GOLDEN TOGETHER

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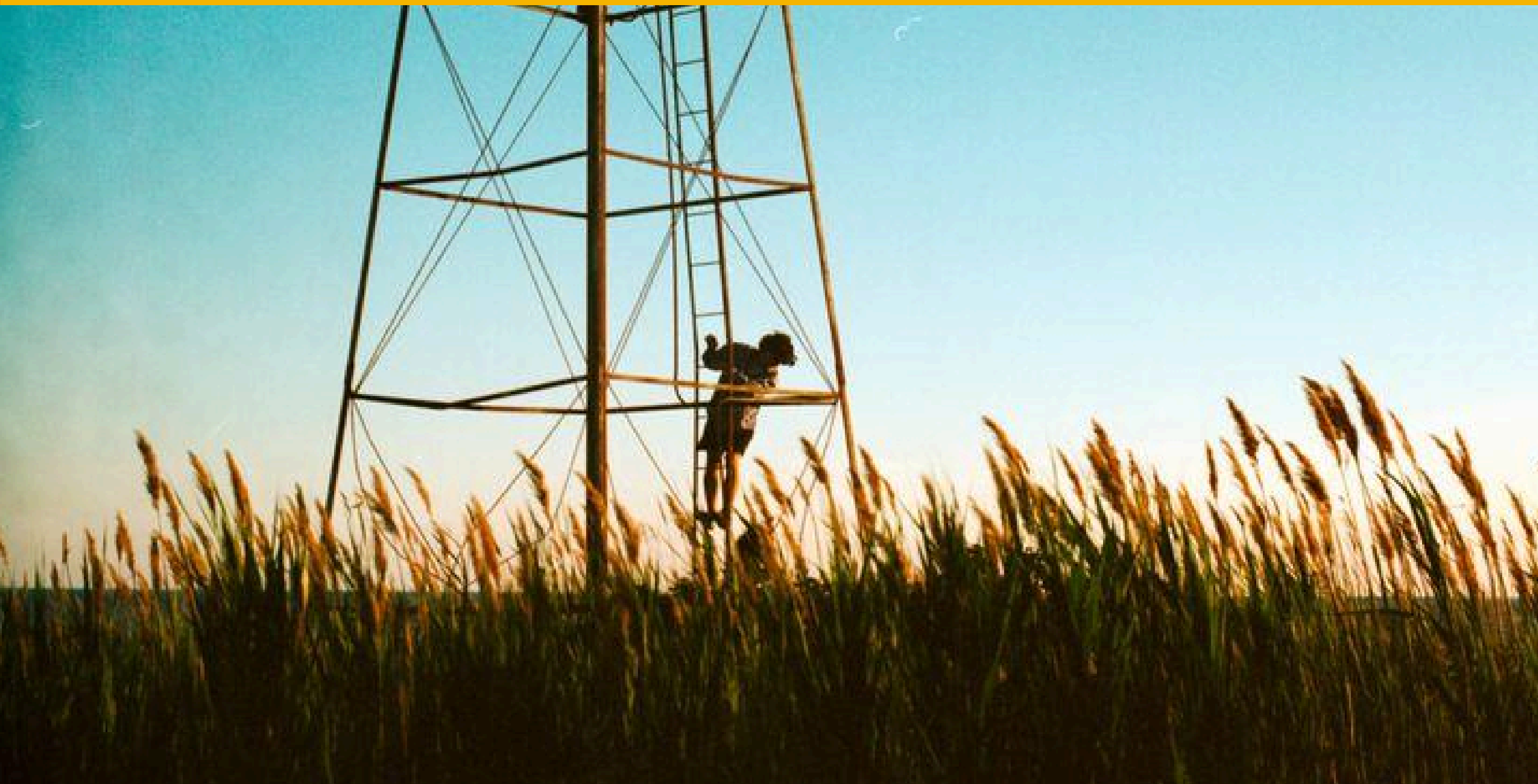
From Worst to Best

How California ended up with the worst business climate in America, and what it will take to turn things around

Prepared by Golden Together, a Movement to Restore the California Dream



Foreword

Businesses in California are under siege. Despite all our advantages; great universities, great weather and scenic beauty, the world's 5th largest economy, and diverse industries including leading edge technology companies, California is consistently ranked as the worst state in America to run a business.

Businesses of all sizes are affected. Hundreds have either scaled back their operations in California or completely relocated to other states. Big businesses confront a fantastically more complex and onerous regulatory regime than in any other state. Corporations that choose to stay, and take the punishment, are forced to pass the costs of compliance on to customers, suppliers and the wider community. Small businesses, increasingly started and owned by Latino and Asian Californians, lack the resources available to larger companies and struggle to adhere to literally thousands of rules coming from countless state and local government agencies.

California: the land of opportunity and promise, a worldwide symbol of entrepreneurialism, innovation and start-up hustle, is slowly being degraded and demoralized into stagnation and sclerosis.

The problem has worsened in the last few years, and much of it can be attributed to the rapid growth in the size of state government. When Governor Jerry Brown took office in 2011, California's state budget was $98 billion. Over eight years in office, Brown doubled it to $199 billion (despite there being no measurable increase in population served). Under Governor Gavin Newsom the state budget has grown to $330 billion - and now must cope with a $73 billion projected deficit - at the same time as the state actually lost population. Bigger government, shrinking population. This can't go on.

There is an alarming complacency surrounding California's attitude to business right now. An assumption that the "goose will continue to lay golden eggs" regardless of the blows inflicted on it by misguided public policy.

While it is true that California's capacity for growth and re-invention is tough for even this generation of ideologically-driven politicians to extinguish - as evidenced by the Bay Area-led AI boom and California's dominance in green technology - it is completely ridiculous for our great entrepreneurs and business leaders to be forced to succeed despite the overall business climate, rather than being helped to succeed because of it.

As in so many other areas of policy, California today seems gripped by a negative and limiting ideology of scarcity, intent on stopping and blocking rather than starting and enabling. We need to move into a new mindset of abundance: positive, dynamic, ambitious. On every aspect of the business climate and economic incentive structure, on every issue affecting those things…energy, water, housing, infrastructure…our regulatory, tax and policy framework should be saying "Yes We Can" rather than today's grim and crushing mantra of "No You Can't."

The focus of this paper is to identify the events and specific legislation that have created in California the worst business climate in America, and to suggest ways to turn things around. There is an inspiring opportunity here. By improving the business climate in California, more companies will compete to offer goods and services, lowering the cost-of-living and the cost of doing business at the same time as creating millions of new jobs and driving forward innovation that makes life better here and around the world. Making California the best place in America to start and run a business will make a major contribution to restoring the California Dream of entrepreneurship and upward mobility.

I'd like to thank everyone who helped with this policy paper, especially Golden Together Advisory Board members Soledad Ursua, Joel Kotkin, Gloria Romero and Mason Harrison. We are also thankful for the tremendous expert advice we received from our friends running businesses in California and those who are advocating for businesses, including Aaron Bergh, Christopher Calton, David Crane, Lance Christensen, Dan Dunmoyer, Cynthia Galbadon, Andrew Gruel, Marc Joffe, John Kabateck, Mike Kahoe, Scott Kaufman, Robert Lapsley, and Curt Pringle. Joe Lonsdale and his team at the Cicero Institute have provided invaluable ideas, expertise and guidance. Thanks also to California Policy Center senior fellow Edward Ring who is the lead author on this and all our policy papers.

Steve Hilton
Founder, Golden Together
California, April 2024

Key Points:

- As of March 2024, California has the nation's highest unemployment, lowest job growth, lowest income growth and highest poverty rate. Its state budget faces ballooning deficits, and it was just ranked by Chief Executive magazine as the worst state in America to do business for the 10th year in a row.
- California's economic growth rate has fallen from nearly 4% in the last decades of the 20th century to just over 2% in the past twenty years.
- Since 2020 over 500 companies have either left California completely, or opted to expand their operations in a different state while shrinking their operations here.
- Even after adjusting for inflation, California's General Fund spending has increased by 79 percent in just ten years, while the population has only increased by 1.9 percent.
- In California today, public sector unions representing state and local employees collect and spend nearly $1 billion per year. No other special interest in the state is nearly so focused on expanding the government, nor has access to such a large and perennial flow of discretionary funds.
- Public sector union influence over state legislators has given rise to labor laws that have actually increased unemployment. This is particularly evident in the impact of Assembly Bill 5 (AB 5), that went into effect in January 2020. AB 5 required companies to reclassify independent contractors as employees. AB 5 disrupted if not eliminated millions of jobs, including an estimated 70,000 independent truck drivers and thousands of badly needed registered nurses.
- The California Environmental Quality Act, first enacted in 1970, has morphed into a complicated monster that has spawned innumerable regulations and agency rulings and enabled endless litigation. CEQA abuse has delayed or completely derailed countless infrastructure projects and new housing developments of vital necessity to economic growth in California.
- The most recent report from the Tax Foundation, issued in October 2023, ranked California 49th in individual income tax, 45th in corporate income tax, and 47th in sales tax.
- California's legislature delegates authority to over 200 agencies, employing over 250,000 bureaucrats, giving them broad authority to interpret state statutes, define the details of their implementation, then write and enforce the actual regulations.
- Improving California's business climate will require rewriting or repealing regulations in three key areas: labor, environment, and taxes, along with taking steps to reduce the size and complexity of the state's bureaucracy.

- California’s policy regime should be unequivocally on the side of job- and wealth-creators. We must forcefully champion all our world-beating industries: from agriculture to life sciences, from aerospace to entertainment, from energy to tech.
- The emerging AI economy will provide a clear test of whether California’s governing institutions are fit for purpose when it comes to economic regulation. Will we lead the world in developing a pro-growth regulatory framework for AI based on the values of dynamism and competition? Or will we cede leadership of the 21st century economy to other jurisdictions through a risk-averse mindset of “safety” and state control? So far the signs are not good.
- This policy paper recommends 45 specific policy reforms to restore a healthy business climate to the state of California. Implementing even a fraction of these could fundamentally transform California’s economy, business performance, job creation, and affordability. Above all, it will deliver the promise of opportunity and upward mobility to California’s struggling working class.

Introduction

For anyone operating a business in California - small, medium or large - the experiences of the last twenty years have been challenging, and it gets worse every year. California's regulatory environment, its high taxes and exorbitant fees, and the overall cost of doing business are the toughest in the nation. Many businesses have voted with their feet, moving their operations to more welcoming business environments.

According to a list of "Cali-Formers," companies compiled by the Sacramento-based Center for Jobs and the Economy, since 2020 over 500 companies have either left California completely, or opted to expand their operations in a different state while shrinking their operations here. The list includes scores of household name companies: Aerojet, Aligent, AirBNB, Alphabet (Google), Amazon, Amgen, and Apple, and that's just the As. It spans the gamut from high-tech and aerospace, to energy (Chevron) and civil engineering (Bechtel), to arts and entertainment (Academy of Country Music, Disney). When including companies that have simply downsized their presence in California, opting to expand in other states instead, it's a challenge merely to find a large company that wouldn't be on this list.

Even companies that are intrinsically bound to remain in California because they are tied to the land - agriculture, logging, housing - are getting out. Soper-Wheeler, once a major logging company in Northern California, in 2001 began to move their operations to New Zealand, a process they completed by 2020. Publicly traded housing developers, accountable to shareholders, lack a strong incentive to invest in California, because the returns are so much greater in states with less regulation and less litigation. And as California's beleaguered farmers struggle to stay competitive, markets in the state are increasingly stocked with avocados from Mexico and beef from Brazil. In 2020 California imported $14.3 billion worth of food products.

What happened? The best universities and the birthplace and epicenter of high tech in the world, and yet California is losing its high-tech companies. The best farmland in the world, and millions of acres of marketable timber, and yet California imports most of its lumber and a growing percentage of its food. Arguably the most beautiful scenery and best weather on earth, but homebuilders avoid California in favor of other states. Something has gone terribly wrong.

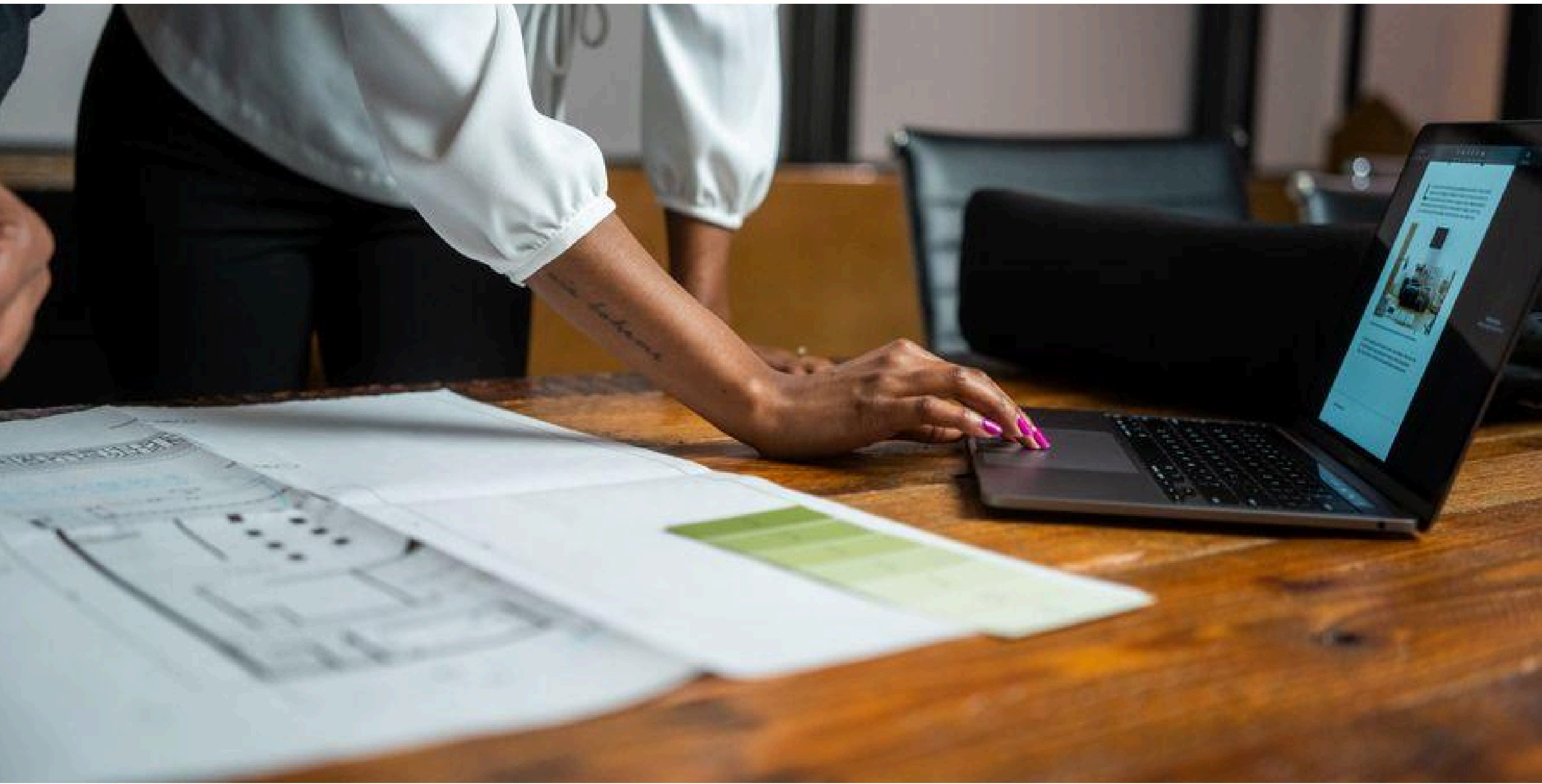
In this report we will identify some of the primary causes of California's evident hostility towards businesses in all sectors and of all sizes. We will track the key legislative changes that led up to the situation businesses find themselves in today, and we will recommend reforms that, if enacted, would restore California to a place where entrepreneurs, corporations, and investors are again attracted to the state instead of being driven away. For most of its modern history and through most of the 20th century, California was a magnet state. It was a place where anyone with a good idea and the will to work hard could build a company to sell their product or service, create jobs, and thrive.

California can be that place again. Here's what happened, and how to fix it.

The State of California's Economy

According to the California Department of Finance, the state's GDP in 2022 was $3.6 trillion, the highest in the nation. California's per capita GDP was an impressive $92,308, only eclipsed by the states of New York, Massachusetts, and Washington. But these statistics are misleading. California's per capita GDP is high, but so is California's cost-of-living. And while real GDP growth since 1980 has averaged a respectable 3 percent per year, as will be seen, the high growth years were in the 1980s and 1990s.

The economic reality in California is darkened by data that leave no doubt as to their human impact: As of March 2024, California has the nation's highest unemployment, lowest job growth, lowest income growth and the highest poverty rate. Its state budget faces ballooning deficits, and it was just ranked by Chief Executive magazine as the worst state in America to do business for the 10th year in a row. But for a long time, California's economy soared. The foundations of growth were solid.



California's GDP is the product of a diverse and resilient economy, with no single sector dominating. In 2022, California's financial and real estate sector was 19.1 percent to GDP, professional and business services 14.2 percent, information technology 10.6 percent, manufacturing 11.9 percent, and trade, transportation and utilities 14.5 percent. Education and healthcare services represented 7.5 percent of California's GDP, and the government sector added 11.7 percent.

Altogether an estimated 2.5 million Californians worked for state and local governments and agencies. The largest 'civilian' sectors were trade, transportation and utilities at 3 million, education and health services at 2.8 million, professional and business services at 2.7 million, leisure and hospitality at 1.6 million, manufacturing at 1.3 million, construction at 880,000, financial services and real estate at 823,000, and information technology at 566,000. The biggest single companies in the state were spread across sectors, with Wells Fargo, Disneyland, Space X, Meta (Facebook), Alphabet (Google), Apple, and Chevron among the largest.

Employment in California is also fairly evenly distributed between small and large businesses. According to the Employment Development Department (EDD), there were 1,118 companies in 2022 with over 1,000 employees, employing 15.6 percent of the workforce. At the other end of the spectrum, in 2022 California was home to 1.7 million companies with under 50 employees, representing 41.5 percent of the total workforce. In the middle, the EDD reported 58,627 companies with between 50 and 999 employees, equal to 49.9 percent of the workforce. But in recent years employment growth has been stagnant.

In all, the total private sector labor force in California totaled 15.0 million in February 2020, immediately prior to the COVID pandemic. It fell to 13.7 million in February 2021, then rose to 14.9 million in February 2022, 15.1 million in February 2023, and slightly higher to 15.2 million in February 2024. Over the past four years, the total employed private sector workforce has only increased by 1.6 percent.

At the same time, however, state government spending in California has dramatically increased. In just the last ten years, and adjusting for inflation, the California State General Fund, the budget that allocates taxpayer dollars to countless state government programs and departments, has nearly doubled. In 2013 the state's General Fund expenditures were $96.3 billion. Expressed in inflation adjusted 2023 dollars, that was $125.9 billion. Compare that to the state's General Fund in 2023 of $226.0 billion. Even after adjusting for inflation, that is a 79 percent increase in just ten years.

The per capita increase in California's General Fund spending is also significant because California's population hasn't increased very much since 2013. Ten years earlier it was 38.3 million, and in 2023 it was only up to 38.9 million, an increase of only 1.9 percent. Over the past three years, California's population has actually dropped by nearly 600,000 residents since reaching a high of 39.5 million in 2020.

Taking population into account, California's General Fund spending in 2023 dollars has gone from $3,291 per person in 2013 to $5,800 per person in 2023, an increase of 76 percent. This dramatic growth in per person spending corresponds directly to more government control of the economy in the form of more programs and more employees. And as state and local governments grew, California's economic growth slowed down significantly. California's GDP today may be impressive, but the rate of GDP growth since 2000 does not begin to compare to its growth during the booming 1980s and 1990s.

In the years between 1980 and 2000, California's population grew by 43 percent, from 23.8 million in 1980 to 34.0 million by 2000. At the same time, in 2023 dollars, its GDP soared from $1.1 trillion in 1980 to $2.2 trillion in 2000, a real increase of 107 percent, or 3.8 percent per year. The past 20 years do not begin to match that performance. Population growth between 2000 and 2020 was only 16 percent, with actual population decline over the past three years. And inflation adjusted GDP growth, from $2.2 trillion in 2000 to $3.4 trillion in 2020, equates to a dramatically lower rise of 54%, only 2.4 percent per year.

Additional cause for concern is growing income inequality. While California's per capita real income grew over the past 20 years from $65,000 in 2000 (expressed in 2023 dollars) to nearly $86,000 in 2020, most of that rise has gone to the top income groups. For example, since 2000, the top 10 percent of households by income in California have seen their income rise on average by 34 percent, whereas the bottom 10 percent have experienced an increase of only 6 percent. Overall, California has one of the highest rates of income inequality in the US.

California's ongoing economic success is a product of infrastructure investments made in the 1960s and tech breakthroughs that really took off in the 1980s, along with a welcoming culture and unequaled climate that has attracted workers, scientists and engineers, entrepreneurs and investors from all over the world.

But California's successful performance throughout the 20th century has slowed down in the first two decades of the 21st century, and what does remain robust about California's economy is in spite of the ideology and public policies that have defined the business environment over these most recent decades. Identifying which policies are limiting the ability of California's businesses to thrive and achieve their true potential, and suggesting ways to fix these policies, constitute the remainder of this paper.

From Welcome to Unwelcome - Origins of the Decline

According to Chief Executive magazine, which every year issues an authoritative ranking of the best and worst states for business, California occupied the bottom spot, #50, in their most recent report for 2023. To come up with this list, each year the magazine interviews over 600 CEOs running companies that operate in multiple states.

The Small Business Regulation Index, published by the Pacific Research Institute in 2015, ranks California as having the worst business climate for small firms. These findings were corroborated by the Small Business and Entrepreneurship Council in a 2019 study that put California in 49th place, and a 2021 study on the best and worst states for entrepreneurs conducted by the Cato Institute that placed California 48th among the 50 states.

California's dismal treatment of small businesses disproportionately harms Latinos, whose businesses tend to be smaller and less capitalized. California's recently mandated $20 minimum hourly wage for fast-food workers, for example, may help some individual Latinos, but it could both reduce total employment and threaten the livelihoods of smaller franchisees, many of whom are minorities. Since California is destined to be predominantly Latino, (Latinos now constitute 56 percent of students enrolled in K-12 schools), the state's evident hostility towards small businesses is an attack on the next generation and the future.

Ironically, one of the reasons California thrives in spite of being the most over-regulated state with the highest taxes and highest cost-of-living in America is because it is such a wonderful place to live. With the best weather in the nation and vast expanses of scenic mountains and coastline, people and businesses prefer to stay put if they possibly can.

California also still prospers thanks to investments made by previous generations. In the 1950s and 1960s, California's pro-growth political leadership established the best university system in the country, completed a comprehensive network of freeways and expressways to connect its cities and enable suburban expansion, and with the California Water Project, they built the most remarkable system of water storage and distribution in the world. Even with a population that has nearly tripled since those decades, these investments made over 60 years ago still benefit California's economy and California's businesses.

We have grouped the challenges facing Californians today into four categories of excess: labor regulations, environmental regulations, taxes and fees, and bureaucracy and complexity. All four of these barriers to opportunity, dynamism and upward mobility continue to grow.

Labor Regulations

In 1968 California passed the Meyers-Milias-Brown Act, which made California the second state in the country to allow public sector collective bargaining. This legislation has been amended repeatedly since 1968, most notably when Governor Jerry Brown (in his first term as governor) signed the Rodda Act in 1974, which expanded collective bargaining to public school employees and established the powerful Public Employee Relations Board.

Over the ensuing decades, California's public sector unions steadily increased their political influence. Today they are typically the biggest contributor to almost every member of the state legislature; virtually all of the Democrats and many of the few Republicans who are left owe most of their campaign financing to public sector unions. Government union control over the California state legislature has been described by Capitol insiders as "absolute."

It isn't hard to see what the consequences of this influence have created. The inevitable agenda of unions representing government employees is to grow government, and if government programs falter in their effectiveness, their solution is always to fix the problem with even more government. This

California's public sector unions also tend, like most unions, to embrace a left-leaning, 'big government' bias. This means that their preference for more bureaucracy, more regulation, and higher taxes has an ideological as well as an economic basis. In California today, public sector unions representing state and local employees collect and spend nearly $1 billion per year. No other special interest in the state is so inherently focused on expanding the government, nor has access to such a large and perennial flow of discretionary funds.

As California's state government expanded in large part because that expansion served the agenda of powerful government unions, and as a union controlled legislature passed more laws pursuant to that agenda, more agencies were created, staffed with more personnel tasked with writing regulations to enforce the new legislation. The difficulties this has created for businesses in California are universal. Across every sector, business people are trying to cope with the harmful impact of labor laws, environmental regulations, high taxes, and a byzantine array of often indecipherable and ever changing rules from dozens of oversight agencies.

As previously noted, since 2020 over 500 companies have either vacated California completely, or opted to expand their operations in a different state while shrinking their operations here. The decline is particularly acute in those industries that involve more than software, financial service, entertainment and media, or other intangibles. Loss of manufacturing jobs is a prime example of this. The decline is consistent in every category of manufacturing. Computer electronics manufacturing employment in California in 1990 stood at 455,000, and that's the earliest year still reported by the Employment Development Department. In February 2024 that number was down to 291,000. The larger general manufacturing employment category shows an identical trend. In 1990, California's general manufacturing workforce was 2.0 million, and today it is down to 1.3 million.

No industry is spared, but the challenges facing the restaurant industry are particularly indicative because they are at the end of the supply chain, purchasing food, energy, water, paying rent, and employing workers. In all cases, the costs for these inputs are already elevated. But it doesn't end there. The regulatory burden that specifically targets California's restaurant owners makes it the hardest state in America to open a restaurant and keep it open.

One recent law, Assembly Bill 1228, which was signed by Governor Newsom in September 2023, raises the minimum wage for fast food workers from $15.50 to $20 per hour, and establishes a "Fast Food Council" with the power to write and revise work standards in the restaurant industry. In response, fast food franchises are eliminating staff positions, raising menu prices, and automating services.

The stakes are high. Over 500,000 Californians work in the fast food industry, and overall there are an estimated 1.8 million Californians working across all categories of restaurant and foodservice jobs. Raising wages and creating an oversight board with the power to add new work rules is going to make it even harder for restaurants to stay in business. As it is, one of the restaurant owners we talked with told us that to do business in California is to choose which laws to break, maintaining that it is impossible to comply with all of them.

For example, often restaurant employees prefer to work through their shifts to clock out early, or to trade break times with other employees, but that's illegal in California, where every 4.5 hours an employer is required by law to insist their employee takes a break. Many of the laws seem petty. A new one recently passed requires single user restrooms to have signs that say "All gender toilet facilities." Not having this precise language outside a unisex restroom is a violation of the law.

Another law taking effect this summer will require bars to make test kits available to any customer that wishes to determine if their drink has been spiked. Bar owners will now have to purchase these kits, with the collateral benefit of now becoming part of the chain of liability for any related mishap that may befall a patron.

These are just a few of the challenging regulations afflicting restaurant owners, but they are magnified by California's Private Attorneys General Act (PAGA). This law empowers any employee to file a lawsuit on behalf of themselves and all other allegedly aggrieved employees for any violation of California Labor Codes that they experience or observe. Thousands of these lawsuits are filed every year. PAGA affects all businesses in California. It is so lucrative for trial attorneys that they will advertise on Instagram to recruit employees to file these lawsuits. Regarding PAGA, the California Chamber of Commerce writes:

"The default penalty for a violation of the Labor Code is $100 per employee per pay period for an initial violation and $200 per employee per pay period for each subsequent violation. For example, in 2018 a group of drivers sued Uber claiming they were misclassified as independent contractors and were owed expense reimbursements and converted tips. If the drivers were successful on their PAGA claim, PAGA penalties would exceed $1 billion." Even Uber might be broken by a fine that big. For small businesses, PAGA can be a killer.

Public sector union influence over state legislators has given rise to labor laws designed to drive workers into private sector unions, a phenomenon that has accelerated in recent years. This is particularly evident in the impact of Assembly Bill 5 (AB 5), that went into effect in January 2020. AB 5 required companies to reclassify independent contractors as employees. Its impact was mitigated by a November 2020 state ballot referendum that exempted companies that hired app-based drivers, as well as some job categories such as freelance writers and musicians. But AB 5 wreaked havoc on many other industries, including some that provide essential services such as trucking and nursing.

With respect to healthcare, the timing of AB 5 could not have been worse. Taking effect only a few months before COVID cases surged across California and the rest of the nation, thousands of Advanced Practice Registered Nurses (APRNs) were barred from working as independent contractors, and consequently, thousands of them - at a time when they were most needed - opted out of providing their caregiving services. Those that accepted permanent employment were usually required to join the California Nurses Association, and start paying union dues.

When AB 5 took effect, independent truckers were also excluded from providing shipping services. Owner-operator drivers were forced to either accept jobs as employees with major shipping companies, or leave California to work in states where they were still permitted to work as independent contractors. In this case, just as with the nurses, if these independent truckers accepted permanent employment, they usually had to join the International Brotherhood of Teamsters, and pay union dues.

Not only did AB 5 deny nurses, truckers, and other independent businesspeople the ability to practice their professions, but it raised the cost and lowered the quality of California's healthcare and shipping industries, since they could no longer expand and contract their capacity to meet the needs of the market, nor did they have access any longer to thousands of trained people who had previously given them that ability.

There is a ripple effect on the entire economy when shipping capacity is constrained and shipping costs go up. These increased costs roll through every supply chain, putting additional financial strain on businesses, undermining the ability of California based companies to compete, creating the incentive for them to move to a less costly state. As we have seen, thousands of companies have done so.

AB 5, however, is only one example of the barriers that California's state legislature has thrown up against California's truckers, and by extension, the entire transportation and shipping industry in the state. The California Air Resources Board, acting under the authority of the Global Warming Solutions Act and subsequent legislation, has imposed continuously escalating emissions standards on truckers. While it is important to move the shipping industry steadily towards achieving more stringent air quality standards, these standards are requiring truckers to replace their equipment before the end of its useful life. The added costs are particularly burdensome on small trucking companies and independent owner-operators, but even some large shipping companies are leaving the state. Which brings us to environmental over-regulation.

Environmental Regulations

Another primary driver of California's hyper-regulated business environment is an example of a consistent pattern in California public policy: good intentions, when taken to the extreme, causing severe unintended negative consequences.

In the 1970s the expression of environmental values was necessary and timely. The state was dealing with dangerously unhealthy air in its growing coastal cities where automobile exhaust was trapped between the ocean to the west and inland mountains to the east, choking the people living there. People in California were also realizing that some limits to suburban expansion were called for, such as preventing the entire lower San Francisco Bay from being filled in to build new homes on top of what were ecologically sensitive estuaries and wetlands.

In response to these concerns, appropriate laws and regulations were enacted. Unleaded gas was introduced, greatly reducing smog. The southern reaches of the San Francisco Bay were preserved. Other successes included saving the magnificent California Condor and other endangered species. And in 1970 the state legislature passed the California Environmental Quality Act (CEQA), which mandated that new land development applications submit an environmental impact report.

Today, laden with countless legislative amendments and legal precedents, CEQA has morphed into a complicated monster that has spawned innumerable regulations and agency rulings and enabled endless activist- and union-sponsored litigation. The practical effect of CEQA has been to delay or completely derail countless projects that, if they had been permitted as they were in the 1950s and 1960s, would have allowed California's energy, water, transportation, and housing sectors to have kept pace with economic growth and population growth. It would have meant California would still have a competitively low cost-of-living, and fewer regulatory obstacles to establishing and expanding businesses.

The other major activist-inspired law, also spawning countless enhancements and follow-on legislation is the Global Warming Solutions Act of 2006. In the original "Scoping Plan," the Act established a goal of reducing Greenhouse Gas emissions to 1990 levels by 2020. But as noted in the 2022 update to the Scoping Plan, "as new studies detailed the impacts and potential impacts of climate change and provided additional support for the importance of taking immediate action, California governors and legislators have sought to strengthen the state's emissions reduction goals." That is somewhat of an understatement.

California is now on course to achieve "carbon neutrality" by 2045, barely two decades from now. To accomplish this the state has - to cite only some of the most prominent examples - invested billions in wind and solar energy, is systematically shutting down its oil and natural gas extraction, refining, and distribution infrastructure, is mandating no new sales of cars with internal combustion engines by 2035, restricting growth of housing and industry based on the potential of these new developments to cause more greenhouse gas emissions, imposing CO2 emission reporting standards on businesses, and creating a costly and difficult to effectively regulate market for trading CO2 emission permits and CO2 offset projects.

Another example of an extremely costly and restrictive regulatory permit is the California Water Resources Control Board Industrial General Permit (IGP). This permit regulates the storm water discharges from industrial and commercial facilities/properties. These "permittees" must manage all runoff from the facility through "Best Management Practices" which either retain, detain, filter and/or treat the flows before leaving the facility. There is field sampling of the runoff flows, laboratory testing and reporting required. The average small business spends between $6,000 and $15,000 per year just to implement the IGP. If there is a non- compliance issue, these costs skyrocket. There are third party environmental groups which also sue IGP facilities for non-compliance. The businesses do not have any protection from unfounded lawsuits, or any statewide groups to assist with understanding compliance strategies.

California's agricultural sector has been one of the hardest hit by excessive regulations and bureaucracy. Our state is blessed with over 15,000 square miles of some of the best farmland in the world, extraordinarily fertile soil capable of growing year-round crops in an ideal climate for agriculture. But instead of optimizing this gift, from all sides an avalanche of regulations have put the industry on the edge. Access to water was increasingly denied from rivers and aqueducts, forcing groundwater overdrafts leading to additional restrictions. Millions of acres of prime farmland are at risk of being permanently fallowed. At the same time, new regulations have increased labor costs, while farmers are already paying unprecedented prices for shipping, fuel and fertilizer.

To top it off, pending regulations may require farmers to rely on zero-emission trucks for shipping and for their farm equipment, using technology that remains impractical and extremely expensive.

All of this is well intentioned, and is in pursuit of a goal that everyone shares - to preserve the health of the planet. But it is counter-productive. These measures and others have placed severe compliance and reporting burdens on businesses, and have greatly increased the cost of permits, energy, land, materials, and even labor, since workers themselves have to be able to afford to live in a more expensive state. All that without even making an appreciable contribution to reducing carbon emissions. There are better ways to fight climate change than this.

Taxes and Fees

California has the highest income tax burden in America. Beyond that, every year the Tax Foundation (a Washington DC based think tank that since 1937 has declared itself to be “the nation’s leading independent tax policy research organization”) issues a report called the “State Business Tax Climate Index.” And every year, California is rated at or near the bottom. The most recent report, issued in October 2023, ranked California 49th in individual income tax, 45th in corporate income tax, and 47th in sales tax. While California was rated average in its property tax rate - only 22nd - it was noted that the excessive real estate values in California negated that advantage, since the rate had to apply to a much greater assessed value compared to similar properties in other states. And while California only stood in 30th position in unemployment insurance tax, give it time. Only five years ago in 2018, California’s unemployment tax rate stood at 18th place in the state standings.

Overall, the Tax Foundation ranked California’s business tax climate 48th out of the 50 states, with only New York and New Jersey scoring worse. California has held the distinction of being in the bottom three overall for the last ten years in a row except for 2018, when New York actually was rated better than California and only New Jersey was worse.

The hostile tax climate for businesses in California is not only attributed to the high tax rates, but also to the complexity of the tax codes. Quoting from the Tax Foundation's report, "the states in the bottom ten tended to have a number of afflictions in common: complex taxes with comparatively high rates."

For example, federal depreciation schedules are a tax complexity nightmare for businesses, which is why 49 states use the same depreciation schedules as the IRS. Only California imposes even more complexity by failing to fully conform to the federal system. Depletion schedules, used for natural resource assets and similar to depreciation in concept, are also more challenging for businesses if states don't align their depletion schedules to conform to the federal system. Only 13 states require businesses to use depletion schedules that differ from the IRS, California is among them.

The federal Alternative Minimum Tax is designed to ensure all taxpayers pay at least some taxes, but it does so by setting up what is effectively a parallel tax code, adding complexity. California is one of only four states that have decided to impose a state version of the Alternative Minimum Tax on corporations.

California has the highest sales tax rate in the nation at 7.25 percent, with additional local sales taxes adding on average another 1.6 percent. It has the highest top income tax bracket at 13.3 percent, and the second worst number of tax brackets, at ten, also adding complexity. It has the 6th worst corporate income tax rate at 8.84 percent. And it imposes a mandatory $800 per year minimum tax on any active corporation or LLC, even if the entity is operating at a loss, or has minimal business activity. That may not seem like a lot, but for any small entrepreneur attempting to get a business started, it is an unnecessary burden. Note that the previously discussed AB5 forced many self-employed gig workers to form recognized corporations, thus forcing these additional taxes immediately on self-employed Californians who are just getting by.

These direct taxes are only part of what California imposes on its businesses. Then there are the Stealth Taxes - or fees. From a schedule published by the California Department of Tax and Fee Administration, no fewer than 28 categories of fees are listed. Notable examples include a 1.0 percent assessment on all purchases of lumber products, a 2.9 percent "timber yield tax," an "occupational lead poisoning prevention fee," a "marine invasive species fee," an "energy resources surcharge," a "natural gas surcharge," an "underground storage tank maintenance fee," a "water rights fee," and so on.

One of the most costly sets of taxes affecting California businesses are the $0.57 per gallon gasoline tax, the $0.44 per gallon diesel fuel tax, and the $0.18 per gallon tax on aviation fuel. These fuel taxes, the highest in the nation, add to the cost of virtually all transportation of finished goods and value-added materials used and sold by all businesses. Also adding to the cost of doing business are the state and local taxes on utilities and telecommunications, which are automatically added to monthly bills. And these fees and taxes don't end with the state and local governments.

Also imposing costly Stealth Taxes and fees - and fines - are the many state agencies, from the Dept. of Fish and Wildlife and the California State Water Board, to the California Air Resources Board, or CARB. The many ways that CARB extracts payments from California's businesses is a quintessential example of just how complex and pervasive the state's reach is into businesses of all sizes.

CARB is empowered to adopt a schedule of fees on every "mobile and stationary source" of greenhouse gas operating in the state, from small watercraft to diesel trucks and railroad locomotives. The process of applying for a license from CARB to operate a mobile or stationary source is complicated, the process of gaining approval is complicated, and even the process of making the obligatory payments is complicated. And if the owner of the equipment in question does not successfully navigate this gauntlet, enforcement is swift, the fines are steep, and the appeals process is…complicated.

And then there's Cap and Trade. Established by the California State Legislature as a means to lower CO2 emissions eventually to "net zero," the first auction of "allowances" to emit CO2 was held in 2014, and they have been held quarterly ever since. These so-called Cap and Trade auctions now raise between $3.5 to $4.5 billion per year. A report issued last year by the California Office of Legislative Analyst stated "CARB estimates that the cap-and-trade program adds about 27 cents to each gallon of retail gasoline sold in California." Costs passed on to consumers and businesses come from all of the purchasers of these emissions allowances, which include natural gas electricity generating plants, natural gas suppliers for heating and cooking, oil refineries, cement manufacturers, and oil and gas producers; literally every essential resource needed by every other business in California.

Also affecting every employer in the state is the rise in payroll taxes. In particular, California charges employers an unemployment insurance tax of 1.2 percent on the first $7,000 of wages per employee. During the COVID pandemic, much higher than anticipated payouts of unemployment benefits were made, including an estimated $30 billion of payments for fraudulent claims. To cover these costs, the Employment Development Department (EDD) which administers unemployment benefits had to borrow from the federal government, and now has to pay off that debt. As a result, unemployment insurance payroll taxes are set to rise every year so long as California is in debt, from 1.2 percent to more than 3.5% after 10 years. The $7,000 ceiling on payments may also be raised.

This payroll tax increase will have a disproportionate impact on small businesses that operate on thin margins, including retail stores, family farming operations, and restaurants. The failure of the California state legislature to find another way to pay the EDD's deficits, which were caused by the pandemic and compounded by the EDD's own incompetence, is another example of their cavalier attitude towards private businesses. It demonstrates again their unwillingness to recognize the fragility of businesses that operate on tight margins. There are other ways for California's state legislature to settle the EDD's deficit apart from penalizing the business community that had no role whatsoever in creating the problem.

This principle applies equally to arguments over the minimum wage. When organized labor advocates for increases in the minimum wage, they're right that built into California's economy is a structural inequality that has worsened over the past 20 years. People working full time jobs ought to be able to live on what they earn: a so-called "living wage," enough money to provide the basic essentials for themselves and their families.

Unfortunately, for millions of workers in California that is no longer possible. But raising the minimum wage can be done in a way that will not incentivize employers to cut jobs and automate. A 'business friendly' minimum wage increase might be possible to achieve in a manner that is revenue neutral for the business through payroll tax cuts, and also revenue neutral for government (while cutting taxes on businesses it can also cut many of the income supplements provided to low wage workers). This approach was first proposed by Golden Together Founder Steve Hilton in his books More Human (2016) and Positive Populism (2018). In conjunction with regulatory relief to stimulate economic growth and competition to lower California's cost-of-living, the concept of revenue neutral minimum wage increases has the potential for universal benefit: to workers, businesses, and the economy - while actually shrinking government.

Bureaucracy and Complexity

Bureaucratic rule has been defined as "a system of government in which most of the important decisions are made by state officials rather than by elected representatives." That's the case in California. The bureaucrats don't write the laws, that's the domain of the legislature. But California's legislature delegates authority to over 200 agencies, giving them the power to interpret state statutes, define the details of their implementation, then write and enforce the actual rules.

The sheer complexity of California's bureaucracy is mind-blowing. If you have a business, your activities will be subject to oversight by dozens of state agencies. Do you want to work as a barber or hair stylist? Better check with the Board of Barbering and Cosmetology. That's an obvious one. But if you have employees, don't be surprised if you hear from the Occupational Safety and Health Division, the Labor Standards Division, the Division of Workers' Compensation, and the Employment Development

Department. If you have premises, the Office of the State Fire Marshal. If you use chemical hair products, the Department of Toxic Substances Control. If you have trash, the Department of Resources Recycling and Recovery. If you sell hair products, you'll have to collect sales tax and file reports with the State Board of Equalization. And, of course, you have to register your corporation with the California Secretary of State and pay taxes to the State's Franchise Tax Board. And then there are the county and city governments.

But that's easy compared to anyone running a business that actually disrupts the earth or produces tangible products. Are you laying a foundation? Building homes, or building a factory, cutting timber, running cattle, farming, mining, or quarrying? In addition to most of the above listed agencies, here are some of the additional agencies that may demand your attention: The California Biodiversity Council, the Department of Fish and Game, the Board of Forestry, the Office of Tribal Advisor, the Department of Food and Agriculture, the California Natural Resources Agency, the California Air Resources Board, the Agricultural Labor Relations Board, the Contractors State License Board, Cal Fire, CalRecycle, the Industrial Welfare Commission, the Department of Insurance, the State Lands Commission, the State Mining and Geology Board, the Department of Pesticide Regulation, the Department of Water Resources, the Water Commission, and the Water Resources Control Board, and any number of state run conservancies. Is your operation located near the ocean? Expect to deal with the Coastal Commission. (Which, by the way, now extends its bureaucratic tentacles way beyond what any normal person would describe as "Coastal.")

It's bad enough simply trying to run a business in the face of this vast regulatory onslaught. Compounding the problem are two further layers of deadweight: the fact that thresholds for violations are set at unreasonable (if not impossibly low) levels, with punitive, excessive fines for violators. And then the mentality of agency staff, best described as indifference if not overt hostility.

This observation is the lived experience of entrepreneurs and business leaders who try to work with state agency bureaucrats across any industry that has an impact on the environment, however small or benign. The bureaucrats in the agencies have degrees in environmental planning, they are the product of activist professors, they have minimal field experience, and they seem to think all businesses, big or small, have the financial resources and time to comply with regulations that are poorly written and often impossible to fulfill.

Most of the regulatory permits, whether from CARB, the State Water Board or Department of Energy, and other agencies, are developed to be dynamic. The target goals are regularly "updated", "revamped" or "reformulated" - which to the local business means they will have new requirements. Many permits are updated every three to five years. This never-ending increase in regulations creates perpetual uncertainty for business owners.

Making matters worse, California's bureaucracy continues to expand. The total state budget has tripled since Governor Brown took office in 2011, and nearly doubled in the last decade. While regulatory relief must be a part of any program to improve the business climate in California, simply shrinking the size of the state bureaucracy is equally necessary.

Pathways to Recovery and Obstacles in the Way

California's regulatory environment, protracted and expensive permitting processes and other compliance costs, along with high income and corporate tax rates, all make it difficult for businesses to thrive. Solutions include streamlining regulations, reducing needless bureaucratic obstruction, reducing the complexity of the tax code, reducing uncertainties surrounding future tax policies, and lowering taxes. But moving beyond these generalities to specific policy suggestions can be an overwhelming task, magnified by the fact that most business advocacy organizations have to spend much of their resources simply fighting new legislative burdens.

For example, every year the California Chamber of Commerce publishes a list of so-called "job killer" bills introduced in the state legislature. While they have an impressive record of managing to prevent many of these job killer bills from becoming law, the sheer volume and scope of these bills reveals the mentality of California's legislators and the political momentum of anti-business forces in the legislature.

In 2023, two of the job killer bills that were signed into law by Governor Newsom included SB 525 that increased the minimum wage for any health care worker to $25 per hour, and SB 616 that nearly doubled the existing sick leave mandate. The Chamber dropped their opposition to SB 525 after it was modified to restrict the $25 minimum wage to larger health care facilities, but the burden will still affect the cost of providing health care, and more to the point, this avalanche of bills targeting business puts organizations like the California Business Chamber on permanent defense. In 2023 alone, the Chamber fought against no fewer than 23 bills in the state legislature they deemed to be job killers.

All of this legislation increases costs to businesses, and these costs are inevitably passed on to consumers. Also passed in 2023 was the job killer bill SB 12, which raises the State's greenhouse gas reduction (GHG) goal from 40% of 1990 levels by 2030 to 55% by 2030, along with SBX1 2, which sets a cap on the amount of profit a refinery operating in California can earn over a quarterly basis. As the Chamber explains, "this measure would further diminish supply, discourages operational efficiencies, and would limit the amount of capital a refiner could reinvest into their infrastructure to support California's long-term climate goals."

These two bills illustrate an important point concerning the culture that defines California's state legislature. It is dominated by politicians who have still not come to terms with the consequences of what they demand in the name of fighting climate change. SB 12 and SBX1 2 are in inherent conflict. The cost to achieve by 2030 a GHG reduction of 40 percent compared to 1990 levels is already evident in California having the highest overall energy prices in America, and yet they have now raised that goal to 55 percent. At the same time, and in the same legislative session, they have crushed the ability of companies to amass the capital required to invest billions in the infrastructure necessary to realize that reduction.

California not only has the highest energy prices in America, it has the highest cost-of-living in general. This failure is also policy driven, creating an economy that is broken in many respects. In particular, this high cost-of-living harms the state's most vulnerable, those members of low income communities who must allocate 100 percent of their income to purchasing food, shelter and health care, and have no discretionary income to buffer the impact of price increases for these essentials.

California's high cost-of-living is a result of regulatory overreach, but rather than address that, the state legislature attempts to cope by passing even more regulations - increasing the minimum wage is a prime example - in an exercise reminiscent of a cat chasing its own tail. Reforms to improve California's business climate need to be both systemic and specific. They must aim to change the culture, and break the cycle.

Specific Regulatory Reforms

Labor

- Repeal the Meyers-Milias-Brown Act. Even if they can no longer unionize, public employees will still enjoy civil service protections.
- Enact a right-to-work law to prohibit union membership being a condition of employment.
- Outlaw mandatory project labor agreements on any construction project receiving a portion of their funding from taxpayers.
- Repeal AB 5. Businesses and individual workers are entitled to the freedom and flexibility that is provided by having the right to work as an independent contractor.
- At the very least, revise AB 5 to remove the second element of the so-called ABC test, "The worker performs work that is outside the usual course of the hiring entity's business." This provision, the worst of the three, denies businesses the ability to rapidly respond to rapid growth or decline in demand for their services.
- Repeal the Private Attorneys General Act and instead bolster state labor law enforcement.
- Enact right-to-cure, whereby businesses facing civil enforcement either from government agencies or 3rd parties have the ability to correct infractions in lieu of fines or lawsuits, particularly in cases where there are only technical violations, minimal impact, or no harm.
- Enact a de minimis law that automatically dismisses 3rd party civil lawsuits whenever alleged infractions in payroll reporting are technical violations without evidence of negligence or abuse.
- Repeal the requirement that prevents business owners and managers from posting work schedules at whatever time they wish.
- Permit employees to work through their shifts without a break if that is their preference.
- Repeal the law that mandates overtime pay when an employee works more than 40 hours in a week. The requirement to pay overtime on any day when an employee works more than 8 hours is sufficient to protect their interests.
- Repeal the law that requires employers to prove they were not retaliating if they terminate an employee within 90 days of that employee engaging in any "protected activity," such as making complaints or claims to the state labor commissioner.
- Explore minimum wage policies in a business friendly manner through a more comprehensive approach that pairs required minimum wage increases with proportional cuts in business taxes.

Environment

- Implement the recommended reforms noted in our policy paper "Universal Housing Affordability," to revitalize California's building industry and increase the supply of affordable homes, thus lowering the cost-of-living for California's workforce.
- Review and reform unfunded environmental mandates.

- Repeal the climate disclosure law that requires businesses with revenues over $1 billion to report their greenhouse gas emissions including those estimated GHG emissions from their entire supply chain.
- Repeal the climate disclosure law that requires businesses with revenues over $500 million to report their “climate related financial risks.”
- Repeal the climate disclosure law that requires any business selling, purchasing, or using carbon offsets, or making any claim to be reducing their carbon emissions, to publish detailed accounting to document the offset project or document their claims.
- End the private right of action under the California Environmental Quality Act (CEQA).
- Reform CEQA by restricting the right to file lawsuits to District Attorneys in California’s counties and the State Attorney General. This will eliminate what are now countless lawsuits that delay and deter investment in housing, infrastructure, and all manner of new business operations, denying businesses opportunities for growth and job creation.
- In order to balance environmental protection with the need for job growth and the interests of working families, review the greenhouse gas (GHG) limits pursuant to climate change legislation which have led to restrictions that are eliminating business competitiveness in California, costing jobs, and raising the cost-of-living.
- Adopt more realistic goals for reducing GHG in order to allow businesses more time to adapt to new guidelines, more time for technology to mature, and to allow businesses to fully depreciate their existing equipment before having to replace it.
- Place a moratorium on all CARB regulations that mandate conversion to zero-emission medium and heavy-duty trucks. Explore cost-effective ways to eliminate all particulate emissions on existing fleets and allow more time for EV technology to improve.
- Review the functions and authority of the Coastal Commission to restore focus on its primary purpose of environmental protection, reverse its damaging "mission creep" and rebalance by returning those responsibilities to counties.

Taxes & Fees

- Establish a Tax Competitiveness Commission to draw up detailed plans to move California over a ten year period into the top five most attractive tax regimes for business in America.
- Restore the 2/3rds vote requirement for any legislation or ballot initiative to pass that involves an increase of taxes or fees.
- Repeal the “windfall profits tax” imposed on California refineries which limits the percent profit they can earn. This will further diminish supply and discourage reinvestment in refinery upgrades, even those that might support California’s long-term climate goals.
- Permit businesses to write off their equipment purchases using accelerated depreciation schedules, instead of having to carry so much of it over year after year.

- Eliminate the $800 corporate minimum tax. If a business has negative taxable income in a year they should not owe taxes.
- Eliminate the fee to file the required yearly renewal of the Corporate Statement of Information with the California Secretary of State.
- Revoke the scheduled unemployment insurance payroll tax increases that are planned in order to pay debts incurred by the Employment Development Department for which businesses had no role in creating.
- Eliminate the business personal property tax. Business owners are required each year to pay taxes equivalent to one percent of the value of their furniture and equipment (inventory is excluded). The reporting is complex and time consuming especially for small businesses. Alternatively, raise the exemption to $100,000 of business personal property.

Bureaucracy / Complexity

To shrink the bureaucracy and lower the tax burden:

- Until per capita General Fund spending by the state government is brought back under $5,000 per resident (in 2023 dollars), impose a hiring freeze on state employees.
- Reduce the number of Executive Branch employees to 200,000 full-time-equivalents, from the current number of over 250,000.
- Revisit all contracts granted to 21 public sector union bargaining units and adjust salaries and benefits down to market levels.
- Terminate OPEB (Other Post-Employment Benefits, primarily retiree healthcare) for state employees, which are being provided despite the availability of Medicare, Obamacare and successor-employer healthcare.
- Provide new state employees with defined contribution plans only and adjust defined benefit levels for existing employees for years not yet worked to the benefit levels in place before Senate Bill 400 elevated benefit levels in 1999.
- Appoint majorities of board members to CalSTRS and CalPERS who will reverse the reckless approach to public sector pension management that has saddled the state with hundreds of billions of dollars of unfunded pension liabilities, putting enormous and increasing upward pressure on the state budget.
- Eliminate duplicative state bureaucracies.

To reduce the regulatory burden on California businesses:

- Establish an independent review of the entire 29 sections of the existing State Legislative Code, with the default assumption or priority that all regulations affecting business in the State of California will sunset unless reviewed and reaffirmed.
- Require all existing and new regulations to expire periodically.
- Establish a review of regulatory best practice, both in other states and around the world. Consider in particular recent successful reforms in the State of Pennsylvania implemented by Gov. Josh Shapiro.
- Revise the state's regulatory agencies' roles and enforcement approaches in line with U.S. and global best practice, with a goal to streamline requirements to aid businesses in compliance strategies and reduce their compliance workload.
- For any proposed new regulations require agencies to (1) commission a comprehensive cost-benefit analysis to be independently conducted and reviewed before imposing a rule, (2) require agencies to consider public feedback on the cost-benefit analysis, and (3), allow citizens to challenge burdensome regulations or a faulty agency cost-benefit analysis in court.
- Expand access to civic participation in regulatory processes by allowing courts in locations across the state to hear cases that involve challenges to bureaucratic regulations.
- Rewrite guidelines for regulatory department board member appointments in order to achieve balanced representation on oversight boards from all permitted stakeholders.
- Trim headcount if not completely eliminate state agencies through legislation requiring that any state function that can be done by counties should be done by the county with limited state oversight. Reestablish counties as the administrative arm of the state government.
- Streamline the process for charter cities to form, or for general law cities to convert to charter cities, and to this end, loosen the LAFCO (Local Agency Formation Commission) process to make it easier for local and regional governments to form, merge, or split.
- Repeal the law that requires venture capitalists to disclose the demographic information of the founding members of companies in which they invest.
- Repeal the law that requires public companies headquartered in California to include a minimum number of directors from "underrepresented communities."

Sector-specific policy reviews

In addition to the reform proposals outlined above, we recommend an in-depth focus on the specific needs of California's most important and iconic industries: technology, entertainment, agriculture, energy, life sciences, construction, defense and aerospace. Each of these industries are world-leading. Yet in recent years, investment, innovation and employment in these sectors has been slipping to other states. What will be needed to retain California's edge? We recommend a detailed policy review for each of these vital industries.

Imagining a California Where Businesses are Welcomed

California should not be ranked as the worst state in America to do business. The state's spectacular weather and scenic beauty, along with its rich natural resources, make it a naturally hospitable place to live and work. These advantages are augmented by the legacy of earlier generations of Californians, who in the 1950s and 1960s built freeways, a power grid, the state water project, and the best universities in the world. What they built is now stretched to the limit, thanks to a generation of neglect, but remains the backbone that keeps California running. To the extent California retains a huge and diverse economy, it is thanks to these innate gifts and inherited legacy, and in spite of current policies.

Making California a magnet for businesses again, instead of driving them out, requires a comprehensive program. California's natural resources are being squandered in the name of preservation. Managing our vast reserves of timber, natural gas, oil, and farmland is an opportunity. We can harvest these resources sustainably, using best practices that have developed over the last few decades, and also drive down prices.

At the same time, California's neglected infrastructure needs upgrading and expansion. Rather than pouring hundreds of billions into projects of dubious long-term value, we should be investing that money in repairing and widening our existing roads and rail, dredging and seismically retrofitting our dams, reservoirs, flooding channels, and levees, and providing creative and cost-effective ways to harvest storm runoff from the Sacramento-San Joaquin Delta. We should be carefully evaluating what public investments will create a backdrop of **affordable abundance** in the foundational elements of economic growth, lower costs, and broadly distributed prosperity; transportation, energy and water.

Finally, California's legislature needs to undergo a cultural transformation, wherein they recognize that the choices they make in all three areas - natural resources, infrastructure, and business regulations - must balance the needs of the environment with the needs of the economy. They must recognize that when businesses can thrive and compete for customers, the relative cost to customers goes down, and when this happens, it not only benefits everyone, it imparts disproportionate benefit to the least fortunate, those members of California's low income communities.

Each time a state legislator proposes new legislation, or prepares to vote on it, they should ask themselves: Will this help businesses thrive? Will it foster competition between businesses to provide services and products that are - to borrow a mantra from the Silicon Valley - better, faster, and cheaper? They should ask themselves: Will this benefit everyone, and not merely mitigate a problem for a few people? Will this remove burdens to prosperity, or merely shift the burden elsewhere?

The perception among most businesspeople in California today is that their state and local government is not trying to help them, but is out to get them. This must change. Government agencies should be partners with businesses, assisting them with permits and offering productive oversight. Even with meaningful regulatory reform, and a streamlined bureaucracy, it is essential to also have a culture within government that views business as a vital partner, not an adversary, and strives to communicate that to the public.

If the culture of California's legislature, and by extension, the political elites that influence who will sit in the legislature, requires a cultural shift and awakening, we are blessed that it can happen on a preexisting foundation of even more permanence and significance. That is the optimism and ambition that has always drawn people to California and defines it still today. It is in the air, from the Hollywood Hills to Silicon Valley, from the shores of Lake Tahoe to the surf hitting the Santa Cruz beach.

Californians want to change the world. They want a brilliant future, and they want to be the ones to build that future. They want to make the world a better place. With that motivation intact, there is great hope. California can bring back opportunities for businesses and families. California can be number one again, a magnet for business, an example to the world.