California Manufacturers & Technology Association
President Jack Stewart's testimony before the Assembly Committee on Jobs, Economic Development and the Economy

Informational Hearing
"The Business Climate for Growth and Development of the California Economy"
February 9, 2005

Mr. Chairman, members of the Committee, thank you for holding this important hearing today. Many of the policies you debate this year will impact the employees of the people you heard testify here today. This is why it is imperative for you to understand all of the choices and decisions an employer must make before he decides to invest in California. If you come away with only one thing today, please remember this one unwavering point: **Almost every piece of legislation before the California Legislature has a direct or indirect impact on an employer's ability to invest and produce in the state and an employee's ability to work, grow and provide for his or her family. Every legislative vote must take into account the positive or negative affects on our job creators and the workers they employ.**

The worst of the recent economic recession is behind us. The loss of 350,000 good quality, high paying manufacturing jobs over the last 3 years will be hard, if not impossible, to recover. In fact, a report that will be issued later this month will estimate that half to two-thirds of California's remaining 1,500,000 manufacturing jobs are vulnerable due to high operating costs. How can we make California a state that will attract new manufacturing investment and employment now and in the future?

Due to the high costs of doing business in California and intense global competition for many products, manufacturers in California, by necessity, have become much more productive. They are doing more with less, they are doing the same job with fewer employees. Increasingly, however, as the economy recovers, manufacturers are considering their options - How can they best serve growing markets, where should they be locating new plants and equipments, and who should they hire?

These investment and hiring decisions are made with a long time horizon. The large capital investments required for modern manufacturing require that a reasonable pay off over 10 to 30 years can be assured. Investors will avoid high costs, high risk, and regulatory uncertainty. In addition, decision makers will consider "business climate"– the reputation of a location for supporting economic development and considering the impact of laws and regulations on companies and their employees.

The recent reform of the workers' compensation system will both reduce the costs of doing business and improve the California business climate. The bipartisan agreement for this significant achievement shows California can, when needed, respond to crises that threaten business.

But more is needed. The fallout of the electricity crisis is still burdening industrial customers with rates double those of nearby states, the loss of the manufacturers investment tax credit has increased the cost of investment by 6%, and inflexible wage and hour laws that are unique to California keep California out of the running for new manufacturing investment and hiring.

Today, manufacturers are making investment decisions that will impact California's economic future. Some manufacturers will use a high profile process for making their decision and state and local economic development leaders will engage in a wooing process to attract or retain those companies. However, the vast majority of the companies making investment decisions will use a very quiet process and their employees and the communities in which they operate will not know the results of their decisions until it's too late to change them.

This is what I refer to as the "tipping factor," the point at which an investment decision is made is typically one, two, three or even five years before it is made public. Decisions are made on the facts and costs that are known today.

This is why we have three policy recommendations for this legislative session:

1) **Exempt from sales tax the purchase of machinery and equipment used in manufacturing**.

California is one of only four states that impose a sales tax on these purchases. The manufacturing investment tax credit (MIC), in place since 1994, expired last year. As a result, it costs more to make new investments in California. Many states provide both a sales tax exemption and a MIC to encourage manufacturing investment. Exemption from sales tax would make California a more favorable location to expand operations and add or retain employees.

2) **Reduce electricity costs**

The energy crisis is not over for California manufacturers. Electricity is often a major cost component for manufacturing processes. Despite recent rate reductions, electricity costs for large manufacturers served by the three major investor-owned utilities remain nearly double the rates in neighboring states. Manufacturers purchasing electricity through non-utility suppliers pay huge crisis-related exit fees.

3) **Allow flex time to improve quality of life and reduce workforce costs for manufacturers**

Current law requires payment of overtime after 8 hours a day, even if the total hours worked per work does not exceed 40 hours. Alternative work schedules, such as 10 hours a day for 4 days a week, are not economically feasible. California law should allow manufacturers and their workers to adopt work schedules that meet their mutual needs for cost reduction, productivity and quality of life.

Mr. Chairman, thank you for this important hearing today. If the committee has any questions, I am willing to answer them at this time.