



BUSINESS CLIMATE SURVEYS

A Breakdown of California's Performance on Business
Climate Surveys, Metrics Utilized for Rankings,
Ramifications and Strategies for Improvement

Prepared by Joe Weichman
Edited by David Gonzales
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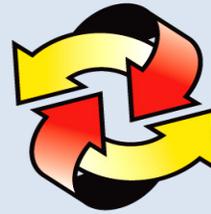


TABLE OF CONTENTS

Background	3
Introduction	4
Business Climate Rankings	5
Survey Analysis	8
Recommendations	10
Links	11



BACKGROUND

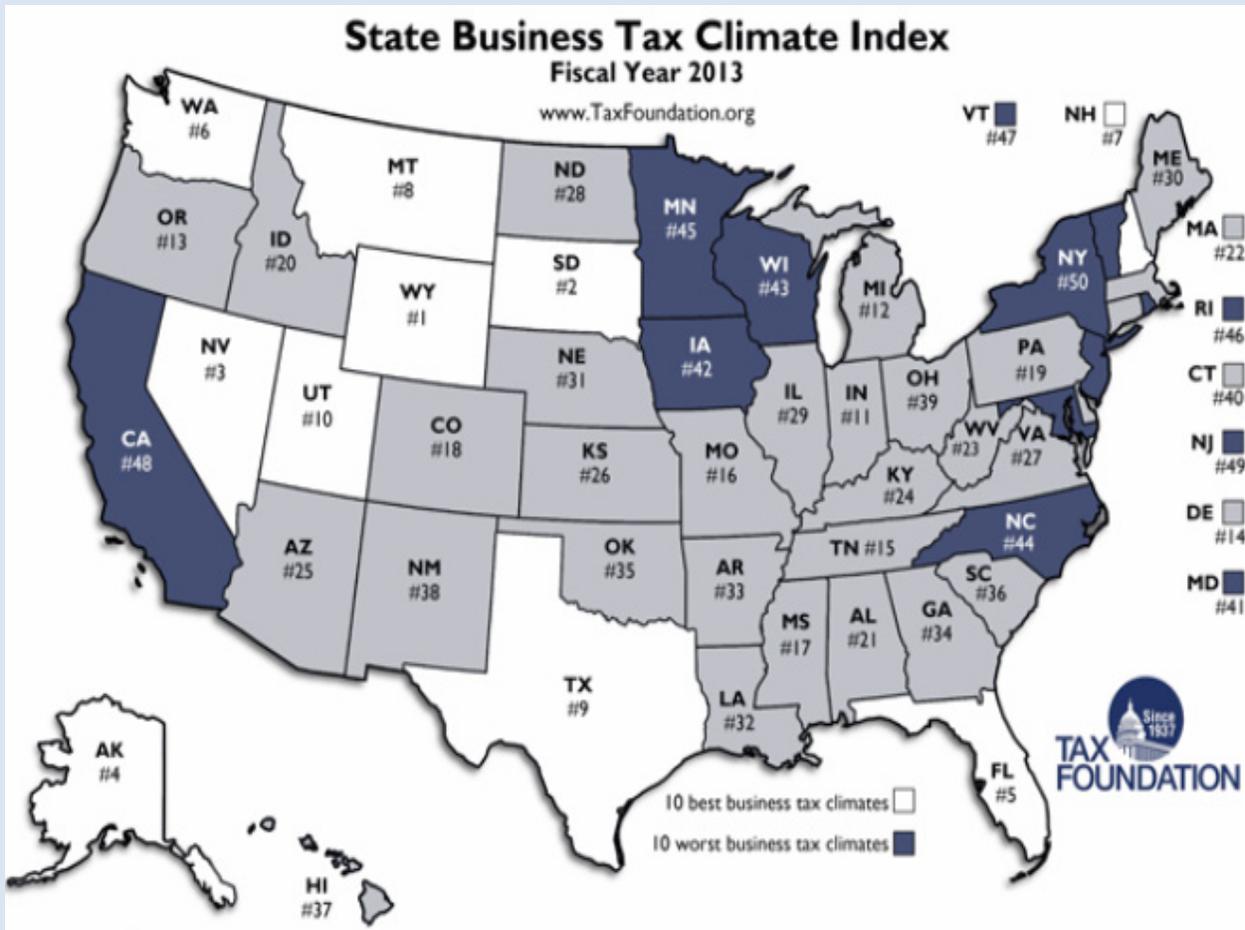
This report was prepared by the Center for Applied Competitive Technologies (CACT) at El Camino Community College District under grant #12-315-038 from the California Community College Chancellor's Office Economic & Workforce Development (EWD) division.

The CACT at El Camino College assists advanced manufacturers in technical education, workplace training, and related services that contribute to continuous workforce development. The CACT also provides expertise in technology deployment and business development. Services include onsite training, low- or no-cost technical assistance, and educational workshops, as well as information on how to qualify for state funds available to assist with retraining employees and adopting new technologies.

EWD, as an integral part of the California Community College system, invests funds and resources in key industrial sectors. EWD's industry-specific programs support development of the skills of California's workforce – now and in the future – through highly specialized industry training, technical consulting and business development. The end result is the ability of businesses to better understand the trends and labor market pertaining to their industry, and make informed decisions about how to grow and compete.

INTRODUCTION

“I just can't imagine any corporation in their right mind would decide to set up in California today.”
-- Dean Minardi, Bing Energy



Credit: Tax Foundation

Various business climate surveys have consistently ranked California at or near the bottom of the list. These surveys have contributed to California’s reputation as having one of the least favorable business environments in the nation. Whether deserving of this reputation or not, it presents a sustained impediment in attracting new start-ups, retaining existing industry, and attracting out-of-state businesses to relocate to California.

There are several reasons why the State of California should care about the survey rankings. First, reputation matters. When start-ups are looking for a competitive niche, or existing businesses who would like to expand, reputation will influence thinking. California’s surveys rankings do not send a positive message, and may discourage those from even investigating

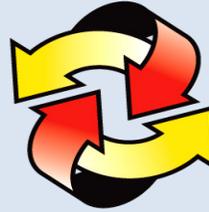


setting up shop in California. Second, other states will use the surveys as justification for why a business should locate to their state, providing a significant advantage from a marketing perspective. Third, because many of these annual surveys are covered by various media outlets and other non-governmental organizations, the annual publicity reinforces California's reputation at a national scale.

California's reputation may also explain why some states have been so bold in taking direct action towards recruiting California businesses. Recently, the governor of Texas visited California with the goal to relocate businesses to Texas. Arizona has hired two six-figure managers and set up offices in California to actively recruit businesses to their state. Florida and Nevada have also made calculated attempts to convince California businesses to relocate to their states.

It is difficult in determining to what extent these surveys have impacted companies that have relocated, but there does appear to be a trend. Several companies that have relocated out of California cited the business & regulatory environment as their reasons for leaving. XCOR Aerospace, one of the premier developers of spacecraft and rocket engines, relocated a significant portion of its operations to Texas. They cited the better business climate and less burdensome regulatory environment as the primary reasons. Legacy Electronics stated (among other things) lower energy costs as their reason for expanding operations in South Dakota, rather than in their current Orange County location. XCOR and Legacy were preceded by Northrop Grumman, Computer Sciences Corp., SAIC, and several other high tech companies that have moved some or all operations to other states.

California, whether deserving of these rankings or not, does risk the potential to lose more companies to effective marketing campaigns and enticements from out-of- state recruiters capitalizing on the notion, real or perceived, that California is a difficult place to do business. Despite its current position, California can easily position itself into a more favorable light, through limited actions that would not only improve its position in all business climate surveys and create more jobs, but also be provided with a substantial amount of free, positive, nationwide PR.



**ECONOMIC &
WORKFORCE
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through the
CALIFORNIA
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BUSINESS CLIMATE RANKINGS

“California is a difficult place for manufacturers.”
-- Jeff Michael, Economist

The business climate surveys contained herein breaks down the following information: 1) the organization that conducted the rankings, 2) the area of focus, 3) California’s ranking and year ranked, 4) a link to the report, and 5) the measures that determined the ranking.

Forbes Magazine

Best States for Business

California Ranking – 41st (2012)

<http://www.forbes.com/sites/kurtbadenhausen/2012/12/12/utah-tops-list-of-the-best-states-for-business/>

- Cost of Business
- Labor Supply
- Regulatory Environment
- Economic Climate
- Growth Prospect
- Quality of Life

Chief Executive

CEO’s Best/Worst States to do Business

California Ranking – 50th (2012)

<http://chiefexecutive.net/best-worst-states-for-business-2012>

- Taxes
- Regulations
- Living Environment

Pacific Research Institute

Comparing California’s Tax Systems to Others

California Ranking – 47th (2010)

http://www.pacificresearch.org/docLib/20100414_taxiformia.pdf

- Personal Income Tax
- Corporate Income Tax
- Capital-Based Tax
- Sales Tax
- Property Tax

Tax Foundation

State Business Tax Climate Index

California Ranking – 48th (2013)

<http://taxfoundation.org/article/2013-state-business-tax-climate-index>

- Corporate Tax
- Individual Income Tax
- Sales Tax
- Property Tax
- Unemployment Insurance Tax



CNBC

Top States for Business

California Ranking – 40th (2012)

<http://www.cnbc.com/id/46413845/>

- Cost of Business
- Workforce
- Quality of Life
- Economy
- Infrastructure & Transportation
- Technology & Innovation
- Education
- Business Friendliness
- Access to Capital
- Cost of Living

Beacon Hill Institute

State Competitiveness Report

California Ranking – 31st (2011)

<http://www.beaconhill.org/Compete11/Compete2011.pdf>

- Government & Fiscal Policy
- Security
- Infrastructure
- Human Resources
- Technology
- Business Incubation
- Openness
- Environmental Policy

Milken Institute

Cost-of-Doing Business Index

California Ranking – 6th Costliest Place to do Business (2009)

<http://www.milkeninstitute.org/pdf/2007CostofDoingBusiness.pdf>

- Wage Cost Index
- Tax Burden Index
- Electricity Cost Index
- Industrial Rent Cost Index
- Office Rent Cost Index

Business Facilities

Best Business Climate

California Ranking – Not Ranked; Top 10 Only (2012)

http://businessfacilities.com/2011/wp-content/uploads/2012/07/BFJulAug12_staterankings_LR.pdf

- Education Climate
- Workforce Training/Availability
- Cost of Labor
- Infrastructure
- Utility Costs
- Credit Rating
- Business Tax Climate



Small Business & Entrepreneurship Council

U.S. Business Policy Index

California Ranking – 50th (2012)

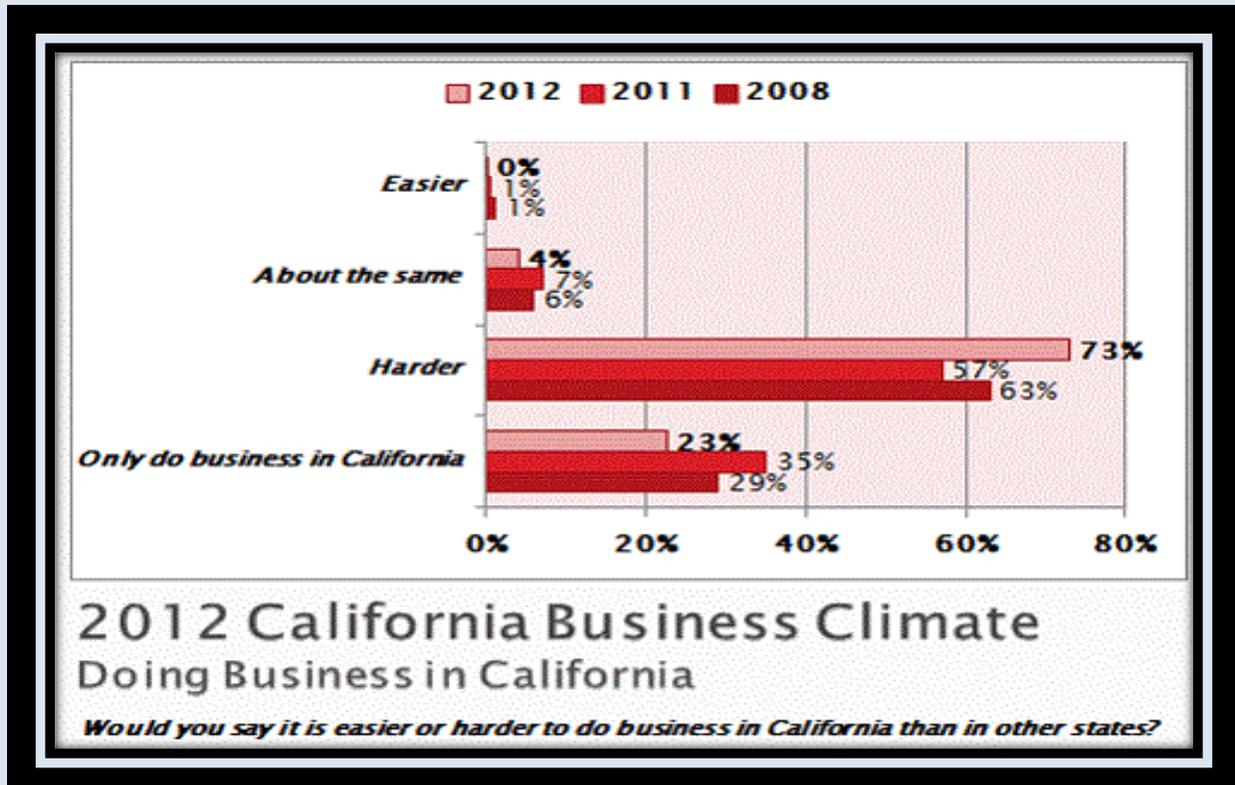
<http://www.sbecouncil.org/uploads/SBSI2011%5B1%5D.pdf>

- Personal Income Tax
- Individual Capital Gains Tax
- Individual Dividends & Interest Tax
- Corporate Income Tax
- Corporate Capital Gains Tax
- Additional Income Tax on S-Corporations
- Individual Alternative Minimum Tax
- Corporate Alternative Minimum Tax
- Indexing Personal Income Tax Brackets
- Personal Income Tax Progressivity
- Corporation Income Tax Progressivity
- Property Taxes
- Sales, Gross Receipts and Excise Tax
- Death Taxes
- Unemployment Tax Rates
- Tax Limitation States
- Internet Taxes
- “Amazon” Taxes
- Gas Tax
- Diesel Tax
- Wireless Tax
- Health Savings Account
- Health Care Regulation (Six Measures)
- Electricity Costs
- Renewable Energy Mandates
- Workers Compensation Costs
- Total Crime Rate
- Right to Work State
- State Minimum Wage
- Paid Family Leave
- E-Verify Mandate
- State Tort Liability Costs
- Regulatory Flexibility Status
- Size of the State & Local Government Workforce
- Trend in State & Local Government Spending
- Per Capita State & Local Government Spending
- Per Capita State & Local Government Debt
- Level of State & Local Revenue from the Federal Government
- Protecting Private Property
- Highway Cost Efficiency
- Education Reform

SURVEY ANALYSIS

“Each year, the evidence that businesses are leaving California or avoid locating there because of the high cost of doing business due to excessive state taxes and stringent regulations, grows.”

-- JP Donlon, Chief Executive Magazine



Credit: California Chamber of Commerce

There are several common themes that emerge when comparing each of the listed rankings: education/workforce training, infrastructure, taxation, and utility costs. Within the education/workforce training issues, the availability of training and quality of education were listed as important to employers. Though infrastructure was common in several rankings, it is difficult to gauge this category because the survey reports did not specify what types of infrastructure (transportation, housing, education, etc.) was asked about in the surveys. Taxation of personal income, corporate income, property, and sales were also common metrics in the surveys. Finally, while questions on utility costs were common in the surveys, only electricity costs were directly cited in more than one survey as a common metrics.

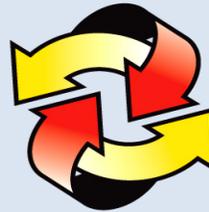
If these four key areas (education/workforce training, infrastructure, taxation, and utility costs) were to be the focus of any effort to improve the business climate, they would have the highest potential impact. Assuming that this is an endeavor deemed worth pursuing, these four areas



could be targeted by California policymakers for improvement. The high citation level for these issues also suggests their importance to businesses responding to these surveys. As such, improving these four areas may very well result in increased job creation and revenue generated to the State.

Improving these areas would also create great PR for California. These surveys are not only reported through various media outlets, but by other non-governmental organizations. There are generally two primary focuses within the narrative for reporting these results: those who are at the top & bottom of the list, and states that have dramatically risen or sunk from the previous survey. If a substantial improvement were to take place, the reporting would force the focus onto California's improvement, and that information would be spread throughout the nation. Improved rankings could also affect the conversations occurring in the board rooms of in-state companies contemplating their future, or those looking to relocate to California.

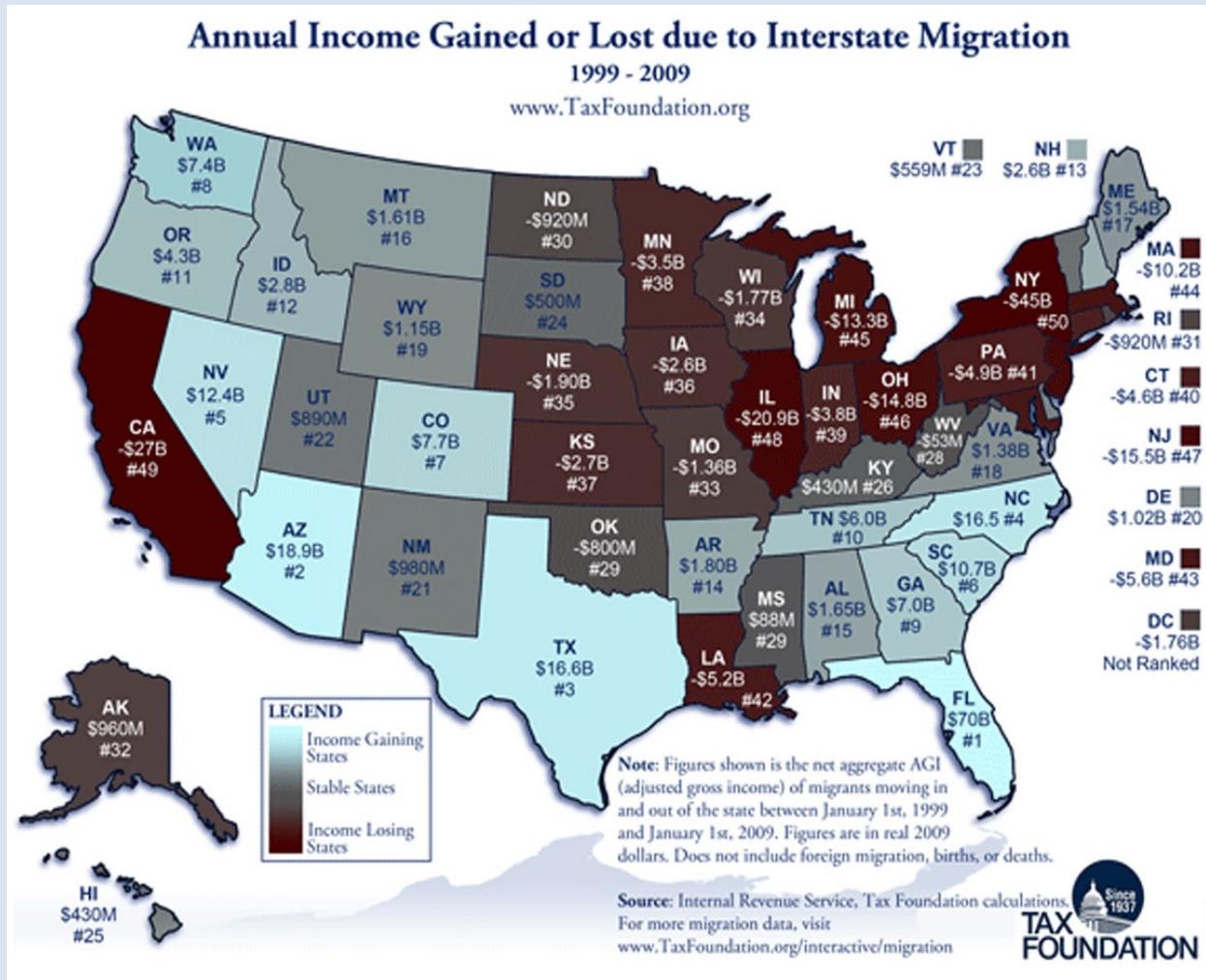
CATEGORY	SPECIFICS WITHIN CATEGORY
Education/Workforce Training	Availability of Training, Quality of Education
Infrastructure	N.A.
Taxation	Personal Income, Corporate Income, Property, Sales
Utility Costs	Electricity Costs



RECOMMENDATIONS

“If we are going to compete with other states that actively court our businesses, we must simply stop talking about jobs and match our rhetoric with action.”

-- Gavin Newsom, California Lt. Governor





the State. This would also go a long way in nullifying out-of-state recruiters looking to poach California businesses. There are several possible actions that could be taken to bring this about:

Education/Workforce Training

The California Governor's Office of Business & Economic Development (GO-Biz) has already begun to address the education/workforce issues through the California Advanced Manufacturing Summit. In bringing together all stakeholders, GO-Biz is looking to maximize advanced manufacturing by, among other things, looking to close any gaps between education & industry, and ensure that workforce training needs are met. In addition, industry programs under the California Community College's Economic & Workforce Development program have a particular expertise on a variety of issues pertaining to education/workforce training, and should be leveraged for providing viable solutions.

Implementing greater Science, Technology, Engineering and Math (STEM) education would also ensure California's workforce remains competitive for the current & future economies of the 21st century. This could be accomplished through several mechanisms, including requiring three years of science for graduating high school, and increasing school participation with outside STEM-focused groups, such as Project Lead The Way.

Infrastructure

Reforms pertaining to CEQA have recently been in discussion, and those proposed reforms would assist in improving California's infrastructure. It would also demonstrate that California is able to make adjustments, further enticing businesses to locate here and remain in-state.

Taxation

There are several options available. One example would be to exempt businesses from sales tax on machinery-related purchases, which has already been implemented in several of California's Special Economic Zones. Another example would be to slightly reduce (0.5%) the income tax on those making less than one million dollars annually. There are a number of options available, but there is likely only a handful that could be agreed upon. Some are also impractical to pursue. For example, given that California voters recently decided to increase the sales tax (to fund education), it would seem counterproductive to look at reducing the sales tax.

Utility Costs

Taxes & fees assessed on utility usage are a contributing factor as to why California, when compared to other states, has higher utility costs. Any reduction of taxes/fees on utility usage would certainly play a role in helping California businesses. If it's decided that taxes would be adjusted for this effort, then it would also assist California's taxation category, so there would be two areas positively impacted by a single action.

Alternative recommendations for addressing the business climate can also be found in-house, including a report from the office of Lt. Governor Gavin Newsom, entitled *An Economic Growth and Competitive Agenda for California* (http://www.ltg.ca.gov/docs/LGN_Econ_Agenda.pdf).



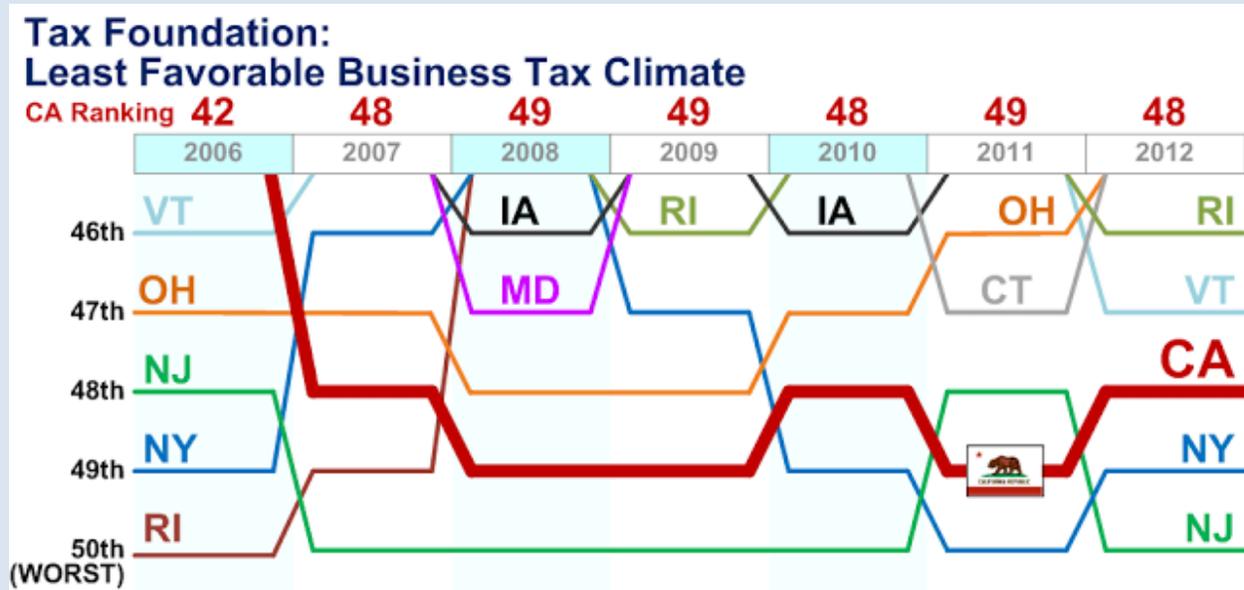
Other reports from California-based entities, including the California Manufacturers & Technology Association and the Milken Institute, also put forth recommendations for improvement. A 2009 report by the Milken Institute on manufacturing covered many of the issues discussed here, and provided recommendations for improvement. That report can be found here: http://www.cmta.net/pdfs/manufacturing_still_matters.pdf.

For purposes of utilizing these rankings in subsequent years, it may be worthwhile in having the Little Hoover Commission, tasked with (among other things) enhancing economic prosperity, to compile all business climate rankings for each year, and provide recommendations to the State of California on ways to improve the rankings, including tracking of year-to-year performance & target objectives.

LINKS

“There’s no doubt that there are policies at the state level as well as our level of taxation that aren’t encouraging to a lot of businesses.”

-- Roger Niello, Sacramento Metropolitan Chamber of Commerce



Credit: Tax Foundation

Forbes Magazine: <http://www.forbes.com>

Chief Executive: <http://chiefexecutive.net>

Pacific Research Institute: <http://www.pacificresearch.org>

Tax Foundation: <http://taxfoundation.org>

CNBC: <http://www.cnbc.com>

Beacon Hill Institute: <http://www.beaconhill.org/>

Milken Institute: <http://www.milkeninstitute.org/>

Business Facilities: <http://businessfacilities.com/>

Small Business & Entrepreneurship Council: <http://www.sbecouncil.org/home/index.cfm>