

Date of Hearing: April 5, 2017

ASSEMBLY COMMITTEE ON ARTS, ENTERTAINMENT, SPORTS, TOURISM, AND
INTERNET MEDIA

Kansen Chu, Chair

AB 427 (Muratsuchi) – As Introduced February 9, 2017

SUBJECT: California Aerospace Commission.

SUMMARY: Would establish the California Aerospace Commission to foster the development of activities in California related to the aerospace industry. Specifically, **this bill:**

- 1) Creates the California Aerospace Commission (Commission) to foster the development of activities in California related to aerospace, including, but not limited to, aviation, commercial and governmental space travel, unmanned aerial vehicles, aerospace education and job training, infrastructure and research launches, manufacturing, academic research, applied research, economic diversification, business development, tourism, and education.
- 2) Provides that the Commission shall:
 - a) Be an official recipient of grants from state or local government sources or from private businesses or individuals, for California aerospace-related activities, including, but not limited to, studies, services, infrastructure improvements, and modernization.
 - b) Be an advocate in support of California aerospace-related activities, including, but not limited to, the businesses, facilities, programs, developments, alterations, modifications, educational activities, and other programs impacting those activities.
 - c) Identify and recommend changes in federal, state, and local statutes and regulations that will enhance the development of California aerospace-related activities.
 - d) Notwithstanding Section 10231.5,
 - i) Report on the economic and employment impacts of California aerospace-related activities to the Governor and the Legislature and other state agencies and commissions that adopt regulations or make decisions or determinations that affect those activities.
 - ii) Recommend to the Governor and the Legislature appropriate state funding mechanisms and amounts to promote development of California aerospace-related activities.
 - e) With regard to the development of California aerospace-related activities, the commission shall provide recommendations to the Governor and the Legislature in the form of strategic planning documents.
 - f) Act as a clearinghouse for aerospace-related issues and information.
 - g) Foster and promote activities related to aerospace in all parts of California.

- h) Requires that reports and recommendations provided to the Legislation (sic) pursuant to this part shall be submitted pursuant to section 9795.

EXISTING LAW:

- 1) Establishes the Spaceport Office in the Department of Transportation to seek and obtain federal funding for the commercialization of private space activities in the state. (Government Code (GC) 14007.2)
- 2) Establishes the Governor's Office of Business and Economic Development (GO-Biz), which is administered by a director appointed by the Governor for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. (GC 12096 – 12098.5)
- 3) Authorizes GO-Biz as the lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth. Authorizes GO-Biz, in this capacity, to coordinate the development of policies and criteria to ensure that federal grants administered or directly expended by state government advance statewide economic goals and objectives. Authorizes GO-Biz to market the business and investment opportunities available in California by working in partnership with local, regional, federal, and other state public and private institutions to encourage business development and investment in the state. Authorizes GO-Biz to support small businesses by providing information about accessing capital, complying with regulations, and supporting state initiatives that support small business. (GC 12096.3)
- 4) Requires GO-Biz to designate Innovation Hubs (iHubs) within the state to stimulate partnerships, economic development, and job creation by leveraging assets to provide an innovation platform for startup businesses, economic development organizations, business groups, and venture capitalists. (GC 12099.1)

FISCAL EFFECT: Unknown. This bill is keyed "fiscal" by Legislative Counsel.

COMMENTS:

- 1) *Author's statement and support for legislation.*

According to the author, "California's aerospace industry boasts a gross domestic product exceeding that of the state's film and television and agricultural industries. Over 200,000 Californians directly employed by the industry, and more than 500,000 are employed in related fields. California's highly skilled aerospace workforce continues to lead the nation and the world in innovation and advanced manufacturing.

"Despite the aerospace industry's significance in our state's economy, there is currently no official, statewide voice advocating specifically for the industry. Several state commissions already exist for other major industries such as the California Film Commission and the California Travel and Tourism Commission. Previously, the California Space Authority served a similar purpose, but due to decreased federal funding, this entity was dissolved in 2011. AB 427 will help to reinvigorate California's aerospace industry by ensuring the State's leadership in innovation, research, investment, manufacturing, and job creation. The

Commission it creates will serve as the single point of contact for all aerospace-related functions in California, will be an advocate in support of California aerospace-related activities, and will make recommendations to the Governor and Legislature ensuring that California remains a national, and world leader in aerospace."

The California Manufactures and Technology Association add their support based upon perceived economic benefit, stating, "The aerospace industry represents a broad sector of manufacturers and R&D companies that cover a large geographical area in California from San Diego and the High Desert to the greater Los Angeles/Orange County area and Silicon Valley. California aerospace employment totals over 200,000 jobs according to a 2014 report from ATKearney for the Los Angeles Economic Development Corporation. With the reshoring of manufacturing jobs, California has an opportunity to seize some additional jobs and create more employment options that help rebuild the middle class."

2) *Background:*

a) *History of Aerospace in California.* According to information provided by the author and committee analysis of SB 1215 (Allen) and AB 2600 (Lackey) of 2016, the aerospace industry began in California with a few aircraft builders around World War I, and then vastly expanded in the mobilization for World War II. The industry steadily grew during the Cold War encompassing a wide range of activities, including military and civilian aircraft, reconnaissance and communications satellites, strategic missiles, and space exploration. By the 1980s, about 40% of the aerospace business resided in southern California, and the industry employed close to a half-million people. One of the region's strongest selling points for aerospace was its environment: the clear blue skies and ample open spaces were ideal for testing new aircraft. California also was home to a variety of related industries, particularly petroleum, as well as top-notch research universities and a large labor pool.

Defense spending peaked at \$557 billion in 1985 (in constant fiscal 2009 dollars) and then began a downward trend. The collapse of the Soviet Union and the end the Cold War led to more than 50 major defense companies consolidating into only six. According to the Employment Development Department's Labor Market Information Division, employment in the Aerospace Production and Manufacturing sector declined from 139,300 in 1993 to 70,800 in 2013.

California's robust aerospace industry suffered a significant downsizing and restructuring with the decline in military spending following the end of the Cold War and as a result of numerous Defense Base Realignment and Closure rounds. In the early 1990s, there were efforts to retain many of California's aerospace companies and jobs through the development of commercial space activities on California's Central Coast at Vandenberg Air Force Base. These efforts generated legislation AB 279 (Seastrand), Chapter 1003 of 1993 to designate the California Spaceport Authority (Authority).

The Authority was originally created to recognize the support and unique services required for operations related to space flight. A nonprofit corporation was designated as the Authority with a mission of developing the commercial space industry in California and assisting with defense conversion efforts. AB 1475 (Bordonaro), Chapter 938, Statutes of 1997, then designated a new nonprofit corporation as the Authority and also created two grant programs to foster space flight-related infrastructure and associated

activities – The Space Flight Competitive Grant Program and the Highway to Space Competitive Grant Program. These grant programs were ultimately administered by two separate nonprofit entities; however, both were responsible for the promotion of commercial space flight activities in the state.

In 2003, all space flight related promotions and programs were consolidated under one entity and grant program with the passage of AB 1532 (Nakano) Chapter 627, Statutes of 2003, which tasked the Authority with responsibility for attraction and promotion of space flight industries in California and the administration of the space enterprise development program. Following the 2008 economic downturn, state and private funding for the Authority became limited. In 2010, the nonprofit corporation selected to administer the space enterprise development program shuttered, and no action was taken to select another nonprofit to administer the program. Language in the Government Code related to the Space Enterprise Development Program under the Business, Transportation and Housing Agency was repealed in 2014.

- b) *Current Status of Aerospace Industry.* According to a 2012 report by the Los Angeles Economic Development Corporation (LAEDC), the aerospace industry is comprised of companies that manufacture aircraft (civil and military), missiles, satellites, and other space vehicles and the companies that manufacture and distribute parts and components. Buyers of these products include private industry, the military, and government space administrations. The report notes that, today, aerospace is a highly concentrated industry, dominated by a small number of large firms that are supported by a large number of smaller contractors. Profitability within this capital intensive industry depends largely on technical expertise, innovation, and the ability to accurately price long-term contracts for programs that may take years to design, develop, and build.

According to a brief prepared by the California Research Bureau, aerospace is one of the nation's standout industries. Its workforce is highly skilled and well paid; its exports grow our economy, and it serves as a continuing source of innovation. Aerospace encompasses a diverse range of productive activities, including the manufacturing of both civilian and military aircraft, space vehicles, guided missiles and associated parts. In 2011, the aerospace industry produced more than \$183 billion in goods nationally. With over \$31 billion worth of goods produced, California's aerospace industry represents 17% of this total. Overall, aerospace represented more than 72 % of all transportation equipment manufacturing in California in 2011. Across all manufacturing sectors, aerospace contributed more than 6.3 % of the \$495 billion in manufactured goods produced in California in 2011.

Aerospace is particularly attractive for economic development due to the various "spillover effects" the industry brings with it. This can represent the promotion of related industries through the supply chain, such as engine and engine parts, electrical components, hydraulics and fluid power subassemblies, intake and exhaust systems, even including seating and interior trim manufacturing. Other support services such as transportation and logistics support, managerial services, construction, and utilities also see an increase in demand due to California's large aerospace industry.

New technological trends are diversifying aerospace beyond military, defense, and commercial air travel markets. The expansion of unmanned aerial vehicles (UAVs, or

drones) from purely military to law enforcement and civilian uses is one such trend. The other is the growth of commercial spaceflight. Two big names in commercial space are SpaceX and Scaled Composites, both of which were founded in and are based in California, with manufacturing facilities located in the state. SpaceX was the first private entity to launch a liquid fueled rocket into orbit, the first to successfully attach a craft to the International Space Station (ISS), and is currently fulfilling a \$1.6 billion contract to supply the ISS. The first facility in the country to be certified by the FAA as a spaceport is also in California, the Mojave Air & Space Port. This has been the test site for many competitors in the Ansari X Prize—a \$10 million prize for the first nongovernmental organization to successfully launch and recover a reusable manned spacecraft twice within a two-week period. The winner of the X Prize, Scaled Composites, is based in Mojave and uses the spaceport as the initial test site for its projects. A spin-off called the Spaceship Company is currently under contract with Virgin Galactic to build the first private fleet of space vehicles for space tourism.

However, California has faced challenges in retaining even some California-based companies' manufacturing, testing and launching activities. For example, the Mojave-based XCOR Aerospace moved its commercial space research and development center headquarters to Midland, Texas and will be establishing an operational and manufacturing site at the Kennedy Space Center in Florida with the assistance of Space Florida. SpaceX, based in Hawthorne, selected a site in Texas for a new launch facility and currently launches its Falcon 9 rockets from a Florida site, although it has also used Vandenberg Air Force Base in Lompoc, California. Since 2003, SpaceX has tested rockets at McGregor Air Force Base in Texas. While Virgin Galactic has facilities in Mojave, Los Angeles, and Long Beach, it also has plans to launch from New Mexico's Spaceport America.

- c) *Governor's Office of Business and Economic Development (GO-Biz) and Current Aerospace Development Efforts.* In February 2010, the Little Hoover Commission undertook a review of the state's economic and workforce development programs. In its final report, "Making up for Lost Ground: Creating a Governor's Office of Economic Development," it analyzed the status and effectiveness of current programs since the 2003 demise of the Technology, Trade and Commerce Agency (TTCA) and recommended the creation of a new governmental entity to fill the void left by the dismantled agency.

The report called for a single entity that would promote greater economic development, foster job creation, serve as a policy advisor, and deliver specific services directly to the California business community. In April 2010, Governor Schwarzenegger issued Executive Order S-05-10 as a means to operationalize the report recommendations including the creation of the Governor's Office of Economic Development (GOED).

In October 2011, the Governor signed AB 29 (John A. Pérez) Chapter 475, Statutes of 2011, which effectively codified GOED and changed its name to GO-Biz. Since its inception, the office has served thousands of businesses, 95% of which are small. The most frequent types of assistance include help with permit streamlining, starting a business, relocation and expansion of businesses, and regulatory challenges.

In March 2012, Governor Brown initiated a reorganization process to realign the state's administrative structure. Key changes include dismantling of the Business, Transportation and Housing Agency (BTH) and the shifting of a number of key programs to GO-Biz including the Small Business Loan Guarantee Program, the California Travel and Tourism Commission, the California Film Commission, the Film California First Program, and the Infrastructure and Economic Development Bank (I-Bank). GO-Biz also administers the "Made in California" program for the purpose of encouraging consumer product awareness and to foster the purchases of products manufactured in California. GO-Biz also now has authority for undertaking international trade and foreign investment activities, including establishing any international trade and investment office (AB 2012, (Perez) Chapter 294, Statutes of 2012). GO-Biz has partnered with the Bay Area Council to open a California-China Trade and Investment office in Shanghai and is authorized under current law to accept private monies to establish, fund, and operate these offices.

A key initiative of GO-Biz is the "strike teams" which can be mobilized to help attract and/or retain specific businesses. Strike teams are especially well suited to engage with major employers and have been successfully activated to assist Bayer Healthcare, Jazz Semiconductor, and Baxter Pharmaceutical to locate and/or expand in California.

Among these other programs, GO-Biz also administers the Innovation Hub (iHub) program. According to GO-Biz, in the spring of 2010, the state launched its new, forward-thinking iHub program in an effort to harness and enhance California's Innovative spirit. The iHubs improve the state's national and global competitiveness by stimulating partnerships, economic development, and job creation around specific research clusters through state-designated iHubs. The iHubs leverage assets such as research parks, technology incubators, universities, and federal laboratories to provide an innovation platform for startup companies, economic development organizations, business groups, and venture capitalists. AB 250 (Holden) Chapter 530, Statutes of 2013 codified the iHub program at GO-Biz and expanded the program. There are currently 16 regional iHubs located throughout the state.

- CalValley Tech iHub in the Central Valley
- Cleantech Los Angeles iHub
- Coachella Valley iHub
- CNMI iHub in Torrance
- East Bay Green Corridor iHub
- iDEA iHub in Ridgecrest
- i-GATE iHub in Livermore
- iHub San Diego
- iHub San Joaquin in San Joaquin County
- Inland SoCal Link iHub in Riverside
- Innovate North State iHub in Chico
- North Bay iHub in Santa Rosa
- OCTANe iHub in Orange County
- Sacramento iHub in the Sacramento Region
- San Jose/Silicon Valley iHub
- SF iHub in San Francisco

California's iHub for Defense, Energy and Aerospace, named iDEA Hub (referenced above), was founded in October 2013. Based in Ridgecrest the iDEA Hub's region encompasses California's Kern, Ventura, Orange, Los Angeles, and San Diego Counties and provides an ideal backdrop to encourage defense, energy, and aerospace technology and businesses. The iDEA Hub provides a focus both on small emerging technology companies and university research teams, as well as established high-tech businesses. The iDEA Hub in Ridgecrest facilitates advancement of the aerospace industry by: promoting the region's innovation ecosystem nation- and world-wide, facilitating partnerships between government, industry, and academia, connecting private sector capital with technology commercialization opportunities, pursuing funded research opportunities, promoting and hosting STEM activities in the region, and helping businesses attract and retain a qualified workforce.

3) *Cross references explained.*

Proposed language at GC section 15375 subsections (e) and (f) each provide exemptions from the existing provisions of GC section 10231.5. To wit:

(e) Notwithstanding Section 10231.5, the commission shall report on the economic and employment impacts of California aerospace-related activities to the Governor and the Legislature and other state agencies and commissions that adopt regulations or make decisions or determinations that affect those activities.

(f) Notwithstanding Section 10231.5, the commission shall recommend to the Governor and the Legislature appropriate state funding mechanisms and amounts to promote development of California aerospace-related activities.

Government Code section 10231.5 states that:

"(a) A bill that, as introduced or amended in either house of the Legislature, would require a state agency to submit a report on any subject to either house of the Legislature generally, a committee or office of either house of the Legislature, or the Legislative Counsel Bureau shall include a provision that repeals the reporting requirement, or makes the requirement inoperative, no later than a date four years following the date upon which the bill, as enacted, becomes operative or four years after the due date of any report required every four or more years. If the bill requires that the report be submitted to either house of the Legislature generally, it shall also include a provision that requires the report to be submitted pursuant to Section 9795.

(b) The Legislative Counsel, in drafting a bill for introduction or an amendment to a bill that would impose a reporting requirement described in subdivision (a), shall include a provision that repeals the reporting requirement, or makes the reporting requirement inoperative, four years after the date on which the requirement becomes operative, unless the person requesting the bill or amendment directs the Legislative Counsel to do otherwise. If the bill requires that the report be submitted to either house of the Legislature generally, the Legislative Counsel shall also include a provision that requires the report to be submitted pursuant to Section 9795."

In further keeping with the requirements of GC 10231.5, AB 427 also provides in subsection (j) that, "Reports and recommendations provided to the Legislation pursuant to this part shall be submitted pursuant to section 9795."

4) *Technical amendment needed.*

On page 3, line 15 of the bill the language reads, " (j) Reports and recommendations provided to the Legislation pursuant to this part shall be submitted pursuant to section 9795."

The language should instead read: (j) Reports and recommendations provided to the *Legislature* pursuant to this part shall be submitted pursuant to section 9795."

5) *Prior related legislation.*

- a) SB 1215 (Allen) of 2016, was substantially similar to the present measure under consideration. The bill was held in the Senate Committee on Appropriations.
- b) AB 2600 (Lackey) of 2016, would have requested the Regents of the University of California to establish the California Institute for Aerospace to achieve specified goals relating to the development of the aerospace industry in the state and would request the regents to locate the California Institute for Aerospace at a satellite campus within 20 miles of Edwards Air Force Base or United States Air Force Plant. The bill was held in the Assembly Committee on Appropriations.
- c) SB 506 (Fuller) of 2015 would have established a military and aerospace program within the Governor's Office of Business and Economic Development (GO-Biz), tasked with activities related to state and local defense retention, conversion and base reuse activities and urged local governments impacted by military installations to cooperate in efforts to retain these installations and recognizes a local retention authority for each active military installation in the state. The bill was held in the Senate Committee on Appropriations.
- d) AB 2763 (Committee on Accountability and Administrative Review), Chapter 401, Statutes of 2014, reallocated specific duties of the abolished Business, Transportation and Housing Agency to GO-Biz and the Transportation Agency and eliminated language regarding the Space Enterprise Development Program.
- e) AB 250 (Holden), Chapter 530, Statutes of 2013, codified the iHub program at GO-Biz and expanded the program. See Comment 2c for discussion of iHub program.
- f) AB 737 (Fox) of 2013, would have required GO-Biz to prepare and submit a proposal for an unmanned aircraft test site to the FAA on or before May 6, 2013. The bill was held in Senate policy committee.
- g) AB 1997 (Gorrell) of 2013, would have provided that tax exemptions for persons engaged in aircraft manufacturing, for use primarily in manufacturing, processing, refining, fabricating, or recycling of property, or research and development also applies to local sales and use taxes and those specified state taxes with respect to qualified tangible personal property purchased by a qualified person that is engaged in aircraft

manufacturing of unmanned aerial vehicles. The bill was held in Assembly policy committee.

- h) AB 29 (John A. Pérez), Chapter 475, Statutes of 2011, established GO-Biz within the Governor's Office for the purpose of serving as the lead entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth.
- i) SB 1698 (Ashburn), Chapter 681, Statutes of 2006, extended the authority for Office of Military and Aerospace Support for two years, until January 1, 2009, and expanded its duties to include outreach to the aerospace industry for the purpose of fostering aerospace enterprises in California.
- j) AB 1532 (Nakano), Chapter 627, Statutes of 2003, transferred the Technology Planning Program, California Space Enterprise Competitive Grant Program, and the Challenge Grant Program in the TTCA to the Business, Transportation and Housing Agency and referred to these programs as the Space Enterprise Development Program.
- k) AB 1475 (Bordonaro), Chapter 938, Statutes of 1997, established the California Space and Technology Alliance as the primary California Space Authority to oversee the operations of the California Space Flight Competitive Grant Program and the Highway to Space Program.

REGISTERED SUPPORT / OPPOSITION:**Support**

California Manufacturing and Technology Association

Opposition

There is no opposition on file.

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