Recommendations on California Competes Tax Credit Program

The California Competes Tax Credit is a program that has long been needed in the State of California. The program provides another important tool for California to compete against many other states (and nations) that currently offer lucrative incentive packages for companies in growing, highly-sought after sectors. Location in a global economy is by choice, and we have seen over the years many companies from some of our state's most prized industries, such as biotech, entertainment and aerospace, lured away to other places by eye-popping incentive packages. We need a program that helps us fight back, so that we can keep and attract more of these high-value businesses and jobs here. The California Competes Tax Credit is a good first step toward providing that ammunition.

Even so, the proposed draft regulations issued by GO-Biz on November 27, 2013 are unclear or, worse, completely silent as to a number of critically important and very consequential economic considerations that would maximize the rate of return of the credit. These economic considerations ought to frame and guide GO-Biz's evaluation of the express "factors" used to award credits to deserving projects. For this reason, the **Los Angeles County Economic Development Corporation; the Los Angeles Area Chamber of Commerce; the San Gabriel Valley Economic Partnership; the Santa Clarita Valley Economic Development Corporation; the Long Beach Area Chamber of Commerce; and the Valley Economic Alliance** offer the following recommendations for the California Competes Tax Credit Program to ensure the program maximizes the co-equal goals of directly creating or retaining jobs in highly-sought after industries and amplifying the significant multiplier effects that come from growing jobs in these important sectors.

1. **<u>Focus on high-value industries with high multiplier effects for job creation:</u>**
   - Prioritize businesses from **traded industry sectors**, which both are at the highest risk of leaving the state because they are not dependent on the local consumer base and pay an average annual wage that is 70 percent higher than the average wage paid in locally-serving industry clusters (e.g., retail, fast food, etc.).
   - When considering the number of jobs created or retained, direct, indirect and induced jobs should be counted.
   - When considering the overall impact in the state of the taxpayer's business, direct, indirect, and induced impacts should be counted.
   - When considering the compensation paid or proposed to be paid to employees, the compensation should be equal to or higher than the state average annual wage, or, if pay is below the state average annual wage, demonstrate the existence of career ladders that can reasonably be expected to lead to wages equal to or above the state annual wage.
   - Give preference to businesses with a high concentration of STEM-based jobs.

2. **<u>Prioritize industries of significant value to California's distinct regional economies:</u>**
   - When considering the strategic importance of the taxpayer's business to the state, region, or locality, prioritize businesses from industry sectors with high state and regional concentrations of employment (as measured by their "location quotients" (LQ)) compared to the nation; or, that are otherwise identified as a target industry in a local or regional economic development strategy, or an economic development element to a General Plan.
     - i. Give preference to businesses from industry sectors with a state LQ above 1.0; and (not "or")
     - ii. Give preference to businesses from industry sectors with a regional/county LQ above 1.5.
   - Give preference to applications where multiple businesses (large and small) come together and submit applications.
   - Enable cities to package deals for California Competes Tax Credit Committee approval.

3. **<u>Preference in-state investments</u>**:
   - A preference should be made toward businesses hiring in-state residents over businesses/sectors that bring workers in from out of state.
     - When considering the amount of investment in this state by the taxpayer, include important factors such as: investment in workforce and job-training in-state; significant dependence on design and/or supply chain sourcing in-state; investment in/purchase of commercial durable goods (e.g., equipment) in-state; investment in real estate/building development and/or renovation in-state; Brownfield development; etc.

4. **<u>Empower small businesses to use tax credit:</u>**
   - Make it easier for small businesses to apply by offering one-on-one assistance with the application process, as well as opportunities to be reimbursed for costs incurred during the application process.
   - Offer clean-up legislation to redefine "small business," which is currently defined as business that has aggregate gross receipts, less returns and allowances reportable to this state, of less than $2,000,000 during the previous taxable year.
     - i. Clarify the term "aggregate" amount.