



CALIFORNIA CENTER FOR
REGIONAL LEADERSHIP

Southland Regional Economic Recovery Conversation

Los Angeles Chamber of Commerce

March 4, 2004

Meeting Minutes

Welcome

George Kieffer: Government and Policy Partner, Manatt, Phelps and Phillips

- Welcome on behalf of the LA Chamber

Nick Bollman: President & CEO, California Center for Regional Leadership (CCRL)

- Economic Recovery Conversations – on behalf of the Governor and his Cabinet
- CCRL asked to regionalize the discussion – understand what’s happening in regions – unique needs considered for state policy
- PG&E historic partnership to sponsor Economic Recovery Conversations

Sunne Wright McPeak: Secretary, Business, Transportation & Housing Agency (all comments made during the conversation by Secretary McPeak are in italics)

- *Recognizing regional nature of economies in a global marketplace*
- *Doing both State Economic Recovery Conversation (ERC) and Regional ERCs with fellow Cabinet Secretaries to hear about what’s common and specific in regions - stitching together intelligence, etc. to look at what defines and sustains economic prosperity*
- *Los Angeles: Extraordinary center of automobile design, fashion design, logistics industry – all are important to keep getting the best information about what’s going on in the economy*
- *Keston Institute – Infrastructure*
- *Importance of Civic Leadership: Philosophy of government – premium on leadership from citizenry – regional collaboration very important – CALWIB at state level with the Economic Strategy Panel – creating a database of real-time information*
- *Conducting series of listening sessions around the state, focused on four key questions around economic recovery and strategy.*

Economist Perspectives

Christopher Thornberg: Senior Economist, UCLA Anderson Forecast

- Vision about short-run economy in Los Angeles and biggest challenges
- California overview: Don't have one California – have many – two different kinds of economies – San Jose/San Francisco hard hit, but on the other side we have five of the fastest growing regions (Inland Empire, Fresno, Bakersfield, Sacramento, San Diego).
- Overall, the Los Angeles economy is stronger than payroll numbers may imply. The primary problem is the United States – once the U.S. picks up, Los Angeles will pick up as well.
- Los Angeles manufacturing loss mirrors U.S. manufacturing loss rate
- Employment is a victim of productivity gains. Jobs are a function of supply and demand for labor – housing, education, and regulation are three fundamental issues – firms moving perhaps because of regulation issues, but also because they can't afford to live here. Businesses are moving for those workers who have to have housing.
- Long-term issues:
 - o Housing: Supply not keeping up with demand in Los Angeles -- for mid-skill/income, will move out from urban core for more affordable housing, and with increasing density, the bottom gets squeezed; Population forecast – increase between 40-60 age group will increase demand for housing
 - o Education: There is a large pool of low skill workers. The best determinant of growth is level of education. Regarding K-12 spending, California is at 34th out of 50th in the country, and is not making adequate investments in education
 - o California revenue sources: California passed the \$15 billion bond. California is not a relatively high tax state – property tax and revenues are low due to Proposition 13. Incumbents don't get charged, hurting the education system revenue. Supports getting rid of Proposition 13, so property taxes become a larger source of revenue for the state.

Jack Kyser: Senior Vice President and Chief Economist, Los Angeles County Economic Development Corporation

- Manufacturing matters but global competition puts California jobs at risk, we need to retain/grow economic base – although there is discussion about jobs moving out of state, not that many are.
- LA economy the size of the US's ninth largest state.
- Long term challenges:
 - o Workforce: training through K-12 and Community Colleges
 - o Infrastructure: moving people and goods
 - o Affordable housing: running out of space in urban core
- For solutions, we need to understand the multi-dimensional aspects of our diverse and sizeable economic base
- Small employers are the major engine of growth in the Southland.

- Growing Industry Sectors:
 - o Aerospace, defense contracts coming back to Los Angeles and Orange County – the flow between counties is important to recognize
 - o Apparel and textile industry
 - o Logistics – market for international trade – located along freeways
 - o Motion picture, television, and music production
- Challenges:
 - o Understanding what it means to be innovative and incorporating innovations into daily practice is the future of the Southland.
 - o Understanding linkages with surrounding metro areas: industry-industry; employment versus housing
 - o Understanding relationships between sub-areas in County
 - o Creating a vision to capture opportunities – who will do it?

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Conversation Notes

There is an Board being formed to address jobs and the economy.

- *Need to continue to be educated*
- *Regarding who's going to do it: philosophy of government – premium on leadership from citizenry. That coalesces on a scale that is aligned with magnitude of regional economies. Regional collaboration very important. CALWIB at state level with Economic Strategy Panel – giving us a database of real-time information – have to convene – striking a new partnership recognizing how important civic leadership is*

Questions/Comments Regarding Economist Presentations:

- Recent analysis with Rose Institute (Keystone group) paints a rosier perspective - we are losing jobs to every state in union and hurting the quality of life – lost 156,000 manufacturing jobs and the average wages are higher for these jobs – lost to Latino families – firms lost – replacing firms with lower value jobs – have to be careful in California – seem to be shifting jobs to other states – gets back to WIB – focus on training on burgeoning middle class – pure number of jobs – national trends and simple conclusions. Short term: 1) take a look at legislation that has compelled firms to move elsewhere - worker's comp, liability, costs, and insurance, 2) shift inducements for retail-oriented – taxes, and 3) Identify to legislators
- Chris's numbers could be viewed as misleading in terms of taxation burden – not about regulatory burden. In respect to infrastructure, where does this come in respect to jobs – how can money be leveraged?
 - o Chris' response: Regarding regulatory cost burden issue – worker's comp, etc. needs to be done. Want to caution about rhetoric about creating/losing job – jobs are a function of supply and demand for labor – housing, education, and regulation are three fundamental

- issues – firms are moving perhaps because of regulation issues, but also because they can't afford to live here. Businesses are moving for those workers who have to have housing.
- Jack's response: Investments coming in from seismic retrofitting - dynamics haven't been thought through. Film production – runaway production to other states.
 - *Play to strengths; minimize weaknesses – comparative advantage industries need to be understood. Attractor for investment, capital. Secretary Belshe – trying to expedite approval of hospitals, which could have a huge economic stimulus.*
- Job Czar - Need a hotline to identify companies who are leaving – call from Governor Schwarzenegger may help firms to stay. Bank of America sent 1000 jobs to India last year. American companies.
 - *A-Teams are evaluating how strategic/opportunistic we can be to respond to individual employer concerns, emerging effort. Will make regional and local Economic Development Corporations direct allies – will be headed by those not in the state government. Regarding the country – how unfriendly regulatory scheme has become. Housing issue part and parcel with cost of doing business – the graphs emphasized infrastructure issues to retain employment.*
 - LAEDC is working on 250 plus projects. Manufacturers are having a tough time. But there is hope: 48% of manufacturers are now selling international. Only 15% is average. 37% are sourcing internationally. To retain them they need to find cost structure – trade piece extremely important to facilitate. Retention is a short term challenge. Los Angeles Air Force Base – 65,000 high paying jobs tied. Key to retain the Los Angeles Air Force Base.
 - *Base retention just moved to Business, Transportation & Housing Agency. Boeing, aeronautics, aerospace. Playing to strengths. Stay ready to be mobilized.*
 - One of the most crucial issues is availability of land for housing. Along commercial corridors there is great opportunity. Single story developments – there is a pressing need for legislation to enable deal with NIMBYism and build multi-family housing that won't impinge on single-family areas. Along old state highways, commercial corridors. Crying out to be mixed use developments.
 - Compass project looks collectively at a growth and development pattern to make efficient use of transportation and housing. Observations – housing has been infill housing along transit corridors – rapid bus, light rail, a metro link along corridors – the land has been identified – need to be engaged in process. Growth forecast moving forward. How to work to revise general plans. How to take concepts of transportation, housing investments – taken and leveraged to keep consumer desires, and expenditure of resources in

coordinated strategies – housing/transportation have to this point been managed separately. Construction activity associated with Infrastructure could be a short-term stimulus to the economy overall.

- *Must have an adequate housing supply – need to plan. Set of policies to commit – change in law plus incentives in process. Connection between housing, land use, and transportation – higher economic impact. If today, just meeting demand would be \$18 billion into economy.*
- Series of 5-7 sub-regional policy dialogues. Opportunity for those to contribute further to this conversation.
- State's mechanisms of keeping business in state. Need to do more to take care of jobs that are already here. Not as much on attracting new businesses. Need regional agreement. Hospital seismic retrofit.
- Chris Thornberg: Regarding regional development, this is not the same old Los Angeles. Have change in comparative advantages – city will continue to change. Dense urban city. Infill is key to development. Comes back to jobs moving to other states. Increases in productivity lead to more jobs being created here. Will increase profits here, and will create profits. Creates shifts across demographics. How do you deal with it: education and housing? Fiscal stimulus not needed – two ways for government to help get out of the way: Reduce regulation and get rid of high costs.
- Agree with everything Chris said except government role. What makes businesses locate places are capital and labor – they need skilled workers and capital (infrastructure) to get goods to and from market. 710 crisis, airport situation. Southern California is teetering on the edge. Amenities – housing affordability falls in here. Tax policy – almost echoes research regarding job location.
- Critical to recognize that perception matters. Need to fix what's with state and talk up the state. Not waiting for legislature. Huge marketing opportunity in Arnold. Theory of the economy that Arnold can espouse – through media and optimism. Needs to hit airwaves. Point 2: in spite of glowing comments about LAACC – absolutely dysfunctional – needs an organizational infrastructure. The business community needs to own the problems we have today. We need to reengage the business community.
- Seconds previous comments. Near term – manufacturing. Surprised we haven't heard much discussion about allowing Manufacturing Investment Tax Credit expiration. SICs to NAICS change. Targeted tax relief. Have made it less attractive for manufacturers.

- Unfairness of investments – reason: haven’t been good at nurturing our own. Great at starting. Not good at keeping them. As long as it’s a visceral ideological movement, not going to be able to see small science based businesses take next step. Will go elsewhere like Mississippi for nanotech. Investment in science and technology. Listlessness with entrepreneurs. Very involved in trying to save some businesses – shadow of tension. Shame on us for being critical of outsourcing. We used India in lead up. We don’t do well in keeping graduates. Pathetic situation that foreigners are all taking up universities, and then go home because opportunities are there.
- We need to have additional mass transit for those not able to afford to pursue jobs in inner cities – making jobs and housing nearby is fine – quality of life.
- Linkages and relationships. Idea of small businesses. Importance of providing good support and good funding, good collaborations with organizations. Fastest growing segment (small business) – function. Minority and women owned businesses. Providing key contributions beyond the creation of jobs is the social function that they will perform. Duality of centers. Underground economies. Important to support small business growth. Accessing fed/state/local \$1 billion procurement markets
- Two points about Infrastructure, especially transportation: 1) The state is facing a crisis financially but if current proposals are implemented it will lose \$4 billion in transportation funds. Saving that money may be a false economy. Value of transportation investment. Loss greater than savings. 2) There is a difficulty in implementing projects – not only highways, but light rail. A leadership opportunity is to find a way to help balance regional beneficiaries of big ticket transportation projects. Easier to say no than yes.
- Regarding housing, emphasize infill housing as strategic imperative for Los Angeles. 60% of housing is in commercially zoned areas. Denser housing, first needs to be fixed in Sacramento, leadership that is pro-housing coalition devoted to increasing home ownership opportunities. Other regional opportunities include CEQA, brownfields, ULI proposals to provide economic incentives to cities – local governments don’t have incentives now. Once the budget crisis is fixed, we need to turn to eco incentive ideas.
- If we’re going to do infill we need a plan – integrated plan with infrastructure. Need ethic of integrated planning. A lot of silos in sectors - conversations like this are critical to get political support for infrastructure investments that we want to make.
- Regarding infrastructure, we have established a strong voice in creating a new paradigm and need the same focus in relation to trade, infrastructure, and security. Gateways of Long Beach. China investing in new ports. We’re

subsidizing economic development for county. Don't have Infrastructure investments for rail system – non traditional sources need to be looked into. Need to create linkage between trade and infrastructure. Customs' revenue?

- Industry Cluster analysis through California Regional Economies Project. A-Teams could be developed that are Industry focused. Workforce Development, Infrastructure, taxes around industry clusters. Arts and design in schools needs to be emphasized - grow into better workers. Arts education makes better employees. Retraining issues.
- Professional environmentalism. Tourism number one economic driver. Hollywood sign shrouded by pollution, beaches polluted. As tourism issue and an economic benefit—is quality of environment. Being able to see the San Gabriel Mountains is a reason people move to California. When you put issues to voters, environmental issues are important. Second, want to emphasize – consider self urban environmentalist, need more urban space in urban core. There is only so much land. As an advocate, how do we get people to talk to each other? For those who want to speak toward positive change it's very hard. Pedestrian safety issues are valid. Building codes, local decision making. Third, goods movement. Different opinions – how to have a dialogue about goods movements.
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- Hopes that we can have fundamental change to make communities together. Fiscalization of land use is the third rail of politics and is a hard nut to crack. The problem needs to be solved at the state level. Need to have control over local communities. Has to come to an end.
- Everything discussed true. Different tactic – favorable public opinion or its absence will drive environment. All things require public opinion to say what impact is on quality of life. That's what grabs them. Quality of life deals with overcrowding – brought about by the population in the state. Need to deal with population. What sort of population increases do we want? We need to have a dialogue. We also need to deal with family planning. Carrot and stick approach? We need to have dialogue.
- El Segundo: Los Angeles Air Force Base – direct/indirect impact is 65,000 jobs, payroll \$3.2 billion. Intellectual capacity in region – program/facility can be moved, but intellect won't move because they don't want to. Our region has rallied to raise \$500 - 600K – we need \$1.3 million to retain base. Asking for political expenditure of equity. (Whisper to Carl Rove to leave that base alone.)
- Second question, what happened to small businesses when they went away? Five years, ten years later? International trade and foreign investment. Used to have a Department of Trade and Commerce, but have Governor as best recognized marketer. Needs to be a coordinated effort.

- Following up on a previous comment, image is everything especially in business. Terming everything a crisis – multitude. Business doesn't thrive in areas that are unstable. We need a new language to talk about problems and need to put out messages to restore confidence. Back to business. Long way to make this more attractive.
- Sunne is personally reinvigorating the conversation about economic strategy. Indicator report – regions still continue to attract growth. Population growth indicates that people are still looking for the California dream. Goods movement as an economic strategy. Need to obtain fair and equitable revenue stream. Shouldn't be lost - location is key to economic strategy. Global location. Logistics is a fast growing sector. Contrary to Northern California falling into deep recession, goods movement in Orange County and Los Angeles working in logistics have kept things balanced. These will replace the manufacturing sector and become the dominant sector. Need to use labor. Economic strategy panel needs to keep focused attention on logistics industry – ill defined industry category.

Summary Comments:

- Focused on getting our fair share of transportation dollars from federal government. Need support of state representatives.
- Transportation and Natural Resources – would love to work on goods movement – wants to work with Jerilyn Mendoza and Mark Pisano.
- Good economy is a prepared workforce. Disenfranchised individuals not prepared – WIBs need to start targeting. Tax increases need to be done – sacrifices need to be made.
- Surprised energy didn't come up. Working hard to provide reliable energy at a reasonable cost. People need to be trained to do an interview (before training even). Can do the job, but can't get the job.
- New administration needs to look at legislation implemented in last three years – will have immediate increase in productivity. Have seen a lack of responsiveness in schools. Teachers need to be retaught, new curriculum installed.
- Keeping California open for investment – facilitating visits of potential foreign visitors – leasing state assets. Echoing previous comment that outsourcing has taken place for centuries. Adam Smith
- What concerns PG&E is the flight from urban cores to the Central Valley.

- *International Trade came from Technology, Trade & Commerce to Business, Transportation & Housing – Patti Garamendi is heading that up and is forging an exciting partnership with the United States Department of Commerce.*

Insurance Commissioner John Garamendi:

Regarding Worker's Comp: We have about 27 days to get this completed to see a savings in 2004. This is very much in play in the legislature. We have an opportunity to get this done. Last year there was an effort on the health side – this has slowed the upward trend on medical costs – if insurance companies implement reforms (insurance companies and a third party) we will see a major change in the medical portion of worker's compensation. Due to an extraordinary abuse of the system, utilization was twice the national average. Have had a run up of medical costs. Last year's legislation just needs some clean up language. Now in second half, fourth quarter – legislation is being put forward that is strongly supported by the business community, but opposed by the labor community. There needs to be discussion between business and labor. If written correctly, we can achieve savings and get people to agree on key issues that both sides want. What we need in the next three weeks is to cross the bridge between business and labor - to take a look at what's going on and demand that it happens. The Governor is very engaged, along with Business, Transportation & Housing, and the Legislature. Regarding work related injury - \$5 billion to stimulate economy if it were available in 2004, worker's comp reform. Would immediately be money to be reinvested – most immediate economic recovery short-term.

- Chris Thornberg: Southern California has every advantage in world – climate. Build it and they will come in 60s and 70s. In 80s we didn't and they still came. Don't need to market state, don't need fiscal stimulus. Need relief from fiscal intervention. California will continue to grow. Appreciate environmental concerns – becoming a dense urban state. Need to build roads and make it easy for businesses to operate.
- James Bognet, Chief Deputy, Office of the Special Advisor for Jobs and Economic Growth: The Governor's office door is open up in Sacramento. We want to talk to you, and will meet with you. Second, your help is vital. There will be a Commission—public private partnership, and an announcement will be made from the Governor.
- Mike Cleary, Director, Division of Measurement Standards, State of California: We haven't brought up agriculture. Doesn't happen that often to have a brilliant group discussing these issues. Slides showing population increase, people need to eat. Having a safe and secure food supply, free of pest and disease, is critical for state. Our agency committed to serve agriculture, have safe food supply. Parallel food track – want to see this state become

the general it once was. Secretary Kawamura is trying to get on calendar for state Conversations.

- *Common understanding – strategies and actions to take. Continuing the input from Conversations and start to put out for review the conclusions and recommendations. Critical mass of common thinking as to the California economy and how it relates to regional economies. Integrated set of strategies around smart growth/sustainable development – with three E values. Moving state into new values paradigm that doesn't suggest that we have to sacrifice one E for the other. In the process of trying to stitch together strategies of how to work with local governments and regional collaboratives. Set of regulations hampering California have low Return on Investment and low productivity. Regional reform is high on the agenda. Worker's comp will get done. Ross Devol and other economists start looking at manufacturer's tax credit – want it examined. Being tasked with real review. A lot said about transportation, asking questions about transportation, land use, housing links. Investments in infrastructure – set of priorities by end of month through Keston – key to moving goods and services. Regarding housing, platform for housing presumes there will and should be a local authority in land use – jurisdictions will need to plan for housing supply that matches population will be required to retain local control. As state marshals resources, not thinking about centralized government, talking about agile action that uses people. Networks are industry based and regionally based – cross cutting. Not sure how yet to organize. Have served own interests by being here today to educate us on how to best convey your wisdom to Governor and make sense of it with a set of actions. Process: will get back to you everything.*
- Underscore when you're with Sunne Wright McPeak's network – exchange to provide your best ideas about what the state government can do is commitment – take responsibility with own institutions. To move ideas to bring people to table. A new way of governing. Citizen Governor responsive to people. Will have rocky parts along way. It's not about complaining, it's about how to do it together.