



ISSUE

The Golden State of California was once regarded as the gold standard of innovation and a harbinger of disruptive trends and technologies that quite literally transformed the world. After all, it was California that gave rise to the personal computer (Apple and Hewlett-Packard), the counter culture (Berkeley) and ground breaking software-based platforms (Google, Facebook, eBay and Amazon). Today, the state is suffering from an economic malaise. In survey after survey, business leaders consistently rank California as having the worst business climate in the nation.

AB 653 addresses the problem by proposing a coordinated economic revitalization strategy that not only leverages the state's entrepreneurial knowhow, but also incentivizes businesses to risk their capital to develop and improve the next generation of cutting edge technologies. It is time to begin the process of developing an economic strategy that focuses on California's greatest asset; our ability to innovate.

BACKGROUND

Over the past five years, the state has accumulated the following national distinctions: ranked 45th in terms of having a state tax system that encourages entrepreneurship and small business by the Small Business and Entrepreneurship Council in 2011; ranked 48th in terms of overall business tax climate by the non-partisan Tax Foundation in 2012 and 2011; ranked 39th in terms of overall business climate across six categories (costs, labor supply, regulatory environment, current economic climate, growth prospects and quality of life) by Forbes Magazine in 2011; and ranked the worst state in the union for business seven years running by Chief Executive Magazine, a ranking based on a survey of 500 chief executives from around the nation. It is not surprising that when the economy contracted in 2008, more businesses failed in California than in any other state. In fact, according to an analysis by the Small Business and Entrepreneurship Council, California lost 34,166 businesses between 2007

and 2009. Even worse, over 94% of those losses, or 32,160 businesses, were small businesses (less than 100 employees), the economic and job creation engines of the economy. With pervasive unemployment as high as 12.4% over the last three years, and currently hovering at 10.4%, the third highest in the nation, it is clear that if California is to recover from the economic recession, it must take bold action to signal to the business community that the state is prepared to do what is necessary to incentivize growth and opportunity across the state.

SOLUTION

AB 653 addresses this need by proposing a coordinated economic revitalization strategy that not only leverages the state's entrepreneurial knowhow, but incentivizes business to risk their capital to develop and improve the next generation of cutting edge technologies. The bill has four components, each designed to build off of and enable the other with the goal of driving innovation and business investment in California.

The bill will access the hundreds of billions of dollars in documented cash reserves currently sitting idle on the balance sheets of companies across the state by doubling the existing R&D tax credit from 15% to 30%. This tax credit is not a state "giveaway," instead it shows that the state is also willing to invest in its economic future. Essentially, companies that receive the credit are "conduits" for other tax receipts that come in the form of state income tax (employees), sales tax (purchase of equipment), property tax (new buildings) and other related taxes.

Naturally, as R&D spending yields new and improved products, scaling those products through manufacturing will be the next step businesses take before moving those products to market. Currently, many companies outsource most of their manufacturing out of California because of the high-costs associated with manufacturing in the state. AB 653 addresses this problem by exempting manufacturing equipment from the state's sales and use tax, allowing companies to purchase the machinery they need to manufacture their products at a

reduced cost, giving them an incentive to keep their manufacturing in California.

EDUCATION FUNDING INCENTIVES

Closely related to the sales tax exemption for manufacturing equipment, AB 653 would also encourage businesses to invest in post-secondary institutions for purposes of providing those institutions with the resources they need to develop curricula and training programs that directly increase the employability of their students. Specifically, the bill creates a 25% tax credit for investments made by businesses in post-secondary institutions, unlocking millions of dollars in funding for post-secondary institutions at a time when those institutions have to cut services because of budgetary pressures. By enabling these businesses to invest in post-secondary institutions, AB 653 will create a trained workforce that is “future ready” for available jobs. From trained technicians during the R&D phase, to high-skill manufacturing personnel during the scaling phase. California, if it is to be competitive, needs to produce a skilled workforce that meets future demands. Combined with the R&D and manufacturing tax credits, this provision creates a strong pull on businesses to stay and grow in California by enabling them to access a ready supply of skilled labor.

REGULATORY REFORM

Rehabilitating California’s burdensome regulatory system also goes hand-in-hand in promoting a culture of economic innovation. AB 653 proposes to require all state regulations to be sent to the Legislature for a 60 day period, allowing policy committees, if they so choose, to review the regulations and provide input. Often times, regulators are not looking at the “big picture” of the jobs impact regulations have on the California economy. This is not a criticism, but a fact of life as we know it. The bill allows for the Legislature to reject the proposed regulations by a majority vote resolution in either house. The regulator is then given the opportunity to resubmit the regulations at a later time.

IHUBS

We have seen that “clusters” of innovation occur when academia, business and government work together and feed off one another. Areas such as the Silicon Valley and South San Francisco/Palo

Alto are examples of where technology and the biotechnology industry have grown and prospered. The Governor’s Office, through its Office of Business and Economic Development, has created a government sponsored network of “iHubs” to encourage innovation clusters throughout California. AB 653 would place in statute this concept, including related changes.

STATUS

Assembly Rules – awaiting referral

SUPPORT

- California Hispanic Chambers of Commerce (Sponsor)

OPPOSITION

None known

FOR MORE INFORMATION

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