



2010 SOUTHERN CALIFORNIA'S ROAD TO ECONOMIC RECOVERY

Background

Southern California accounts for 57.1% of the state's population, 54.4% of non-farm employment, 59.5% of manufacturing employment, and 60.1% of wholesale trade employment.

The Region was battered by the recent recession with over 980,000 jobs lost peak to trough.

SCAG's Regional Council is concerned about the speed of recovery in the region and determined the region could not wait for a sluggish economic recovery to take place. The Regional Council directed SCAG to develop an economic growth strategy in conjunction with the cities, counties, and business leaders of Southern California.

Summit Goal – Job Growth

Identify and discuss next steps for immediate state partnership opportunities that will have the greatest impact on expediting job growth in Southern California.

Regional Contributors



SCAG engaged prominent economists from throughout the region to gather economic data and met with over 300 key business leaders from throughout Southern California. Jack Kyser, has joined SCAG as the Chief Economist to lead the development of regional economic recovery strategy.

- Imperial County
 - Michael Bracken, Development Management Group, Inc.
- Los Angeles/Kern County
 - Jack Kyser, Southern California Association of Governments
- Orange County
 - Dr. Wallace Walrod, Orange County Business Council
- Riverside-San Bernardino Area
 - Dr. John Husing, Economy & Politics, Inc.
- Ventura County
 - Brad Kemp, Beacon Economics
- San Diego County
 - Marney Cox, San Diego Association of Governments

Myth #1

Business Flight From California Is Not Significant



According to Dun & Bradstreet, **2,565 businesses** (with 3 or more employees) have relocated to other states since January 2007.
Approximately **109,000** jobs left with these employers.

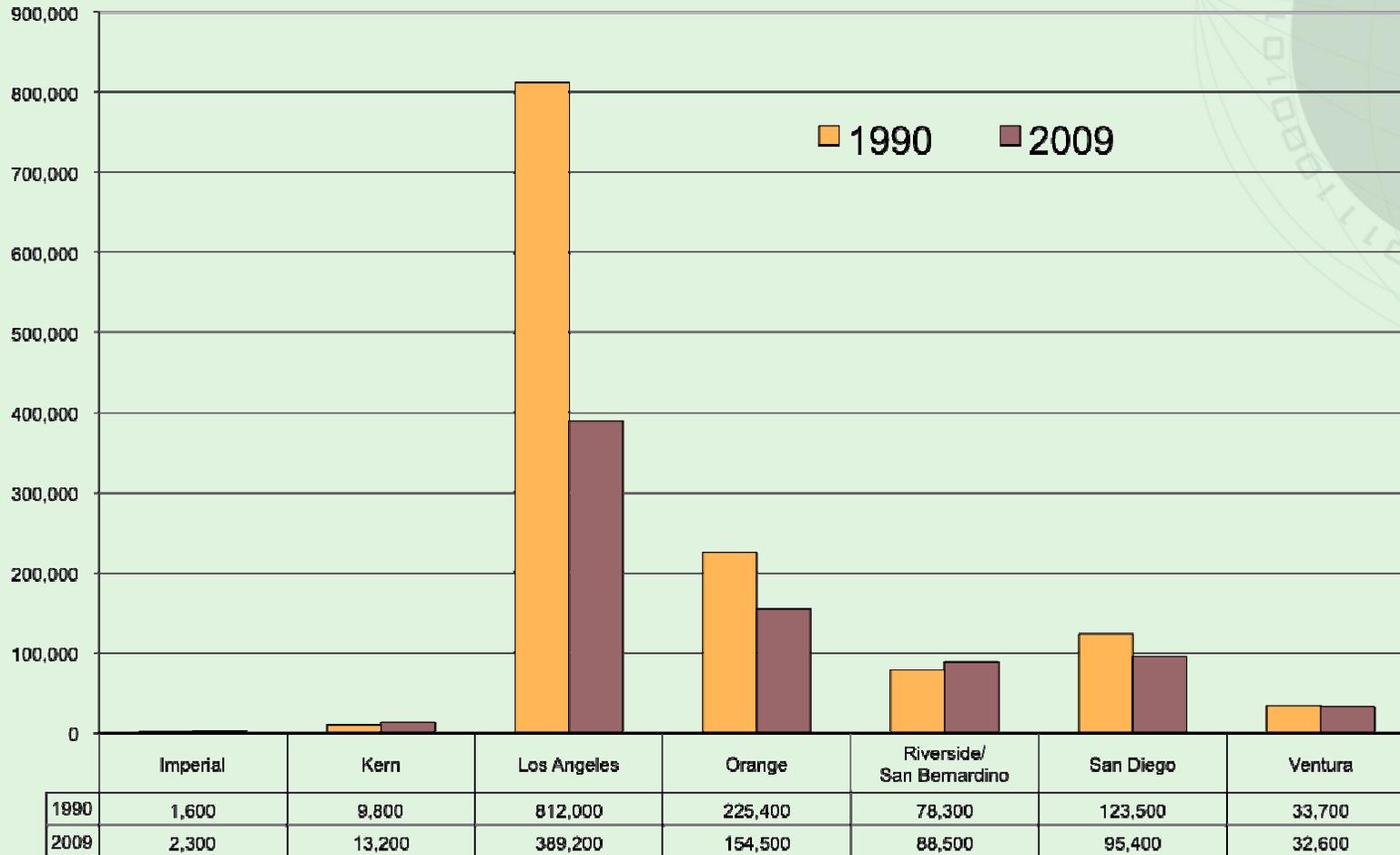
California vs. Texas

	CALIFORNIA	TEXAS
Population Rank	#1	#2
Unemployment	12.4%	8.1%
US Job Gains 1 yr. (August)	-43,700	152,800
Venture Capital	\$6.5B	\$7.16B
Growth in Green Tech	7.7%	15.5%
Growth in Manuf. Cap.	3.7 new/exp	24.5 new/exp
10 yr. Loss in Manuf.	34%	23%
Right to Work	No	Yes
Individual Tax Policy	8.25% Sales 10.55% Income	6.25% sales No Income
Corporate Tax Policy	8.84% Income	.5-1% fran.
Climate Change Laws	Yes	No
Bond Rating	S&P A-	AA+

Myth #2

All The Manufacturing Has Gone Away

Manufacturing Employment in Southern California (Annual Average)



In total, the eight county Southern California area had **775,700** manufacturing workers in 2009, which if it were a state, would rank **third** in the nation after California and Texas.

Myth #3

Green Jobs Will Drive The Economy In The Short Term

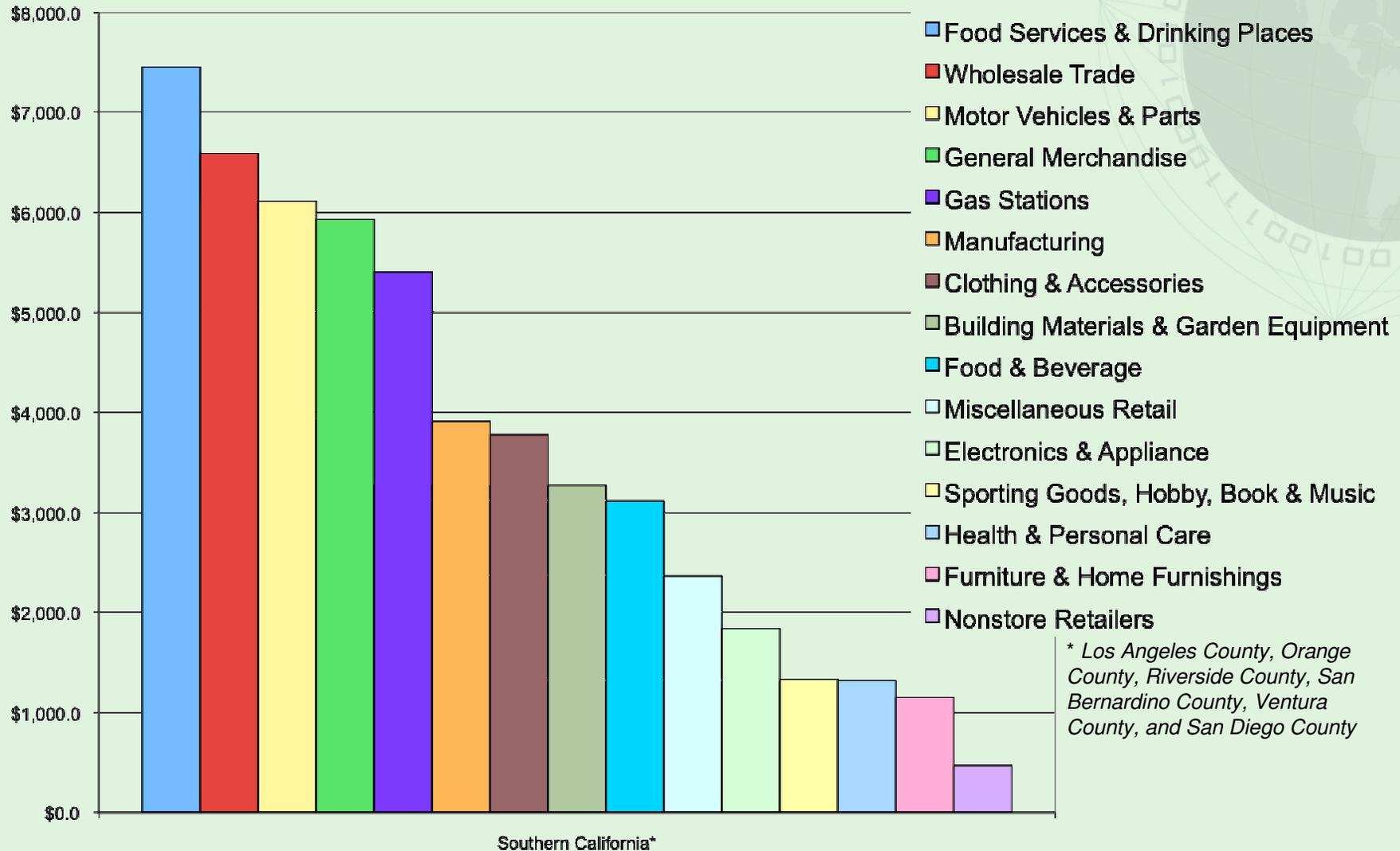
- While construction jobs will be created in the development of renewable energy (solar, wind, geothermal and biomass), the number of permanent (operational) jobs will be minimal.
- Most materials for “green industries” are manufactured internationally. California must become more competitive to host the product production itself.
- New environmental regulations need to be weighed against economic impacts and public health benefits.

Myth #4

Developing Retail Will Help Fill Local Government's Budget Gap

- Retail is still in the midst of a restructuring. There is already too much retail space, so any new developments will draw tenants out of older space.
- There is no comprehensive retail vacancy rate survey, but anecdotal evidence indicates that there is a large volume of distressed retail space available with little chance of finding a tenant.
- However, wholesale trade and manufacturing generate significant taxable sales.

Taxable Transactions By Business Type Southern California* Q2 2009 (In Millions)



Taxes/Fees For A Typical Southern California Business

- Corporate Taxes (or personal income tax if an “S” corporation)
- Sales Taxes
- Employment Taxes
- Workers’ Compensation Insurance
- Property Taxes
- Utility Taxes:
 - Gas
 - Electric
 - Telephone
- Special Agency Fees
- Special Regulations That Impose Costs
- City Fees/County Fees:
 - Water and Sewage Connection Fees
- Time Involved To Obtain Permits/Inspections

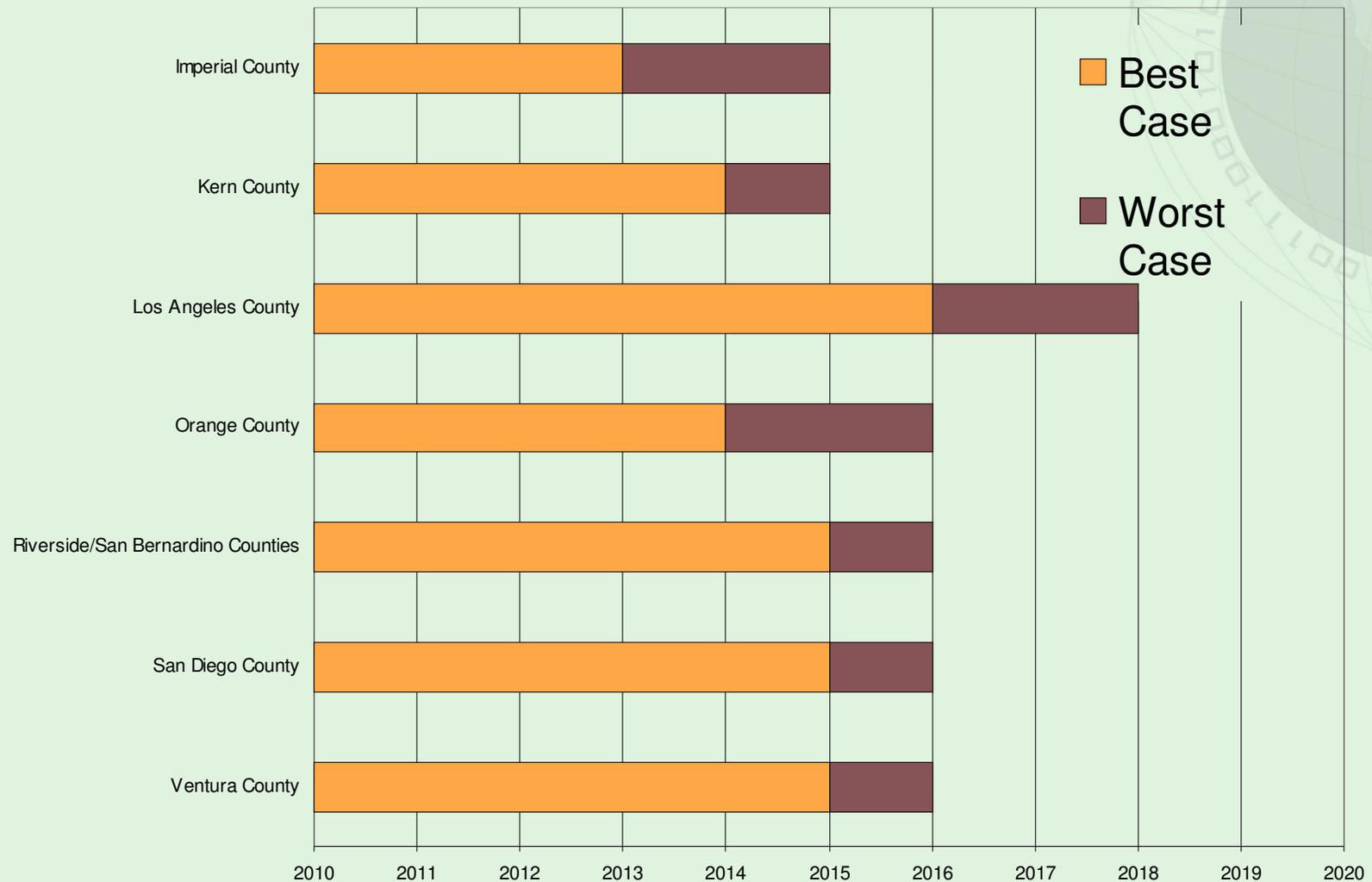
California Ranks

49th

In Overall Tax Climate

Source: National Tax Foundations
(includes: corporate, individual income, sales, unemployment insurance and property taxes)

When Could Southern California Recover All The Total Non-Farm Jobs Lost In The Recent Recession If No Action Is Taken?



Challenges & Potential Identified by Top Southern California Business Leaders

- **Top Hurdles To Business Growth**
 - Onerous, over-lapping and conflicting regulation by state, counties, cities, and special agencies.
 - Nonresponsive government agencies (to phone calls/letters).
 - Regulations that change frequently which make it hard for firms to obtain ROI.
- **Existing Industries With Growth Potential and Potential New Industries**
 - Advanced manufacturing
 - Green industries including among others, battery manufacturing, technology that includes energy efficiency, geothermal, wind, solar, and research and development activities
 - Biotech/Nanotech
 - Mineral and oil production

What Can State Leaders Do in the Next Legislative Session?

- Request the Governor-Elect/State leaders to reject legislation that negatively impacts businesses for 3 years.
- Ask legislature to pass emergency legislation granting Governor the same emergency powers as for a natural disaster, to remain in effect until unemployment in the state declines to 7%.
- Retain and expand the region's high-tech manufacturing and R&D base.
 - Restore the manufacturing investment credit.
 - Add \$100 million to State Infrastructure Bank for installation of pollution reduction equipment in Southern California.
 - Create a “Green Team” that would develop an expanded definition of green industries and work to retain and grow green activities in the state.
 - Designate ‘Enterprise Counties’ where unemployment exceeds 10%.

What Can State Leaders Do in the Next Legislative Session?



- Work together to “Beat” the Panama Canal
 - Allocate the balance of Proposition 1-B money to expedite shovel-ready international trade infrastructure projects
 - Expand State authority to local jurisdictions over public-private partnership funding of infrastructure construction projects
- Accelerate and Extend Successful State Film Incentive Program
 - Raise the current \$75 million per project expenditure cap
 - Include scripted one-hour broadcast and cable television series produced in California
 - Guarantee that production tax credits for TV productions that relocate to California will remain available to those productions for two succeeding years

Next Steps



- **Today** - Review/Discuss suggested immediate State legislative actions
- **January 2011** - Introduce draft state legislation
- **March 2011**- Similar Summit with Federal leaders on suggested federal actions to spur job growth in next congressional session
- **May 5, 2011** - At SCAG's General Assembly, business leaders, city, state, federal officials will receive the Draft Southern California Economic Growth Strategy

Throughout the development of the regional economic growth strategy, SCAG will continue to engage the regional economic experts and collaborate with impacted/invested stakeholders.