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Local News

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SO, ARE YOU IN OR OUT? Sky-high home prices. Workers' comp costs. A chronic recession. Is the price of doing business in California too high?

Sky-high home prices. Workers' comp costs. A chronic recession. Is

the price of doing business in California too high?

By George Avalos
CONTRA COSTA TIMES

California businesses are trying to figure out if the thrill is gone.

Confronted by a recession that won't go away, a growing number of business owners have soured on the Golden State. You name it, they don't like it. Workers' compensation. Skyrocketing taxes. Red tape. Indifferent politicians.

Add it all up and it seems clear there is a rising undercurrent of resentment among employers, with more than a few people saying California is a lousy place to do business.

This high-stakes debate also lands in the middle of the California recall election, in which voters will be asked Oct. 7 whether Gov. Gray Davis should stay in office, and if not, who should replace him. The state's economy has become a key issue for all sides in the political circus.

"The business climate is horrible," said Fred Walke, president of MicroDental Laboratories, a Dublin-based supplier of dental products. "Taxes, workers' comp, traffic, housing, the cost of living, they're all bad." MicroDental, with 500 Dublin employees, acquired a competitor in Las Vegas so the company could begin shifting at least some of its work force to Nevada.

No question, the great majority of California business owners have hung in there. Yet folks like Bob Marshall, owner of Postal Annex in Concord, say things are rough.

"Look at the climate, the geography," Marshall said. "If you could just live here and have a lot of money, it would be great. But that's not the way it is. It's difficult to do business. You have workers' comp and the people with the state just tax, tax, tax, tax."

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The rising costs prompt Tom McHale, owner of a Concord construction firm, McHale Insulation Co., to offer a blunt assessment of California.

"It's never been more difficult to be in business in California than it is today," McHale said. His workers' comp expenses have more than doubled in the past few years.

Some executives were dismayed enough to pull up stakes and leave altogether.

Chris Lynn is one California business owner who left for greener pastures, even if the other side of the fence means the desert expanses of Nevada. Lynn, president and owner of Blast Deflectors Inc. of Reno, said there were plenty of reasons to close his Northern California operations, including high taxes.

"I have absolutely no regrets about leaving California," said Lynn. His company, which makes shields that deflect blasts from jetliners at and near airports, had been in California for 40 years before moving to Nevada in 2002.

Just a few years ago, California was riding a streak worthy of Joe DiMaggio. Tech firms had more job openings than they could fill. Dot-com firms were handing out stock options hand over fist. The Nasdaq soared. If you wanted to be on the cutting edge, California was the place to be.

Suddenly, the good times screeched to a halt. The Nasdaq melted down. Bay Area tech companies laid off thousands. Dot-coms fizzled and became dot-bombs when the Internet boom of the 1990s was exposed as yet another phony economic fad.

California's state coffers, once flush with cash during the stock market surge, were depleted, transforming the state's \$12 billion surplus into a \$38 billion deficit that forced state government to cut spending and raise taxes to try to close the gap. The state remains stuck in a recession at a time when the national economic downturn has officially been declared over.

"There's no question that the business climate in California has deteriorated," said Sung Won Sohn, chief economist with San Francisco-based Wells Fargo Bank. "As a result, employment has been hurt, and will be hurt."

Even worse, the future seems bleak. Employers worry about new mandatory health insurance that may become law. A paid family leave act goes into effect in California in 2004. Some business owners wonder if new taxes will be the state's prescription to remedy the lingering budget ailments. Others are skeptical about the new workers' compensation reforms.

"These things all cost employers money," said Allen Zaremborg, president of the California Chamber of Commerce. "You just encourage people to move."

Measured by economics, California doesn't stack up well against other states, according to a survey by the Small Business Survival Committee. The group, a Washington, D.C.-based business lobbying organization, surveyed taxes and other business costs in the 50 states and the District of Columbia. Among the findings in the Small Business Survival Index of 2002:

- California has one of the highest personal income tax rates in the country. Among the states, only Rhode Island has a higher income tax rate.
- The state also is one of the highest for corporate income taxes. Only 10 states have a higher rate for corporate taxation.
- The Golden State also ranks among the five most expensive states for workers' compensation costs and electricity expenses.

The Small Business Survival Committee, which produced the survey by compiling data supplied by several federal and state government agencies, is putting the finishing touches on its latest survey.

"The state is still pretty bad," said Ray Keating, chief economist for the small business group.

And a study released earlier this year found that California had the nation's worst business climate among the 50 states, bar none.

"California was last in spades," said Robert DeRocker, executive vice president with Development Counsellors International, a marketing firm that specializes in economic development.

The company's triennial business climate survey of hundreds of executives found that 57 percent believe California has a poor business climate. Three years ago, that number was 25 percent.

"First, you have the dark afterglow of the energy crisis," DeRocker said. "Then you had 9/11. You had job-killer bills in the Legislature. You had the dot-coms. The recall and the budget crisis were the latest in a litany of laughingstock horrors for the state. You sense nothing's gone right in California."

But is it that bad? Are reports of a bad business climate a real-life monster, or just another urban legend?

"California is still the most dynamic marketplace in the world," said Sen. Jackie Speier, D-San Mateo, interviewed at a San Francisco event recently. "The movie industry, defense, aerospace, the high-tech industry were born here. It's still one of the best places in the world to do business."

And the state has not been passive in its quest to upgrade economic conditions, according to Gov. Gray Davis.

"We've done a number of good things to help the business climate," the governor said at the same event. He insisted that taxpayer-financed projects such as construction of a new Bay Bridge, BART

extensions and highway and transit projects could generate 100,000 jobs in the Bay Area over the years.

The governor also touted a Fortune magazine study that showed California had more companies with fast revenue growth than any other state.

And California has managed to score some wins of businesses that decided to open facilities in the state, rather than others. Kohl Department Stores this year officially opened a distribution center in San Bernardino County that is employing 300, and could reach 900 workers at some point.

California, according to the same business survival index that noted a number of flaws in the state's business climate, measures up well in some categories.

For instance, California was ranked 18th-best in the nation for its property tax levels. It was 15th-best in health care costs. The state also was in a favorable position when it comes to gas taxes and unemployment insurance taxes.

National labor statistics also suggest California's job market, until recent months, actually wasn't as weak as the nation overall. For the two years from July 2001 through July 2003, the number of private work force jobs in the United States slumped by 2.1 percent; California's shrank by 1.4 percent.

But so far this year, California has been much weaker than the nation. For the first seven months of 2003, the U.S. private work force has dwindled by 0.2 percent, while California is down 0.6 percent.

"Businesses are certainly not as happy as they have been in the past, but that does not mean they are going to pick up and move out of state," Sohn said. "Based on cost factors alone, there should be almost no businesses in California. They should all be in South Dakota or Alabama."

Stephen Levy, economist with the Palo Alto-based Center of Continuing Study of the California Economy, said officials may have to make a choice about the kind of companies they want in the state. Manufacturing, construction and distribution companies tend to want lower taxes and reduced regulations to produce the business climate they like. Tech firms might prefer increased government spending to improve education and transportation.

"High-tech firms and venture capitalists in Silicon Valley, and entertainment companies in Hollywood may have a different priority than paint manufacturers, auto plants, lumber companies and textile mills," Levy said. "We have to make a choice."

Meanwhile, California companies appear to be making a choice on their own. Officials in Nevada and Arizona have noticed a spike in requests from California firms about relocating to their respective states. About 50 companies, totaling 1,000 jobs, have moved to the

Las Vegas area this year. Just this week, Arizona officials have fielded calls from four California companies thinking of relocating, totaling 1,500 more jobs.

"The spike started in mid-2002, and we're noticing a steady, if not increasing, flow of requests from California companies," said Michele Pino, director of business development and attraction with Arizona's Department of Commerce.

"This year, the phones have really been ringing," said Lisa Plummer, business development director with a Nevada economic development agency.

Tech firms are among those leaving. That's no surprise to John Chen, chairman and chief executive with Dublin-based software firm Sybase Inc.

"The costs of being in California are too high," said Chen. "I can find qualified people, bright people, in many different places outside of California. We are in a number of states and countries, and California is one of the most expensive."

Although Marshall of Postal Annex wants to remain in California, he has talked to a number of customers who have left for other states. They are optimistic about their new economic prospects.

"In the last year, there has been a rush to get out," Marshall said. "It's like everyone is trying to get off the Titanic. I want to stay. But I wonder what they know that we don't."

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