# 2012 Business Expansion and New Site Survey: Why Companies Do and Don't Choose California

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Andrew Chang & Company, LLC

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The California Manufacturers & Technology Association (CMTA) works to improve and enhance a strong business climate for California's 30,000 manufacturing, processing and technology based companies. Since 1918, CMTA has worked with state government to develop balanced laws, effective regulations and sound public policies to stimulate economic growth and create new jobs while safeguarding the state's environmental resources. CMTA represents approximately 600 businesses from the entire manufacturing community -- an economic sector that generates more than $200 billion every year and employs more than 1.2 million Californians.

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The professionals at Andrew Chang & Company work with our clients to achieve tangible results by combining best-in-class research and analyses with unique insights into public policy, government operations and business strategy. Using advanced economic, statistical and business administration techniques, we provide strategy and operations consulting to Fortune 1000 firms and policy, economic, fiscal and operations consulting to public sector agencies and non-profit organizations.

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**2012 Business Expansion and New Site Survey**
**(Key Findings)**

- California accounted for only 2.2 percent of national manufacturing expansions and new sites in 2011. Among its western neighbors, only Washington has a lower rate of expansion/new sites per capita than California. Furthermore, compared to other large states such as Texas, New York, Florida and Illinois, California is even further behind.

- 82 percent of the companies surveyed did not consider California when expanding or opening a new facility. Many of the reasons companies gave for not considering California were highly impacted by state policies. These included a costly and complicated tax system, a poor regulatory environment, high labor costs and a lack of incentives and credits.

- 18 percent of the respondents considered California but few companies chose to expand in the state, leading to a low rate of expansion within California.

- The most mentioned factors that influenced decisions of where to expand were proximity to customers, amount of incentives/credits offered by the state, the cost of labor, proximity to suppliers and the tax system. Other than proximity to customers, California ranked in the bottom tier or dead last in the majority of these important factors.

- Many of the companies that decided to stay in California were small businesses that chose to stay because of strategic drivers (i.e. proximity to existing facilities, geographic location or personal preference).

- 27 percent of the companies surveyed stated that they are planning on expanding again within the next two years.

- In order for companies to stay and/or consider California the next time they expand, respondents stated that policy makers need to increase incentives and credits, improve the regulatory environment and make the tax system less costly and complicated.

- There was general consensus among respondents that in order for California to attract business investment and become competitive, there needs to be serious reforms in multiple areas – not just one single factor.

**2012 Business Expansion and New Site Survey**

## 1. Introduction

There is growing evidence that US firms, particularly manufacturing companies, are increasingly expanding operations. However, data shows that California's share of these expansions is slim. Moreover, it appears that firms with a California presence are increasingly deciding to move or expand operations outside of the state. The cause behind California based firms leaving the state and national firms hesitating to invest in the state are not fully understood. Some believe that factors outside of state policy are driving companies away from California. These factors include proximity to customers, proximity to suppliers, strategic drivers and proximity to natural resources. Others maintain that factors driven by state policy are the primary reasons why businesses decide to locate or expand operations outside of California. These factors include tax rates, costs of regulations, infrastructure and access to skilled workers at reasonable cost.

In order to better understand why companies choose locations for expansions and new sites, CMTA retained Andrew Chang & Company, LLC to conduct a national survey that looked into the site selection criteria of manufacturing companies. The goal of the survey was to provide insights into what is driving site investment and expansion decisions, particularly, why some companies choose to invest in California and why others choose to invest elsewhere. The results of this survey, which included responses from 100 CEOs and other business decision makers from manufacturing firms across the United States, are meant to be used to frame policy issues for policymakers.

## 2. What Other Surveys Say About California

Over the past year there have been numerous surveys and studies looking into the business friendliness and competiveness of states across the nation as shown in Figure 2.1.

Figure 2.1
Other Survey Results

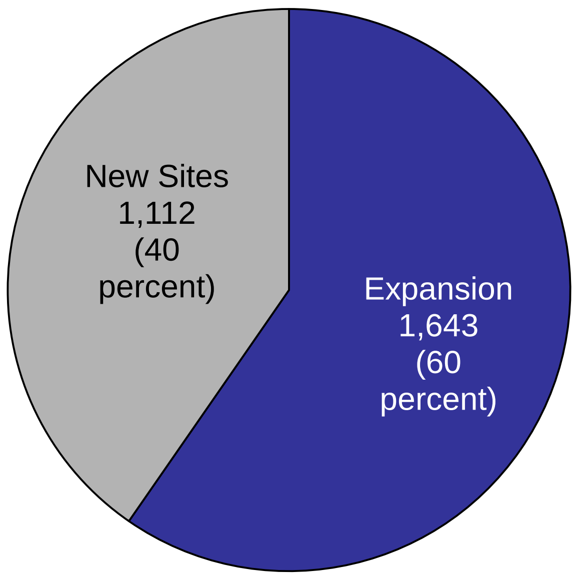
| Survey | Focus | How California Ranked |
|---|---|---|
| Chief Executive Magazine "Best & Worst States for Business in 2012" | ▪ CEOs were asked to grade states in which they do business among a variety of areas, including tax and regulation, quality of workforce and living environment | ▪ Executives ranked California as the worst place in the nation to do business for the eighth year in a row |
| Tax Foundation "2012 State Business Tax Climate" | ▪ Comparison study of state tax systems | ▪ California ranked 48th, behind only New York and New Jersey |
| Thumbtack in partnership with Kauffman Foundation "2012 Small Business Survey" | ▪ Survey of small-business owners across the nation to gauge state friendliness to small business and economic health of small businesses in the state | ▪ Was one of only 4 states (others being Hawaii, Vermont and Rhode Island) to receive an F rating<br>▪ California got failing grades in half of the 12 categories ranked |
| California Foundation for Commerce and Education "2012 Business Climate Survey" | ▪ Survey of business executives gathering current attitudes about the state's economy, business climate, and budget | ▪ 73 percent of California firms that do business in multiple states say it is harder doing business in California than in other states |
| CNBC's "America's Top States for Business 2011" | ▪ Ranked states in various categories such as cost of doing business, infrastructure, technology, education, and business friendliness | ▪ California ranked 32nd overall<br>▪ The state ranked last in business friendliness, 47th in cost of business and 48th in cost of living |
| 2011 Union Bank National Small-Business Economic Survey | ▪ Surveyed small business owners around the nation on their feelings regarding the national economy and the future of their company | ▪ In California, one in four respondents reported no advantage to operating a business in the state |
| Small Business California "2012 Small Business Survey" | ▪ Surveyed small businesses in California on small business issues in the state | ▪ 60 percent of companies rated California's business climate as poor or very poor<br>▪ 70 percent said that California is headed in the wrong direction |

Chief Executive Magazine's *Best and Worst States for Business in 2012* has recently received a significant amount of publicity. In this survey, CEOs were asked to grade states in which they do business in a variety of areas, including tax and regulation, quality of workforce and living environment. The CEO respondents ranked California as the worst place in the nation to do business for the eighth year in a row. Another survey conducted by Thumbtack, in partnership with Kauffman Foundation, titled *2012 Small Business Survey*, asked small-business owners across the nation to gauge state friendliness to small businesses as well as economic health of small businesses in the state. The results of this survey showed that California was one of only four states (the others being Hawaii, Vermont and Rhode Island) to receive an overall F rating. Furthermore, California received failing grades in half of the 12 categories: regulations, health and safety, employment, labor and hiring, tax code and licensing. Lastly, the *2012 Business Climate Survey* conducted by the California Foundation for Commerce and Education surveyed California business executives on current attitudes about the state’s economy, business climate and budget. The survey found that 73 percent of California firms said it is harder doing business in California than in any other state. Additionally, no respondents indicated that California was an easier state to do business as compared to the states in which they operate.

### 3. National Manufacturing Expansion/New Site Trends

Based on data from Conway Data Inc., there were 2,755 manufacturing companies that either moved or opened a new facility over the past year. As seen in Figure 3.1, there were 1,643 expansions and 1,112 new sites opened across the nation in 2011. All of the expansions and new sites have either been announced, are under construction or have been completed within the last year.

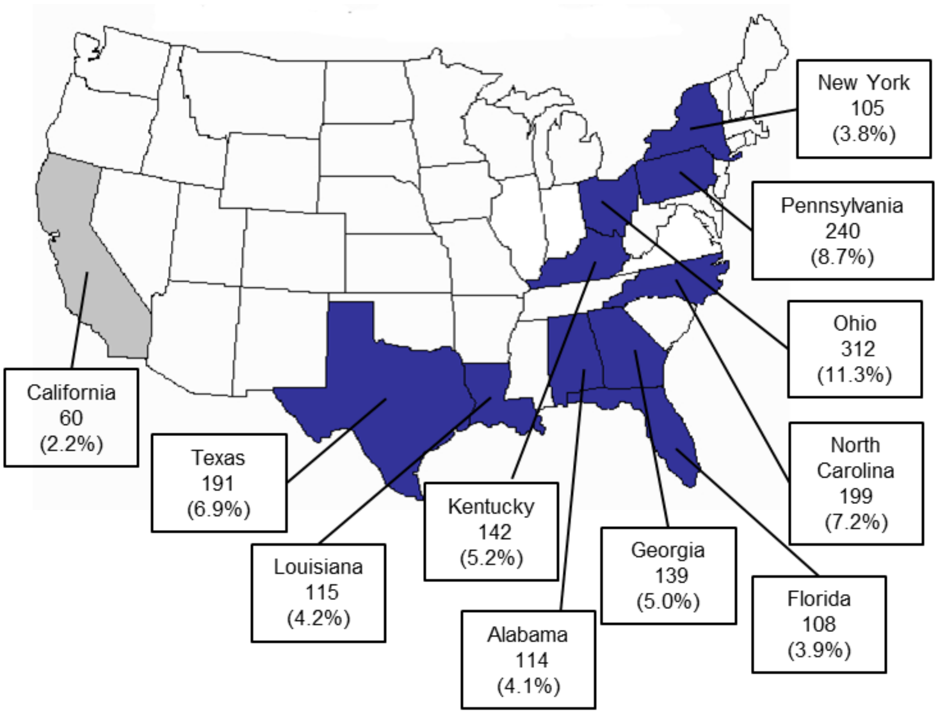
Figure 3.1
2011 National Manufacturing Expansions/New Sites




Source: Conway Data Inc.

Figure 3.2 shows that the majority of these expansions/new sites occurred in states that are located in the eastern part of the United States, the Midwest and the South. In terms of the percentage of national expansions/new sites, the top five states were Ohio (11.3 percent), Pennsylvania (8.7 percent), North Carolina (7.2 percent), Texas (6.9 percent) and Kentucky (5.2 percent). California had 60 expansions/new sites over the last year comprising just 2.2 percent of the national share.

Figure 3.2
States with Most Manufacturing Expansions/New Sites (2011)



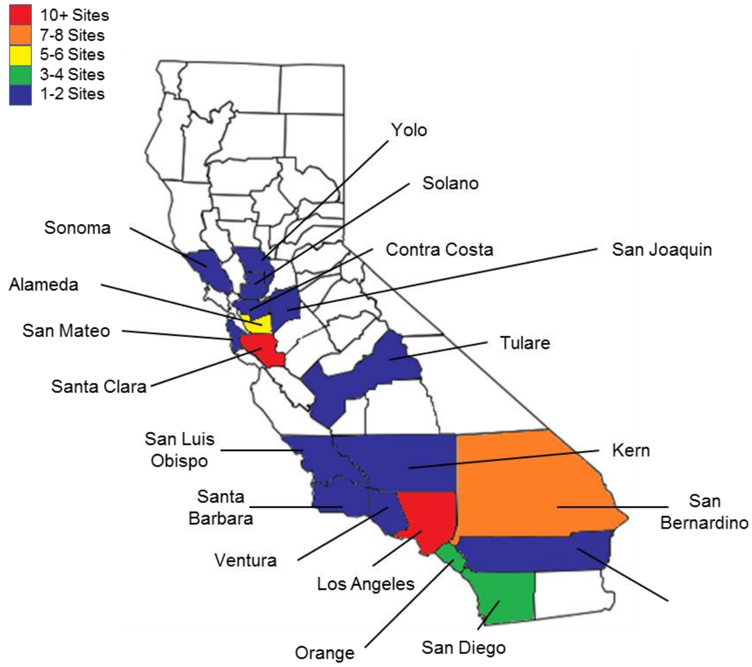

Source: Conway Data Inc.

While California ranked 16th in the nation in the raw number of expansions, when adjusting for population and looking at the expansions/new sites per capita, California falls to 44th. Even though the western United States is far behind the rest of the nation in terms of manufacturing expansions/new sites, California still ranks worse than its neighboring states, with the exception of Washington[1]. Furthermore, the comparison of California to the other top five most populous states of Texas (21st), Illinois (25th), Florida (29th) and New York (31st) still shows that California is well behind where it should be, based on its 12 percent of U.S. population.

Within California, three-fourths of the state's expansions/new sites occurred in one of two regions (Figure 3.3). One was the Bay Area, particularly Santa Clara County (ten expansions/new sites) and Alameda County (six expansions/new sites). The other region was Southern California lead by the counties of Los Angeles (eleven expansions/new sites), San Bernardino (eight expansions/new sites), San Diego (four expansions/new sites) and Orange (three expansions/new sites). However, when looking at the expansions in terms of expansions/new sites per capita, most of the Southern California counties drop to the bottom of the rankings[2]. Los Angeles County drops to 16th, San Diego to 14th and Orange to 17th out of the 18 counties that had a manufacturing expansion or new site in 2011. Santa Clara, Alameda and San Bernardino counties remained in the top five.

[1] Complete rankings of states based on expansion/new site per capita can be found in Appendix D
[2] Complete rankings of California counties on expansion/new sites per capita can be found in Appendix E

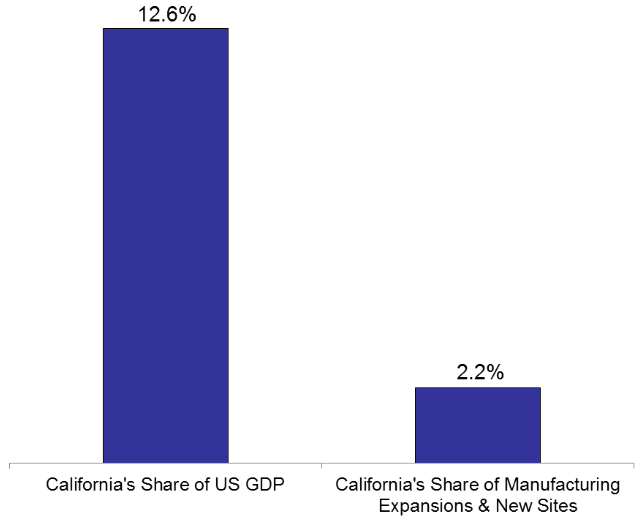
Figure 3.3
Manufacturing Expansions/New Sites in California (By County)




Source: Conway Data Inc.

Another way to look at how California fares in manufacturing expansions/new sites is to compare its national share of expansions/new sites with its share of national GDP (Figure 3.4).

Figure 3.4
California's Share of U.S. GDP vs. Share of National Manufacturing Expansions/New Sites




Source: Bureau of Economic Analysis, "Gross Domestic Product by State – California," 2012; Conway Data, Inc.

In 2011, California was responsible for 12.6 percent of the national economy.[3] However, California's share of national manufacturing expansions/new sites totaled only 2.2 percent. If California's share of national manufacturing expansions/new sites in 2011 mirrored that of its national share of GDP, the state would have 347 expansions/new sites nearly six times the 60 seen in 2011. Whether California's manufacturing expansions/new sites are looked at in terms of raw numbers, on a per capita basis, or as a percentage of GDP, the state is well behind its competitors.

[3] Bureau of Economic Analysis, "Gross Domestic Product by State – California," 2012

## 4. Survey Results

The survey was conducted over a period of seven weeks. From a list of 2,755 manufacturing companies that had either expanded or opened a new facility in the U.S. over the past year,[4] 500 companies were selected at random. Of the 500 companies contacted, 100 completed the survey. As the site selection process is generally a high-level decision, the company representatives that were contacted and interviewed were high-level decision makers (Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operation Officer (COO), etc.) who had been actively involved in the site selection decision making process. As seen in Figure 4.1, 51 percent of the respondents were Presidents and CEOs, 3 percent owners, 2 percent CFOs, 4 percent COOs, 17 percent Executive Vice Presidents and 9 percent Directors.

Figure 4.1
Titles of Participants

| Title | Number of Respondents | Percentage of Respondents |
|---|---|---|
| CEO & President | 51 | 51% |
| Owner | 3 | 3% |
| CFO | 2 | 2% |
| COO | 4 | 4% |
| Executive Vice President | 17 | 17% |
| Director | 9 | 9% |
| Other | 14 | 14% |
| Total | 100 | 100% |

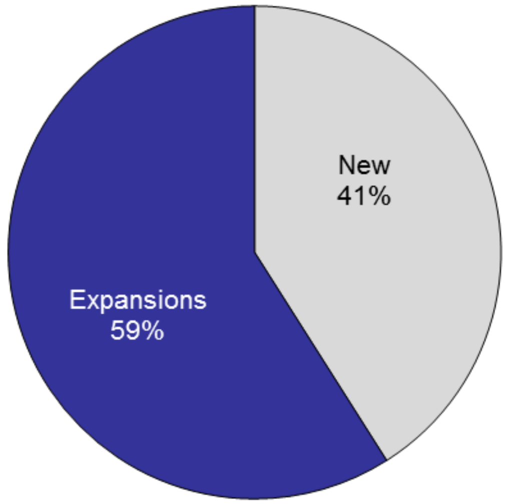
The survey was an administered survey in which respondents were asked broad, open ended questions. The answers were volunteered and the content was assessed and categorized into the relevant response categories. The complete survey methodology is outlined in Appendix A. The list of all participating companies is included in Appendix B. The complete list of questions asked during the survey can be found in Appendix C.

### 4.1. Demographics of Companies Surveyed

Figure 4.2 shows that 59 percent of the companies surveyed decided to expand operations, while 41 percent decided to open a new facility. The respondents had a 59/41 split between expansions and new sites which followed the national trend of a 60/40 split over the past year.

[4] List provided by Conway Data Inc.

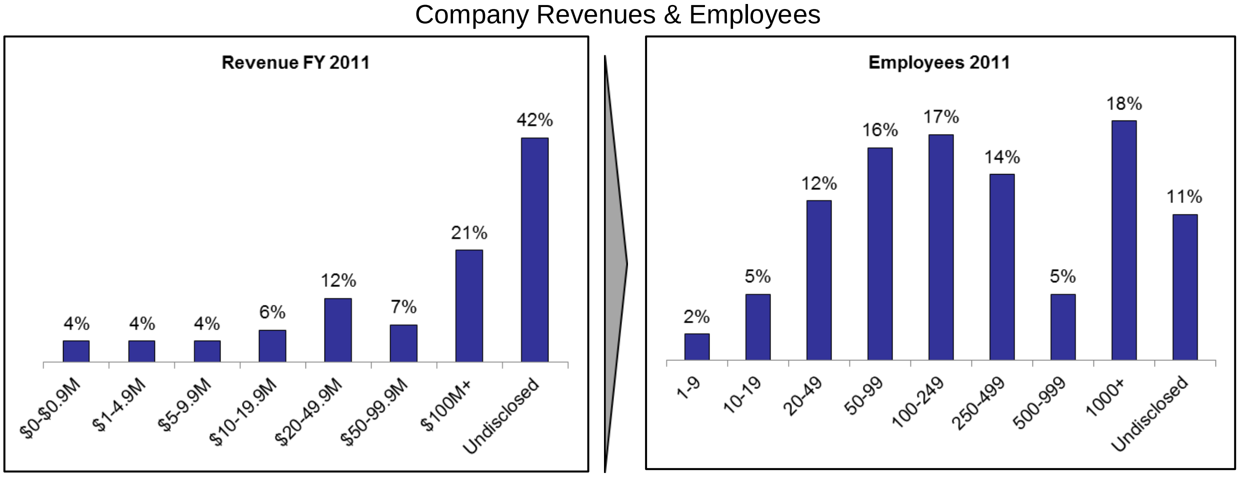
Figure 4.2
Expansion & New Location Sites




Source: California Manufacturers & Technology Association, Investment Survey 2012

Figure 4.3 shows that over a third of the companies that were surveyed had an annual revenue over $20 million and over 250 employees. Of the 58 percent of companies that disclosed their revenue, over 79 percent had annual revenues over $10 million and more than a third had annual revenues over $100 million. Of the 89 percent of companies that disclosed their employee information, 54 percent had over 100 employees. There was a very diverse set of companies that were surveyed, ranging from small regional companies to large Fortune 500 companies.

Figure 4.3
Company Revenues & Employees

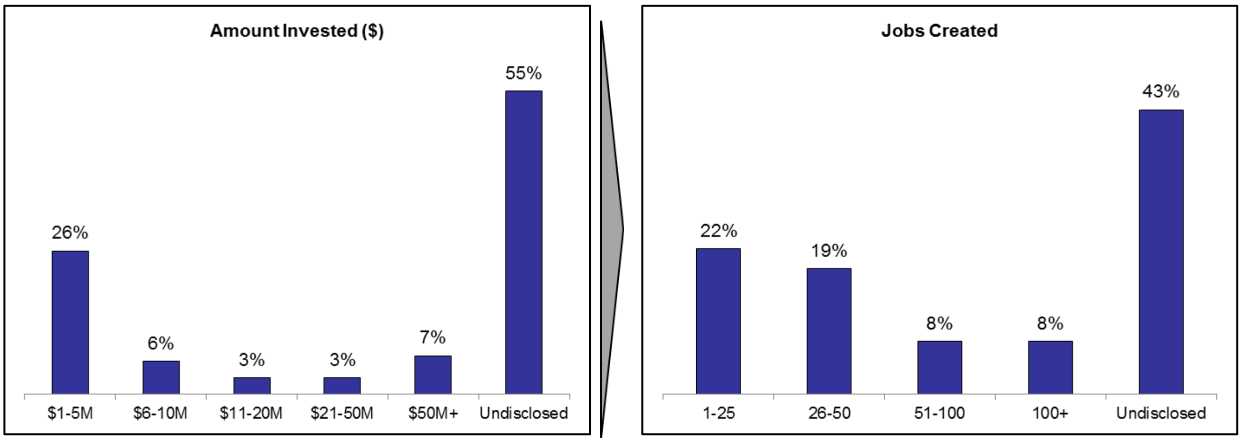



Source: California Manufacturers & Technology Association, Investment Survey 2012

As seen in Figure 4.4, over half of the companies surveyed did not disclose the dollar amount of their expansion or new location investment. Of the companies that did disclose this information, 58 percent invested between $1-5 million. Though the direct investments are in themselves important, the value to the economy is broader when you consider the multiplier effect. In brief, every new dollar ripples through the economy and creates value as it progresses; the larger the multiplier the greater the value to the economy. The California construction multiplier is 2.1, meaning that $1 dollar invested will result in $2.1 towards GDP[5]. For example, if a manufacturing company came into California and invested $5 million, it would create an additional $10.5 million in the economy when the multiplier impact is measured.

Figure 4.4

Expansion/New Site Investment & Jobs Created




Source: California Manufacturers & Technology Association, Investment Survey 2012

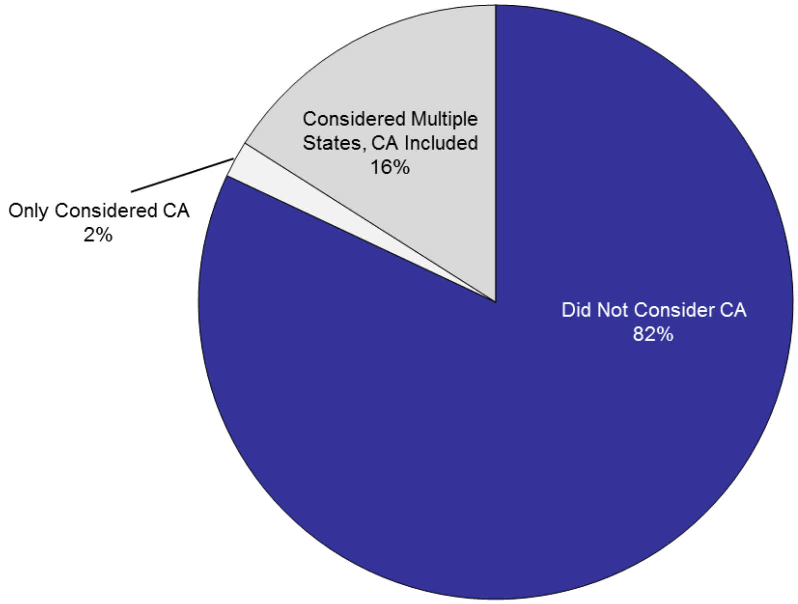
As with the investment figures, only about half of the companies disclosed their employee information. Of the companies that disclosed the number of jobs that their expansion or new location created, 38 percent added 1-25 additional jobs and 33 percent added 26-50 jobs. California manufacturing multipliers range from 1.82 for textiles to 4.15 for petroleum and coal with a median of 2.65, meaning that every manufacturing job created will essentially support 2.65 jobs throughout the economy[6]. For example, if the typical manufacturing company creates 25 jobs with each new expansion, that would lead to a total of 66 jobs throughout the California economy.

4.2. Company Expansion/New Site Considerations

As shown in Figure 4.5, 82 percent of the companies that were surveyed did not consider California for a location to expand or build a new facility and can be divided into two major groups. The first group consists of regional companies that did not consider California or any other state and decided to stay in-region rather than expand elsewhere. The second group is companies that considered multiple states, but California did not make the short list for their consideration. Additional responses show that 16 percent of companies considered multiple states, California included, and only 2 percent of companies considered only California.

[5] United States Bureau of Economic Analysis, RIMS II multipliers, 2008
[6] United States Bureau of Economic Analysis, RIMS II multipliers, 2008

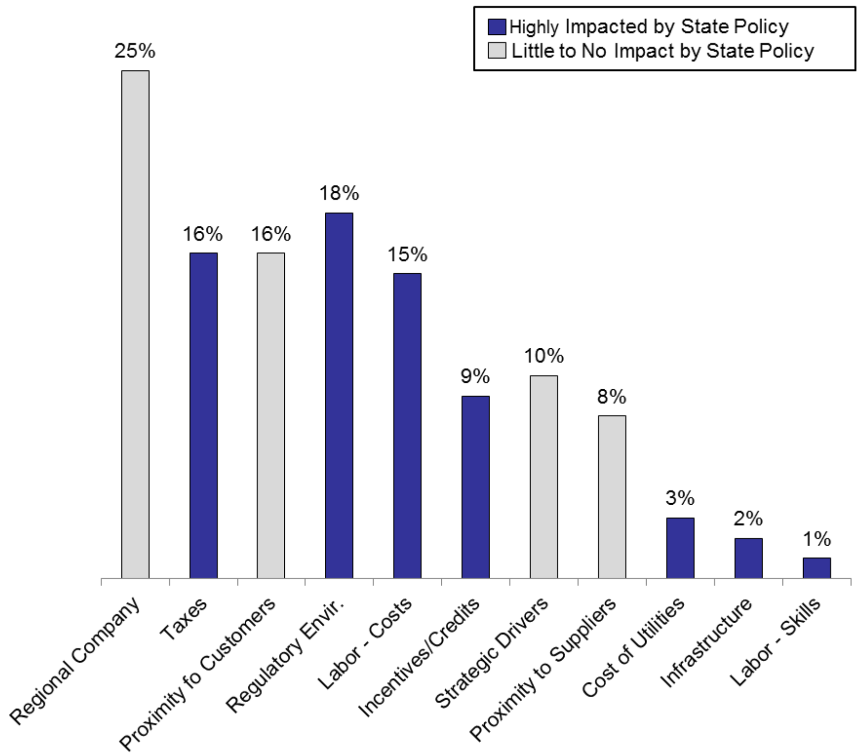
Figure 4.5
Company Expansion/New Site Considerations




Source: California Manufacturers & Technology Association, Investment Survey 2012

The companies that did not consider California when expanding or opening a new site were asked what the primary reasons were for not considering the state. The most mentioned reasons why California was not considered are seen in Figure 4.6. The reasons for not considering California can be broken into two categories. The first category consists of reasons that are minimally impacted by state policy. These reasons include being a regional company, proximity to customers, strategic drivers (i.e. proximity to existing facilities, geographic location and personal preference) and proximity to suppliers. The most common response from companies that did not consider California was that they were a regional company and had never considered moving outside of the state/region where they were currently doing business. The second category is comprised of reasons that are highly impacted by state policy. These reasons include the tax system, the regulatory environment (incl. permit processing), labor costs (incl. workers' comp), incentives and credits, cost of utilities and infrastructure. Four of the top six reasons why companies did not consider California are highly impacted by state policy. One of the most common issues that kept companies away from California was the amount of time it takes to construct a facility in the state. One respondent in particular stated the number one reason California did not make his short list of states to consider was the length of time added by regulations and getting the proper permits. The respondent said that in the state he ended up choosing, he could construct a facility within eight months, whereas in California it would take him a minimum of two to three years.

Figure 4.6
Reasons Why California Wasn't Considered




Source: California Manufacturers & Technology Association, Investment Survey 2012

- *We would expand in California if they shorten the time to approve permits and meet regulations. We are willing to do our part, but we need to be able to do so in a reasonable time frame. It takes twice as long to develop a project in California as other states.* – Survey Respondent

- *There are countless things you are required to do to do business in California. We can get a project operational in Texas in less than 2 years. In California it takes 3 to 4.*
  – Survey Respondent

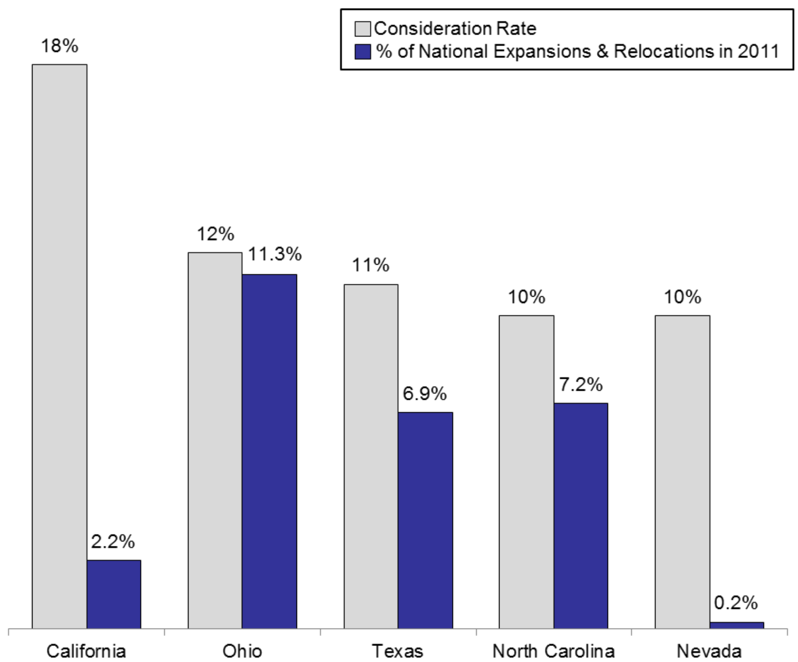
- *The tax system in California is something that kept me away. In other states I know what I will have to pay at the end of the year and can allocate for it. In California, taxes are not just relatively higher, but also extremely complicated; as a small business owner I wouldn't know where to begin.* – Survey Respondent

- *California has the worst labor and environmental regulations in the world.* – Survey Respondent

- *California is the hardest, most complicated, most expensive and least beneficial place to open a business.* – Survey Respondent

Even though many companies did not consider California, it was given consideration more than any other state. As seen in Figure 4.7, of the companies that were surveyed, 18 percent considered California. However, the comparison of this high consideration rate with California's 2.2 percent share of national manufacturing expansions/new sites that moved to the state last year shows that many companies chose not to expand into the state. This suggests that California is getting due consideration from companies, but that systemic shortcomings are causing companies to choose other locations.

Figure 4.7
Top 5 Considered States vs. National Share of Expansions/Relocations




Source: California Manufacturers & Technology Association, Investment Survey 2012; Conway Data Inc.

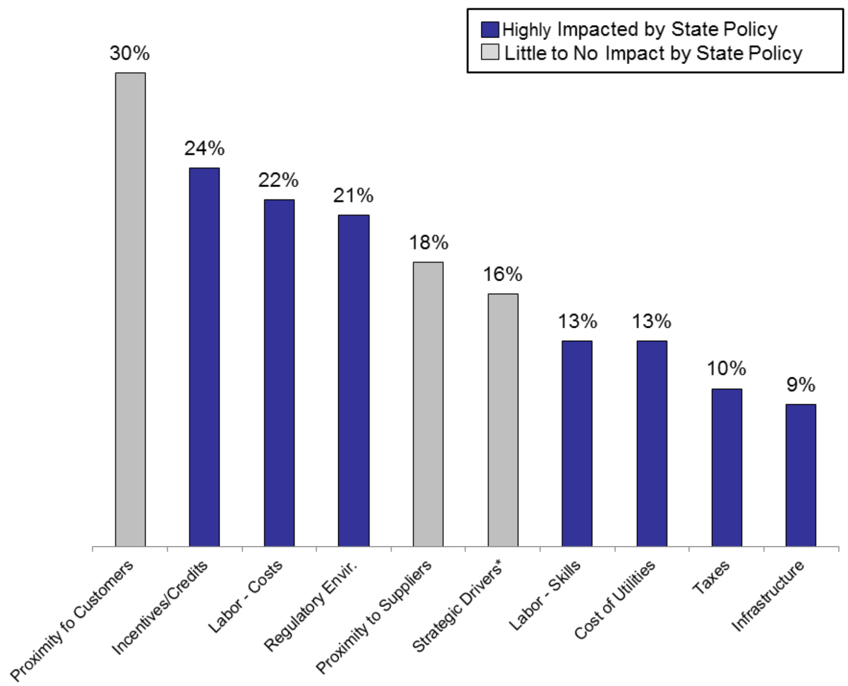
The lack of investment is even more evident when California is compared to the second and third most considered states. 12 percent of respondents considered Ohio, a state that had 11.3 percent of the national manufacturing expansions/new sites in 2011. Texas was considered by 11 percent of the respondents and had a 6.9 percent share of national manufacturing expansions/new sites in 2011. California's neighboring western state of Nevada was the fifth most considered state but received only 0.2 percent of the national manufacturing expansions/new sites last year. Many respondents considered expanding into the West Coast, particularly in California, but when it came to making their final decision, California could not stack up against its competitors.

### 4.3. Factors Considered When Expanding or Opening New Site

Another survey question addressed which factors were the most important when looking at potential expansion and/or new location sites. The most mentioned factors can be seen in Figure 4.8. The most frequently mentioned factor was the company's proximity to customers. One respondent stated that their company would sacrifice other important factors in order to be close to both their customers and suppliers. Some companies mentioned strategic drivers being an important factor.

One company stated the most important factor was the quality of life that a state could provide their employees. Three of the top five factors mentioned are highly impacted by state policy: incentives and credits, labor costs and regulatory environment.

Figure 4.8
Most Mentioned Factors Considered When Expanding and Opening New Sites




Source: California Manufacturers & Technology Association, Investment Survey 2012

- *Having a state offer a number of employer tax credits as well as provide free job training goes a long way. In other words, if a state recruits us, even if they rank low on some other factors, we can't afford not to strongly consider that state.*
  – Survey Respondent

- *For us, the most important thing is having a skilled labor force.*
  – Survey Respondent

- *Labor costs weigh into our decision very heavily. Since this is a survey for California I will tell you that the way California handles its worker's compensation scares me.*
  – Survey Respondent

Many respondents mentioned labor costs as a major factor when considering expansion to a new location. One respondent said that workers' compensation was far and away the most important factor for his company. He stated that the majority of his costs are driven by his overhead. His company uses lots of heavy equipment and the work is very labor intensive. He went on to say that if he had a facility in California and some of his workers were hurt on the job, he wouldn't be able to replace them because of the high workers' compensation costs. Other respondents voiced their concerns over how workers' compensation is overseen in California compared to other states. Another common factor mentioned was the amount of credits and incentives offered by prospective states. The general consensus from the survey respondents was that California showed little to no interest in helping companies relocate to the state while states such as Ohio and Texas were very aggressive in their recruiting.

Respondents were also asked how California ranked relative to other states in the important factors that they considered when expanding. As seen in Figure 4.9, California ranked weak in six of the ten most common factors.

Figure 4.9
California Rankings in Most Mentioned Factors

| Factor | Rank |
|---|---|
| #1 Proximity to Customers | Strong |
| #2 Incentives & Credits* | Weak |
| #3 Labor Costs* | Weak |
| #4 Proximity to Suppliers | Mid |
| # 5 Taxes* | Weak |
| #6 Labor Skills* | Mid |
| #7 Regulatory Environment* | Weak |
| #8 Strategic Drivers | Weak |
| #9 Cost of Utilities* | Weak |
| #10 Infrastructure* | Mid |

*Denotes factor that is highly impacted by state policy

Source: California Manufacturers & Technology Association, Investment Survey 2012

- *We expanded in California, in part because of a state grant which is currently set to sunset. I don't think we could have done it without that grant.* – Survey Respondent

- *For all the factors that I mentioned were important, California is not just near the bottom, but at the bottom for every single one. It would be the last state that I would ever do business in.* – Survey Respondent

- *California's environmental regulations are so lengthy and strenuous that it drives many manufacturers out of the state.* – Survey Respondent

- *I do not want to operate in a state that doesn't want me there. And it seems that California is doing everything in its power to keep my company out of the state.*
  *- Survey Respondent*

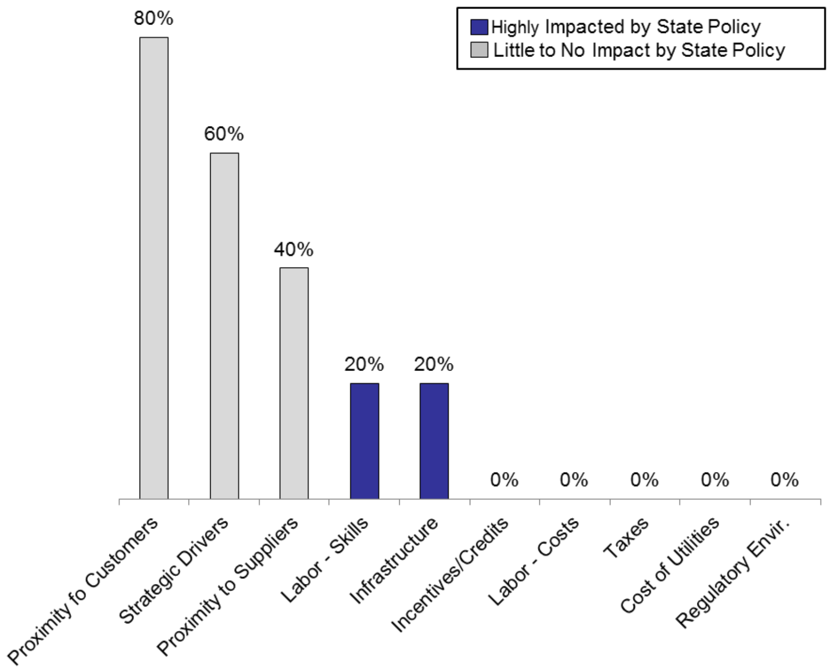
One respondent stated that his company was set on moving to California in order to develop a presence on the West Coast. However, California's lack of incentive packages made it uncompetitive. The respondent said that he ultimately decided to expand in Ohio due to the state's enticing incentive packages. Another respondent stated that California had the highest labor costs of any other state in which he has ever operated a business. He mentioned the fact that employment law in California was inconsistent with other states. He went on to say that the litigation rate was so high in the state that the company's attorneys do more work for their one facility in California than for the rest of the company combined, even though the facility is relatively small.

Proximity to customers is the only factor that survey respondents consistently gave California a strong ranking. One respondent said that the only positive thing California has to offer to manufacturing businesses is its large population and large customer base. Some respondents also stated that California was 'middle of the pack' in labor skills, proximity to suppliers and quality of infrastructure.

## 4.4 Why Companies Stay in California

The next question asked why certain California companies decided to stay and expand or open a new facility in California even though California's ranking in the important factors was weak. As seen in Figure 4.10, the most mentioned reasons why California companies stayed in state were proximity to customers, strategic drivers and proximity to suppliers. None of these factors are highly impacted by state policy. As stated previously, proximity to customers is an important factor to many companies and the only factor that California was ranked as strong. Various strategic drivers were another common response to the question. The typical strategic drivers were the company had existing facilities in California that could be expanded, the geographic location of the state and a personal desire to stay in California.

Figure 4.10
Top Reasons Companies Stayed in California




Source: California Manufacturers & Technology Association, Investment Survey 2012

- *There are many reasons not to stay in California, but our customers are here so we essentially had to stay.* – Survey Respondent

- *Honestly I stayed in California for personal reasons. I grew up here and want to raise my family here. I'm a small business owner and have the luxury to make this type of decision.* – Survey Respondent

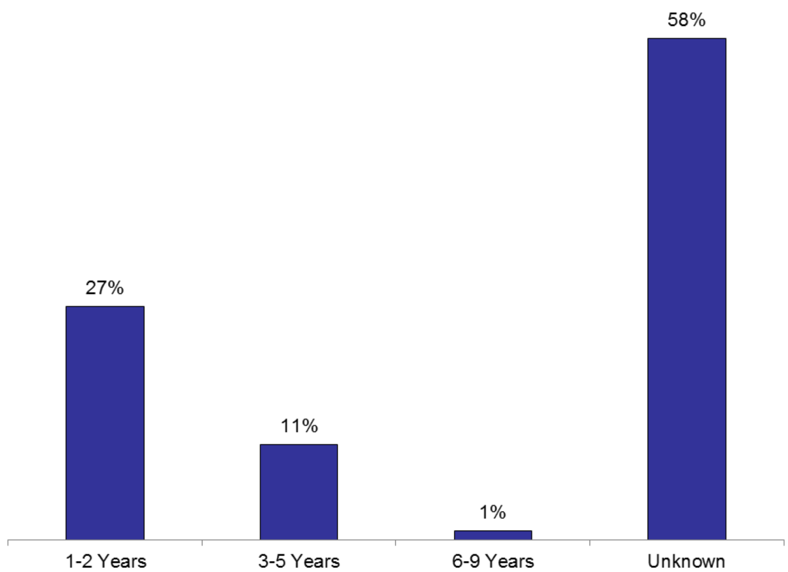
One respondent in particular stated that it did not make business sense to stay in California, but he decided to stay anyway because of the lifestyle he could have in California. The respondent went on to say that if it was a pure business decision he would have moved to Texas, but he ultimately chose to stay in California because of personal reasons. The respondent was a small business owner and felt he could make these types of personal decisions.

While some small business owners are able to make personal decisions about their companies, larger companies appeared to be more bottom line focused. Many respondents from larger companies that have moved out of California and/or decided against expanding in the state mentioned that they personally enjoy California (i.e. the weather, the people, the culture). However, these larger companies also ultimately concluded that operating in California was not the best option. For example, one respondent said that he personally loved California and wished his company could have a presence in the state, but he had shareholders and a board to answer to and it was not profitable to operate in California.

4.5 Desired Policy Changes

Another question asked during the survey pertained to company plans for future moves and/or expansions. While close to two- thirds of the respondents were unsure when their company would expand again, 27 percent of companies stated they plan on expanding within the next two years. With over a quarter of the companies planning to expand in the near future, if the right policy changes can be implemented there is a great opportunity for California to recruit manufacturing companies into the state over the next few years.

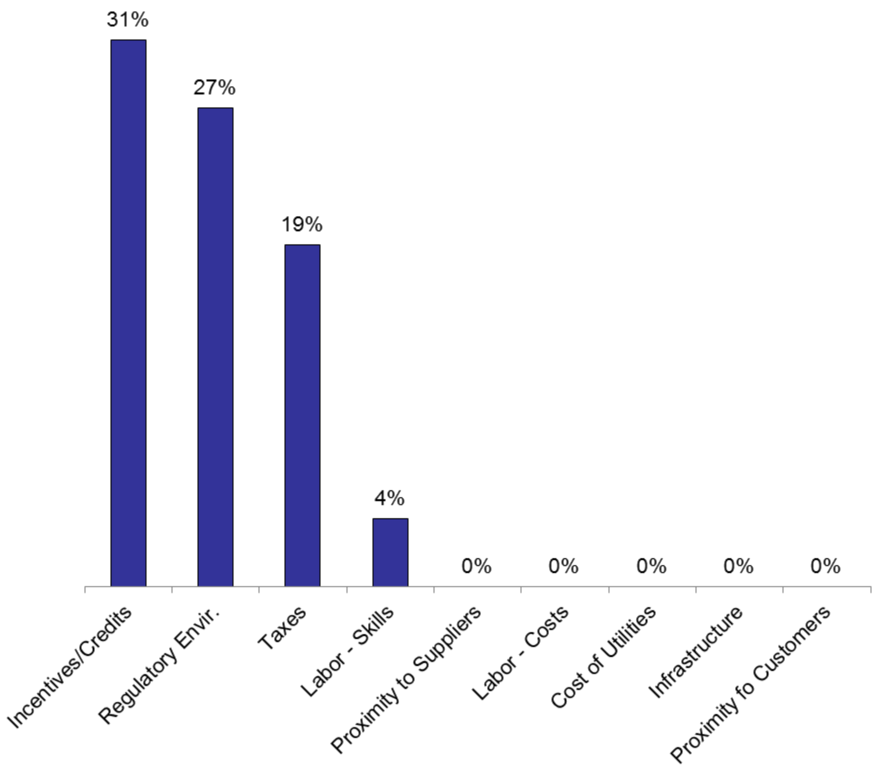
Figure 4.11
When Companies Are Planning on Expanding Again




Source: California Manufacturers & Technology Association, Investment Survey 2012

With the potential to recruit manufacturing companies over the next few years, the big question is what California policy makers need to address in order for companies to consider and choose the state for their next expansion? This question was asked of both companies that stayed or expanded in California and companies that did not consider California as an expansion location. The responses from both groups of companies were almost identical. First, companies that stayed in California or chose to expand into the state were asked what policy makers could do to help them stay in California and make them more competitive with companies in other states. As seen in Figure 4.12, companies that stayed or expanded in California want to see policy makers increase incentives/credits, improve the regulatory environment and improve the tax system.

Figure 4.12
Top Policy Changes Requested by California Companies




Source: California Manufacturers & Technology Association, Investment Survey 2012

- *What would go a long way in helping my company stay in California is for the state to offer some type of tax incentive for capital equipment along with reducing workers' compensation premiums.* – Survey Respondent

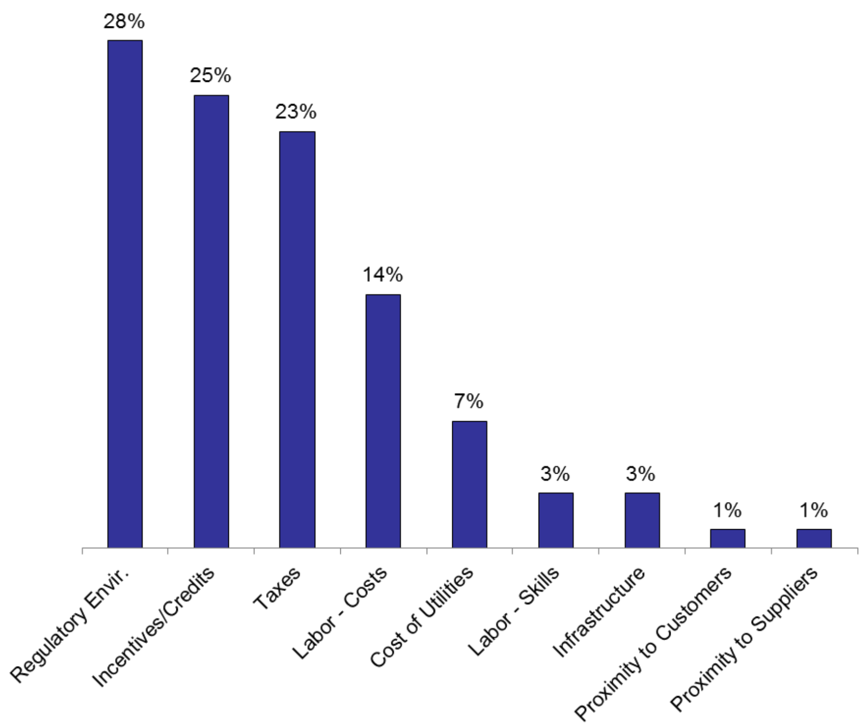
- *There needs to be incentives on facilities, capital equipment and taxes.*
  – Survey Respondent

- *The largest obstacle in staying in California was the length and cost of environmental regulations when remodeling and expanding our existing facility.*
  – Survey Respondent

Incentives or credits was the change or improvement most mentioned by companies that stayed or expanded in California. One respondent mentioned that if the state offered more incentive packages and tax credits, his company would probably have multiple facilities in California rather than just the one. Another common response was calling for an improvement of the regulatory environment. As seen with responses from the other questions in the survey, the big issue with the regulatory environment is the numerous regulatory requirements and permits required to construct a facility in California and the amount of time and uncertainty these add to the project. The third frequently mentioned issue was reducing the tax rate and simplifying the tax system. Many respondents said that it wasn't just the tax rates that needed to be addressed, but also the complexity of the tax system.

Companies that did not consider California were asked what policy makers could do for them to consider the state the next time they expand or open a new facility. Figure 4.13 shows that the top 3 most mentioned factors are the same issues identified by California-based companies.

Figure 4.13
Top Policy Changes Requested by National Companies




Source: California Manufacturers & Technology Association, Investment Survey 2012

- *You may be talking about what it takes to come to California, but I would be talking about what it takes for us to stay.* – Survey Respondent

- *To consider California again there would have to be a complete retooling. From a business point of view, it is far away from where it needs to be to be even remotely competitive*
  – Survey Respondent

- *To even consider California, we would need to be able to have a factory up and running within two years. In order for this to happen the length of environmental regulations and the permit processing time would have to be reduced significantly.*
  – Survey Respondent

- *The business environment in California is a nightmare for manufacturing companies. Improving one or two issues wouldn't be enough to attract a large number of companies. To really make the state appealing to manufacturers there would have to be extensive reforms in multiple areas.* – Survey Respondent

The companies most frequently mentioned that California should improve the regulatory environment. Companies want to see a reduction in the cost of regulations and the time to get permits. A competitive timeline for constructing and/or expanding a facility in California is an essential factor that many companies stated would increase their likelihood of moving to the state in the future. Companies also stated that increasing the amount of incentives and credits the state offers would go a long way in recruiting their business. One respondent summed it up by saying that California needs to make companies feel welcome and show that they are willing to invest in companies, otherwise companies will continue to turn away from California and look towards other, more business friendly states. Many companies also mentioned that the tax system in California needs to be reformed. One respondent specifically mentioned that even though California was the company's first choice, the high taxes on commercial real estate forced them to expand in Nevada.

Whether the companies were from California and remained in-state, expanded into or opened a new facility in the state, or didn't even consider the state when expanding, there was general consensus that California needs serious reforms to attract its fair share of manufacturing investment.

**2012 Business Expansion and New Site Survey**
**(Conclusion)**

- California's share of national manufacturing expansions and new sites in 2011 (2.2 percent) is far behind the nation, its western neighbors and other large states. If California were to have received its proportionate share of expansions, California should have closer to 350 manufacturing expansions and new sites, rather than the 60 the state had in 2011.

- California ranked weak in the majority of the most mentioned factors that companies considered when expanding or opening a new site. Many respondents were adamant that California was not just near the bottom, but at the bottom compared to other states in these important factors.

- Companies that decided to stay in California did not stay because the state had a great business climate or ranked highly in important factors. Rather, the majority of companies that stayed did so because the state provided a close proximity to customers and suppliers or they were a small business that made a lifestyle choice to stay in-state.

- Companies that stayed in California or recently expanded in the state said that to improve the chances of them staying and potentially expanding in California, policy makers need to increase incentives and credits, improve the regulatory environment and make the tax system less costly and complicated.

- In line with companies that stayed or expanded in California, companies that did not consider California for their recent expansion or new site stated that in order for them to consider California the next time they expand or open a new facility, policy makers need to address the level of incentives and credits, the regulatory environment and the tax system to make them competitive with operations in other states.

- The bottom line from the respondents is that California is not a competitive place for a manufacturing company. Costs, regulations, permitting delays, a lack of incentives, high labor costs and a high tax rate among other factors make it very difficult for manufacturers to do business in California. Streamlining the regulatory and permitting processes and removing financial disincentives on capital investment, among other reforms, could make California a more attractive destination for growing companies.

**Appendix A**
**Methodology**

The methodology of the survey was divided into 4 phases: scoping and development of survey instrument, development of sample and company background research, administering survey and analyzing results.

Figure 1.1
Methodology Phases

| | Phase I: Scoping & Develop Survey Instrument | Phase II: Develop Sample & Conduct Research | Phase III: Administer Survey | Phase IV: Analyze Results |
|---|---|---|---|---|
| **Duration:** | ▪ 4/16/12 – 4/20/12 | ▪ 4/16/12 – 4/25/12 | ▪ 4/30/12 – 6/15/12 | ▪ 5/28/12 – 6/18/12 |
| **Goals:** | ▪ Design Survey<br>▪ Establish survey database | ▪ Develop sample<br>▪ Conduct company background research | ▪ Contact companies and conduct survey | ▪ Content analysis of survey results |
| **Key Activities:** | ▪ Perform background research and interview subject matter experts as appropriate to identify and frame the key questions<br>▪ Configure Survey Monkey to act as database for survey results | ▪ Obtain Conway Data Inc. data set with list of 2,755 manufacturing companies that have expanded or opened a new facility over the past year<br>▪ Randomly sample 500 companies from list of 2,755<br>▪ Research appropriate company contact along with company address, phone number, presence in California | ▪ Call each company at least five times over the survey period<br>▪ Administer survey in which companies provide volunteered responses<br>▪ Categorize responses<br>▪ Employ appropriate escalation methods throughout the surveying | ▪ Finish administering final surveys<br>▪ Perform content analysis of survey results<br>▪ Translate results into briefing and written report |
| **Deliverables:** | ▪ Survey Instrument | ▪ List of the 500 randomly sampled companies along with researched information | ▪ Preliminary results briefing | ▪ Final briefing document<br>▪ Final written report |

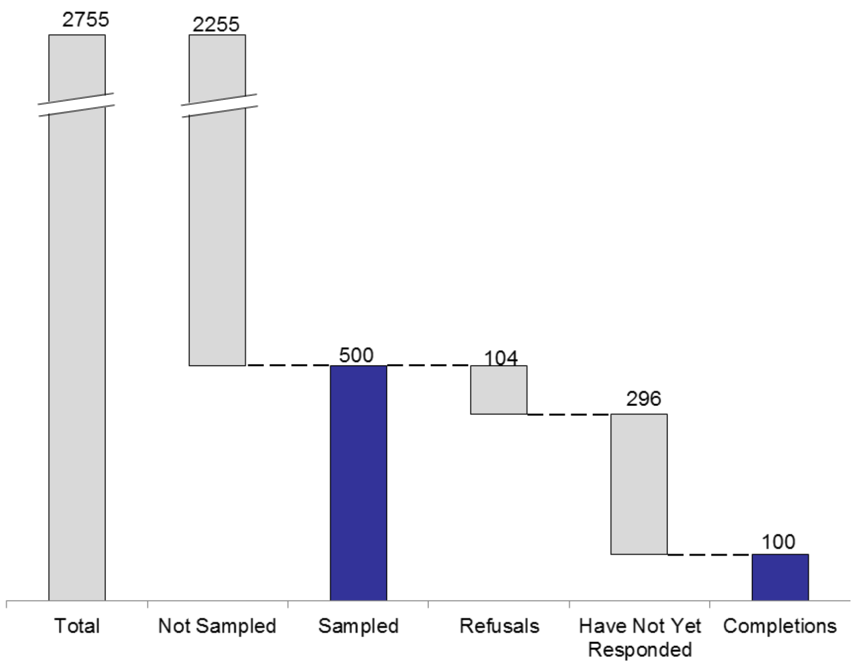
3.1. Phase 1 – Scoping and Development of Survey Instrument

The site selection process of companies was researched and subject matter experts were interviewed to appropriately identify and frame the key questions in the survey. Survey Monkey was configured and utilized as a database for the survey results.

3.2. Phase 2 – Development of Sample & Company Background Research

Conway Data Inc. provided a data set of 2,755 manufacturing companies that had either expanded or opened a new facility in 2011. Of these 2,755 manufacturing companies, 500 companies which represent 18.1 percent of all manufacturing companies that expanded or constructed a new facility in 2011 were randomly selected to be surveyed as seen in Figure 1.2. Background research on each of the 500 companies was conducted during this phase. The research identified the appropriate company contacts, address, phone number and whether each company had a presence in California.

Figure 1.2
Sampling Process




3.3. Phase 3 – Administering Survey

The survey was conducted over a period of seven weeks[7]. As the site selection process is generally a high-level decision, the company representatives that were contacted and interviewed were high-level decision makers (CEO, CFO, COO, etc.) who had been actively involved in the expansion decision making. The first point of contact was sending a notification letter to the CEO, CFO, COO or appropriate person at each of the 500 companies. The letter explained the purpose of the survey as well as a list of the survey questions. Following the notification letter, each company was contacted a minimum of five times by telephone. The survey was an administered survey in which the answers were volunteered and then categorized by the administrator of the survey. The survey had two levels of questions:

Level I Questions: Collected key demographic data about companies, such as company location, company size (annual revenue and/or number of employees), the respondent's role in the decision making process and whether the company could have moved or expanded operations in California.

Level II Questions: Collected information about each company's site selection process as well as desired policy changes. This information included the top factors considered when expanding, how California ranked relative to other states in the top factors, why California was considered/not considered and what policy changes need to be made for companies to stay and/or expand in

[7] Although the data collection is ongoing, the results used here were gathered between April 30th, 2012 and June 20th, 2012.

California. A comprehensive list of factors was developed for the survey administrator to categorize the responses during the survey. The respondent answers were categorized as follows:

- Proximity to Customers
- Incentives/Credits
- Labor Costs (includes Workers' Compensation)
- Proximity to Suppliers
- Taxes
- Labor Skills
- Regulatory Environment (includes permit processing)
- Strategic Drivers (i.e. proximity to existing facility, geographic location, personal preferences)
- Cost of Utilities
- Infrastructure

Participating companies are acknowledged in Appendix B with the exception of companies that wished to remain anonymous. All individual responses have been kept strictly confidential and only composite results are reported in this study. The complete survey can be found in Appendix C.

3.4. Phase 4 – Analyzing Results

The data from the 100 completed surveys was compiled into a database. Content analysis was performed on the data set and translated into the survey results section of this report.

## Appendix B
## List of Participating Companies

1 Sol Tech
Accuform Signs
AFC Cable
Again Co
Alexin, LLC
American Trailer Works, Inc.
BASF
BioSpectra, Inc.
Blendtec
Bodine Aluminum
CCS, Inc.
Chowel Weldparts, Inc.
Church & Dwight Company
Comau
CTL Engineering
Detroit Heavy Truck Engineering
DMN Inc.
Drilling World
Dynamic Manufacturing, LLC
Extrudex Aluminum
Fashions Unlimited, Inc
Ferragon Corporation
Fiberspar Corp
Fitzgerald Truck Parts & Service
Fort Wayne Metals Research Products
Fortis Security Products
Frac Tech
Fredon Corporation
Frito Lay
Futaba Corporation of America
GloPak Corp.
Huntington Aluminum
Hydrite Chemical
Indiana Furniture Industries, Inc.
Innovative Refrigeration Systems, Inc.
IOXUS
Katayama American Co Inc
KX Technologies
Lydall Thermal
M2 Technology
Madico / Solamatrix
Majek Boat Works
Mann + Hummel
Marquardt Switches, Inc.
Meritor, Inc.
Metl-Span, LLC
Mid-Continent Instrument Co Inc
Moore Manufacturing
Mori Seiki Manufacturing
Nestle Waters North America
NEUTEX Advanced Energy Group
Onyx Medical Corporation
Open Plan Systems
Orbus Exhibit & Display Group
Osceola Cotton Company
Panda Power Funds
Perdue Grain and Oilseed, LLC
Positec Tool Corporation #1
Praxair
Prime Conduit, Inc.
Quallion
Quasar Energy Group
Raytheon
Resonetics
Rico Industries
RRR Development Co Inc
Rusken Packaging
Screen It Graphics
Seaway Plastics Engineering
Sertco Industries
Snider Tire Inc.
Solberg Co.
Sonic Innovations, Inc.
Sonic Manufacturing Technologies
Sovis/Anthony International
Stabliltec Downhole Tools LLC
Sunrise Tool & Die Inc
Taylor's Machine & Welding Company
TD Automatic
Tektronix
Tianhai Electric North America
TnB Enterprises
Transco Industries
Turnkey Technologies
UFLEX
United Bio Chemical
Universal Lettering
Volkswagen Group of America
Wang's Alliance Corp.
Windsor Foods
Wire Mesh
XL Brands
Zep Industries
Anonymous (7)

## Appendix C
## CMTA Investment Survey Questions

Introductory Questions:

- What was your role in the site selection process?
- How many employees are in your company?
- What was your company's annual revenue in 2011?
- Does your company have a facility in California?

1) Were you considering expanding outside of the state in which you are currently headquartered?

2) What state did your company move or expand?

3) What was the value of this investment? How many direct jobs will be on the new location site?

4) What states did you consider when expanding your company? Did you consider California for a potential expansion or new site location?

   - If California was not considered for a potential site, what were the most important reasons why it wasn't?
   - If considered, how did California compare to the state you chose in the factors you considered?

5) When looking at potential states, what were the most important factors that you considered?

   - If your company has previously been in California and recently expanded in-state, what were the key factors in that decision?

6) If your company chose to expand in California, what was the greatest difficulty in developing your site?

7) When do you think that your company is likely to expand again?

8) What are 3 things California policy makers need to do for you to consider California the next time you expand?

**Appendix D**
**Rank of States by Expansion Per Capita**

| State | Number of Expansions | Expansion Per Million Population | Rank |
|---|---|---|---|
| Kentucky | 142 | 32.50 | 1 |
| Ohio | 312 | 27.02 | 2 |
| Louisiana | 115 | 25.14 | 3 |
| Alabama | 114 | 23.74 | 4 |
| North Carolina | 199 | 20.61 | 5 |
| South Carolina | 96 | 20.52 | 6 |
| Pennsylvania | 240 | 18.83 | 7 |
| Kansas | 45 | 15.67 | 8 |
| Tennessee | 95 | 14.84 | 9 |
| Indiana | 94 | 14.42 | 10 |
| Georgia | 139 | 14.16 | 11 |
| Virginia | 103 | 12.72 | 12 |
| West Virginia | 21 | 11.32 | 13 |
| Oklahoma | 41 | 10.81 | 14 |
| South Dakota | 8 | 9.71 | 15 |
| Missouri | 54 | 8.98 | 16 |
| Wyoming | 5 | 8.80 | 17 |
| Wisconsin | 49 | 8.58 | 18 |
| Utah | 24 | 8.52 | 19 |
| Mississippi | 23 | 7.72 | 20 |
| Texas | 191 | 7.44 | 21 |
| North Dakota | 5 | 7.31 | 22 |
| Minnesota | 36 | 6.74 | 23 |
| Delaware | 6 | 6.61 | 24 |
| Illinois | 82 | 6.37 | 25 |
| Idaho | 10 | 6.31 | 26 |
| New Hampshire | 8 | 6.07 | 27 |
| Rhode Island | 6 | 5.71 | 28 |
| Florida | 108 | 5.67 | 29 |
| Iowa | 17 | 5.55 | 30 |
| New York | 105 | 5.39 | 31 |
| Nebraska | 8 | 4.34 | 32 |
| New Jersey | 38 | 4.31 | 33 |
| Arizona | 26 | 4.01 | 34 |
| Maryland | 22 | 3.77 | 35 |
| Michigan | 35 | 3.54 | 36 |
| Vermont | 2 | 3.19 | 37 |
| Arkansas | 8 | 2.72 | 38 |
| Oregon | 10 | 2.58 | 39 |
| Connecticut | 9 | 2.51 | 40 |
| Nevada | 6 | 2.20 | 41 |
| Colorado | 11 | 2.15 | 42 |
| Massachusetts | 11 | 1.67 | 43 |
| California | 60 | 1.59 | 44 |
| Washington | 10 | 1.46 | 45 |
| New Mexico | 3 | 1.44 | 46 |
| Alaska | 1 | 1.38 | 47 |
| Montana | 1 | 1.00 | 48 |
| Maine | 0 | 0 | 49 |
| Hawaii | 0 | 0 | 50 |

**Appendix E**
**Rank of California Counties by Expansion Per Capita**

| State | Number of Expansions | Expansion Per Million Population | Rank |
|---|---|---|---|
| Yolo | 2 | 9.85 | 1 |
| Santa Clara | 10 | 5.32 | 2 |
| Solano | 2 | 4.67 | 3 |
| San Bernardino | 8 | 3.86 | 4 |
| Alameda | 6 | 3.81 | 5 |
| San Luis Obispo | 1 | 3.66 | 6 |
| San Joaquin | 2 | 2.88 | 7 |
| Ventura | 2 | 2.37 | 8 |
| Santa Barbara | 1 | 2.30 | 9 |
| Tulare | 1 | 2.23 | 10 |
| Sonoma | 1 | 2.03 | 11 |
| Contra Costa | 2 | 1.86 | 12 |
| San Mateo | 1 | 1.33 | 13 |
| San Diego | 4 | 1.24 | 14 |
| Kern | 1 | 1.19 | 15 |
| Los Angeles | 11 | 1.05 | 16 |
| Orange | 3 | 0.95 | 17 |
| Riverside | 2 | 0.93 | 18 |