



Tri-Valley Regional Economic Vitality Conversation (DRAFT)

Carr America Center, Pleasanton

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Meeting Minutes

Welcome

Tom O'Malley, President, Tri-Valley Business Council

Frank Regan, Vice President, Governmental Relations, Pacific Gas and Electric Company

Economist Perspective

Joe Hurd, Senior Economist, UCLA Anderson Forecast

World economy—how it affects CA—Growth by major industrial countries—Europe hasn't grown much—India and China are seeing very strong growth. The United States is in the middle. Lessons from Europe—US will face down the road. Pension time bomb—overly generous, falling birth rate—shrinking workforce relative to number of retirees.

Asia—Per Capita GDP—purchasing power parity is very low in India/China--\$477 in India vs. \$34,280 in US.

US: Recovery of a different kind underway—most sectors of demand—lowest saving rates since Great Depression (2-3%)—households never stopped spending in first place—inventories don't have room to surge. The Jobless Recovery. Interesting downturn in US—payroll employment hasn't come back like it usually does. Lacking drive from traditional household growth on export and investment side—modest 3% GDP growth—not a big umph. A couple issues that will affect us in CA: huge trade deficit (Chinese won't take undervalued currency as payment—cheaper dollars—will let float)—prices will jump, consumer price index will go up, interest rates will go up - housing activity is one area we have enjoyed in California.

Issues for CA forecast: Job growth is here. Regarding housing and commercial real estate - 2003 was worse than we thought but things have started to turn up—thus CA has started to recover in employment. Valley didn't have a recession, neither did So Cal. San Francisco, San Jose, and Oakland had a huge downturn—this recession happened in the Bay Area. Unemployment rates have decreased.



Hard Hit Industries: Info and Telecom got hit in 2001—broadband, wireless—over 20% job loss. Other hard hit industries include durable goods manufacturing, non-durable goods manufacturing, transportation and public utilities, and professional and business services. On contrary, education and healthcare, financial activities, leisure and hospitality, and construction all kept growing during the recession. Nursing and healthcare have the greatest opportunity.

Home prices: Still very high—never building enough either. Strong NIMBYism in Bay Area - affects business with high median home prices (\$573,700 in the Bay Area). Building permits—home building is up everywhere. Overall, people still want to live here.

Commercial real estate: As vacancy rates rise, rental rates drop. The Bay Area is still hurting but the rest of the state is in good shape.

Budget will cost the state many jobs (25k jobs - mostly local). Real taxable sales on the rise after drop in 2000-03. State's jobless rate closes gap.

Summary: Recession is over—growth path is modest. State has some big issues to deal with, including outsourcing, public employee pensions, housing prices, and housing availability. Recession was homed in on Bay Area. Watching to see if new tech, biotech can bring economy back rapidly. Need to solve national problems—budget and trade deficits, falling dollar value could be an inflation-interest rate boosting trigger.

Sunne McPeak (all comments from SMcP in italics): Thanks to Tri-Valley Business Council, California Center for Regional Leadership, Economic Development Alliance for Business, and Pacific Gas and Electric Company. Investing in important process of learning—available to business and civic leaders—are engaging. Vision is a different kind of governance, not a model of centralized decision-making in Sacramento. Have been doing these Conversations since December. Charged by Governor to seek the best ideas—best thoughts on table - have been inviting economic presentations and tough thinking. Trying to understand what's going on statewide, but also within each region—regional economies very dynamic. Gross numbers mask what's going on—need to talk to employers, employees, community members. Approaches to economy—how to sustain. Fragile recovery—trying to listen and understand regional economies. We have a working framework. We keep thinking of economic theory of comparative advantage—play to strengths, minimize weaknesses.

5 building blocks of where California gets its competitive advantage: (inviting critique, validation)—developed in consultation with economists.



1. *Research-based centers of innovation (brain-based, knowledge-based economy)—e.g., Lawrence Livermore Laboratories unparalleled in the world. CA not cheapest, but highest return on investment.*
2. *Infrastructure investment—housing, transportation, water, environment, energy, etc.—we’re behind in every sector and need to do better. This is a real challenge. Struggle when you look at numbers—committed to jump start economy and invest in infrastructure. Innovative financing options presented—smart growth. Sufficient housing needed. We have “dumb growth” and are undermining productivity gains by not having adequate housing supply. Not withstanding deficit, need to grow economy to generate revenues. Bold steps being proposed for Infrastructure reform. Worker’s comp breakthrough—bipartisan passage historic. Employers were spending a whole lot of money without much of return.*
3. *Need to engage industries where we have a comparative advantage—innovation in CA lifestyle (telecom, auto design) - then interact with these industry clusters.*
4. *Overhaul of regulatory structure in every dimension. E.g., CAPUC, is biggest in CA. CEQA also the same. The Administration is committed to 3 Es, but they are not going to take false comfort in false symbols.*
5. *Local government revenue structure has to be changed—stable source needed.*

We have been charged by the Governor to overhaul state government to be the first truly 21st century government. Redoing from the ground up - starting with BT&H—trying to run like a major company. Clarity of mission, articulate products, metrics, benchmark, hold accountability. Has been foreign to bureaucracy in government.

Collaborating at a regional level—matching reality of economy. Thanks to 18 people who did their homework - all of the participant comments are going to Governor. Remarkably similar recommendations—helpful. Critical mass of civic input - this is building a momentum, a real force supporting change. We are working on a 3 year timetable. Will deliver to people improved economic competitiveness.

Conversation Notes

Jim Ghielmetti, Signature Properties: When Sunne was appointed, was very excited. Native Californians—before there was one government employee for every five people, now there is one for every three. CEQA—never saw an



environmental impact report using more paper. Scoping session took two years and \$2M, and they say it will take four to five more years and \$4-5M per year. With Sunne's help, we will change bureaucracy. New creative funding methods are needed. Self-help counties are huge hole fillers in trying to solve some of these problems.

Bruce Kern, Economic Development Alliance for Business: Thanks to Sunne for commitment of Administration. Has made his job easier - most recent attraction of Abbott Laboratories - will be a \$3 Billion sales company. Working with city, region, state essential to get companies attracted. Jobs Commission also important to strengthen. Economic development front - short term agenda: need to reestablish manufacturing tax credit after it sunsets this year. Nervous with state legislature messing with R&D tax credit. He hopes this Administration will work with regions to be competitive and maintain Sandia and Livermore National Laboratories- this helps make the Bay Area and East Bay so different - need to make sure to retain significant infrastructure investment. Also, need to reevaluate and reinvest in international trade relationships. In the short-term, worker's comp is great—next critical issue is energy. Tax and regulatory issues are also next. Housing and Transportation are lynchpins for all this. Have to work on CEQA reform. Need some exemptions from bureaucracy so we can get the job done. Transportation is a critical issue in the Tri Valley. 580 is a driveway to the Central Valley -2/3 of value of goods that move through the Bay Area pass through this corridor—truck lanes, IPS, different ways to reconfigure - this is critical to recovery.

SMcP: Regarding bringing Abbott here, the state is in partnership with local and regional economic development organizations. New Commission with Helmand and Olsen, Mark Mosher, plus David Crane, BT&H, Bradshaw—identifies companies that are at risk at leaving. They are forming A-teams. Different heads of A-teams—calling upon A-team chief to be local economic development person. Regarding manufacturing investment credit, discussion of incentives goes to new Commission. They need real hard economic data to see what has made a difference in attracting and retaining jobs that would not have gone there already. Regarding CEQA, the Administration is supportive of exemptions, but a lot more needs to be done—total reform. Chrisman, Tamminen, McPeak are working team---want to encourage incentives on a county and regional level - a true smart growth plan—land use, housing match—get competition among land sellers—transportation that goes with that—EIR—anything consistent gets a by—in return, an environmental enhancement fund. Won't get total CEQA reform done until next session. They are now trying to get out an anti-dumb growth bill by June.



Bob Brauer, Cal State Hayward: Vitality of National Labs are key to everything we do—people in Washington are waiting to steal these. The state of California has to be very strong advocates in Washington—desperately important to state. Second, the only deficit at the moment is the question of support for higher education. California’s economy is built on an educated workforce. Current projections say that in first decade of the 21st century, 1.8 million qualified students will be turned away from community colleges, state schools—CSU, UC—because of budget cuts—systems can’t sustain cuts as they are coming - won’t have qualified people to do the job. We need to foster key industries where we have an advantage—biotech. Foster growth.

Brigette Ryslinge, Las Positas Community College District: There are 108 Community Colleges in California with vocational education as part of their mission. It is critical that we recognize the volume we are dealing with, the impact on people’s lives, and the direct relationship to why employers would come to an area. People with degrees are going to school for new skills that will get them a job. Charging people extra for this is backwards thinking. Not productive to pull revenue. On a national level, vocational training is expensive—equipment, etc. Historically there has been good support from the federal level regarding funding. Now we are looking at a situation where funding is at risk. We need strong advocates for this—to attract biotech. Prop 13 intent and long term results also need to be looked at.

John Chapman, East Bay Community Foundation: Bad growth re housing—traffic models show congestion for 6-7 hours—companies will move out of here—to Oregon or India- if we do not solve transportation and housing problems. State needs to focus on state providing leadership. Maryland, New Jersey, and Colorado are good models. We can talk to Parris Glendening to get a model. Getting infill to work better, in addition to CEQA. *SMcP: Do see imperative of land use pattern changing that make it hard for investments to contribute to long-term economic competitiveness. Caltrans and BT&H will spend \$3-4 billion and will still have 100-200% increase in congestion. This is not acceptable. Also compounded by housing crisis—cities and counties need to designate land—attract private companies to build products. In all discussion around smart growth, usually missing understanding of real estate development and home building. We are adamant about engaging on this issue. All interest groups, local government, and social equity people to address this issue first—adequate housing in most efficient land use pattern. Dublin has the best suburban Greenfield development in state. 60 day time frame—charged in March—overview of dumb growth for Cabinet work group. Every member of Cabinet but two volunteered. First report went to the Governor yesterday, in next 2 weeks they hope to have sign-off on doing more*



around this. Have to put whole package together. Won't be investors in transportation without this commitment.

Rick Stulen, Sandia National Laboratories: Importance within National Lab construct—influence federal sector can bring to the state, and the Governor can bring to Washington. Issue around how to best couple with federal government. With homeland security we have the opportunity to lead the nation in terms of revenue received from the federal government. The state is so big we have fallen behind and states like Tennessee are ahead of us. Bay Area very complex—need to coordinate better—like the LA region. Bio threat, med technology opportunities. *SMcP: Bay Area Science and Innovation Consortium (BASIC) - Coalescing a unified vision—need to get 3% of GDP from federal government and give to homeland security in California—dollars are not being used well. We are trying to build a method of interaction between the Administration and you. With more resources we could do more. Foundation of innovation. Tech transfer now at BT&H—used to be at TT&C. Timeframe—next 90 days trying to figure out. Base retention—military capacity and intersection with homeland security, and centers of innovation—are a priority.*

Pat O'Brien, Leisure Sports: Regarding education, we are a consumption dependent economy—similar to pension issue in Europe. Growing underpaid is a problem in the economy. *SMcP: They endorse the 3 Es as a working framework. Social equity is important. Poverty is not helpful. We must invest in poorer neighborhoods - not displace, but partner.*

Steve Tanner, Tanner Companies: Many leading businesses finally got involved to make worker's compensation reform happen. Businesses and large employers haven't been involved to make it happen—have relied on others like Tri-Valley Business Council and the Bay Area Council to do the work. Companies need to get involved directly to make these issues of state importance change. Need to create change by creating momentum—then will see reform. Businesses need to take the time—connect dots with time and return on profit. Business councils need to arm companies with information and education. What are we doing as a region if we lose Lawrence Livermore Laboratories? That would be a monstrous loss—need to get businesses involved—including big business. They hide behind Chambers or other surrogates to do the job. Reason worker's compensation happened is because companies got involved. Regarding affordable housing—it costs 50K in general liability costs alone to build one house!! Insurance situation is ridiculous—businesses have to commit—they have power. *SMcP: Take to heart—write to Governor and copy Sunne regarding the issue of keeping together Lawrence Livermore and Sandia Laboratories, UC putting together is one possibility—a few letters could make a big difference—Tri-Valley Business*



Council and the Bay Area Council should do. SB800 expansion to make retroactive—severance of liability issues, etc. bill will move next week.

Ed Del Beccaro, Colliers International: Our Company's liability deductible went from 10,000 to 200,000 in one year. Roads to housing policy—regarding movement of goods—can't put containers along BART. Can't build warehouse districts in corridors—have to widen transportation corridor. Cheaper for India/China to get things to Chicago through Seattle or LA than Bay Area. If someone could follow a project of adaptive reuse land and write a case study, follow process—or getting a biotech application permit—every entity comes as a bottleneck—Fish and Game. All add to cost—unintended consequence. State privatizing: University of Michigan thinking about privatizing—should consider here. *SMcP: Examples of realities faced regarding insurance costs, difficulty of getting insurance, permits—want to encourage you—put into a one page letter and send to Governor—this is how worker's compensation got solved—in writing. Second, regarding housing allocation, East Bay and jurisdiction within Alameda, Contra Costa—vary widely regarding housing needs. ABAG 7 _ year cycle is too short to get products. Contra Costa County is meeting allocation, Alameda way behind. Job generation and natural pop increase—both counties are under-supplied—not enough land to meet population needs. Regarding goods movement, California is a state of goods movement and we are looking to get authority to get the private sector to the table - bonds, user fees, container fees, improvement in rail, getting customs fees from federal government. Regarding privatization, education will be last. They are looking at a set of opportunities regarding transportation, requesting unlimited authority for \$200B in projects to put out to RFP.*

David Leary, Lawrence Livermore National Laboratories: Importance of National Labs is heartening. Relationship with UC—importance regarding scientific and technical authority. Contract up in Sept 05. Being attached to the University gives them the opportunity to speak out on political issues.

Joe Gabbert, Documentum, Inc: Company he works for is a technology company. It would be insane for state to allow Labs to go out of state - devastating to the whole East Bay community. Swat teams needed to keep critical companies here. Regarding the economy, there has been a backlash toward technology community in Bay Area (Silicon Valley). State needs to make sure that technology companies are taken care of—could spawn growth again out of this. Internet companies like google.com create stock options. Need to look at ways to cultivate these industries and businesses and help stimulate growth so they are building operations in the state and not exporting them. Biggest long term challenge for Bay Area—more and more flooding of jobs in technology industry. We need to look at incentives to keep jobs here—tax advantages. *SMcP: Regarding investing for job training—first looking*



at industries where we have a competitive advantage—there are many even with economic downturn (telecom, biotech).

Howard Davis, Robert Half International: Cost of regulation is cousin of incentive. Company deals in labor across 40 states. Wage/hour—California version vs. the rest of the country version. Have to manage California employees differently. Need business impact studies. Tort reform important—especially with labor law—need large legal staffs to deal with frivolous law suits. *SMcP: BT&H has 2 (two too many) attorneys—450 across departments. Stories like those in the Bain & Company report on California’s business climate have the power to explain to the legislature - please help her by giving her some stories.*

Mike La Lumiere, TTEC: Works trying to assist with tech transfer. Starting small business and innovation are keys to a strong economy. The state of California has the most amount of startup funding in the United States. Can get 850k of research money for technology in conjunction with UC to create a viable business. We end up with budget technology companies not getting to the level they need to get to - the valley of death. A fair amount of technology does not get funding to go further. Viable, innovative companies are here to jumpstart the economy - they need to get funding from the private sector to give companies technology support to get prototypes to the marketplace.

Chris Kinzel, TJKM Transportation Consultants: Regarding transportation, he has been involved in engineering and planning for more than 40 years. This is the most depressing time because of current situation as well as future. Concerned about strict tie between housing and transportation don’t relate—built up over time. Some areas haven’t been ruined by highways—regarding providing capacity - only thing is to build new facility. Need new funding sources.

Lora Watts, SBC Communications: Root causes. SBC’s biggest issue is amount of regulation their industry is faced with by the PUC. State has a problem of regulation on top of regulation on top of regulation—problem reviewing all regulation and eliminating outdated methods. Need to study old regulations - there is a force to keep the old and add to that. They are trying to be competitive in the long distance market. Regulations previously kept benefits from consumers and now the consumer benefits. The state has the force to do this. Frivolous lawsuits - ballot issue - important to clear up loophole. Part time legislature—fan of that - has heard the Governor mention this. Wireless industry hasn’t been faced with same type of legislation—thus have many choices and prices are competitive.



SMcP: CPR efforts - at State of State, Governor announced CPR, and brought in Billy Hamilton—assistant controller in Texas—redoing state govt. Texas has taken 200 employees from throughout state government to reform and reorganize. Major overhaul just announced and will go to Little Hoover Commission next week. Transforming—system of performance management and metrics—budget and accountability. Redo personnel system—can't hire the best and reward performance.

Gary Sloan, San Ramon Regional Medical Center: The building blocks described are very right minded. Across industries there are consistent messages - business issues regarding regulation. Have to be emphasized—permit process does not allow job to be done in timely way. Regarding health care this has human costs/repercussions. Unfunded mandates. Safety issues vs. consumer protection issues. Tort reform - as part of doing business, frivolous lawsuits and way courts are set up—less costly to pay a fee than it is to go to court. This is legalized extortion. Regarding infrastructure, near hospitals housing costs are associated with employees. They need people at a moments notice and therefore need people to live close. This causes a challenge for hospitals because transportation corridors are moving people and not a product. They have had to separate workforce into those who live close to hospital and can make it for emergencies vs. those who can't. Partnership between state and local government has always been a tension. *SMcP: Billions of proposed construction would be such a spur to the economy. She has asked to privatize. They are trying to get plans approved to spur economic growth.*

Gordon Galvan, Pacific Gas and Electric Company: Ditto on tort reform—local electeds are talking about revenue enhancements to keep local government working because the state is taking money away from them. Ultimately cost will be born by business. Strategic tax incentives—need to be coordinated between state and local government assistance. Getting involved—people writing letters—everyone needs to take the time - this is what happened with workers compensation.

Weldon Moreland, CPA: Deals with small businesses everyday and the franchise tax board. The Governor needs to see what they have done right.

Bill Quinn, Bank of America: Affordable housing issue is key. California is 48 in home ownership.

Mike Mazzocco, Packaging Innovators: Manufacturers have a lot to offer. Tort reform and regulation—OSHA, lawsuits—always the enemy. The state needs to be part of what we do—tension there—want it to go away, and we're trying to accomplish the same goals.



Tim Hunt, ANG Newspapers: Education funding in the Tri-Valley - too low and too few districts. Tough for poor Livermore kids—Equity issue. Infrastructure is important.

Bill Gray, Gray-Bowen & Company: Development projects take very long—must lower voter threshold. Privatization of corridor projects—managed lanes—reversible lanes—trucks and HOVs should get priority. CEQA reform and housing role regarding CEQA. Other agencies involved as well. They believe their role is steward of environment, not regulation. Process is self-correcting. Pleasanton BART—once approved, shouldn't have to revisit. Gas tax based on road mileage---should be based on population—shouldn't be penalized for not building new road as part of project.

John Chapman, East Bay Community Foundation: The United States is 5% of the world's population and uses 25% of its energy. We import half of our oil. The state could lead in being more fuel efficient - hybrid vehicles.

Tom O'Malley, Tri-Valley Business Council: There is a sense of hope and opportunity for change. Well kept secret—we need to have people understand that there's a call to action. I believe more people will become involved if they understand there is a commitment to change. We need to think in terms of mobilizing people and companies, and dealing with issues like Labs. Listening post at state levels—aligning regions, business groups with state. Hope we can bring a lot of energy—trying to recruit people for meeting. Need to figure out how to get word out. We can deliver.

SMcP: Underscore civic responsibility to get involved. Need to have strong organizations such as Tri-Valley Business Council, Economic Development Alliance for Business (EDAB), Contra Costa Council, and Bay Area Council. They will want to partner with these groups.