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POLITICS

Are Kochs planning another conference?

Last year's event drew major protest in valley

By Erica Felci
The Desert Sun

For seven years, the billionaire brothers Charles and David Koch hosted private gatherings in the Coachella Valley that brought together some of Republican Party's most influential donors and politicians.

But after January's conference attracted national publicity, including protests and a huge police presence, it's not clear whether they'll come back.

Rancho Mirage city officials, which last year got a heads-up about the VIP guest list, have heard nothing.

No Koch-related listings have shown up on the desert's convention calendar, as they had in previous years.

And liberal groups that are dedicated to shining a light on the Kochs' political activities haven't been able to figure out where they are planning to be.

The only evidence that suggests the Kochs may be back is their own pattern of behavior: In June, the brothers returned to Colorado for their summer conference, despite headlines that had previously given it away as a favored location.

"It wouldn't surprise me that, if they are back in the Palm Springs area, they'd be looking for a different location," said Derek Cressman, western states regional director for the national government watchdog group Common Cause.

The Kochs are billionaires who made most of their money in oil but whose diverse holdings include major household brands like Dixie and Quilted Northern bathroom tissue.

Since 2003, they have held invitation-only conferences that have been attended by deep-pocketed philanthropists, successful business leaders, state and federal officials and U.S. Supreme Court justices.

Their June conference, held at the Ritz-Carlton Beaver Creek Resort near Vail, was attended by four Republican governors, including Texas Gov. Rick Perry, who is now a front-runner in the GOP presidential primary.

The resort's location provided seclusion from a small crowd of

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Charles and David Koch of Koch Industries.

BUSINESS ON THE RUN: WHY CALIFORNIA STRUGGLES TO COMPETE

CLOSED FOR BUSINESS

Experts: High taxes, excessive regulations to blame for exodus, but see some progress at state, local level

CALIFORNIA'S BUSINESS CLIMATE

Today: Experts throughout the nation rank California at the bottom of states when it comes to a healthy business climate.

Monday: California is making some progress on different fronts to make it easier and more desirable to do business here.

By Mike Perrault
The Desert Sun

California's mild climate, entrepreneurial spirit, top colleges, geographical proximity to key markets and quality of life have long attracted new business. The state boasts the eighth-largest economy in the world. But for thousands of business owners, the Golden State is losing its luster.

Last year alone, the state lost 4,632 businesses — five times as many as in 2009 — according to an analysis by consultants at Idaho-based Economic Modeling Specialists Inc.

Numerous independent reports this year list California as having one of the nation's least business-friendly climates.

An annual report from The Tax Foundation, an independent non-profit research institution, put California at No. 49 for business friendliness. In an annual survey of 550 CEOs, Chief Executive magazine ranked the state No. 50.

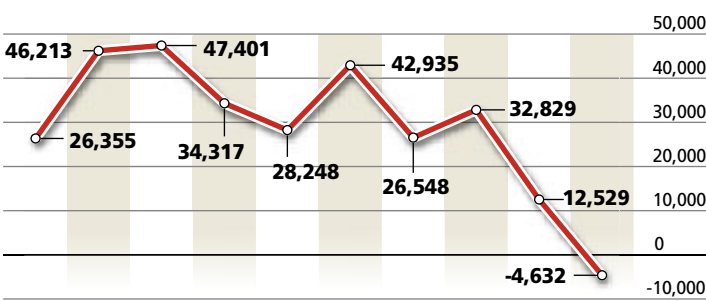
There's no doubt the past year has been bleak for California, a state that boasts innovative companies such as Google and Apple, yet even San Jose-based eBay decided to take Texas up on incentives to generate 1,000 jobs in the Lone Star State.

Businesses in other states fear California's environmental regulations and government red tape, said third-generation master baker Jos Bosch, who with wife Diane operates Bosch Baking in Thousand Palms.

"They'll say, 'How can you be

NEW BUSINESS ESTABLISHMENTS

California ranked first or second in the nation in creating businesses from 2001 to 2009, but plummeted to No. 50 last year. It lost 4,632 businesses.



SOURCE: Economic Modeling Specialists Inc. THE DESERT SUN



Bosch

in California? The regulations are so harsh," Jos Bosch said. "They love California as a state. But do they think it's business friendly? No."

Many business owners gripe that California's high taxes and fees, countless permitting hoops and other hurdles put companies at a competitive disadvantage compared to those operating in

states considered friendlier such as Nevada, South Dakota and Texas. Just obtaining permits from state, regional and local agencies can be "extraordinarily expensive" and time consuming because of confusing and extraneous requirements, said Joe Vranich, a consultant in Irvine who helps businesses decide where to locate.

"For example, it can take up to two years to obtain a permit to

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MORE INSIDE, A6-7



Elaine Holmes, owner of PJ's Desert Trophies and Gifts in Indio. JAY CALDERON/THE DESERT SUN

California has some business-attracting initiatives to compete with other states.

Some companies have chosen to locate here because it's environmentally friendly.



EXAMINE THE DATA FOR YOURSELF

Visit mydesert.com/bizfriendly to for an interactive database showing how California ranks among the 50 states in terms of business friendliness and how states stack up on a variety of factors, particularly tax rates. Also, read national reports on California's business climate.

GOOD MORNING

Ginger dawn

94° 70°

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INSIDE TODAY'S PAPER



PAR(TY) EXCELLENCE
In October's issue of Desert Magazine: How to get down.

FOCUS ON HEALTH

Today's special section features breast cancer facts and figures, tips for the uninsured, and a calendar of health events in the Coachella Valley.



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CALIFORNIA

Continued from A1

build a restaurant in California, while in Texas, it's one-and-a-half months," he said.

When Palm Springs restaurateur Anh Ho Rock wanted to open the small Vietnamese restaurant Pho 533, California law required her to install a \$17,000 grease trap even though she says she didn't need one for her style of cooking.

Likewise, when The Salad Bowl opened its first California location in Beverly Hills last fall, CEO Michael Carroll spent eight months getting permits in California — compared to 22 days in Texas or 60 days in Colorado.

Business owners, leaders of organizations such as the Coachella Valley Economic Partnership and even some of the state's most progressive politicians say it's time for California to reconsider many basic assumptions and practices.

They're calling for the state to figure out ways to cut taxes and energy costs, streamline permitting procedures and ratchet down other business expenses.

Assemblymen V. Manuel Perez, D-Coachella, and Brian Nestande,

R-Palm Desert, are behind a measure that would require state agencies to identify laws that inhibit economic growth, and review and simplify all regulations.



Nestande

This summer, President Barack Obama issued an executive order requiring federal agencies to streamline regulations and eliminate rules that stifle economic growth, and Nestande said California should do the same.

Nestande, Perez, other lawmakers and industry leaders agree more needs to be done.

Gov. Jerry Brown this month approved Assembly Bill 1150, for instance, a bill that Perez authored and that he hopes will spur investment and job creation in renewable energy. Perez believes the rebate program for commercial, residential or industrial installations of wind turbines, fuel cells and energy-storage technologies will encourage job creation up and down the supply chain, from engineering and manufacturing to construction.

California has been among the hardest hit in the recession, with its housing downturn, foreclosures and the second-highest unemployment rate in the country, so some local governments need to change their perspective, insists Greg Berkemer, executive vice president of the California Desert Association of Realtors.

"They need to change their attitude from 'you need us' to 'we need you,'" he said.

Despite its growing reputation for being business "unfriendly," California does offer an array of incentives — from assistance with employee training to foreign trade zones and enterprise zones that reduce tax burdens and can help businesses expand.

Enterprise zones have worked well for valley companies such as international guitar string-maker Ernie Ball and Huss LLC, a German company that retrofits diesel engines to cut particulate matter.

'So many barriers'

Chapman University economist Esmel Adibi said California possesses some of the greatest basic economic attributes of any state.

California's world-class university system, its location on the Pacific Rim, a legacy of strong infrastructure development, its rich agricultural sector, climate and pool of highly skilled workers all have for decades created a vibrant economy.

"Over time, unfortunately, we have lost some of our competitive advantage," Adibi said. "We've created so many barriers. I'll start with taxes. Our taxes are among the highest in the country."

California's corporate tax rate is 8.84 percent, while states such as Nevada, South Dakota and Texas assess no such tax.

High costs for land and environmental permitting requirements have boosted home prices in California, making it tougher for employers' workers to buy homes.

The median home price in Riverside County was \$202,060 and \$384,700 in San Diego in August, for example, compared to \$159,500 in Houston, \$128,200 in Indianapolis and \$168,400 for the U.S., the National Association of Realtors reported.

A national, 116-page study from the U.S. Chamber of Commerce that was recently released reported that California is one of the least business-friendly states, in part because it has some of the nation's most complex labor and employment rules. The Chamber's report cited numerous requirements imposed on



Restaurant Pho 533 co-owner Anh Ho Rock preps vegetables at her Palm Springs restaurant. Rock says California law required her to install a \$17,000 grease trap even though she says she doesn't need one for her style of cooking. MICHAEL SNYDER/THE DESERT SUN

BEST, WORST STATES TO DO BUSINESS

Best	Worst
1. South Dakota	46. Ohio
2. Alaska	47. Connecticut
3. Wyoming	48. New Jersey
4. Nevada	49. California
5. Florida	50. New York

SOURCE: State Business Tax Climate Index 2011, The Tax Foundation

CALIFORNIA'S TIME AND WAGE ISSUES

Business owners say many labor and employment requirements imposed on California employers differ significantly from federal law. Such requirements create a separate, overlapping regulatory regime and, arguably, open the door for increased litigation.

Like other businesses in the state, Bosch Bakery in Thousand Palms must pay employees overtime for any hours over eight that they work in a day.

Jos Bosch said an employee who works six hours one day but 10 another day still gets two hours overtime pay, for instance, a requirement that many other states don't have.

"If somebody's car breaks down, it changes the whole schedule," Bosch said.

California employers must pay double time for hours in excess of 12 in a workday and hours over eight on the seventh day.

Joe Vranich, an Irvine-based consultant who helps businesses decide where to relocate, knows of companies that have moved to Oregon and Colorado so they can offer four-day workweeks.

California also has a higher minimum wage than the federal requirement and many other states, and complex wage and hour laws that do not follow federal standards, business owners said.

— Mike Perrault

employers that differ significantly from federal law.

Employers must pay overtime after eight hours worked in a day, giving them less flexibility with work schedules — for instance four-day work weeks. They face tougher white-collar exemption rules and more detailed payroll record-keeping and paystub requirements, the report noted.

Studies from the Small Business & Entrepreneurship Council, George Mason University and other independent research organizations rank California among the least business-friendly states based on an analysis of taxes and fees, workers' compensation rates, workforce quality, educational resources, quality of living and infrastructure.

The Small Business & Entrepreneurship Council ranked California as having the seventh worst tax system based on 18 separate measures that included its 10.3 percent personal income tax rate, a 10.3 percent capital gains tax, and a 0.477 state gas tax.

State business regulations were cited as one of three key disadvantages of doing business in California and the Coachella Valley in a survey of 1,655 businesses last fall by the Coachella Valley Economic Partnership. Workforce availability and workforce training were seen as other disadvantages.

CVEP's survey cited advantages of doing business in the valley were quality of life, the "desert's reputation," and the area's growth potential.

But about 8 percent of CVEP's respondents said they plan to expand by moving to another state.

One key step the state could take would be to lower its corporate tax rate, said Joe Kiley, president and CEO of El Paseo Bank in Palm Desert.

Please see CALIFORNIA, A7

State's openness to 'green energy' a big selling point

By K Kaufmann
The Desert Sun

When Henrik Fisker and Bernhard Koehler decided to start their own luxury electric auto company in 2007, they knew they wanted to set up the business in California.

"This was a definite decision," said Will Powell, a spokesman for Anaheim-based Fisker Automotive, which produces an electric vehicle with a gas-powered "range extender" different from traditional hybrids.

"There's an open-minded business culture in California, where people are willing to invest, to back new technology," Powell said.

A connection with the West Coast lifestyle also is important to the company, he said. Fisker's orange and blue logo symbolizes a sunset over the Pacific Ocean.

"They wanted to build a company with all of the values of California — sustainability, clean living, nature," Powell said. "All this is an inspiration to what drives the company in its design and technology."

Conventional wisdom about the state's business-unfriendly environmental regulations notwithstanding, California's clean, green brand has considerable drawing power for some companies and investors.

Tom Freeman, foreign trade commissioner for Riverside County's Economic Development Agency, said the region's renewable energy projects are drawing millions in investments from Germany and Israel, with Spain, China and South Korea all looking for opportunities.

"The foreign banks are investing in projects here because our own banks are not lending," he said. "Foreign direct investment in forms of solar and wind and geothermal is mission critical in terms of job creation."

Freeman pointed to a project the county has been working on near Hemet to build a solar field and manufacturing facility.

"We issued a request for proposals; we had plenty of qualified respondents."

The state's natural resources are propped up by its green policies, said Tracey Grose, director of research for Collaborative Economics, a San Mateo consulting firm that has produced numerous reports on the state's green economy.

Thanks to its green building codes and other energy-efficiency regulations, California has one of the lowest rates of per-capita energy use in the nation, she said. That means more money in people's pockets, and on businesses' balance sheets, that otherwise would go to pay energy bills.

"We are 68 percent more productive," Grose said. "We produce more value for every unit of energy than the rest of the U.S."

"If you're a business and you can produce more with your inputs of energy, you are just that much further ahead of the competition where prices are rising for energy."

Californians' reputation as innovators and enthusiastic early adopters of new technology is another big draw, Grose said.

"This is ground zero for the hybrid vehicle market," she said. "Toyota, Honda, they know that California is the most important market."

The state's sales and tax use exemptions for companies building zero-emission vehicles also have helped companies such as Tesla Motors, which last year took over a former Toyota plant in Fremont.

The company has retrooled the plant for its Model S, an upscale, all-electric sedan with a range of 300 miles, that it plans to introduce next year.

Still, however enthusiastic state boosters such as Freeman and Grose are, both agree that California's environmental permitting laws and other regulations remain a challenge for businesses and need reforming.

Case in point, while Fisker has about 400 full-time employees and another 400 contract workers at its Anaheim headquarters, it will manufacture its cars in a former General Motors plant it bought in Wilmington, Del.

Powell explained the decision in terms of land prices, existing infrastructure and workforce expertise.

"We want to be in California and build a brand, but the manufacturing process, it makes more business sense to have it elsewhere," he said.

K Kaufmann covers energy and green technology, health care and retail for The Desert Sun. She can be reached at k.kaufmann@thedesertsun.com or (760) 778-4622.

EXAMINE THE DATA

Visit mydesert.com/bizfriendly for an interactive database showing how California ranks among the 50 states in terms of business friendliness and how states stack up on a variety of factors, particularly tax rates. Also, read national reports on California's business climate.

CALIFORNIA'S RANKINGS

- No. 50:** Business friendly, Chief Executive magazine
- No. 50:** Business friendliness, CNBC America's Top States for Business
- No. 49:** Business tax climate, The Tax Foundation
- No. 49:** Cost of living, CNBC ranking
- No. 49:** Business friendly, Development Counselors International
- No. 48:** Business friendliness, Small Business & Entrepreneurship Council
- No. 48:** Small Business & Entrepreneurship Council
- No. 48:** Economic freedom, Mercatus Center, George Mason University
- No. 47:** Cost of doing business, CNBC ranking
- No. 45:** Worst Tax System in the Nation, Small Business & Entrepreneurship Council, Business Tax Index
- No. 34:** Growth of GDP: Grew 1.8 percent in 2010 to \$1.9 trillion, U.S. Department of Commerce
- No. 32:** Overall ranking in CNBC America's Top States for Business
- No. 30:** Economy, CNBC
- No. 29:** Workforce, CNBC
- No. 22:** Quality of life, CNBC
- No. 18:** Happiest State in the Nation, Gallup-Healthways Well Being Index
- No. 13:** Entrepreneur activity, Bureau of Business Research and Department of Economics, University of Nebraska
- No. 7:** Concentration of jobs in science, technology, engineering and math, U.S. Chamber of Commerce
- No. 4:** Top 10 Worst States to Make a Living, MoneyRates.com
- No. 4:** Mortgage fraud, based on MortgageDaily.com's index for states with the most mortgage fraud
- No. 3:** Entrepreneurial growth, Kauffman Foundation
- No. 2:** Most expensive states to own a car (\$52,377 over five years), Forbes
- No. 1:** Access to capital, CNBC
- No. 1:** Technology and innovation, CNBC
- No. 1:** Most Asian-owned businesses (509,097) U.S. Census Bureau

CALIFORNIA'S TAXES

Here's a closer look at what California companies pay in taxes. To compare them to the other 49 states, visit mydesert.com/data today.

- **Corporation Income or Bank and Corporation Franchise Tax:** 8.84 percent
- **Sales and use tax (depends on locale):** 8.25-10.25 percent
- **Property tax:** Avg. 1.1 percent
- **Personal income tax:** 1.25 - 10.55 percent
- **Unemployment insurance tax:** 1.5 - 6.2 percent
- **Disability insurance (employee paid):** 1.1 percent
- **Worker's compensation insurance:** Varies based on job classification, workplace safety record and insurance carrier.

WHY BUSINESSES ARE LEAVING CALIFORNIA

California companies say they're leaving the state for numerous reasons. Here are some of the road blocks companies say they face, says Joseph Vranich, Irvine-based business relocation coach.

- 1. High commercial electrical rates and other energy costs:** Commercial rates are about 50 percent higher than in the rest of the country.
- 2. High tax rates:** The Tax Foundation ranked the state No. 49, and CFO Magazine ranked it last.
- 3. Regulatory burdens:** Bain & Co., a consulting firm, listed California last in its "regulatory hassle index."
- 4. Tough legal arena for businesses:** The Civil Justice Association of California ranked the state No. 44 in legal fairness to businesses.
- 5. Expensive operating costs:** The Milken Institute found that California businesses pay 23 percent more than the national average to operate here.
- 6. Oppressive permitting procedures:** Obtaining permits from state, regulatory and local agencies is expensive, time-consuming and confusing compared to other states.
- 7. Budget instability:** California's credit rating has fallen as the state's leaders struggle to resolve one of the largest budget deficits in the country.
- 8. Officials are excessively adversarial:** Chief Executive magazine, for the seventh straight year, found California to be the worst state in which to do business. Similarly, the Small Business & Entrepreneurship Council listed the state as No. 49 in terms of "business friendliness."

— Mike Perrault