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The View - California Businesses Need to React to Onerous State Regulations

By JOSEPH W. BRADY

When I read the January 5 headline "Northrop Headquarters Moving to Washington" it reminded me about the continued challenges that businesses have within California. It also gave me time to reflect on the study that was done in September 2009 that illustrates how serious the problem is for employers throughout California.

Although Northrop's decision to move was based on its desire to be closer to the nation's capital and its customers, it is still a blow to the already-battered California economy, which has lost other major employers. Northrop joins recently departed DaVita, which announced in May 2009 that it was moving its headquarters to Denver, due in part to the high cost of living and working in Los Angeles County.

And SAIC moved its headquarters to McLean, Virginia last year also to be closer to its federal government customers. It joins a handful of other Fortune 500 Companies that have left California in recent years, including Hilton Hotels Corp., Computer Science Corp. and Fluor Corp.

With Northrop, DaVita and SAIC gone there are 19 Fortune 500 companies located in Southern California, down from 23 in 2006, and a total of 49 headquartered throughout the state, down from 52 in 2006. Despite the various reasons for leaving California, a corporate headquarters not only employs a large number of local residents, it also purchases services from local businesses. Therefore, relocating has a multiplier effect to the loss in the local market.

Are any of our legislators beginning to understand that we have a serious problem?

States like Colorado and Nevada have programs in place to lure corporations away from California during this economic downturn. I recently spoke to Assemblyman Steve Knight (RPalmdale) about this issue and he told me about a proposed bill he authored which provides a tax incentive to qualified employers during the first taxable year and the succeeding year in which the employer's headquarters are established within or relocated to California.

Assembly Bill No. 340, introduced February 18, 2009 and last amended on January 4, 2010, authorizes employers with 30 or more employees to claim a tax credit of $3,000, and in some cases $5,000, for each qualified employee. While this bill, if adopted, is by no means the answer to California's hostile business environment, it is a step in the right direction.

We need more leaders like Assemblyman Knight who understand the true nature of this problem and who are willing to take action to keep existing businesses here and encourage other businesses to relocate to California.

While Fortune 500 companies continue to move their headquarters out of California, small business owners also are moving out of state or closing their doors. To put this issue into perspective it is important to discuss an alarming study conducted by Dr. Sanjay B. Varshney and Dr. Dennis H. Tootlian, professors with the College of Business Administration at California State University in Sacramento, about the exorbitant regulations placed on California businesses and how they're affecting existing business owners and deterring new businesses from opening in California.

It is my hope that those reading this column will contact all of their state legislators and senators and urge them to severely reduce the cost of regulations on small businesses, which account for 99.2 percent of the businesses within California.

The study was commissioned in a 2006 bill (AB2330) by Assemblyman Juan Arambula (I-Fresno) and finally published by Varshney & Associates in September 2009. The study concludes that the cost of state regulation on California's small businesses is nearly $493 billion, which is almost five times the state's general fund budget and almost one-third of the state's gross product (estimated to be $1.6 trillion).

The cost of regulation results in an employment loss of 3.8 million jobs, which is one 10th of the state's population. The total cost of regulation was $134,122 per small business in California for 2007. Labor income not created or lost was $4,360 per small business. Indirect business taxes not generated or lost are at $57,260 per small business.

The state of California used to be the fifth-largest economy in the world. Based on statistics presented in this report, we rank nearly 50th (though not in all cases) as the least friendly state within which to do business. With nearly 3.8 million businesses, and 38 million residents, these types of regulatory costs are absolutely unacceptable to those living and doing business in California.

As a commercial broker, I work in an industry with nearly 10,000 others in California who help to entice businesses to grow, relocate and expand. Whether the expansion be an industrial, office, retail or restaurant building, all these expansions are estimated to create jobs, increase property taxes, redevelopment agency revenue, sales taxes and ancillary jobs.

Regulatory costs impede success in our industry.

The study concluded that the direct costs of the regulatory environment in California is $177 billion in lost gross state output each year. And the total loss of gross state output for California each year, due to direct, indirect and induced impact of the regulatory costs is $492.994 billion. This is unacceptable.

In 2007 we had nearly 12.8 million households in California. If one were to imagine the direct cost of regulation on each household in California, the cost per household comes up to $13,800 annually, and given a population of 38 million, the direct costs of regulation per resident is $4,685.19 annually.

To further illustrate our problem, the study also noted that in 2007 California ranked 49th among all states for the friendliest to the least friendly for entrepreneurship in the small business survival index with a score of 77.985. California ranked 34th overall among states friendly to small business creation, 39th for its regulatory environment, 42nd for the highest corporate income taxes, 43rd for top corporate capital gains taxes, 44th in highway costs, 45th in electric utility costs and 47th in workers-compensation benefits. California was ranked as the worst state for top personal income tax rates, top capital gain tax rates, state gas taxes and business costs.

Although you will likely hear some harsh criticism, mostly from competing economists who believe the study's findings to be grossly overexaggerated, I could not find one critic who didn't admit that state regulations were costly and that leaders in California needed to find ways to improve our economy and help it grow.

I believe that the state of California is at a major crossroads. I also believe that we have members of the Legislature and the state Senate who have never operated a business, made a payroll or taken a risk. I hope those reading these statistics will become engaged in helping to find a solution to this matter. While many of us have always left the solution to others, such an attitude is not prudent. It will take all of us to remake California what it was when I was born in Los Angeles 53 years ago.

To add insult to injury, two initiatives have been filed for Title and Summary with the Attorney General's office for placement on the June 2010 ballot and reportedly proposed by the California Teacher's Association to change Proposition 13 and end tax protection for commercial real estate by enacting a split-roll property tax.

Although in the initial processing stages, these initiatives aim to increase tax rates for individuals and businesses that own commercial property in California, adding to the demise of the state's already crippled economy. Both measures discuss several different approaches to enact a split roll, including increasing commercial taxes by 0.55 percent, doubling the homeowners property tax exemption and doubling the renters tax exemption, to name a few.

One measure lists several benefits this tax would have on education, giving its supporters a perfect campaign pitch: "Vote for Prop. X to improve school safety and reduce class sizes" - while disguising the true negative impact it will have on businesses, investors and commercial developers in California.

As I ask my friends and local community leaders throughout Southern California and other areas of the state, I find very few who have stated in the last five years that they plan on retiring in this state. We all need to reverse this trend and become a part of the solution.

I strongly encourage you to contact your state legislator, your Senator or anybody within California who is in charge of the regulatory environment, as this environment is breaking the backs of all small business owners.

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