

# **Pacific Research Institute Survey**

Why California's Most Coveted Industries  
Aren't Coming to the Golden State



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# Survey Results

Business executives, including those in clean tech, R&D, manufacturing, and other industries highly-coveted by California public officials, say the high costs of housing and real estate, poor quality education system, and expensive costs to do business are among the primary reasons why they are not locating or expanding in the Golden State. These are among the findings of a new survey of business executives recently conducted by the Pacific Research Institute (PRI).

## Housing and Real Estate Costs Top Considerations Driving Decision About California

Asked about the factors driving a decision whether to locate in California, 88 percent of the business executives surveyed said the high costs of real estate was a key factor. Among the responses, executives noted that high real estate costs make it more expensive for their companies to move into the state. Lack of housing affordability also complicates their ability to get employees to move to California.

## Quality of Education, Ability to Attract Skilled Workforce Key Concerns

Asked about California's education system, nearly 63 percent of the executives surveyed said that the quality of education in California would be a major factor in their location decisions. Many executives were concerned about whether the state's education system was producing the highly-skilled workers they are seeking for their companies, while others said they wanted good schools for their employees and their children.

## Regulations and Tax Burden Rank High on Executive Concerns

Asked about California's business climate, 71 percent of the executives surveyed said that the state's labor laws and regulations would play a factor in their location decisions. Specifically asked what 2 or 3 things California policymakers could do to make the state a more attractive place for their companies, the most common responses from the executives were reducing taxes and bureaucracy, and improving housing affordability and transportation infrastructure.

- **Boosting California's Competitive Edge:** When asked about what California could do to boost its competitive edge with other states, many executives said policymakers should address the high costs of living and doing business, and invest in education, particularly in science and technology.
- **State Tax Reform Desired:** On taxes, 58 percent of the executives surveyed said that comprehensive reform of state personal income taxes would positively impact their decision to locate in California as it would make it easier for them to attract a skilled workforce.

## Mixed Views on California Environmental Policy, Cap and Trade, Infrastructure

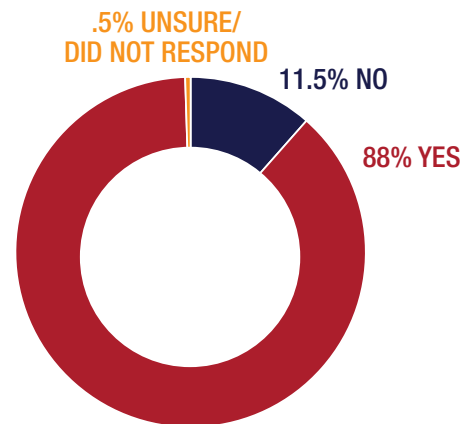
The business executives surveyed offered mixed views on California environmental policy and infrastructure investments. A majority of those surveyed (56%) said that environmental policies would not affect their decision to locate in California. Nearly 61% said that gas taxes, Cap and Trade, and energy costs would affect their location decision.

■ **Environmental Views Vary by Industry:** Clean tech and energy companies said current state policies would encourage them to set up shop here, while manufacturers and others said they were negative factors driving up business costs. For some, energy costs did not have a significant impact on their business activity.

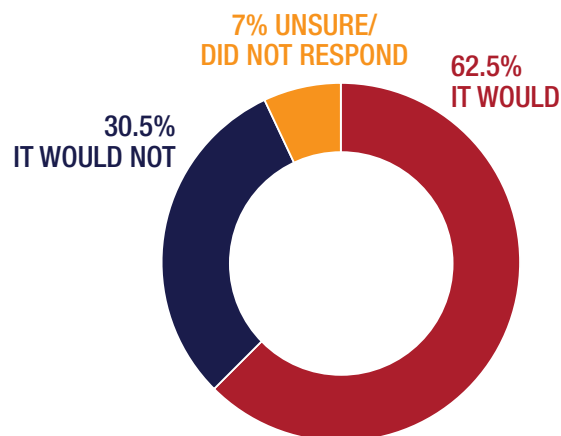
■ **Water and Energy Infrastructure Not a Factor:** A majority (52%) said improvements to water infrastructure, and a plurality (46.5%) said improvements to energy infrastructure, would not factor into their California location decisions.

### KEY FINDINGS AT A GLANCE

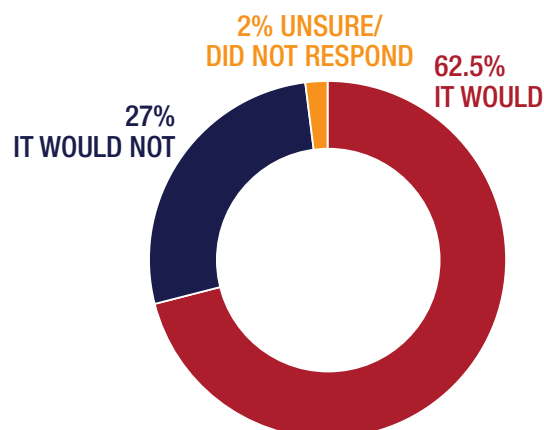
Would dealing with the high cost of housing and the high cost of commercial real estate effect your decision to locate in California or not?



What about quality of education in California and the state's ability to provide employees with the skills your companies look for – would improvements in these affect your decision to locate in California or not?



Regarding California's labor laws and regulations – including minimum wage, overtime rules, the workers comp system and other issues like these – would these affect a decision to locate in California or not?



## WHAT THEY ARE SAYING . . . SURVEY RESPONDERS IN THEIR OWN WORDS

What makes California an attractive state to locate or expand for companies like yours?	What makes California an unattractive state to locate or expand for companies like yours?	What can California decision-makers do to make California a more attractive place to locate in or expand?
"A lot of high educational institutions in California that would be ideal for our company."	"Environmental and governmental regulations, employment market, ability to find and train employees."	"Focus on streamlining regulations and reducing the corporate tax rate."
"California is a big high-tech hub and there is a skilled workforce there."	"[California] is a tough spot because of all the regulations and red tape. There are so many fees associated with having a business in California for which we didn't get anything in return."	
"California lifestyle is nice. The weather and the people too."	"Expensive and lots of traffic."	"Less legislation that is negative to business owners, less environmental restriction, convert to a right-to-work state."
"Climate."	"The infrastructure is horrible and the cost of travel is higher than any other state."	"Make the housing affordable and improve public transportation."
"Can't think of any."	"Workers comp requirements are high. Insurance liability is way too high."	
"California is the last place we want to move to. We turn down work all the time."	"Every single thing you can imagine. The red tape and bureaucracy."	"Lower the taxes for companies that are small or medium-size that need help getting on their feet. The commute is tough."





**The findings of the PRI survey on California's business climate were based on telephone interviews with 200 business executives in R&D, IT, manufacturing, clean tech, and energy.**

## **About the Survey**

The findings of the PRI survey on California's business climate were based on telephone interviews with 200 business executives in R&D, IT, manufacturing, clean tech, and energy – industries identified by California's public officials as highly-coveted industries.

Executives who were surveyed included firms that had either relocated from California or were considering / had considered locating operations in the state. Among the participants, 19 percent said they were currently considering or have considered establishing a facility in California, and 7 percent said they have closed a California facility in the past 5 years.

Participants were asked their attitudes on California's business climate and the factors that went into their decisions about locating in California. The interviews were conducted in 2017. Voter Surveys & Consulting conducted the survey for PRI.





# PRI RECOMMENDATIONS: **HOUSING**

California's legal and regulatory frameworks have created prohibitive roadblocks for building more affordable housing – particularly the nearly half-century old California Environmental Quality Act (CEQA). While the current political environment prohibits a thorough overhaul, there are targeted modifications that can help promote housing development. These should include:

- Implementing policies that would condense approval times and reduce the regulatory hurdles for multi-family housing projects. The legislature should reconsider Governor Jerry Brown's proposals in 2016 that would help fast-track the housing construction approval process.
- Streamlining the review process for home construction projects across the board. The McKinsey Global Institute (October 2016) found that compressing the permit timeline could save \$1.4 billion in costs per year and cut approval time 20 percent to 30 percent. Through 2025, "shortening the land-use approval process in California could reduce the cost of housing by more than \$12 billion . . . and accelerate project approval times by four months on average. Reducing construction permitting times could cut another \$1.6 billion, and raising construction productivity and deploying modular construction techniques up to another \$100 billion."

- Require greater transparency in the CEQA process. Plaintiffs behind CEQA lawsuits should be identified, and their environmental and business interests clearly expressed. In some cases, plaintiffs are businesses using environmental law to obstruct their competitors. A study by the international law firm of Holland & Knight “found repeated examples of intentional efforts to cloak the identity of CEQA litigants behind environmental-sounding names of fake and even unlawful ‘associations’” (*The Planning Report*, December 2015)

## IN THEIR OWN WORDS

**“Make the housing affordable and improve public transportation.”**

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- Eliminate duplicative litigation. Projects should not have to overcome multiple lawsuits that bring up legal issues that have already been resolved. Holland & Knight says this would remove the “nuclear threat” that has stopped “environmentally beneficial and widely supported projects.”
- Link the allocation of state funds to cities’ performance in building housing as suggested by the McKinsey Global Institute.
- Revise the practice of assessing fees on new housing projects to pay for school construction. “Those fees make it more expensive to build and the costs are passed on to home-buyers increasing an already expensive housing market,” says Joel Fox, president of the Small Business Action Committee. (*Fox & Hounds*, August 15, 2016)
- Modify building codes to increase higher-density developments so more multi-family housing can be built to allow for smaller units and taller structures, and to end policies that deliberately promote exclusivity by raising costs.
- Cut, and when possible, waive permit fees. Law professor and Hoover Institution senior fellow Richard A. Epstein suggests removing “any and all permit restrictions on housing that are not related to public health and safety, narrowly defined as under traditional nuisance law”. (*Defining Ideas*, Hoover Institution, November 21, 2016) Local governments that do this will attract homebuilding and enjoy the benefits that come with the increased activity.
- Stop new local and state rent control initiatives. Returning to a statewide rent-control regime would exacerbate the housing problem. Investments in rental units would lose their value, and worse than inhibiting new construction, it would likely also decrease the number of rental properties available on the market.



A photograph showing a teacher and several young students in a classroom. The teacher, a woman with dark hair, is leaning over a table, looking at a tablet. The students, including a girl in a pink and white striped shirt, are also looking at tablets. The scene is brightly lit, suggesting a modern educational environment.

# PRI RECOMMENDATIONS: **EDUCATION**

California must increase online learning opportunities to prepare its students for tomorrow's workforce. Current laws and regulations are preventing public school children from accessing the rich online learning resources that are widely available. The following recommendations will increase access to these innovative tools and help California's students attain the skills needed for good, high-paying jobs:

- Establish incentives for public university schools of education to offer and require training in how to use and teach with digital tools. A major weakness for technology assisted learning models has been the lack of adequate teacher training.
- Allow full teacher licensure reciprocity. California is one of many states that fails to allow teacher licensure reciprocity. The state requires a California teaching credential to teach in public schools. Teachers with out-of-state credentials must meet various requirements, depending on the number of years they have been teaching and the type of credential they are seeking, in order to obtain a California credential. Forcing teachers to have California credentials prevents the possibility of virtual schools using star teachers in other states to teach online students.

- Geographic restrictions that block access to online learning run counter to the fundamental value of online education. California should embrace the potential of the Internet, and let great teachers, wherever they may be located, contribute to the education of a broad audience of students.
- Eliminate the 25:1 student-to-teacher ratio for virtual charter schools and take virtual charters out of the category of independent study.

#### IN THEIR OWN WORDS

**“Having a skilled workforce and highly qualified employees is necessary.”**

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■ Reform the contiguous counties rule. The rule should be eliminated either completely or through a waiver system where the State Board of Education could suspend the rule if virtual charters present sufficient achievement and accountability evidence that meet an agreed-upon standard. One possibility is for virtual charter schools to post performance bonds that would guarantee improvement in student performance, based on measures such as growth in student test scores, in exchange for waiving rules like the contiguous-counties regulation.

■ Change school funding formulas. Michael Horn, executive director of the Clayton Christensen Institute, a

California-based non-profit think tank, suggests that California “adopt a system whereby fractional funding follows the student to the course level, such that a student could take the best course for his or her needs, be it face-to-face or online.” He advocates allowing the funding to be attached to the child to be used at the level where the child actually gains his or her learning, which is at the course level. Further, the funding should follow the child to online or blended-learning courses that focus on student outcomes rather than minutes spent in a classroom. (*Digital Learning Can Deliver More for Less – If Allowed To*, Silicon Valley Education Foundation).



A man with short brown hair and glasses, wearing a dark suit and white shirt, is seen from the side, looking out over a city skyline. He is standing on a rooftop with his hands clasped. The skyline features several tall skyscrapers, including the Transamerica Pyramid, under a clear sky. In the foreground, there is a concrete structure on the rooftop.

# PRI RECOMMENDATIONS: **TAXES AND PRO-JOBS REFORM**

Today, Californians and businesses are burdened by a host of taxes and regulations that are penalizing success, job creation, and commerce. The streamlining of its tax and regulatory systems would encourage jobs, prosperity, and growth in California. Equally important, it would eliminate tax incentives that are driving jobs and businesses – and the individuals who create them – out of the state. Among the reforms that should be considered:

- Replace the current state and local tax systems with a single revenue-neutral flat tax rate.
- Replace the current state corporate tax with a business value added tax. This ends the distortions inherent in the current tax code that discriminates against successful companies by taxing their profits and subsidizing inefficient companies.
- Establish enterprise zones for the poorest areas of California. By lowering the tax rates on depressed regions, jobs will move to where they are needed the most and partially counteracting the lack of economic opportunities.



## IN THEIR OWN WORDS

**“Focus on streamlining regulations and reducing the corporate tax rate.”**

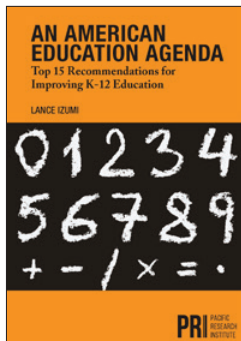
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■ Preserve the two-thirds majority requirement for tax increases should not only be maintained but the loopholes that have crept in should be closed thereby strengthening taxpayer protections.

■ Require a two-thirds majority vote for new regulations. Although 1978's Prop. 13 requires a two-thirds majority of the legislature to impose new taxes, simple legislative majorities are increasingly used to impose new regulations that, in turn, impose equally high costs. A required super majority for regulation would safeguard California against state government that favors special interest accommodations that overburden workers and job creators.



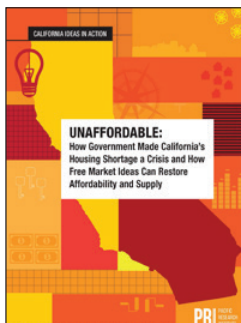
# Resources



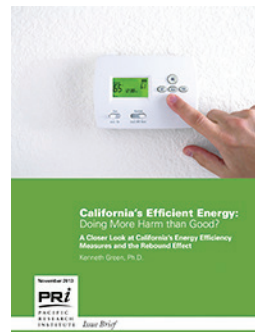
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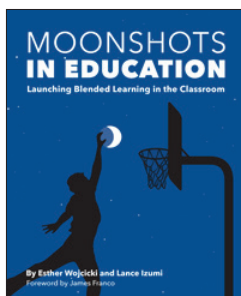
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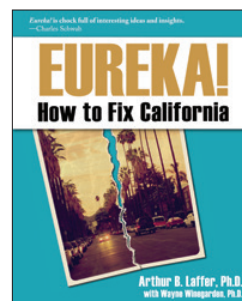
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*Moonshots in Education: Launching Blended Learning in the Classroom*, Esther Wojcicki and Lance Izumi, Pacific Research Institute, 2015



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*The 50-State Small Business Regulation Index*, Wayne Winegarden, Pacific Research Institute, 2015

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# About PRI

The Pacific Research Institute (PRI) champions freedom, opportunity, and personal responsibility by advancing free-market policy solutions. It provides practical solutions for the policy issues that impact the daily lives of all Americans, and demonstrates why the free market is more effective than the government at providing the important results we all seek: good schools, quality health care, a clean environment, and a robust economy.

Founded in 1979 and based in San Francisco, PRI is a non-profit, non-partisan organization supported by private contributions. Its activities include publications, public events, media commentary, community leadership, legislative testimony, and academic outreach.

## Center for Business and Economics

PRI shows how the entrepreneurial spirit—the engine of economic growth and opportunity—is stifled by onerous taxes, regulations, and lawsuits. It advances policy reforms that promote a robust economy, consumer choice, and innovation.

## Center for Education

PRI works to restore to all parents the basic right to choose the best educational opportunities for their children. Through research and grassroots outreach, PRI promotes parental choice in education, high academic standards, teacher quality, charter schools, and school-finance reform.

## Center for the Environment

PRI reveals the dramatic and long-term trend toward a cleaner, healthier environment. It also examines and promotes the essential ingredients for abundant resources and environmental quality: property rights, markets, local action, and private initiative.

## Center for Health Care

PRI demonstrates why a single-payer Canadian model would be detrimental to the health care of all Americans. It proposes market-based reforms that would improve affordability, access, quality, and consumer choice.

## Center for California Reform

The Center for California Reform seeks to reinvigorate California's entrepreneurial self-reliant traditions. It champions solutions in education, business, and the environment that work to advance prosperity and opportunity for all the state's residents.









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