improving lines of accountability.



Develop a reliable and equitable financing and fee structure for state institutions of higher education and strengthen the buying power of the Cal Grant program for both public and private universities to encourage graduate and undergraduate student development. The needs of the innovation economy cannot be met if the fee, admission and financial aid structures for higher education change from year to year. To meet demand, the state needs a reliable financing structure that protects access and ensures completion.

REFORM

Pension Reform – Adopt reasonable pension reforms to stop the growing state pension debt. California's state and local governments have taken on pension obligations that are already crowding out important investments in education, job creation and social services, and threaten to bankrupt these jurisdictions if left unaddressed. While there is some disagreement about the precise magnitude of the problem (credible estimates run as high as \$625 billion) there is consensus around the basic fact that current public pensions systems are not sustainable.

Fiscal/Governance Reform - Adopt the following measures, as proposed by CA Forward because California's business climate will benefit from a more disciplined and performance-focused state fiscal system, which should be built on a foundation of accountability and results.

Budgeting for performance: Require clear goals and measure the performance of every program. Implement rigorous performance reviews for all programs to ensure they are improving, or so the money can be spent in a better way to achieve the objective.

Multi-year budgets: Adopt more flexibility and long-term planning in the state budgeting process. The Governor and the Legislature should craft two-year budgets with mid-course correction authority, and provide long-term revenue forecasts and capital investment plans.

Limit one-time revenue use. Adopt a pay-as-you-go model for new projects. Major new or expanded programs or tax reductions (created through the legislative or initiative process) should identify how they will be financed by additional revenue or compensating spending reductions.

Initiatives: Require statewide initiatives that cost money to have an identified funding source. Transparency in the public initiative process is a critical component to this refinement particularly when California voters are being given the daunting task of deciding on the financial course of California with lasting implications.

TRANSPORTATION AND INFRASTRUCTURE

Enact a comprehensive plan for California's transportation system that is adequately funded through sources such as a voter-approved increase in the gas tax, vehicle license fee and/or other vehicle-based tax. Individual transportation projects – highways, roads, transit lines, etc. – do not operate in isolation. It is critical to our economy to have a full, multimodal and integrated system to move people and goods around our state.

Support the comprehensive water bond ballot measure to protect the Delta and expand the availability, quality and reliability of water supplies that support the state's economy and environment. The water supply system that supports most of California's residents, businesses and underpins its ecological health is facing unprecedented challenges and is in dire need of restoration, repair and upgrade. Passing the \$11 billion bond measure in 2012 is absolutely vital to ensure a reliable supply of water for homes, businesses, farms, the environment and economy.

Expand the use of public-private partnerships for infrastructure projects by providing additional and broader authority for public entities to partner with private entities to finance, design, build and maintain infrastructure projects. California public agencies generally lack the authority to partner with private entities to finance, design, build and maintain infrastructure projects. To expedite projects the state should provide additional and broader authority so that public entities have the ability to utilize this flexible, innovative and cost effective tool.



Lead the nation in sustainable transportation, including electric vehicles by greening state auto and transit fleets with electric and hybrid vehicles and streamlining permitting and development processes to ensure broad access to electric vehicle infrastructure. We must continue to improve coordination between our land use and transportation systems with the implementation of SB 375, enhance people's ability to use active transportation modes like biking and walking, and promote the adoption of electric vehicles. The electric vehicle industry offers particular opportunities for job and economic growth.

Promote a business climate where innovation is rewarded, whether in manufacturing or software development, by protecting intellectual property and information technology as critical steps. Silicon Valley's business and job growth has always been dependent upon innovation. The state needs to promote an environment where innovation is rewarded, whether in manufacturing or software development; and protecting intellectual property and information technology is a critical step.

Continue to support broadband deployment through continued investment in such things as the California Advanced Services Fund and California Telehealth Network. California can continue to be a leader in advancing telehealth by ensuring that broadband technology is fully utilized to help make health care more accessible and affordable by utilizing modern day technology.

RESOURCES AND REVENUE

The Leadership Group is open to supporting general fund revenue increases (coupled or concurrent with Pension Reform and Budget & Governance Reforms) as follows:

- **Restoration of all or part of the Vehicle License Fee.**
- **Extension of the temporary tax increases enacted as part of the 2009 Budget Agreement.**

Our member companies are willing to consider supporting these general fund increases as long as long-term reforms are enacted.

ENERGY INDEPENDENCE & NEW CLEAN-TECH, CLEAN ENERGY JOBS AND ENERGY EFFICIENT INVESTMENT

Establish a Renewable Portfolio Standard of 33 percent by 2020, which follows a regional approach rather than a "California only" approach. Achieving a 33 percent RPS by 2020 is considered essential by the California Air Resources Board if California is to achieve the objective of the California Global Warming Solutions Act (AB 32) to reduce greenhouse gas emissions to 1990 levels. RPS legislation that offers utilities the ability to purchase electricity from a mix of regional sources at a reasonable cost to customers and end users is best for the economy and jobs.

Work with the Air Resources Board to fully implement the California Global Warming Solutions Act (AB 32) through regulations that are cost-effective while still reducing greenhouse gas emissions. Innovators and investors are pouring resources into solar power, biofuels, electric and plug-in hybrid cars, fuel cells, energy-efficient computing and lighting, and sustainable building practices and materials. It is critically important that AB 32 is implemented in a way that gives business in this state sufficient time to reduce their emissions in a cost-effective manner without causing unnecessary short-term costs.

Enable financing to scale-up market-ready clean energy technologies (LED, EV, others) through strategies such as loan guarantees or a "green bank." To be competitive, California must develop policies to scale-up market-ready clean energy technologies manufactured in this state. Commercial lenders remain reluctant to invest in these technologies primarily because of perceived risk due to limited market penetration. Loan guarantees and tax credits can help to increase the financing of clean energy technologies.



Support deployment of smart meters and legislation to advance smart grid technology. The deployment of smart meters and policies to advance smart grid technology is essential for enabling consumers to track energy usage and make educated energy decisions toward energy conservation. Policies should enable competition among smart grid technology providers while providing adequate safeguards for consumer privacy.

NEW DEVELOPING MARKETS IN SPECIFIC SECTORS

Guarantee state and/or aggregate local government purchase of select green technologies to create incentives for local production and quick scale-up. State and local governments should work together to aggregate purchases of green technologies to create jobs and lead to large purchases of energy efficiency products, renewable energy, and other green technologies. These investments will send strong market signals that will boost the green economy.

Leverage MediCal purchasing power to create a market for innovative products in medical devices/ biotech/ pharmaceuticals. The life science industry is a vibrant participant in the California economy and has a long history of creating high value, high compensation jobs that enrich the community. MediCal could become much more proactive in the reimbursement process in a way that would provide investors with more confidence that successful products would be covered in California.



The Silicon Valley Leadership Group, founded in 1978 by David Packard of Hewlett-Packard, represents more than 335 of Silicon Valley's most respected employers on issues, programs and campaigns that affect the economic health and quality of life in Silicon Valley, including energy, transportation, education, housing, health care, tax policies, economic vitality and the environment. Leadership Group members collectively provide nearly one of every three private sector jobs in Silicon Valley.

224 Airport Parkway #620

San Jose, CA 95110

408.501.7864

svlg.org