SOUTHERN CALIFORNIA
ASSOCIATION of GOVERNMENTS

SOUTHERN CALIFORNIA ECONOMIC RECOVERY & JOB CREATION STRATEGY



2393 2011.04

TABLE OF CONTENTS

TRIBUTE

This report is dedicated to the memory of Jack Kyser and Lee Harrington who were economic leaders in Southern California. They spearheaded this important regional effort to improve economic recovery and create jobs for the one million residents who are unemployed. Their many years of experience, enthusiasm, and leadership were instrumental to the completion of the attached report.

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EXECUTIVE SUMMARY

Introduction

Jobs and Southern California's economic recovery are the impetus for local leaders to come together with business and labor leaders in the development of the below draft Southern California Economic Recovery and Job Creation Strategy. The Strategy addresses the issues that must be solved for our region's economy to create jobs and energize economic activity today, in the next five years and over the long term. The approach aims to maximize local control and regional coordination.

Southern California's Importance

Southern California's economic success is, by far, the key to California's job markets. This was evident during the last decade when the region drove the state's employment growth and decline. From 2000-2007 660,500 positions were added in California:

- Southern California accounted for 597,600 or 90.5% but just over half of total population.
- The rest of California added just 62,900 jobs or 9.5% and the Bay Area lost 203,500.

Since 2007, California has lost 1,279,200 jobs:

- 794,400 or 62.1% of those jobs were in Southern California.
- The rest of California lost 484,800 jobs or 37.9%, with the Bay Area losing 250,400.

Anyone seriously concerned about the prosperity of California's workers should be concerned about the short and long term success of Southern California's economy.

Southern California's Unique Demographics

California is not one economy but several, each with unique features that dictate area-specific economic strategies for it to succeed. The stark demographic contrast between Southern California and Bay Area counties highlights this fact:

- 42.1% of Southern California's adults stopped their education at high school or less schooling vs. 31.7% in the Bay Area.
- 28.7% of Southern California's adults have bachelors or higher degrees vs. 41.6% in the Bay Area.
- $58,331 is Southern California's median household income vs. the Bay Area's $75,545.
- 11.2% of Southern California's families are in poverty vs. 6.5% in the Bay Area.
- 49.6% of Southern California's population is Hispanic or African American vs. 30.0% in the Bay Area.

Recommendations for this strategy are consistent with the unique composition of its population and workforce. This means that measures to expand access to jobs in sectors that have limited barriers to entry and skill ladders up which workers can move into the middle class are needed. Since the best paying of these industries are blue collar, the region's economic strategy starts to address the difficult issues facing manufacturing, logistics and construction. In the longer term, these facts underscore the necessity for the strategy to tackle Southern California's educational and skilled workforce issues.

Summary

The proposed Southern California Economic Recovery and Job Creation Strategy concentrates on expanding the region's economic base to increase the flow of funds driving the area's economy. It is based upon the region's job creation needs given its unique competitive advantages and demographics. Several sectors emerge as crucial: international trade and logistics, film and related sectors, high tech and traditional manufacturing, construction, health care, and leisure industries. The aim is to create conditions encouraging job creation in these sectors in the immediate, short and longer terms as well as preserving the businesses in the region. Ultimately, the approach is to allow each city, county and sub-regional entity the flexibility to deal with those aspects of the strategy with which they are comfortable, while providing mechanisms allowing jurisdictions to cooperate for the good of Southern California. Fundamental to the strategy is the belief that "stronger economic growth will help every community."

Short Term & Long Term Recommendations

To be filled in after comments received. Draft recommendations are included in the report for comment.

OBJECTIVES OF PLAN

The Southern California Economic Recovery and Job Growth Strategy is not intended to duplicate, compete, or negatively impact local and county economic objectives, but rather to determine a common set of priorities for the region that helps businesses, public agencies, and communities improve their economic viability. A summary of local and county economic plans are found by county in the appendix with a thoughtful analysis of sub-regional economic opportunities provided by the economic advisor for each respective county.

Objectives

- Identify Southern California advantages for attracting economic development.
- Preserve current key economic industries and encourage their continued economic viability.
- Determine key industry and business sectors that present expanded investment potential.
- Create incentives for more and new lasting businesses that create jobs (including growing region's innovation growth potential).
- Identify strategies for encouraging economically stronger communities within the region.
- Identify strategies for encouraging small businesses to flourish.
- Ensure incentives for skilled employees that can support businesses such as ensuring availability of education/training along with dissemination of such resources.
- Identify strategies to connect people to good jobs.

Benefits for Working Together on a Regional Economic Strategy

- Vital economic communities.
- Meaningful employment.
- Skilled and market paid workforce.
- Additional business investment to grow local industries.
- Improved livability for residents.
- Reduced reliance on tax revenue to provide social service responsibilities due to higher employment rate.

BACKGROUND

At the May 6, 2010 SCAG General Assembly, information was provided by economic advisors about the severe economic challenges facing the cities, counties, and residents of Southern California. They noted that over 1 million jobs had been lost from peak employment. Their remarks included a dim prospect for significant regional economic growth before 2016 unless there was a concerted leadership effort to reduce impediments for creating jobs and stimulating economic investments through incentives.

At the subsequent Regional Council May 7th Board retreat, there was concurrence that SCAG should identify areas where the agency could be helpful by partnering with cities, counties, economic associations, and others to reduce impediments to regional economic growth and develop a better understanding of the common regional economic objectives established by the cities and counties in the SCAG region, as well as Kern and San Diego due to the interconnectivity of Southern California's economy.

Developing a regional growth strategy was suggested to be done in the context of the continuing recession that has impacted both the nation and Southern California. Economists agree that the recovery will be slow and challenging, and that some industries have been permanently changed. Worse, other states and regions are conducting sophisticated business recruitment efforts to extract businesses out of Southern California.

As a metropolitan planning organization with a focus on transportation, understanding the economic drivers and trends of Southern California are important and intrinsically linked to developing a successful Regional Transportation Plan as all of the major industries of Southern California depend on an efficient transportation system.

Developing the strategy was divided into phases:

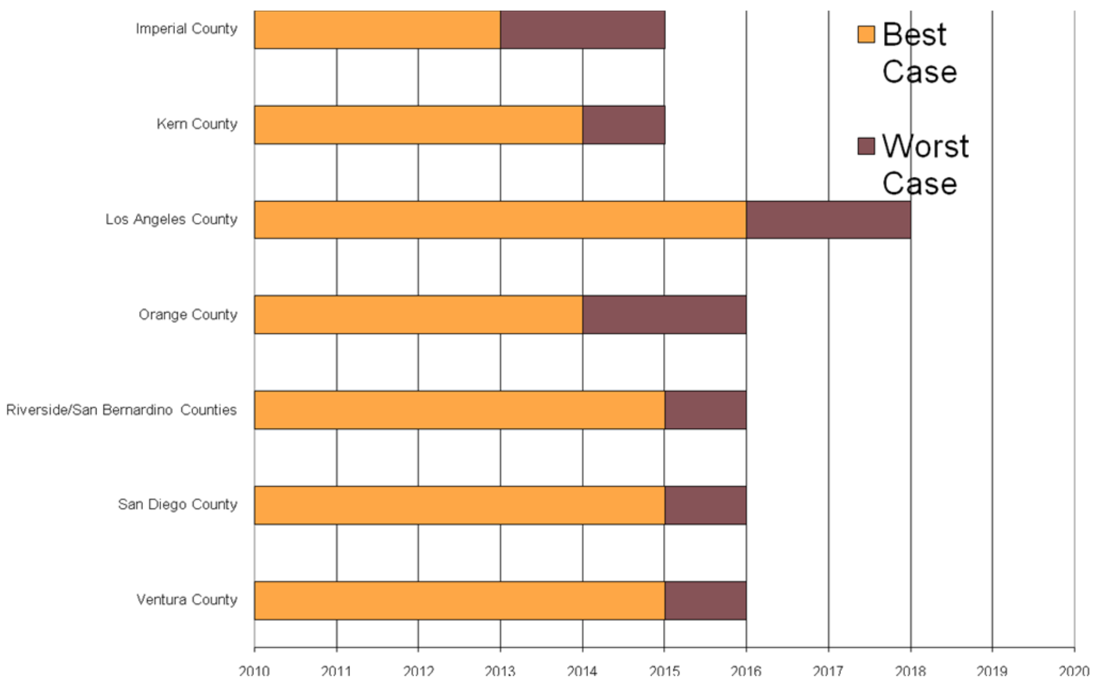
- The first phase focused on retaining economic advisors familiar with each of the counties; collecting economic data and existing economic development plans at the county and city level, preparing a proposed regional short-term action plan directed to the next State legislative session, and asking the 190 cities and counties to adopt support resolutions for "Business Friendly Principles."
- The second phase was to hold a Summit with leaders to discuss economic findings and what could be done in partnership with state leaders in the next legislative session on a bipartisan basis, work with authors to develop legislation providing job incentives, and opposing legislation that would eliminate jobs.
- Concurrently to the above activities, work with economic advisors, business leaders, and local officials to prepare a short-term and long-term regional economic recovery and job growth strategy for review at the May 5th, 2011 SCAG General Assembly.
- Seek input from cities, counties, business leaders, and other key stakeholders on the draft plan.
- Bring to the Regional Council findings and recommendations in an Action Plan which identifies areas where SCAG can partner with member cities, counties, business leaders, and other key stakeholders to reduce or remove high priority economic challenges to Southern California's economic recovery.

SUMMARY OF FINDINGS

The foundation of this economic growth strategy is the work prepared by the economic advisors engaged by SCAG. The economists from throughout the region gathered economic data and provided analysis specific to each county in the SCAG region. In addition to their analysis, the economists met with over 300 key business leaders from throughout Southern California to better understand the economic realities of the region. The work was centered on the following five questions:

1. When Will the County Re-Attain Its Peak Employment Level?

The economic advisors were asked to determine, based on pure jobs lost, the number of jobs that would have to be created in order to re-attain peak level employment, as well as best- and worst-case scenarios for the year each respective county could expect to reach that level.



Imperial County – Peak level employment in Imperial was seen in May 2008 at 57,600 approximately 3,500 new jobs would need to be created to re-attain peak employment. This could occur in the next 24-48 months (2013-2015).

Los Angeles County – Employment in the County should re-attain its previous peak in 2016 under the optimistic scenario, and in 2018 in the pessimistic scenario.

Orange County – The employment peak for the private industry in Orange County was in 2006 when employment was 1,362,200 for the private industry. In 2009 employment was reported at 1,215,200 a drop of 146,700 from peak. Private industry jobs are only growing by 1 or 2 percent so we can expect a slow crawl back to previous peak years because of severe job losses experienced from late 2006 through 2009 with a best-case scenario: 2014 and a Worst-case scenario 2016.

Inland Empire – Peak employment for the Inland Empire occurred 2007 at 1,287,325 jobs. The problem is the loss of 168,719 wage and salary jobs in the Inland Empire during 2008, 2009 and the forecast for 2010. That represents a loss of -13.7% of the 1,287,325 jobs that existed at the peak in 2007, when the gain was only 2,375 jobs. Importantly, the Inland Empire unemployment rate of 14.8% in August 2010 was the highest among the 49 U.S. metropolitan areas with 1,000,000 or more people.

Ventura County – Ventura County posted an employment peak on an annual average basis in 2007 reaching 318,358 jobs. The best-case scenario for re-attainment is 2015 and worst-case scenario is 2016.

Kern County – Peak level employment in Kern was seen in September 2005 at 312,000. Approximately 9,500 new jobs would need to be created to re-attain peak employment. This could occur in the next 24-48 months.

San Diego County – Peak employment for San Diego County occurred in 2008 at 1,455,100 jobs. To get back to this employment level 61,900 jobs would need to be created, excluding the number of jobs needed to accommodate labor force growth. If job growth averages 1% each year it will take approximately 4.5 years to reach the pre-recession level.

2. What Are the Key Industries?

Through research and in the discussions with employers and business leaders, the economic advisors determined that the following industries provide significant employment, and are also amongst the largest contributors to each county's respective economic base.

	Imperial	Los Angeles	Orange	Inland Empire	Ventura	Kern	San Diego
Agriculture	✓			✓	✓	✓	
Construction	✓	✓	✓	✓	✓		
Health Care		✓	✓	✓	✓		✓
Leisure & Hospitality		✓	✓	✓	✓		✓
Manufacturing		✓	✓	✓	✓		✓
Military/Aerospace & Defense	✓	✓	✓	✓	✓	✓	✓
Mineral & Oil Extraction	✓	✓				✓	
Professional & Business Services		✓	✓		✓		✓
Renewable Energy						✓	
Trade		✓	✓		✓		✓
Transportation & Logistics	✓	✓	✓	✓		✓	✓

3. Where is Job Growth Expected?

In addition to determining key industries, further analysis in each county suggests that following industries have the greatest potential for future job growth.

	Imperial	Los Angeles	Orange	Inland Empire	Ventura	Kern	San Diego
Agriculture	✓			✓			
Construction		✓		✓	✓	✓	
Education		✓	✓				✓
Green Tech/ Renewable Energy	✓	✓	✓	✓		✓	✓
Healthcare Services		✓	✓	✓			✓
Leisure & Hospitality		✓	✓	✓			✓
Manufacturing		✓	✓	✓	✓		✓
Military	✓					✓	
Mineral & Oil Extraction	✓					✓	
Professional & Business Services		✓	✓		✓		✓
Trade		✓	✓		✓		✓
Transportation & Logistics	✓	✓		✓		✓	✓

4. What are the Potential New Industries?

While job growth in existing industries will be beneficial to Southern California's recovery, the economic advisors sought out potential new industries in each county that could attract new investment and the creation of jobs.

	Imperial	Los Angeles	Orange	Inland Empire	Ventura	Kern	San Diego
Green Tech/ Renewable Energy	✓	✓	✓	✓	✓	✓	✓
Innovation/Design/ Creativity		✓	✓				✓
Manufacturing		✓	✓				✓
Mineral & Oil Extraction				✓			

5. What are the Hurdles to Growth?

The economic advisors interviews of top business leaders from different industries within each of the Counties and focused on impediments to job creation and investment in business expansion. As a result of business leader's responses, it was found that there were a number of consistent challenges to job expansion and business investment in the region:

- The continued uncertainty of changing regulations by state, counties, cities, and special agencies;
- Availability of skilled workforce;
- Nonresponsive government agencies to requests for information or services from businesses;
- Gridlocked government stemming in part from inadequate executive authority to reduce administrative delay in order to implement job creating investment programs;
- Disincentive tax structure in California compared to other neighboring states;
- Lowest credit rating of any state in the nation, making investment difficult and expensive to obtain;
- Loss of entertainment jobs, investment and support industries, unique to Southern California, largely due to lower cost structures and more advantageous tax policies and incentives in other states;
- Loss of imports/exports and international trade jobs and support industries related to Southern California's ports due to increased investment and capacity in the East Coast and Gulf Coast Ports, and the Panama Canal.

RECOMMENDATIONS

The economic advisors suggested numerous strategies for improving the economic vitality and livability for sub-regional, county, and regional efforts. These detailed recommendations are found in the appendix by county. The following recommended regional short- and long-term strategies are suggested to meet the goals of the plan, with the over-arching principle being,
"Local Control. Regional Collaboration."

IMMEDIATE RECOMMENDATIONS

- Oppose new legislation that negatively impacts jobs in the private sector.
- Support legislation that allows agencies, cities, and counties the flexibility to finance early delivery of projects and at the same time create jobs.
    - Example: Support implementation of LA Metro financing tool recommendations described in the appendix that assist in expediting project delivery, job creation and improved air quality resulting in 160,000 jobs, 521,000 less tons of air pollutants and 191 million less vehicle miles travelled. See Appendix for details on recommendations.
    - Example: Support SB 693 (Dutton) pending legislation that gives the same authority transportation authority's have to cities and counties allowing them the flexibility to use private sector financing on transportation projects in their communities thereby creating jobs, relieving congestion and improving air quality.
- Eliminate or reduce regulations that inhibit expedited project delivery.
    - Example: Implement OCTA Transportation Project Expedited Delivery Recommendations contained within "Breaking Down Barriers" in order to save, on average, 17 months in the approval process affecting 868,000 jobs annually for the $48 billion invested annually in Southern California transportation projects. Examples include: a) State accepting federal NEPA environmental delegation to save agency review time; b) improve efficiency of environmental reviews and reduce time by collapsing reviewing agencies environmental approval from NEPA approval and also again at permitting approval; c) encourage environmental review through electronic means; d) encourage DOT to shorten FTIP project amendment approval process; e) expand authority to agencies to allow pre-award of contracts that are currently permitted by FTA to FHWA projects). See Appendix for more detail and additional recommendations.
    - Example: Encourage Office of Statewide Health, Planning, and Development (OSHPD) to expedite plan reviews and approvals for hospital and health facility construction in order that approximately $23 billion in hospital and health-related construction work in California including 232,000 jobs could move forward.

- Require new state regulations be accompanied by an independent economic impact analysis such as pending bill AB 273 (Valado). Any legislation considered to significantly impact jobs would be opposed.
- Improve local government agencies response to businesses for requests of information and services.
  - Example: 170 Cities and Counties have adopted Business Friendly Principles.
  - Example: The City of Cypress has created two programs, AGENT (Assist, Grow, Education, Network, Thrive) for small businesses, and BRACE (Business Retention, Attraction, Creation, Expansion) for larger businesses.
- Stop loss of entertainment jobs, investment, and support industries unique to Southern California, largely due to lower cost structures and more advantageous tax policies and incentives in other states.
  - Example: Extending the entertainment industry program by eliminating the current sunset and raising the current $100 million per project expenditure cap in order to qualify for the tax credit.
  - Example: Including scripted one-hour network broadcast television series originating and produced in California.
  - Example: Guaranteeing that production tax credits for TV productions that relocate to California will remain available to those productions for two succeeding years and creation of incentives to cover the costs of relocating a production from elsewhere to California.
  - Example: Developing a green tech credit program to stimulate further return on green investments.
- Work with state and federal funding partners to provide additional incentives for self-help counties to complete critically needed infrastructure projects.
- Increase exports and prevent the loss of imports and international trade jobs and support industries related to Southern California's ports due to increased investment and capacity in the East Coast and Gulf Coast Ports, as well as the Panama Canal.
- Promote the importance of Southern California's international aviation gateways that support direct foreign investment.
- Work with federal agencies to ensure that border counties are not unduly impacted by air quality ambient air standards impacting local businesses that are caused by neighboring countries.
- Seek state legislation that retains and expands the region's high-tech, including emerging green industries, manufacturing, and research and development industrial base.
- Work with labor councils to find additional actions that together will promote jobs in the hard hit construction industries.

LONG-TERM RECOMMENDATIONS

- Assist in organizing various economic development corporations, regional economists (public, private and university) and public policy makers in establishing a Regional Economic Policy Institute for purposes of cooperative work on various economic development and public policy initiatives.
- Expand technology transfer efforts from Southern California universities to local business opportunities.
- Investigate impacts of creating an independent CEQA court to resolve litigation and expedite project implementation and job creation.
- Implement 2012 Regional Transportation Plan and Sustainable Communities Strategy.
- Implement Multi-County Goods Movement Plan to ensure goods to market for local businesses as well as maintain or improve international trade competiveness.
- Work with impacted stakeholders to create a system to streamline state and federal regulatory systems for renewable energy generation industry in order to attract more green tech industry to California rather than other nations.
- Develop education partnerships in order to leverage opportunities for our future workforce.
- Market to key partners and celebrate successful economic development efforts at the regional level.
- Develop action plan to improve relationships and communication with key leaders throughout Southern California.
- Work with stakeholders to encourage the deployment of zero emissions goods movement technology that will allow growth and improve air quality at the same time.

ACTIONS TO DATE

The Southern California Road to Economic Recovery Summit

On December 2, 2010, SCAG hosted the Southern California's Road to Economic Recovery summit. The purpose of the summit was for SCAG's Regional Council to discuss initial key findings, high-priority state impediments to economic recovery, and potential for agreement to removing impediments with state leaders and business leaders (see appendix for material distributed). Over 300 leaders participated including Former Governors Gray Davis and Pete Wilson, Senator Bob Dutton, key business leaders, cities, and counties. The Summit identified the key economic impediment challenges whereby all parties can work together to remove impediments to spur economic growth and recovery and strengthen the upcoming analysis for development of the Regional Transportation Plan (RTP).

Cities and Counties "Open for Business" Partnership

In order to demonstrate Southern California's commitment to economic recovery, 170 cities and counties in Southern California have adopted "Business Friendly Principles" by resolution (see appendix for detail).

2011 State Legislative Session Goals for Bipartisan Job Growth and Economic Recovery Actions

Local leaders, in partnership with business leaders, are committed to partnering with state leaders to foster California's economic job growth and recovery. Local Leaders and business leaders have joined together to support state legislative partnership to seek the following principles in the next legislative session:

1. Request that the Governor and State leaders commit to rejecting <u>new</u> legislation in the next session that negatively impacts jobs;
2. Retain and expand the region's high-tech, including emerging green industries, manufacturing and research and development industrial base by requesting state leadership to support the following:
    - Reaffirm support for state budget funding for community redevelopment agency authority and enterprise zones;
    - Restoration of the manufacturing investment credit;
    - $100 million funding to the State Infrastructure Bank for installation of pollution reduction equipment in Southern California;
    - Creation of a "Green Team" to develop expanded definition of green industries and work to retain and grow green industries in the state;
    - Designate 'Enterprise Counties' where unemployment exceeds 10%.
3. Work to "Beat" the Panama Canal by:
    - Allocating the balance of voter-approved Proposition 1B infrastructure bond money to expedite shovel-ready international trade infrastructure projects;

- o Expanding state authority to local jurisdictions regarding public-private partnership (PPP) funding of infrastructure construction projects.

4. Accelerate and Extend the Successful State Film Incentive Program (including commercial filming) by:
   - o Extending the program by eliminating the current sunset and raising the current $100 million per project expenditure cap in order to qualify for the tax credit;
   - o Including scripted one-hour network broadcast television series originating and produced in California;
   - o Guaranteeing that production tax credits for TV productions that relocate to California will remain available to those productions for two succeeding years and creation of incentives to cover the costs of relocating a production from elsewhere to California;
   - o Developing a green tech credit program to stimulate further return on green investments.

Progress on above 2011 State Legislative Goals

A process has been established by SCAG staff to monitor legislation that could be considered to significantly cause job loss (Goal #1). In addition, pending AB 273 (Valado) legislation would require that new state regulations will include an analysis of economic impacts including job impacts. SB 591 (Gaines) would require the State Auditor to determine the impact of regulations on small businesses.

Senator Dutton has introduced SB 693 to address Goal #3, "Expanding state authority to local jurisdictions regarding public-private partnership (PPP) funding of infrastructure construction projects." This bill is being held due to opposition by the Caltrans operating engineers and staff is continuing to work with all parties. Letters of support for the bill to the Author is encouraged.

A bill has been introduced by Senator Wright (SB 830) that could be helpful to Goal #3 by providing personal income tax incentives for cargo trade infrastructure investment.

Assemblymember Fuentes has introduced legislation (AB 55, AB 1069) addressing a portion of Goal #4 by extending five years the sunset on the state incentive film tax credit program.

SB 47 (Alquist) addresses a portion of Goal #2 on manufacturing by exempting a portion of sales tax for manufacturing including research and development for clean rooms and equipment.

Bills on Enterprise zones have been introduced (AB 231-Perez, AB 232 -Perez, AB 1259 -Knight), but do not currently include the language we are seeking in Goal #2.

Similarly spot bills on community redevelopment agencies have been introduced (AB 343-Atkins, AB 848-Campos, SB 126-Huff, SB 156-Huff, SB 158-Huff, and SB 159-Huff).

Similarly spot bills on green tech have been introduced (AB 796-Blumenfield, AB 1160-Hill, AB 1302-Williams, and AB 1376-Nestande).

The State Legislature has been primarily focused on the state budget short-fall deliberations and hesitant to address the additional job growth tax incentives suggested above. Once the budget is satisfactorily resolved, SCAG is hopeful that there will be more receptivity to consider additional amendments for incorporating the above goals (#2 and #4) into existing spot bills on the subject areas.

May 31st is the deadline for passing a bill out of the house of origin.

NEXT STEPS

- Seek comments at General Assembly
- Seek comments from cities and counties
- Seek comments from business, labor and other impacted stakeholders
- Review with Regional Council at their June 2, 2011 Board meeting
- Based upon comments, develop action plan, monitoring plan for measuring success, and communication plan with implementation schedule
- Partner with business, labor, cities, counties, state/federal legislators and other impacted stakeholders on implementation of immediate short term recommendations

APPENDICES

Available at **http://www.scag.ca.gov/ga2011/appendices.htm**

A. City & County Business Friendly Resolution
B. December 2nd Summit Findings
C. Los Angeles County
D. Orange County
E. Riverside County
F. San Bernardino County
G. Ventura County
H. Imperial County
I. Kern County
J. San Diego County
K. Peer Review Experts Qualifications
L. OCTA Recommendations for Project Expediting and "Breaking Down Barriers"
M. LA Metro Recommendations for Financing Expedited Projects