

Renew California

A Plan for Economic Recovery and Job Creation

The nation's economy began a halting recovery in 2010, but California's has barely stirred. The best to be said is that the state hit bottom in 2010, after shedding more than 1.3 million jobs and seeing personal income actually retreat in 2009—a first-ever in modern California history.

California eventually will enjoy a recovery, but the timing and strength of the rebound will depend upon making the state more competitive for job creation, new business formation and capital investment. The state's reputation and business climate will depend on state policymakers giving job creators the certainty and stability to make investment and hiring decisions.

In August, the Legislature will reconvene for its final month of work for 2011. While lawmakers and the Governor adopted a timely budget in June, left undone has been any move to improve the state's business climate. Lawmakers will have 20 working days to remedy this oversight.

The state cannot expect to enjoy job growth, especially in high-skilled, high-leverage occupations, just because the weather is nice and the market is big. Other states and nations crave California's start-ups, spin-offs and college graduates.

California must develop a comprehensive economic recovery strategy that will address the key policies to enhance our state's competitiveness over the short and long terms.

The five pillars of economic recovery are:

1. Reducing regulatory and litigation costs of hiring new workers and keeping them on the job;
2. Ensuring certainty and stability of private investments in plants, equipment and technology;
3. Enacting a fair and predictable tax structure;
4. Investing in public works that provide the backbone for economic growth; and
5. Providing a world class education to prepare high school students for work or college, and supporting public colleges and universities to prepare students and innovate technologies.

The California Chamber of Commerce has developed a detailed policy agenda for carrying out these pillars of economic recovery. These proposals can serve as a foundation for the Legislature's work in August to position California for an economic recovery.

1. *Reduce the regulatory and litigation costs of hiring new employees and keeping them on the job, and provide more flexibility in the law for both employers and workers.*
 - **Simplify meal and rest period rules**—Clarify rules on timing of the meal period, on-duty meals, and employer liability. In 2010, Governor Schwarzenegger signed legislation providing relief to a few industries, but a comprehensive solution is still necessary and achievable.
 - **Adopt flexible work schedules**—Return to a 40-hour weekly overtime rule to bring the state back in line with the rest of the nation. Create more options for employees who wish to work more hours and fewer days.
 - **Protect and expand workers' compensation insurance reforms**—Bolster historic cost-saving reforms by offsetting increased costs with system improvements. For seven years, Governor Schwarzenegger vetoed legislation to erode existing reforms. This year, several bills are pending to increase workers' comp costs without any offsetting programmatic reforms.
 - **Reform independent contractor definitions**—Clarify, simplify and safeguard independent contractor tax status. Make it easier for new businesses to form and prosper.
 - **Protect the right to use arbitration**—Oppose efforts to prohibit or unnecessarily limit employers from use of arbitration and other means of alternative dispute resolution.
 - **Reduce excessive litigation by reforming laws on punitive damages and class action lawsuits**—Set appropriate limits on punitive damages similar to those adopted by other states. Support legislation that addresses court interpretations that reversed pleading and class action standards established by voters in Proposition 64, and curb frivolous class action lawsuits to make the state less inviting to forum shoppers.
2. *Ensure certainty and stability of private investments in plants, equipment and technology by streamlining permitting and rationalizing regulations.*

- **California Environmental Quality Act (CEQA)**—Alleviate unnecessary expenses, delays, uncertainty and litigation traps of the California Environmental Quality Act. Ensure that CEQA does not exacerbate businesses' burdens under AB 32. Legislation being considered this year exempting some solar installation projects and limiting some abusive procedures is a good first step at reform, but a comprehensive improvement is still needed.
 - **Require economic analysis of regulations**—Establish a formal administrative process to develop economic impact analysis prior to implementation of new regulations and review certain current regulations for their economic impacts. In 2010, the Little Hoover Commission initiated a study of the state's regulatory process, focusing on the adequacy of economic analysis by agencies and of agencies' consideration of alternative approaches to regulation. The Legislature may consider this year some changes in how agencies analyze regulations to ensure a consistent, high-quality economic analysis and adoption of the most cost-effective regulatory approach.
 - **Require economic analysis of legislation**—Establish a comprehensive and dynamic economic impact analysis in the Legislature and the Executive Branch that analyzes policies before they are passed or adopted. Create dedicated committees in both the Senate and Assembly to review all legislation for their effects on the state's economy and jobs.
 - **Minimize compliance costs of climate change law**—Require a peer-reviewed analysis of the economic costs by industry sector and region to implement the elements of the AB 32 scoping plan before adoption of the plan. Ensure that any new cap-and-trade regulatory mechanism is implemented at least cost to the economy, without raising taxes and growing government, and is harmonized with any federal cap-and-trade legislation. In 2010, the Schwarzenegger administration agreed to initiate its cap-and-trade program by distributing emission allowances for free, rather than creating a costly and fraught auction for allowances. However, legislation has passed the Senate imposing a tax on cap-and-trade transactions for support of various community development programs, increasing program costs and probably illegally skirting requirements for a supermajority legislative vote for tax increases.
 - **Consumer product ingredient regulation**—Also known as "Green Chemistry," the new process for considering exposure to harmful ingredients must carefully prioritize the uses of the chemicals of greatest concern in consumer products. In the current and foreseeable economic climate, California must adopt regulations that focus on the most harmful exposures to substances in consumer products sold or used in the state.
 - **Reform the Endangered Species Act**—Revise state and federal laws to achieve a balanced approach between environmental protection and socioeconomic progress.
3. *Enact a fair, predictable and nondiscriminatory tax structure.*
- **Oppose punitive taxation that undermines economic development and stability of investments**, such as:
 - Undermining or limiting tax incentives for businesses. Last November, voters rejected a ballot measure to repeal incentives regarding net operating loss deductions, research and development credits, and the elective single sales factor. The Legislature will undoubtedly continue to attack these important incentives.
 - Discriminatory taxation of targeted industries or groups, such as e-commerce, services industries or high-income workers or investors. In 2010 and again during this year's budget debate, the Legislature rejected several targeted tax proposals—and approved none. A measure giving counties and school districts far-reaching authority to impose new taxes on incomes, products and services has passed the Senate.
 - Imposing a split-roll property tax. In 2010, the Legislature rejected a proposal to increase property assessments for corporations, but that bill has been reintroduced this year.
 - Repeal 20 percent penalty for understatement on corporate income tax returns. In 2010, the Legislature approved a modification of this penalty, reducing its impact somewhat on taxpayers.
 - **Increase manufacturing jobs**—Provide a sales tax credit for investment in manufacturing equipment. California is one of only a few states that taxes manufacturers on job-creating investments in plants and equipment.
 - **Support federal tax holiday**—Temporarily lower federal tax barriers to encourage American companies selling their goods and services abroad to bring those earnings back to the United States for investment. More than \$1 trillion in capital earned by American companies and workers is stranded overseas—thanks to an outdated tax structure that penalizes companies for bringing global earnings dollars back home to invest in the United States.
 - **Protect enterprise zones**—Defend and strengthen these important economic and community development incentives. In 2010 and again during this year's budget debate, the Legislature and the voters rejected proposals to limit enterprise zone incentives.
 - **Defend the new reform outlawing hidden taxes without a legitimate vote**—In November 2010, voters approved Proposition 26, a constitutional amendment to narrow the definition of "fees" and require two-thirds legislative vote or local approval of fees not connected to a legitimate regulatory program. This reform will undoubtedly be challenged as governments at all levels crave new revenues without voter accountability.

- **Defend the two-thirds legislative vote for tax increases**—The surest check on overspending and growth of government is the supermajority legislative vote for new taxes. As bad as the fiscal climate is today, it would be far worse without it. Proposition 25, also passed by the voters last November, reduced the vote to approve a budget and related legislation from two-thirds to a simple majority. Proponents and one appellate court agreed that provision did not apply to votes to increase taxes. This position also must be vigorously defended.
4. *Invest in public and private works that provide the backbone for economic growth.*
- **Adopt a comprehensive water policy**—Support expeditious implementation of 2009 water policy compromise, including financing and development of additional water supplies, storage and conveyance facilities. A ballot measure to provide financing for many of the provisions in the water policy compromise will appear on the 2012 ballot.
 - **Reauthorize the Federal Surface Transportation Act**—Support the state’s congressional delegation to ensure that California receives its fair share of federal transportation dollars.
 - **Expand the state’s energy infrastructure to improve energy reliability and affordability**—Ease barriers to building new electrical transmission lines, liquid natural gas plants, and natural gas pipelines. Invest in research and development of new fuel technologies.
 - **Expand the use of public-private partnerships for infrastructure projects**—Provide additional and broader authority for public entities to partner with private entities to finance, design, build and maintain infrastructure projects.
 - **Create business-friendly port policies**—Implement policies that restore port trade volumes to previous levels and incentivize economic growth and job creation, and focus new transportation infrastructure investment in the critical port zones.
 - **Improve goods movement infrastructure**—Enhance and construct corridors to ensure goods move quickly to markets and minimize congestion.
- **Support efficiency and reliability in telecommunications**—Urge federal approval of the merger of AT&T and T-Mobile to ensure greater availability, reliability and affordability of mobile broadband in California.
 - **Increase free trade**—Support free trade worldwide, expand international trade and investment, fair and equitable market access for California products abroad.
5. *Provide a world class education to prepare high school students for work or college, and support public colleges and universities in their student preparation and technology innovation missions.*
- **Defend the current accountability system**—Oppose rolling back the state’s accountability measures and hold schools accountable for attaining a minimum of grade-level proficiency for all students and improve assessment systems.
 - **Align workforce and college readiness**—Require all 11th grade students to take the Early Assessment Program and aggressively remediate students in the 12th grade, to reduce college and workplace remediation.
 - **Define “teacher quality” as the ability to improve and maintain student academic achievement**—Performance pay for outstanding teachers and administrators should be used to evaluate, remediate or terminate school professionals who do not perform adequately.
 - **Improve fiscal transparency and effectiveness**—Improve disclosure of the costs of education and hold schools and districts accountable for their use of taxpayer funds.
 - **Maintain a long-term financial and policy commitment to higher education**—California’s university and college systems are the envy of the world and a clear competitive advantage for the state. Investments in these institutions should be at the top of the public policy and financial priorities. In 2010, the Legislature and Governor agreed to protect the two California university systems from the worst of the budget cuts, but persistent budget deficits will continue to pressure these important public institutions.