

California proves too costly for departing businesses:[FINAL Edition]

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Abstract (Article Summary)

Whether or not California is facing a job crisis is a matter of debate, but some started moving out during the deeper recession of the early 1990s. East Greenwich, R.I., music software company BitHeadz moved from Santa Cruz more than two years ago before the tech recession. College graduates from the East weren't demanding a BMW Z3 convertible company car on top of a \$60,000-a-year salary, CEO Steve O'Connell says. In Rhode Island, they expected half the pay and no car. They do require more training than those near Silicon Valley, but the state was there to cover \$5,000 per employee toward training, saving BitHeadz \$50,000, O'Connell says.

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GRAPHIC, Color, Marcy E. Mullins, USA TODAY, Source: Straszheim Global Advisors (BAR GRAPH); GRAPHIC, B/W, Marcy E. Mullins, USA TODAY, Source: Coast Converters (CHART); Moving: [Mitchell Greif], CEO of Coast Converters, looks over a printing press that has been taken apart for cleaning before being loaded on a truck. The company is in the midst of relocating to Las Vegas. Getting ready to go: Kenneth Robinson cleans a Coast Converters printing press after it has been disassembled. High operating costs in California are behind a company move to Las Vegas. Those were the days: A framed certificate from the mayor of Los Angeles commemorates Coast Converters' more than 30 years of doing business in the city.

Full Text (1959 words)

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Coast Converters is spending \$800,000 to move to Las Vegas, but the Los Angeles plastic bag manufacturer will save enough on workers' compensation, electricity and other costs to recover that in less than a year, CEO Mitchell Greif says.

"It's really an unfair business practice to allow companies to move to Nevada and sell into California," Greif says. "But I'm doing it."

California businesses are screaming about the high cost of operating in a state of high taxes, pricey real estate, mandates from Sacramento and a mountain of state budget red ink that someone will have to cover. Some, such as Coast Converters, are fleeing California in search of more friendly business environs. Meanwhile, other states and their cities are lining up to steal California's jobs.

3Com, once a landmark of Silicon Valley, now operates from Marlborough, Mass. Buck Knives, which has been making knives in California since shortly after World War II, will move from El

Cajon to Idaho in 2005. Even General Electric, a trendsetter among corporate giants, is weighing a \$500,000 incentive from North Carolina to move the GE Nuclear Energy headquarters from San Jose. GE expects to make a decision by year's end.

The recall election for governor has energized criticism of the state's business climate, and if the rhetoric is to be believed, the last job left in California will either be kept by Gov. Gray Davis or be turned over in Tuesday's election to actor Arnold Schwarzenegger or Lt. Gov. Cruz Bustamante.

California has a \$1.4 trillion economy, the size of France's, that no serious seller of goods and services can ignore. Costco can't move its California stores, but is considering moving support employees, such as those who do photo finishing and make eyeglasses, because of the biggest crisis hitting California business: workers' compensation.

In many cases, the cost of workers' comp premiums has more than tripled in the past few years. California's system was originally designed to be "no-fault," but lawyers swoop in whenever there's a dispute, says Richard Galanti, chief financial officer of Costco. He says California rules have resulted in injured workers visiting the chiropractor two to four times as often as those suffering the exact injury in other states. Premiums also are escalating because of poor investment decisions by insurance companies, where more money was lost in dot-com investments than in other states.

Costco operates in 37 states. In the other 36, the average amount the company reserves for each injury is \$26,000, Galanti says. In California, Costco reserves \$71,000 per injury.

There are other laws specific to California, such as those requiring paid family leave and stricter ergonomic standards. Greif says he will save \$130,000 a year operating in Nevada, because it requires overtime pay for work in excess of 40 hours in a week, rather than in California, where overtime must be paid for more than eight hours in a day.

Legislation just passed will require employers of more than 50 to provide health care. Companies have until 2007 to comply. Davis is expected to sign it into law before the election.

Labor groups and others defend such measures as necessary to protect workers and their families. "Poverty in California is mushrooming at an incredible rate," says Madeline Janis-Aparicio, executive director of Los Angeles Alliance for a New Economy, a coalition of unions, religious leaders, academics and elected officials.

"Things like the eight-hour day and family medical leave are protections keeping that trend from increasing," says Janis-Aparicio, who says the uprising about California's business climate is coming from "political opportunists."

But that does not deter communities outside California from using sophisticated presentations of charts and diagrams pointing out what an expensive place California is.

* Nevada has launched a print advertising campaign warning California businesses that "Worst case scenario is you're out of business." The state plans to spend \$600,000 between August 2003 and June 2004 in newspapers, including the San Francisco Chronicle and The San Diego Union

Tribune.

* Oklahoma has its own campaign to take California jobs, informally calling it "Revenge for the Dust Bowl," referring to the 1930s drought that sent farmers migrating to California.

Yamanouchi Pharma Technologies moved its headquarters and 200 jobs this summer to Norman, Okla., from Palo Alto.

* Amarillo, Texas mails fake checks to California companies for \$1 million to \$5 million, which represent the \$10,000 Amarillo will award for every job created that pays at least \$12 an hour. The money comes from a half-cent sales tax in Amarillo earmarked for economic development.

From Irvine to Amarillo

AccuPoll took Amarillo up on its offer. The Irvine, Calif., company that makes electronic voting systems will open a service operation center in Amarillo before year's end. The company has leased luxurious office space in the Bank One Center in downtown for half of what it was paying for a rundown building in a bad location in Irvine, says company President Frank Wiebe.

For the 25 jobs it brings, Amarillo will pay the company \$250,000. What does 25 jobs get you in California? Pretty much ignored, Wiebe says.

No one keeps track of the number of companies leaving California, but it's likely not as many as the critics say. Since the last recession began in March 2001, California has lost 2% of its jobs, the same percentage of jobs lost for the country as a whole, and job losses are concentrated almost entirely in the tech-heavy region around San Francisco and San Jose.

Still, 2.2 million Californians moved to other states in 1995- 2000, according to the Census Bureau, while 1.4 million moved in from other states, for a net out-migration of 800,000. In the years 2000-02, it lost a net 168,000 residents to other states, but added more than 700,000 from foreign countries, including Mexico, according to Straszheim Global Advisors, an economic firm in Santa Monica, Calif.

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One-fifth of 400 businesses surveyed early this year by the California Chamber of Commerce and California Business Roundtable said they were planning to expand elsewhere or relocate entirely.

"We mail 10 to 20 personal relocation packets a day, primarily to Californians," says Harry York, CEO of the Reno-Sparks Chamber of Commerce, 25 miles from the California state line. The city has opened three high schools in the past three years without solving overcrowding problems.

Among U.S. cities, Las Vegas ranks second in job growth in the last five years, second only to the Bentonville, Ark., area, home of Wal-Mart. In the 12 months before July 2003, 20 companies moved from California to Las Vegas creating 1,157 jobs, according to the Nevada Development Authority.

California's reputation has taken an unanswered hit because few in business from inside the state will step up to defend it.

"We're shooting ourselves in the foot," and other states are "naturally" taking advantage, says Wayne Schell, CEO of the California Association for Local Economic Development, a group of 300 economic development associations. "I would do the same thing if I were in Nevada, Arizona or elsewhere. There is a climate that all hell is breaking loose."

Schell says California has business advantages that are being drowned out. It remains the center of technology and a place where investors still like to put capital. It's closer to Asian markets. Yet, the most often-heard defense of California is that it's too expensive for most businesses to move, Schell says.

California will remain a state of innovation, Schell says. "Trouble is, they're going to make it somewhere else."

He says that those soliciting California's jobs aren't fair with their comparisons. A chart provided to USA TODAY by Nevada says a house that costs \$729,000 in Los Altos, Calif., goes for just \$159,500 in Reno. But Schell says Reno is more similar to the Central Valley of California, where housing costs are more competitive, though still higher.

Taxes blamed

Still, California landed 49th in a business-tax friendliness ranking calculated this year by the Tax Foundation, which argues for lower taxes and tax simplicity.

In addition to personal income taxes, California has the highest corporate tax rate in the West, as high as 10% in some places, an estate tax and an inventory tax. Nevada has none of those, and its Legislature all but solved its budget problems this year by passing a payroll tax of 0.7%, essentially doubling a \$100-per-worker tax it replaces. California's state government has an enormous red-ink problem caused largely by inflated spending when taxes from the dot-com boom poured in. The problem will be difficult to solve, no matter who is governor, and business worries that they will be taxed heavily as at least part of the solution.

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BitHeadz chief O'Connell says he sold his house in Santa Cruz for \$715,000 and bought one four times as large in Rhode Island for the same price.

California's biggest threat might not be the loss of existing jobs, but future jobs. Software maker

PC-Doctor expects to expand gradually beyond its 50 employees. "It's easier to move before we grow," so it is leaving Emeryville near Berkeley, and operations will start in Reno soon after Tuesday's election, Vice President Aki Korhonen says.

More than half of PC-Doctor's employees have decided to stay with the company and move to Reno, many of them apartment dwellers who will now be able to afford homes, Korhonen says.

Korhonen is a native of Finland who also lived in Germany before moving to the USA 13 years ago. He says California has moved so much toward over-regulation and high taxes that the state reminds him more and more of Europe, although he says California is still far more business friendly than any country in Europe.

California's trend, however, is "scary," Korhonen says, and one reason PC-Doctor moved was as a pre-emptive strike against a competitor thinking about starting up in a low-cost state and seizing the competitive high ground.

[Illustration]

GRAPHIC, Color, Marcy E. Mullins, USA TODAY, Source: Straszheim Global Advisors (BAR GRAPH); GRAPHIC, B/W, Marcy E. Mullins, USA TODAY, Source: Coast Converters (CHART); PHOTO, Color, Robert Hanashiro, USA TODAY; PHOTOS, B/W, Robert Hanashiro, USA TODAY (2); Caption: Moving: Mitchell Greif, CEO of Coast Converters, looks over a printing press that has been taken apart for cleaning before being loaded on a truck. The company is in the midst of relocating to Las Vegas. Getting ready to go: Kenneth Robinson cleans a Coast Converters printing press after it has been disassembled. High operating costs in California are behind a company move to Las Vegas. Those were the days: A framed certificate from the mayor of Los Angeles commemorates Coast Converters' more than 30 years of doing business in the city.

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