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**PROPERTY REPORT**

## **Businesses Ponder Leaving California**

**For Some Firms, California  
Isn't Golden State Anymore**

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LOS ANGELES -- The budgetary and political upheaval in California is prompting other states to poach companies based here, and there are early signs the states are succeeding.

States from Arizona to Wyoming have been putting out feelers to companies either considering moving out of the Golden State or expanding their operations in more business-friendly regions. The rival states' moves are triggered not only by longtime complaints from California companies about high taxes, elevated energy prices, pricey real estate and regulatory red tape, but also by the state's gubernatorial recall vote and its need for cash as it faces a \$38 billion budgetary gap.

In a recent survey conducted by the California Business Roundtable, about 20% of 400 California businesses said they are planning to move or expand out of state. That's by far the highest figure ever recorded in their survey, the group says.

One of the largest recent exits from California was Fidelity National Financial Inc. of Santa Barbara, one of the nation's biggest title-insurance companies. The company said in May it couldn't find office space in the state for expansions, but Chief Executive William Foley later said the move also was spurred by California's "oppressive" business environment. Even some stalwart California manufacturers, which remained in the state as others bolted, are leaving. The American Racing unit of Noranda Inc. said last week it would move its automotive-wheel production facility to Mexico, ending most of its 47-year operation in California. A big reason for the shift is the high cost of workers'-compensation insurance, the company said. Closely held Buck Knives is also in the midst of moving to Idaho -- after more than 60 years in the San Diego area -- lured by tax incentives and a lower cost of doing business.

Phoenix, traditionally a popular destination for California businesses, has seen the volume of inquiries from small and midsize California companies roughly double this year, said Rick Weddle, president of the Greater Phoenix Economic Council. "Business can't deal with uncertainty, and the current political and budgetary intrigue in California does not bode well for stable policies," he said.

Commercial and industrial customers in California pay more than double the national average for electricity, according to the California Energy Commission. Workers' compensation-insurance costs have posted double-digit annual percentage increases since 1997: They are up, on average, as much as 70% since 2000, according to the California Chamber of Commerce. California landed 49th in a business-tax friendliness ranking calculated this year by the Tax Foundation, a Washington, D.C., taxpayer advocacy group.

Though California is facing a gubernatorial recall election, businesses find little reason, so far, to expect things to change much. Some of the most recognizable of the 135 candidates, including Lt. Gov. Cruz Bustamante, Arnold Schwarzenegger and Bill Simon, have been mum on specific plans to rework the tax code, lower workers' comp, relieve energy costs or otherwise revitalize California business.

To take advantage of the uncertainty, other states and local regions are trumpeting their promises of immediate incentives and huge long-term cost-savings. For example, New Hanover, N.C., recently offered General Electric Co. \$500,000 to move its Global Nuclear Energy division from San Jose. A GE spokeswoman said the company hasn't yet made a decision.

Other public groups also are working harder to inform California businesses of their states' business-development programs. Indiana recently eliminated its corporate income tax and reduced its property tax by 23%. The state also is phasing out taxes imposed on businesses' inventories, equipment and fixtures. With a fattened marketing budget, Indiana state officials have visited California to tell businesses about these tax rollbacks.

Other businesses also are jumping into the push for companies from California. During a prime-time radio talk show in Los Angeles, commercials from one private Nevada-based business relocation group, Nevada Corporate Headquarters, repeatedly beckons businesses to incorporate in Nevada for as little as \$85.

Investments in research and public infrastructure, such as the \$11 billion Chicago has spent during the past 14 years on projects including university partnerships in research and development, fiber-optic hubs and new office and industrial developments, also are being touted. "With such a huge deficit in California, companies are saying they are worried that it will put a drain on the building for the future," said Paul O'Connor, executive director of World Business Chicago, a public-private business development group. "Companies want to expand, but they expect that their taxes are going to fund a government that is making it possible to expand."

But David Biggs, chairman of the California Association for Local Economic Development, said he's heard most of this before and argues that despite the state's current troubles, its lifestyle, climate and creative work force will keep many existing businesses and start-ups in the state.

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