



California Center for Regional Leadership

Orange County Regional Economic Vitality Conversation

Hyatt Regency, Irvine

September 29, 2004

Meeting Minutes

Welcome

Stan Oftelie, President & CEO, *Orange County Business Council*

Kim Burdick, Premier Banking Executive Southern California/Nevada, *Bank of America*
Welcome to today's session. Bank of America is committed to improving economic vitality in the region and throughout the state. Today's conversation is making a contribution to this effort and the Bank is glad to participate.

Wallace Walrod, Vice President, Orange County Business Council

Thank you for joining us here today. This project is part of a larger statewide effort to improve the linkage between the state and the regions of California. OCBC is glad to play the role of regional convener. Thanks to CCRL and Nick Bollman for making today's effort and ongoing regional efforts possible throughout the state.

Economist Perspective: A Perspective on the Orange County Region

Dr. Anil Puri, Dean, *California State University, Fullerton*

- Consumer confidence in the pacific region is better than the nation as whole
- Over the past two years, SoCal and Orange County in particular shows that payroll employment and jobs growth have not performed as well as we had hoped.
- Orange County Detail: The sectors of construction, leisure and hospitality, and business services are all doing well. High tech sector, manufacturing in particular, has been declining in past two years.

What drives the local economy in Orange County?

1. Professional and business services - largest sector and largest level of growth in the past two years
2. Financial services is fastest growing (banking and credit)
3. Education and health services growing at a 3 percent rate
4. Information technology has shown slow growth in past two years

Ten Year View of Sectoral Performance

1. High tech as share of base Orange County economy - downward trend
2. Manufacturing as share of base Orange County economy - downward trend
3. Wholesale trade and Transportation - gradual upward trend

4. Hospitality and Leisure as share of base Orange County economy - gradual upward trend
5. Entertainment and Tourism - gradual upward trend since 2000

What are the policy implications of these trends?

- Globalization is playing a large role in how regional and national economics operates. Markets are no longer local. Competition is also not local. Education, infrastructure, and a broader perspective of what makes-up the local economy is key to understanding these trends.
- High housing prices is not unique to the Orange County, but it is an indicator of supply/demand relationship. However, overall supply of housing is a concern for Orange County. How to increase the supply of housing in Orange County is a question for policymakers to consider.

Leading Orange County Issues

- Challenge of changing demographics. Young and old populations are growing fast. Population serving jobs are still being created in the Orange County as a result of changing demographics.
- Education is critical to long term stability of the region and its competitiveness in the global market.
- Housing is also critical to Orange County's long term competitiveness.

Conversation Notes

Victoria Bradshaw, Secretary, California Labor and Workforce Development Agency (all comments from Cabinet leaders in italics): Hoping to establish priorities for the region about where to put energy in terms of workforce investment and economic vitality. Lucy Dunn from Housing and Community Development will help to facilitate today's session as well. Conversation will focus on the following three questions:

Question 1: What state actions will have most immediate impact on California's economic recovery?

Question 2: What state actions will result in the most significant long-term improvement to California's economic competitiveness and comparative advantage?

Question 3: How do we best structure an effective partnership between the regional and the state around economic strategy?

Bruce Junor, Engineering and Manufacturing Development: How do we deal with the competition between California students and students from across the globe?

Victoria Bradshaw: Anecdote regarding garment manufacturing industry got too expensive in southeast years ago, so the industry moved to the south. Fifteen years

later, that same industry moved again, this time to Mexico. Industry that moves to cheaper labor can and must be replaced by new industries that create more value. Anecdote regarding brain drain in California. We are at risk of losing students who may chose to go elsewhere for a lower cost education now that costs are going up in California.

Elane Scott, *The Boeing Company*: Anecdote regarding China. Manufacturing jobs are NOT being filled by young men in China due to cultural preferences. Remember, the economy is based on cultural preferences. China's policy about family having one child is resulting in a strange new phenomenon where young men are not willing to work in factories due to the long hours and tedious nature of the work. After growing up in single child households, these men are not willing nor are they prepared to perform the tasks associated with factory labor. For the United States, it is important to remember that kids are in school only 12 percent of the time. The rest of the time they are "in the world" and "to be smart" is not a message that the media is giving to our children. We must change cultural norms to encourage more rigor and more intelligence among this nation's young people.

Jeff Lebow, *Southern California Edison*: Failure of management, labor agreements, environmental agreements, etc. have let down the American people and let down the American worker. We are the world's biggest consumer and we have an advantage at the state level. From a utility perspective, we need to pay immediate attention to the energy situation which if a repeat of the energy crisis happens again is going to cause great strain on the entire state. We need to fix infrastructure and build more plants to produce more energy in this state. We must secure the financing needed to make the investments with customer-based stabilization. We need more plants! Uncertainty of reliability would be a downfall for the entire state. "Reliability killers" is a certain way to scare off business.

Victoria Bradshaw: We need water, sewer, and housing which are all infrastructure needs that the state must address.

Bob Bunyan, *Robert Bunyan and Associates*: There should be legislation that changes the business climate to make the state more friendly to entrepreneurs and business leaders across the country. Since 1992, the state has tried to retain businesses and not attract new businesses. We have skilled labor and we are getting a bit more business friendly, but the signals are clear that barriers and regulations are the norm in this state and this needs to change.

Victoria Bradshaw: California is never going to be the cheapest place in the world to do business. We need to take advantage of our assets. We need to enforce labor laws, but we do not need new labor laws. The bill creation process in California is so complicated that there are statutes and regulations that contradict one another. The legislative process, labor laws, is being trumped by labor lawyers who interpret laws for personal gain. Tort reform is a welcome solution to the complexity that is making the state a difficult place to do business.

Jeff Minard, *Forward Funding*: What is California's core competency? What are we good at and how do we retain these types of businesses? Agriculture, entertainment, software, and a few key industries keep us afloat. We can not keep pursuing all industries at the same time. We should figure out what are our core competencies and work from there.

Brien Manning, *Destination Irvine*: The Governor's message is that we want business from throughout the country that is good for business and good for Orange County.

Victoria Bradshaw: *Size of California means we get the largest number of training dollars in the country. No one can compete with us in terms of workforce training, but we have never taken advantage of this size.*

Dale Ward, *Santa Ana Chamber*: Tax incentives with regard to responsibility such as employer assisted housing help to make companies assume responsibility for housing employees and providing them with incentives for doing this type of work. Similarly, incentives like education should also be expanded to encourage businesses to get into the game. Enterprise zones to focus business activity have worked in the past and might be constructive moving forward.

Victoria Bradshaw: *Tax incentives for business are challenging when there is a huge budget deficit. However, we do not have a clear sense of the ROI on tax dollars.*

Lucy Dunn, *Director, Department of Housing and Community Development (HCD)*: *HCD recently acquired Enterprise Zones and they are just starting to understand the way EDD and Franchise Tax Board on what HCD and the state can do to incentivize business to come to the state.*

Kevin Buck, *Saint Joseph Health System*: The model that various issues such as education and economic development are interconnected is a powerful mental model. How we are connected to other sectors and moving towards integration and alignment? Who else is connected to the issue of economic vitality? Overall, we need an inspiring vision for the future and we need executives to be excited about living here and it needs to be based on what we are all about in California and why do we love the state of California.

Victoria Bradshaw: *Governor's retreat with cabinet members explored the question of what does California want to look like in 20 years? Better infrastructure and people who are invested in the future was the answer from the cabinet. The Governor thinks like a business person about how to make a brighter future.*

Kim Burdick, *Bank of America*: Orange County has become an economy that creates high quality jobs and we have become a "go to" player across the state. For every dollar that Orange County gives to the state they receive less than average return. There is a lower rate of return on Orange County contribution to California tax base.

Want to stay mindful of this widening gap and be sure not to over-contribute from the Orange County.

Bob Bein, *RBF Consulting*: Housing and affordable housing that can be purchased by a majority of Californians along with improved mobility for Californians over the next 50 years reveals a miss-match with reality. In terms of housing, creating supply and creating it more quickly has become something that no one is able to achieve. Housing is no longer the type of housing that we used to build. Housing needs to be taller and more dense and build it closer to transportation. As an industry, investors and housing producers need to collaborate more closely and we invite the state to partner with business groups on these issues.

Lucy Dunn: Secretary Sunne Wright McPeak talks about housing as the lynchpin of infrastructure and a centerpiece of her work in the next year is to ask every city to prepare and provide a zoned and ready to build housing projections for natural population or job growth projections (whichever is greater) and to build these units near transportation centers. Smart Growth, Managed Growth, etc. is not something to be managed that requires that we plan better. The core part of this strategy is that infrastructure planning needs to be funded, more than simply the infrastructure bank, and while housing is a key revenue generator for the state it must be a center piece. How to debunk the public myths that infill and refill is bad? The perception that we are built out, but research shows that 53 percent of Orange County is uncommitted agriculture land. 85 percent of Californians wants single family homes with a yard, but not all of our growth can happen in green space areas.

Victoria Bradshaw: Employers structuring work and work schedules to take advantage of infrastructure.

Elizabeth Pearson, *City of Laguna Beach*: Housing elements and affordable housing (state mandated), but there is nothing in place to help local government pass housing development plans. NIMBYs block new development from happening. Look for political cover to help local government build housing in tier communities without being thrown out! Also, if the state could provide zoning assistance to supercede local ordinances, that would be welcome.

Lucy Dunn: Secretary Sunne Wright McPeak calls this type of growth "by right" development which provides certainty to builders and helps keeps costs down. Many jurisdictions are using IZ as inclusionary zoning to push new development forward. Affordable housing providers love IZ and that it may raise the price of housing. Financial incentives such as Prop 46 provided \$2.2 billion for neediest housing requirements. In two years, HCD and Cal HFA have spent over \$1 billion to create 1,000 units and shelter spaces. However, the demand is greater than ever and we are going to be out of money soon. Shall we ask for a transfer fees or lottery dollars or an additional bond measure? These dollars are paid to housing authorities and will help with the financing side of building affordable housing.

Patricia Neal, *Fannie Mae*: Fannie Mae and the electrical brotherhood put together an education program and they are looking at using pension funds as a source of additional money for constructing new housing.

Victoria Bradshaw: Employer assisted housing needs to not become a drag on employees facing a liability to house the workers. Shared responsibility needs to make sure liabilities are not attached inadvertently.

Jeff Minard: Fiscalization of land use is part of this problem. Flipping property taxes back to the locals there would be a renewed investment in housing by locals. At the very least, the state needs to look at the notion of greater density of housing and other housing production as part of an overall strategy to move away from municipalities chasing tax dollars.

Victoria Bradshaw: Consider state legislature should be based on sales tax. Prop 1A coming in November is not perfect, but it does guarantee cities that their revenues will not be raided by the state and returns property tax to cities.

Jo Ellen Allen, *Southern California Edison*: What about the state looking at our entire regulatory structure - we need tort reform in this state! Creating an increased level of trust would be a big help. Moving away from Sarbeys-Oxley and get rid of laws that we do not need. Creating an effective partnership between the state and regions - go back to fundamentals and allow the state to do its own thing. What is wrong with the state of California setting basic guidelines and allow locals to accomplish these goals? We need less government!

Victoria Bradshaw: The John Stossel pledge that says if you propose one new law you must repeal two. We have created a quagmire of regulation that is an odd sausage recipe of laws, but we are not doing anything about this issue! The CPR took 250 state employees and identified 1,200 recommendations that may or may not be implemented. Is the current state government what you would build? How about reducing the number of WIBs from 50 to 23? The question of what function these WIBs perform is a valuable question. Whatever you subsidize you get more of. . .the war on poverty created more poverty.

Karl Feierbacher: A future with transparent laws and regulations allows people to plan their lives. The toll road that goes through southern Orange County is finally getting built. This is something that can be controlled. Children in California say that land is required for parks near housing development. Will children be able to pay the taxes on property that is passed down generationally? China has eliminated their one child policy and moving away from agricultural economy is a dangerous move. It is critical that we do not move away from agriculture all together.

Lucy Dunn: 45 percent of the state's land is in agriculture. Only 5 percent of the entire state's land is being used for development. Food shortage is not a current

crisis and housing crisis is a crisis, but our 20-somethings needs to pay into tax base and to plan for growth.

Mark Coleman, *Training Funding Partners Group, Inc.*: Training dollars need to be used as incentives for employers and workers and figuring out which incentives are effective, achievable, and accountable. This approach is a good idea.

Victoria Bradshaw: *The next conversation will be about action points versus a general discussion. The plan is to both plan and execute at the same time. A solution for today is not necessarily a solution for tomorrow.*