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Thursday, May 15, 2003

## Sweetening the pot

Companies crippled by high electricity rates, workers comp premiums and taxes are looking beyond state borders.

By **JAN NORMAN** and **MARY ANN MILBOURN**

The Orange County Register

During California's electricity crisis in 2001, other states came calling on businesses with glow-in-the-dark mouse pads promising to "never leave you in the dark."

For the most part, California companies turned a cold shoulder.

"They said, 'We've dealt with earthquakes and floods. We can handle this too,'" recalls Somer Hollingsworth, economic development director for southern Nevada. "But now they're calling us saying so many things are piling on that it's going to drive them out of business."

Because of high taxes, more regulations and greater costs of doing business, California has long been a fertile field for other states seeking to lure companies that want to relocate or expand.

The state's current budget crisis, skyrocketing workers compensation costs and among the nation's highest electricity rates give renewed impetus to other states' hunting expeditions. And they're offering incentives that California is hard-pressed to match.

In recent weeks, ceramics manufacturer Ceradyne announced it may leave Costa Mesa for Lexington, Ky., where the state is offering \$2 million in tax savings and the city promised expedited permits to build a new plant. But the clincher was electricity rates two-thirds less than the company is paying here.

Irvine-headquartered Fidelity National Financial, the nation's largest title insurer, is headed to Jacksonville, Fla., hooked by \$12.5 million in state-city incentives, lower land costs and what Chief Executive Bill Foley described as the "oppressive cost of doing business" in California.

In the former case, Costa Mesa said it wasn't aware Ceradyne had been thinking of leaving but it wouldn't matter because the city has a policy against offering direct assistance to companies.

In the latter case, Santa Barbara County, where most of FNF's staff is located, didn't know the title insurer was ready to bolt "until fairly late in the game," said Jim



State's budget crisis limits cities' counteroffers to keep companies.

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### WHY IS CALIFORNIA SO COSTLY?

California business executives complain about a host of state laws and regulations approved in the past few years that make it increasingly difficult for them to compete:

#### High-cost workers'

#### compensation insurance:

Double-digit premium increases and lack of availability for some industries have prompted more than 50 bills to be introduced in the state Legislature to fix the problem.

**High electricity costs:** Rate hikes that followed the state's failed deregulation effort have particularly hurt manufacturers.

#### Added government regulation:

Stiffer state laws on issues ranging from environment to worker safety raise costs and often require duplicate paperwork.

**High taxes:** Income, capital-gains

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Claybaugh economic development program coordinator. "But (Florida's) incentives far exceed what we could offer."

In a survey of states that have successfully attracted California companies recently, the Register found a variety of tax breaks, fewer environmental regulations, simpler paperwork to receive assistance like employee training funds and lower land costs.

David Biggs, economic development director in Huntington Beach, tries to counter these incentives by pointing to local access to nearby ports, an educated and skilled workforce and beautiful climate year-round. But he acknowledged, "In California in general we do a lot to make it easier for companies to decide to go elsewhere."

In fact, other states' representatives said their best selling point is that they're not California.

"Your workers compensation rates are out of control and California's doing everything it can not to support small manufacturers," said Bob Potter who has personally recruited 70 California companies, including Buck Knives of San Diego, to move to Idaho.

Potter targets profitable companies with fewer than 50 employees currently in high-cost communities but that don't depend on that location for survival.

He only recruits in California, he said, because he used to work here so he has many contacts and "it's easy." He's currently in Southern California meeting with 19 companies that have expressed interest in moving north.

"Buck Knives with 200 employees is big for Idaho; in California they're not even missed," Potter said.

Hollingsworth of Nevada said California companies are increasingly discontent with the state's business climate. "Forty-five percent of our inquiries are from California now. It's never been that high."

This year's Orange County Executives Survey by the University of California, Irvine, noted some interest in business relocation. A quarter of the 302 executives polled expected their companies to expand or relocate outside the county within the next five years. Of those, 36 percent will move to another state and 18 percent to another country.

That trend might accelerate, said Fred Mickelson, an economic development expert who led Orange County efforts to retain businesses in the early 1990s when there was a similar push to leave.

In the last four months, Mickelson has noticed a major change in attitude about moving or expanding elsewhere among California business executives

"Before Christmas, they were still sitting on their hands saying they didn't know where the economy was going," he said. "Now people are ready to make the decision to move."

The UCI survey indicates that California officials aren't doing much to stop the exodus. About half the manufacturing firms surveyed had been contacted by other states about relocating but only 2 percent had any contact with their home city or the county.

and sales taxes drive up business costs.

**Costly employee benefits:**

Minimum wage - California's is \$6.75 an hour versus the U.S. rate of \$5.15; higher unemployment-insurance rates; overtime after an eight-hour day and the upcoming paid family leave, due to go into effect in 2004, add to the cost of doing business.

**High housing costs:** Employers find it increasingly difficult to attract and keep employees because housing is so expensive.

**Traffic/transportation:** Housing costs are forcing employees to live farther from work, adding to traffic and making it more difficult to transport goods.

**Poor schools/work-force**

**training:** Employers complain schools are not providing the basic reading, math and analytical skills they need in workers.

"It's a war of attrition, and we have lost," said survey author Dennis Aigner.

Santa Ana has more tools to keep companies than perhaps any other Orange County city. It has both a state enterprise zone and federal empowerment zone that provide tax incentives, employment training programs and bond financing. But the city doesn't even try to recruit new companies to town because it has virtually no vacant land, said Economic Development Director Patti Nunn.

However, she feels powerless against some of the out-of-state appeals.

"The electricity situation, workers comp, new taxes and fees are problems," she said. "In the early '90s we had a coordinated effort under Fred Mickelson. Today we don't have leadership or an environment for leadership to develop."

The state's lead agency for economic development – Technology, Trade and Commerce – has been decimated by budget cuts. Staffing already has been cut 25 percent from a peak of 383 jobs and the proposed state budget for 2003-04 cuts another 41 percent.

The cutbacks are a reflection on the agency's inability to demonstrate that it has had an impact, said Todd Clark, who oversees the Technology, Trade and Commerce Agency for the Legislative Analyst's office.

The agency is so short-staffed that it hasn't updated parts of its Web site that lists benefits of locating a business in California. It still cites electricity deregulation as a benefit even though the program was so flawed it led to rolling blackouts and increased rather than decreased rates.

While acknowledging that the agency's reduced staff can't do everything it once did, spokesman Jason Kimbrough said, "If we find out a company is leaving, we pull together a team of state agencies and local entities to address the company's issues."

Yet the state's incentive package is not competitive. Kimbrough mentioned tax benefits and employee training through enterprise zones and small-business loan guarantees, which other states also offer; the manufacturers investment credit, which some legislators want to ax to ease the state deficit; and deductions of operating losses in future years, something the state has suspended for two years, also to close the revenue gap.

"Our economy is in transition," Kimbrough said. "Manufacturing is on the decline, but with our diversity we're still in a strong position to rebound."

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