

Senator Alex Padilla

Fact Sheet

SB 1128 – PADILLA Advanced Manufacturing

Summary

SB 1128 adds “Advanced Manufacturing” to the list of eligible criteria the California Alternative Energy and Advanced Transportation Financing Authority considers when allocating its sales and use tax exemption.

Background

California prospered for decades on its ability to research, develop and manufacture products for national and international markets. Manufacturing led California’s economic strength in the 20th century, pushing the Golden State to rank among the top 8 global economies. Manufacturing provides employment for millions of Californians.

However, California’s manufacturing sector has declined. Other states and nations invested in their manufacturing sectors and created policies to attract and retain business. At the turn of the 21st century it was cost effective and easier for manufacturers to invest outside California and overseas.

The cost advantage of manufacturing overseas however is quickly decreasing. Rising international wages and labor standards, higher American productivity, a weaker dollar, and rising transportation costs will end the manufacturing cost disparity between California and overseas. This shift is being called “reshoring”.

Last year, Congress approved and the President signed into law the Reshoring Initiative which directs the U.S. Department of Commerce to focus its efforts on bringing outsourced jobs back to the U.S.

Over the next several years reshoring will create an estimated 2-3 million jobs in direct manufacturing and the manufacturing supply and delivery chain. Some manufacturing industries such as computers, appliances, machinery, furniture, fabricated metals, and transportation goods are expected to reshore.

In combination with the Reshoring Initiative, last summer President Obama launched the Advanced Manufacturing Program, to “invest in the emerging technologies that will create high quality manufacturing jobs”.

The program will direct the U.S. Departments of Commerce and Energy to invest more than \$500 million to expand manufacturing capabilities, expedite the production of advanced materials, promote energy and resource efficiency and provide high wage jobs.

Reshoring and the Advanced Manufacturing Program offer new opportunities for California to draw down federal dollars, attract new investment, and employ our workforce.

States such as Massachusetts, Michigan and Georgia are creating collaborative centers between industry and government to attract advanced manufactures and draw down the federal dollars. California must act to remain competitive.

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) is an existing authority within the Office of the State Treasurer that can attract and retain manufacturers.

SB 71 (Padilla, 2010) created a sales and use tax financing program under CAEATFA for manufacturers of green technology industry.

In the first year alone the program approved 26 projects which generated \$950 million in investments in California. These investments are projected to create an estimated 6,027 jobs; 3,936 permanent jobs and 2,091 construction jobs.

CAEATFA is a successful model for leveraging state dollars to create new jobs and investments. SB 1128 will expand the success of the program by adding “Advanced Manufacturing” as one of the top priority criteria CAEATFA will use to determine the allocation of exemptions.

Existing Law

Existing law allows the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) within the California State Treasurer’s Office to authorize a state and local sales tax exclusion for tangible personal property that is used for the design, manufacture, production, or assembly of green energy products, components or systems.

Existing law requires CAEATFA to evaluate project applications for the sales tax exclusion based on the extent to which (a) the project develops manufacturing facilities or purchases equipment in California, (b) the benefits of the project to the state equal or exceed the benefits to the project applicant and other participants, (c) the project creates new permanent jobs in California, (d) the project results in a reduction in greenhouse gases, a reduction in air or water pollution, an increase in energy efficiency, or a reduction in energy consumption, beyond what is required by state or federal law, (e) unemployment exists in the area in which the proposed project is to be located, and (f) any other factors deemed appropriate.

Existing law requires CAEATFA to provide 20-day notice to the Legislature once the value of exclusions approved by CAEATFA exceeds \$100 million. The notification must be provided prior to additional approvals being granted.

This Bill

- Will add advanced manufacturing to the list of criteria the authority shall use to evaluate project applications.

SB 1128 will define “Advanced manufacturing” as (1) manufacturing that improves existing, or creates entirely new, materials, products, and processes through the use of science, engineering, or information technologies, high-precision tools and methods, a high-performance workforce, and innovative business or organizational models in any of the following technology areas:

- (A) Micro- and nanoelectronics, including semiconductors.
- (B) Advanced materials.
- (C) Integrated computational materials engineering.
- (D) Nanotechnology.
- (E) Additive manufacturing.
- (F) Industrial biotechnology.

(2) “Advanced manufacturing” includes all of the following:

- (A) production system capable of furnishing a mix of products in small or large volumes, with both the efficiency of mass production and the flexibility of custom manufacturing, to respond rapidly to customer demand and desired quality.
- (B) Systems that result from substantive advancement, whether incremental or breakthrough, over the current state of the art, in the production of materials and products. These advancements include improvements in manufacturing processes and systems that are often referred to as “smart” or “intelligent” manufacturing systems, which integrate computational predictability and operational efficiency.
- (C) Systems that produce goods that minimize the use of resources while maintaining or improving cost and performance.
- (D) Systems that are sustainable.

Support

- California Healthcare Institute
- BayBio
- Boehringer-Ingelheim, Inc.
- California Manufacturers and Technology Association (If Amended)
- Applied Materials
- PhRMA