

# INNOVATION, INVESTMENT, COLLABORATION

## A STATEWIDE ACTION AGENDA FOR ECONOMIC VITALITY FROM CALIFORNIA'S REGIONAL LEADERS

### EXECUTIVE SUMMARY

#### *Introduction*

For the past year, most of the discussion about California's economy has focused on the State's slow recovery from the recession that began in 2000, job losses in the manufacturing sector, and pressing cost-related business climate issues such as the workers' compensation system. This discussion has centered on statewide issues and potential solutions. However, the California economy is made up of many diverse regional economies. Each regional economy has different key industries, different workforce and infrastructure challenges, different demographics, and a different view of critical issues for their regional economy. These realities require more focused, bottoms-up approaches - rather than one-size fits all solutions driven from the State down to the regional and local levels.

The California Center for Regional Leadership (CCRL), on behalf of Governor Schwarzenegger's Cabinet, convened twelve regional Economic Vitality Conversations in 2004. Addressing both statewide and region-specific competitiveness issues, these Conversations brought forth hundreds of compelling ideas for state leadership strategies and actions, for the short- and long-term. CCRL recorded and summarized these ideas, and reviewed them with three cross-regional groups of business and civic leaders, economists, university representatives, and other economic development experts. (See [www.calregions.org](http://www.calregions.org) for the summary document.)

This report presents the results of these regional Economic Vitality Conversations. It encompasses a set of guiding themes and the highest priority ideas, outlined as an Action Agenda for the coming year. The Action Agenda contains recommendations for State actions that regional leaders agree would help them advance their regional economies by addressing common issues of statewide significance. It is hoped that the State will embrace the creative and collaborative contributions of the regional leaders, to support and complement other actions on which the Administration has already provided significant leadership.

#### *Key Common Regional Economic Vitality Themes*

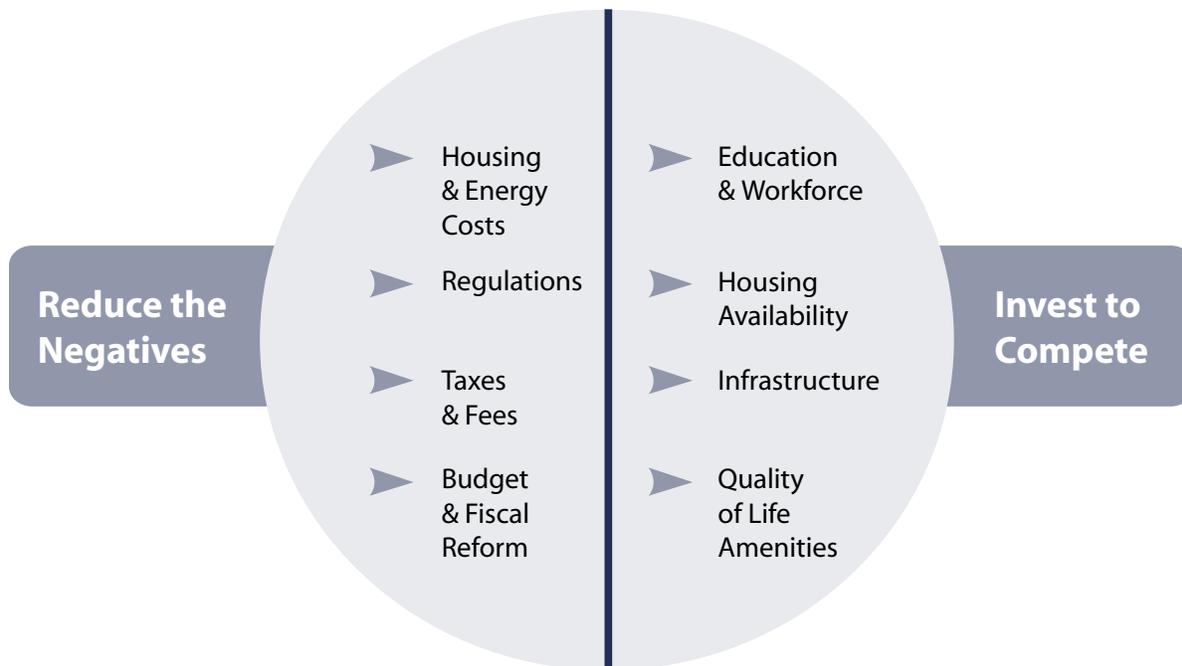
While each region has specific economic needs and priorities, there are common issues across the regions that would benefit from concerted State efforts. Overall, Regional Economic Vitality Conversation participants emphasized the need for a two-pronged approach to achieve and enhance California's economic prosperity. Most attendees were strongly supportive of the Governor's programs to reduce business costs and streamline regulatory processes. There was widespread approval for actions to reduce workers' compensation costs and energy and housing costs, and to re-examine regulations to ensure that they are providing benefits commensurate with their costs.

Many attendees, including the economists, university representatives, and economic development experts, also focused on increasing the State's investment in people, infrastructure, and communities. They noted that California's basis for competing in the global economy, and the comparative advantage of leading industries, is rooted in the high quality of the State's intellectual, institutional, and place-based assets rather than low costs. This economic climate demands that California must continually "invest to compete."

This report calls the two-pronged approach the “Complete Business Climate Strategy.” The objective is to **REDUCE THE NEGATIVES** and **INVEST TO COMPETE**. For example, housing was cited as a serious challenge in every conversation and is a cross-cutting competitiveness issue. California’s housing costs are dramatically higher than elsewhere in the nation and housing availability is threatened by a variety of fiscal, regulatory, and community forces. Thus, California needs a two-pronged housing strategy - reducing negatives (removing barriers) and redirecting incentives to support increased housing production, benefiting workers, communities, and the economy.

These and other key common themes are summarized below, followed by a list of priority Action Recommendations.

## The Complete Business Climate



KEY COMMON REGIONAL ECONOMIC VITALITY CONVERSATION THEMES	
<b>California Assets</b>	Emphasize and Promote the Positives - California has outstanding and unique assets that have been long in the making. Innovation, entrepreneurship, and intellectual talent are the hallmarks, along with a rich legacy of precious natural resources and places.
<b>Demographics and Growth</b>	Enormous changes are occurring through demographic transition and growth. These changes must be fully understood to plan better for the future.
<b>Broad View of a Healthy Business Climate</b>	California’s economy is driven by innovation and productivity. A “Complete Business Climate Strategy” means reducing the negatives - mitigating cost factors, and increasing the positives - adding productivity factors: investing in the workforce, housing, infrastructure - with transportation as a high priority, and quality communities.
<b>Structural Reform</b>	Reforming the state-local fiscal relationship and addressing the structural budget deficit are the foundations for a healthy economy and cannot be deferred. They require the leadership of the Governor and the Legislature.

## KEY COMMON REGIONAL ECONOMIC VITALITY CONVERSATION THEMES, CONT'D

<b>Existing Employers</b>	Retaining existing employers is the first priority, by improving the business climate. The best attraction strategy is retention of existing businesses, with special attention to the needs of small business, which represents more than half of all employees and the majority of total net job growth.
<b>Industry Clusters</b>	These are the drivers of economic growth and prosperity. Focus strategically on important regional and cross-regional traded industry clusters, including emerging areas of opportunity, but be able to respond to a dynamic global economy that, in turn, affects business models and markets. They are the basis for the State's strategy.
<b>Workforce</b>	Workforce is a top competitiveness priority - nothing is more critical than investing in human capital. Universities and research centers are the pipeline for innovation and commercialization of new technologies and knowledge workers. Education and training increases wages, allowing workers to improve their standard of living.
<b>Investment Priorities</b>	Identify priorities for State investments, leveraging multiple benefits to produce the best return on investment. Research and innovation are the bedrock of California's economic comparative advantage.
<b>Government Streamlining</b>	Focus on customer service and remove barriers to innovation. Focus on accountability and outcomes.
<b>State of the Regions</b>	Policies and investments must account for regional differences, needs and opportunities. Implementation happens at the local level. There must be a strong, well-structured collaboration between the State and the regions, leveraging existing networks.
<b>Good Information</b>	The basis for effective policies and decision-making is a systemic and ongoing analysis and understanding of the changing California economy, enhanced by the first-hand knowledge of regional leaders.
<b>Economic Vitality Conversations</b>	Continue the process of outreach and consultation. Focus on specific issues.

### *Action Agenda Recommendations*

The following is a short list of Action Recommendations, derived from a more comprehensive set of ideas outlined in the body of this Report, which could comprise the core of a region-based statewide Action Agenda for 2005. They meet the criteria suggested by regional leaders that the Administration focus on a select number of key priorities: a blend of those that can result in early victories, building trust and credibility, and those that are important long-term challenges that must show progress in the short-term. They want to focus on the high leverage initiatives that can move us ahead for the next 10-20 years, based on fostering research and innovation and fixing the things that stop us from moving forward.

Participants stressed that good first steps have been taken by the Administration. However, there must be continued improvement in areas such as workers' compensation reform, health care, K-12 education, and energy - as immediate needs - to spur increased investment and growth and allow the California economy to achieve its potential.

## ECONOMIC VITALITY CONVERSATION ACTION AGENDA RECOMMENDATIONS

<b>Promotion of California</b>	<ul style="list-style-type: none"> <li>• Focus on existing businesses, complemented by a focused external strategy. California high quality assets should be the core component of marketing and image building.</li> <li>• Focus and leverage the Governor’s time most effectively.</li> <li>• State marketing efforts should support and align local and regional efforts and sell the regions of California.</li> <li>• Attract and retain the “brains” - the scientists and researchers who will be the innovators of our future.</li> </ul>
<b>Critical Industries</b>	<ul style="list-style-type: none"> <li>• Institutionalize the process of identifying growing industry clusters of opportunity with quality jobs, and focusing state and regional resources on those clusters. The California Regional Economies Project provides the foundation to better understand regional industry dynamics and target economic development resources most effectively.</li> <li>• Promote collaboration with and among research institutions and others, including National Labs and business and community partners; support U.C. Centers of Excellence; facilitate commercialization of technologies. Develop a State R&amp;D Strategy.</li> <li>• Reinstate but better target/focus the Manufacturing Investment Credit (MIC); assess caps on the MIC and Research &amp; Development (R&amp;D) tax credits.</li> </ul>
<b>Education and Workforce Development</b>	<ul style="list-style-type: none"> <li>• Articulate the vision for a true seamless workforce development “system.” Empower the California Workforce Investment Board and partners to develop a plan and policy priorities that support local workforce development programs.</li> <li>• Identify critical skills gaps for key industries of opportunity through the institutionalized research and analysis process; target State funds strategically for training; promote public-private partnerships (business, universities, labor, and government) to meet training needs and embrace life-long learning and training for the workforce.</li> <li>• Promote collaboration with the California State University system and network of Community Colleges.</li> </ul>
<b>Growth and Infrastructure Planning and Investment</b>	<ul style="list-style-type: none"> <li>• Create regional infrastructure plans linking jobs, housing, transportation, and land use; use these plans to determine State funding priorities. Develop guidelines and mechanisms to reward jurisdictions for collaboration on regional planning and development.</li> <li>• Address CEQA reform in all areas (housing, transportation, etc.), while maintaining high environmental quality.</li> <li>• Explore options for local “self-help” measures for infrastructure financing, including lowering the vote threshold from two-thirds.</li> <li>• Work with regional partners, especially the Councils of Government (COGs), on innovative financing solutions for major and high priority transportation infrastructure.</li> </ul>
<b>Housing</b>	<ul style="list-style-type: none"> <li>• Take all measures necessary to assure a sufficient supply of decent, affordable housing.</li> <li>• Address prevailing wage rates for construction - align the rates to regional conditions; determine residential rates for residential development.</li> <li>• Support a swap of local property and sales taxes as an incentive for increased housing production and better local land use decisions.</li> </ul>
<b>Economic Leadership Network</b>	<ul style="list-style-type: none"> <li>• Support the regions in preparing and implementing economic strategies, building up to a state strategy that is focused on the needs and opportunities of industry cluster drivers.</li> <li>• Continue the California Regional Economies Project to provide essential economic and workforce data.</li> </ul>
<b>Federal Agenda</b>	<ul style="list-style-type: none"> <li>• Organize the California Congressional Delegation for strong leadership and coordinate efforts to obtain California’s “fair share,” including waivers and other beneficial actions.</li> <li>• As a high priority, the Delegation should work with state leaders to promote federal research funding for California. One of our major assets is intellectual infrastructure, and the federal government plays a major role in supporting this infrastructure and stimulating innovation in such areas as NIH funding for biomedical research, and NASA and DOE for nanotechnology and alternative energy research.</li> </ul>