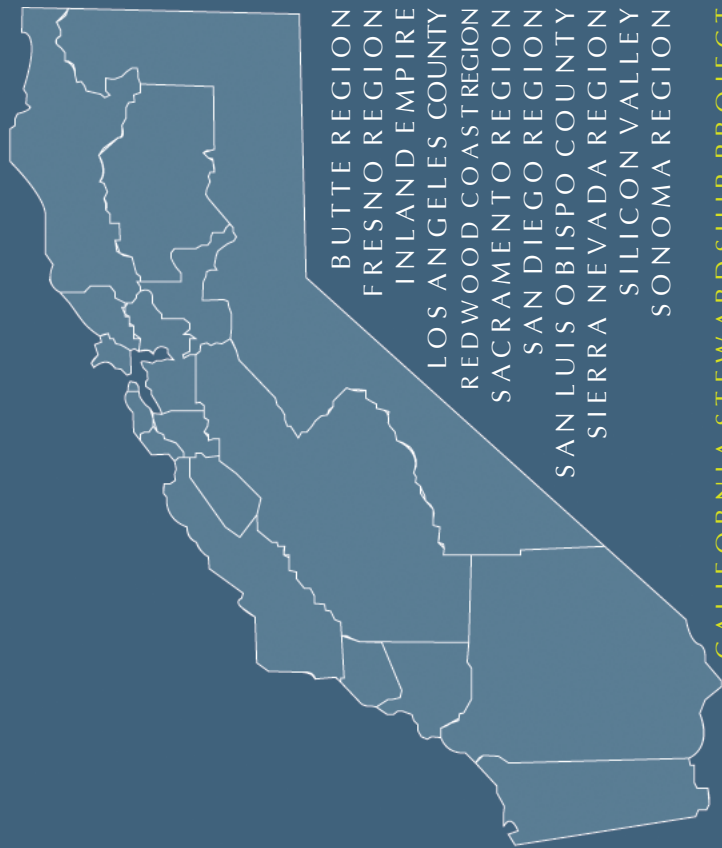


THRIVING REGIONS LEAD TO A THRIVING STATE



A SHARED AGENDA FOR ACTION
JULY 2010

Ten diverse regions across California have come together to launch the California Stewardship Project, developing innovative regional solutions to the state's most pressing economic, environmental, and community challenges. These solutions require "breakthrough innovation" driven by a "new generation" of civic entrepreneurs—diverse regional teams composed of both established and emerging leaders.

Stewardship is the careful and responsible management of something entrusted to us. This Project focuses on the "stewardship of place"—which requires attention to the economic, environmental, and social dimensions of a region.

Civic entrepreneurs are individuals who see an opportunity for change, and bring the same passion and persistence to community problem solving that business entrepreneurs bring to building new ventures. They mobilize teams and collaborate across boundaries to address interrelated economic, environmental, and social challenges. They come from all walks of life—from the business, public, labor, and non-profit sectors. While they have been responsible for important advances in California's regions over the last decade, it is an enduring challenge to grow and replenish the pool of civic entrepreneurs in a strategic and systematic fashion.

Civic entrepreneurs are individuals whose focus is stewardship, whose approach is collaboration, and whose outcomes are innovative solutions.

In 2008, The Morgan Family Foundation committed \$1 million to seed this project and create a new focus on regional partnerships throughout California.

California faces two fundamental challenges: a major economic downturn and a governance crisis.

While businesses attempt to adapt to the very different drivers of competition required in today's knowledge-based global economy, the public sector remains stuck in silo-based 20th century practices that no longer work. The complexity of today's world poses a difficult challenge.

Because California is composed of distinctive regional economies, we must pursue regional economic recovery strategies that account for this diversity. To do so will require governance that is decentralized, regions that are freed and encouraged to act, and local jurisdictions that collaborate with one another and the private sector. In this way, we can build thriving regions, which will lead to a thriving State, with economic recovery, fiscal health and widespread opportunity.

"Thriving Regions Lead to a Thriving State" is a shared agenda for action to promoting California's Economic Recovery through Regional Strategies. Each region of California needs the necessary support to develop and implement a recovery strategy that reflects its own unique challenges, industry mix, and innovation assets based on shared principles.

To accomplish this, we need a shared agenda for action:

- Align State Resources and Regional Efforts around Shared Challenges
- Forge Collaboration among Regions
- Support State Governance Reforms that Enable Regional Action
- Identify Roles and Responsibilities for a Shared Action Agenda for Economic Recovery

What we envision is a network of Regional Partnerships spanning the entire state of California, each one working on recovery strategies designed to promote regional economies and improve quality of life for its residents, while working together to share best practices and address common problems. For this to work, these partnerships must be locally led and based on strategies that have ownership among local civic leaders.

Regional partnerships must be supported by state government. Successful regional economies result from private sector decisions made in their self-interest, but they are almost always influenced by government policy. Government actions can help create these success stories, or they can impede them.

State government needs to support the development of these regional partnerships and align state-level policies to the needs of the regional economies. To accomplish this goal, we propose the following:

- The Governor and the legislature must identify the development of globally competitive regional economies as the overarching economic development strategy for the State of California.
- The Governor and the legislature must identify partners in state government that regions can look to for policy direction on the achievement of globally competitive regional economies.
- A Circle of Stewards should be created to link public and private sector stewards at the regional and state levels for the purpose of creating and sustaining strategies for regional competitiveness.

Taking these steps will encourage civic entrepreneurs in every corner of California to engage in their regions and drive California's economic resurgence.

REGIONAL RECOVERY STRATEGIES BEST PRACTICES



PURPOSE

Why a Shared Agenda for Action?

Our country was founded upon bold ideas and ideals. It was an experiment in self governance and enlightened self interest. A passion for freedom inspired people to risk everything they had to create a better world. Too many have forgotten our founding principles and the debt we owe to those who went before and those who will follow. Our challenge is to figure out how to restore the American spirit, broaden citizen engagement, rebuild our communities and create an opportunity for a better future for everyone in a globalized world where regional economies have become the building blocks for economic prosperity. We believe we can accomplish these goals by empowering regions to develop and implement customized strategies while being held accountable to statewide standards.

The California Stewardship Project was launched in 2008 by the Morgan Family Foundation to promote breakthrough initiatives in California's regions. Ten regions are currently actively participating in this Project. At the second annual gathering of these regions in December 2009, it was agreed that the regions would work together to promote a shared action agenda for the stewardship of California: "Thriving Regions lead to a Thriving State"

Stewardship is feeling connected to one's community and taking personal responsibility for the future of that community. Stewardship of California as a whole must be played out in regions—stewards working to improve the well being of their region. Regional stewardship calls for compromise, collaboration, trust, and the motivation to find solutions for "us" not "me".

Regions are defined by their economic clusters and labor markets that transcend political boundaries. They are determined by regional stewards who collaborate to solve common concerns.

California faces two fundamental challenges: a major economic downturn and a governance crisis. Because California is composed of distinctive regional economies, we must pursue regional economic recovery strategies that account for this diversity. To do so will require governance that is decentralized, regions that are freed, who are encouraged to act and learn from each other, and local jurisdictions that collaborate with one another and the private sector. In this way, we can build thriving regions, which will lead to a thriving State, with economic recovery, fiscal health and widespread opportunity.

The California Stewardship Project is built around a shared understanding of changing economic and governance context, current realities, shared values, a shared vision, and a shared agenda for action.

THE RESET ECONOMY

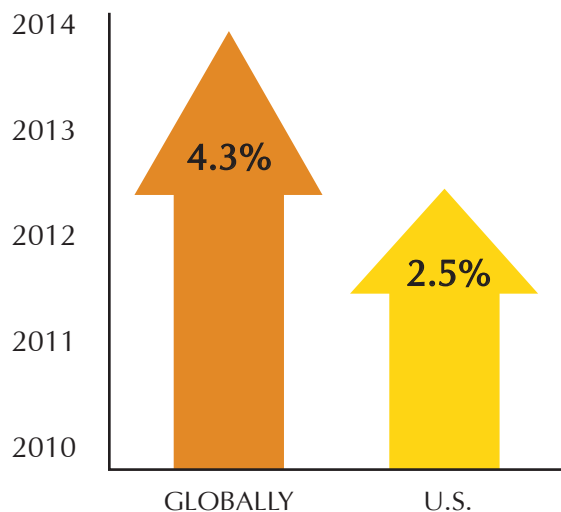
Our nation and California have experienced the worse economic downturn since the 1930s. We also are experiencing a crisis of trust in leadership, institutions and communities. The question is how to turn this crisis into an opportunity.

As we recover from the current recession, what will California look like as we reset the economy? In its May 31, 2010 edition, *The Economist* forecasts a “rebalancing... from consumption, housing and debt to exports, investment and saving”. *The Economist* goes on to say, “With consumers forced to live within their means, American firms will have to sell more to the rest of the world”.

We face a moment to rethink how we will organize our economy, society and communities for the 21st Century and what kind of new economic and social infrastructure will be required to prosper. More specifically, we need to think strategically about how we strengthen California’s export capacity, understanding that California is not one economy but a tapestry of very different regional economies.

The competitiveness of the dollar and more favorable growth in other countries (the IMF expects growth globally to average 4.3% a year between now and 2014, but only 2.5% in America) will favor a resurgence in U.S. exports, but that growth will only come from regions in the country that are globally competitive. For California to thrive, each of its diverse regions will need to maximize the output of goods and services in which the region is globally competitive.

Economic Growth



Source: International Monetary Fund

One thing is for certain: Government is not the prime mover in Great Resets.

Government can certainly take action to mitigate the most onerous effects of a crisis and to establish regulatory frameworks to prevent future ones. But though government can patch up some holes to keep the economy afloat for a short time, it lacks both the means and the resources to generate the enormous level of demand needed to power sustained growth . . . Great Resets evolve organically: new innovations emerge, new systems of technology and infrastructure are put in place, and new patterns of living and working gradually take shape and begin to remake the economic landscape. Government’s central task is to enable and accelerate these shifts by helping to create the fertile environment in which they can grow and develop. Resets – like most everything else – are a delicate combination of nature and nurture.

Richard Florida
The Great Reset: How New Ways of Living and Working Drive Post-Crash Prosperity

BEYOND GRIDLOCK Toward Distributed Governance in California

In addition to the economic downturn, California faces a serious governance crisis as we fail to make critical decisions about our state budget and strategic investment in our future. In 2010, we face a \$20 billion budget deficit and difficult choices between cutting services and raising revenues. However, there is a third choice: redesign—doing more with less by changing systems. We have an overloaded state government that needs to be restructured to become more productive.

As we moved from the industrial era to the information era, businesses moved to more distributed decision making models. Government has lagged in this transformation. It is time to move from the top down, “mainframe” government that has contributed to our ongoing gridlock toward more distributed governance based on network principles.

Decentralization of government mirrors the decentralization of the economy. Just as information technologies and global competition have flattened hierarchies in the business world and forced them to become more flexible and productive, governments need to adopt a more nimble and focused organization model as well. This new decentralized model is regional and collaborative, often without formal structure, and depends on a new kind of leader: civic entrepreneurs.

Grassroots Leaders for a New Economy: How Civic Entrepreneurs are Building Prosperous Communities

ENGAGING CITIZENS The Importance of Regional Stewards

As we move toward a new distributed governance model, we need to actively engage citizens in addressing our critical issues. At its core, we are talking about citizens taking responsibility for the future of their communities.

We need a new generation of regional stewards, who first of all have a deep responsibility about their regions. They want it to thrive economically, to be sustainable environmentally and to have a web of mutual obligations and trust that makes possible the accomplishment of group purpose.

John W. Gardner
Regional Stewardship

CURRENT REALITY

What We Understand

It's important that we begin with a sober assessment of the reality of our State and regions today and global influences. We have left a time when industrial age thinking dominated the private sector and large institutions resulting in a heavy focus on compliance, efficiency and cost at the expense of creativity, effectiveness and value. How we individually and collectively respond to the shift to interdependent networks, multi-sector challenges and increasing speed will determine our future.

Historically, California's economy has been cyclical with deep recessions in the 1970s 1980s and 1990s as well as the 2000s. Our economy has also been driven by innovation with surges led by technological advances in aerospace, microelectronics, information technology, media, biotechnology and now clean energy that have transformed the economic structure of the state's economy. California has diverse industries that are globally connected (see charts that follow).

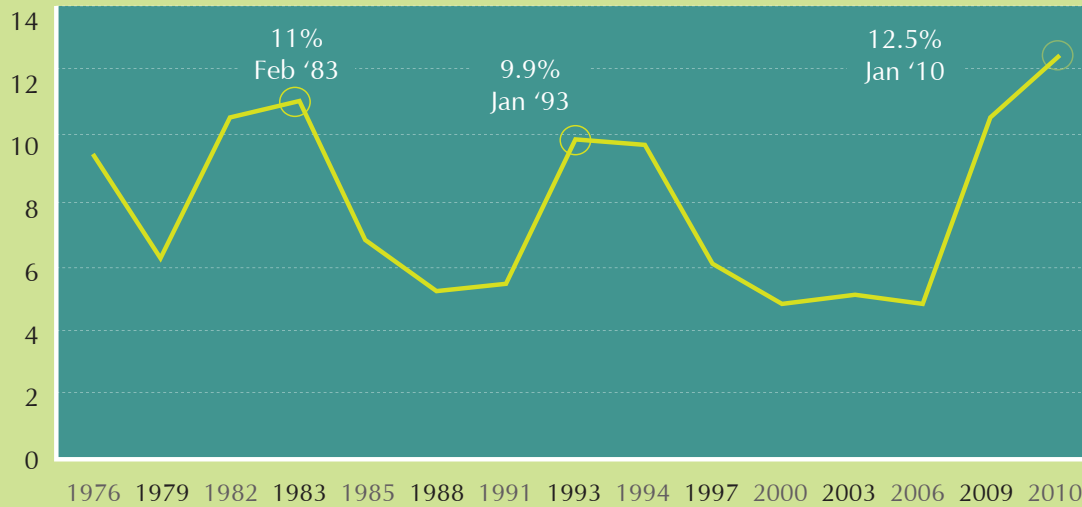
However, the recent economic period has been very challenging as California was hit extremely hard by the subprime housing debacle and the global financial meltdown which has resulted in unemployment rising to over 12% in January 2010; and up to 18% in some inland areas. The March UCLA Anderson Forecast predicted that California's record high unemployment was not likely to decline significantly until 2011. It also predicted that while the Bay Area and Los Angeles regions were likely to recover earlier due to the growth of exports and technology industries, it predicted that the Inland Empire and Central Valley would be slower coming out of the recession due to lingering challenges in the housing and construction industries.

Yet, it is important to differentiate these short-term cyclical challenges driven largely by changes in the national economy from longer term structural issues based on California's underlying competitiveness.

Our economy has also been driven by innovation with surges led by technological advances in aerospace, microelectronics, information technology, media, biotechnology and now clean energy that have transformed the economic structure of the state's economy.

California's economy is cyclical

California Unemployment Rate

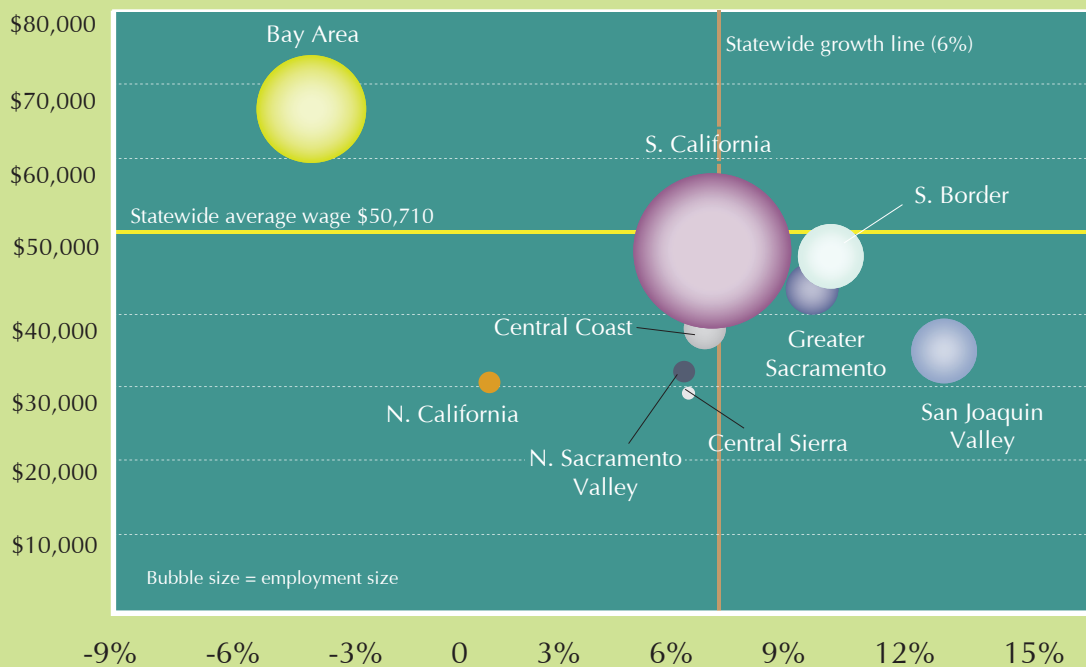


California's economy was hit by the national recession in the early 1980s, the defense cutbacks in the early 1990s, and the subprime mortgage, housing and financial crisis of the late 2000s.

Source: Labor Market Information, Employment Development Department

California's economy is regional

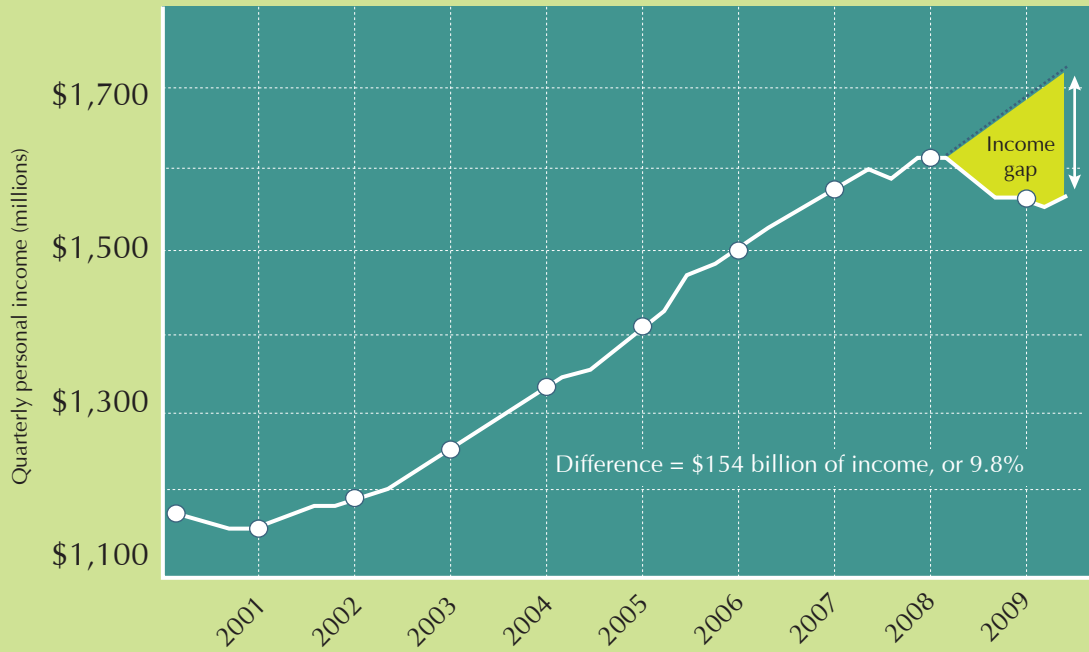
Year Over Change In Employment 2001-2008



California's regions are growing at different rates and have a wide range of average wages.

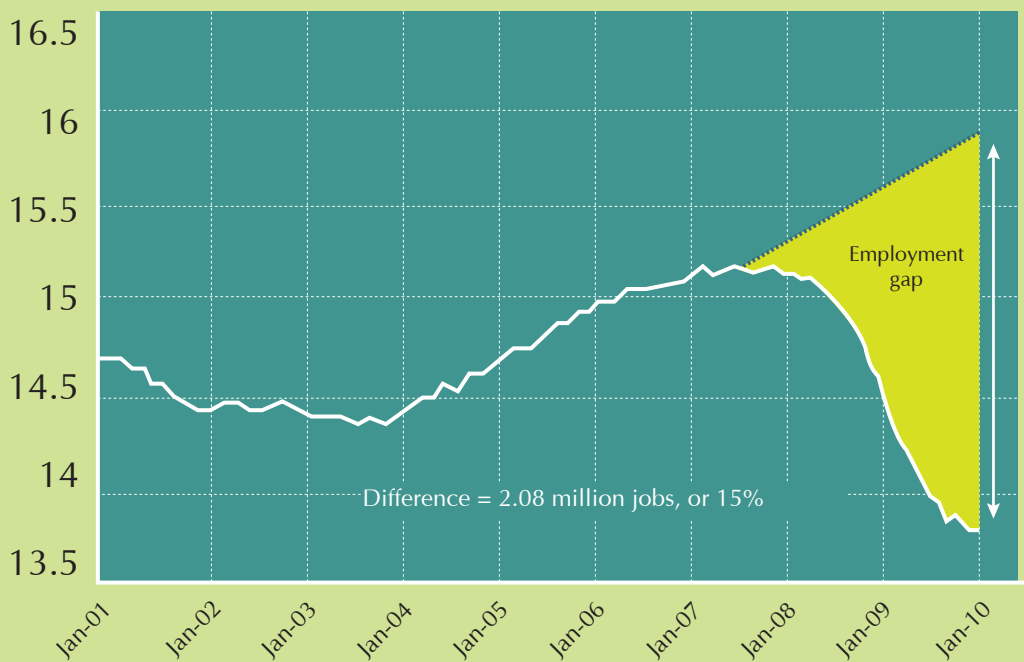
Source: CA Economic Strategy Panel, CA Economic Profile 2010

CA personal income growth vs. trend



Source: Bureau of Economic Analysis

CA employment growth vs. trend



Source: Bureau of Labor Statistics

We are losing ground to nations and U.S. states that are doing a better job of managing their economies.

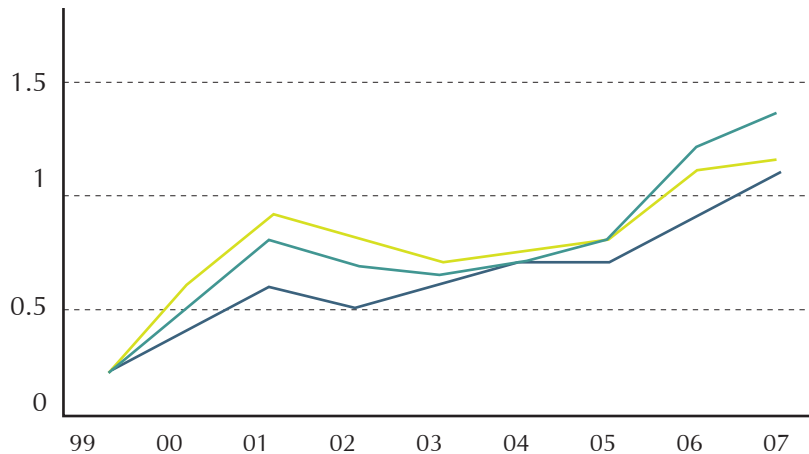
Cumulative GDP Growth: Texas and California 1998-2007

Since 2001, Texas has been growing faster than California in GDP.



Cumulative Employment Growth: Texas and California 1998-2007

Since 2003, Texas has been adding more jobs than California.



Source: Bureau of Economic Analysis



While California clearly remains an economic powerhouse, some major trends are disturbing. California's infrastructure and K-12 education, once the envy of the world, are now both ranked among the bottom five in the nation. In the 1960s, total public infrastructure spending accounted for 20 percent of all state outlays. Public infrastructure investments have fallen to just 3 percent of all expenditures, despite rapid growth of the state's population. California, now spends 3.8 percent of per capita income on education, making it the 46th among states in that category of spending ranking

Since 2001, the gross domestic product of Texas has grown faster than California. If California's gross domestic product had grown at the same rate as that of Texas between 2002 and 2008, our GDP would have been almost half a trillion dollars higher in 2008 and generated more than \$60 billion in additional state and local taxes. Cumulatively, over these years, we would have generated more than \$1.2 trillion in revenues and more than \$170 billion in additional state and local taxes. With that money we could have re-invested across the State to achieve our economic, social and environmental goals.

Restoring California's economic and civic leadership requires that we adjust to some important realities

- **California is not one economy**, but a tapestry of very different economic regions. For example, Silicon Valley is different than the San Joaquin Valley and coastal region are distinct from the interior. It is at the regional level, defined by economic rather than political boundaries, that global competitiveness is being attained today across the globe. California has done very little to effectively address regional competitiveness.
- **Solutions to most major issues today require public-private partnerships.** Government can be a help or a hindrance to a healthy private sector and effective human development systems. In today's California, it is too often a hindrance.
- **The drivers of economic growth are very different today** than they were in the last century. Innovation, entrepreneurship, workforce productivity and effective networks are the drivers of competition in today's global economy. A significant segment of our populace is ill-equipped to succeed in such an environment, as are too many of our small to mid-size businesses.
- **The complexity of today's issues requires integrated approaches.** Economic development, infrastructure development and human development are interdependent. They cannot be efficiently addressed using the silo-based approaches that proliferated in the 20th century, particularly in the public sector.
- **The deleterious effect of single-interest influences**, together with increasingly-strident partisan politics has greatly hindered California's ability to adequately respond to the very complex issues of the day.
- **It's critically important that issues be addressed at a geographic level** that matches the geographic magnitude of the challenge, whether that is at the neighborhood, city, region or state level, and the approaches at each level must be connected so that what is being done at one geographic level is aligned and leveraged at the other levels.
- **California is a state of rapidly expanding diversity and complexity:** there is no single majority but many minority populations, thousands of relative newcomers to our State, and thousands of government jurisdictions.
- **California's educational system has not adequately responded** to workforce development needs, especially relative to a growing community of unemployed or underemployed who in times past may have been candidates for a now largely dismantled vocational education system.

To address these current realities and opportunities the California Stewardship Project is developing its shared agenda: "**Thriving Regions Lead to a Thriving State**" based on shared values and a shared vision.

SHARED VALUES

What We Believe

- **Stewardship Ethic**—We believe that everyone must invest in the future of our State, and act with respect, responsibility, accountability and trust as we work together to improve California.
- **Social Contract**—We believe in a social contract that provides opportunity in return for individual effort and stewardship for California.
- **Collaborative Approach**—We believe in an inclusive, authentic, trust-building, and regional approach to problem-solving that seeks common ground.
- **Business Leadership** – We believe that business people, acting as stewards of the whole, must engage and insist on results.
- **Pragmatism and Innovation**—We believe it is important to be realistic, but embrace creative ideas, an acceptance of risk and have a willingness to allow for and learn from failure.
- **Diversity is valued and celebrated**—We believe that ethnic, economic, and regional diversity continues to be one of the fundamental strengths of our State.
- **Regional Freedom and Statewide Collaboration** — We believe that regions of California must have the freedom to determine their own best course, but that we must also choose to work together for the future of California and be held to the same standards. In terms of investments, we believe every region and every child is of equal value.

SHARED VISION

What We Want

- **Prosperity and Quality of Life for ALL**—Californians contribute to and benefit from thriving regional economies, improving their quality of life.
- **Individual Opportunity with Community Responsibility**— Californians have access to, but also actively pursue a quality education tailored to individual aptitudes and global needs, unleashing their individual potential and their ability to contribute to the greater good.
- **World Leaders in Innovation and Competitiveness**—Californians are fast to embrace fresh ideas, boldness, and creativity in all fields.
- **Sustainable and Livable Places**—Californians are committed to place, balancing diverse economic, social, and environmental values that determine community quality of life.
- **Healthy, Resilient Ecosystems**—Californians preserve, restore, and sustainably manage the State’s natural resources and ecosystems for the benefit of current and future generations.
- **Diverse and Connected People**—Californians embrace, celebrate, and connect across the diverse cultures and backgrounds of our population.
- **Healthy People and Communities** —Californians care for each other in healthy and safe communities.
- **Enlightened and Engaged Residents**—Californians act as stewards of their communities, regions, and State.
- **Regions that Lead the State to Economic Recovery**—Californians work together at the regional level to lead the State’s economic recovery.

SHARED AGENDA

What We Can Do To Transform Our Regions and California

Promote California’s Recovery through Regional Strategies—Each region of California needs the necessary support to develop and implement a recovery strategy that reflects its own unique challenges, industry mix, and innovation assets. To accomplish this, we need a shared agenda for action:

- **Adopt Shared Principles for Regional Economic Strategies** - Shared principles based on regional best practice can be adopted by regions to develop their recovery strategies (see shared principles below).
- **Align State Resources and Regional Efforts around Shared Challenges**—Develop processes to ensure alignment of resources around comprehensive regional strategies focused on prosperity, people, and place.
- **Forge Collaboration among Regions**—Identify specific ways regions can work together to pursue specific strategies for shared progress.
- **Support State Governance Reforms that Enable Regional Action** –Support changes that unleash the economic and stewardship potential of Californians, and that enable progress on complex problems that affect every region of the State.
- **Identify Roles and Responsibilities for a Shared Action Agenda for Economic Recovery**— Define specific, complementary actions to be taken by local governments, state government, business, philanthropy, and other partners to develop and implement regional economic recovery strategies.

Promote Stewardship Best Practices across California—Document, share, support, and scale-up stewardship practices that work across regions of California.

Educate State Lawmakers—Devolve funding to local decision makers and free regions to thrive and lead California to economic recovery.

SHARED PRINCIPLES

for Regional Recovery Strategies

ECONOMIC REGIONS MATTER

In today's global economy, economic regions are the key source of competitive advantage and the place where public and private leaders can work together at a scale to make a difference in promoting economic vitality and quality of life as part of an essential vital cycle.

DRIVING CLUSTERS ARE CRITICAL TO SUCCESS

Clusters drive regional economies, creating jobs and revenue. Every region has its own clusters of opportunity that it can build on for economic recovery. Good data and economic information can help regions identify their own clusters. In turn, regions should work to link clusters in their region with like efforts in other regions so that maximum synergy can be attained for those industries.

ECONOMY, EDUCATION, AND PHYSICAL INFRASTRUCTURE REQUIRE MORE INVESTMENT

Talent and technology as well as physical infrastructure and a positive regulatory environment are critical for strong industry clusters. This means that education and training are important elements of economic recovery. It also means promoting innovation and commercializing technologies to grow future industries. Investment in physical infrastructure should include not only smart transportation but efficient water, advanced communications and energy systems. A 21st century business climate includes investments in economic infrastructure as well as creating a regulatory environment that contains costs (see Appendix: Defining the Business Climate).

INTEGRATED APPROACHES ARE REQUIRED

Regional economic strategies should integrate economic, human and infrastructure development into a comprehensive approach focused on the needs of the regional community. Opportunities should be sought to aggregate common regional issues so that they can be addressed at the highest level possible.

PRIVATE-PUBLIC PARTNERSHIPS ARE NEEDED AS PLATFORMS FOR CHANGE

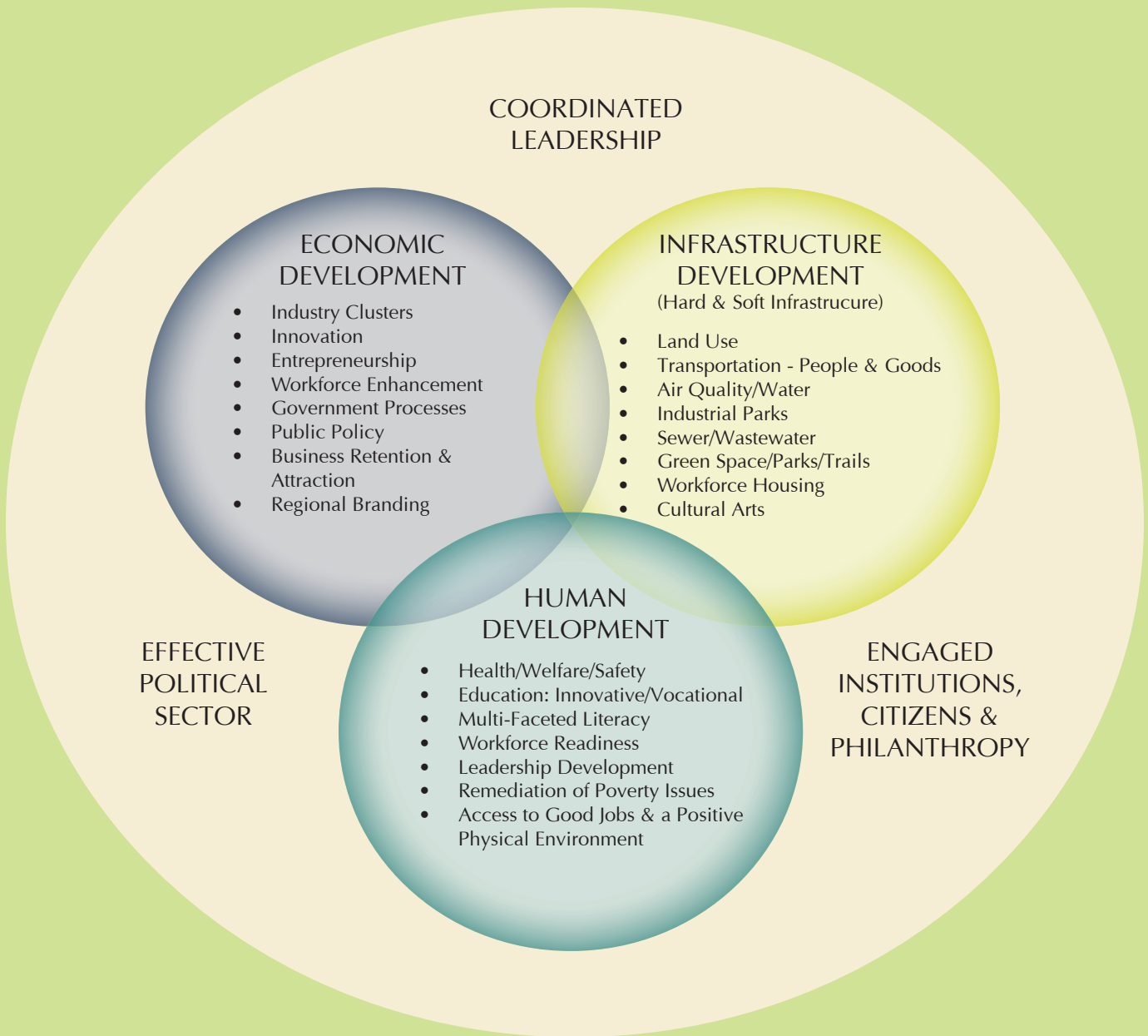
Private and public leaders need to work together to invest in economic infrastructure required for strong industry clusters and a high quality of life to attract the talent necessary for vital clusters.

CIVIC ENTREPRENEURS MUST LEAD COLLABORATIVE STRATEGIES

Regional economic strategies require collaborative efforts among public and private leaders to build thriving regions based on investments in the critical infrastructure to support the driving industry clusters in their regions. These collaborative efforts should be led by civic entrepreneurs.

SUSTAINED STATE AND REGIONAL SUPPORT FOR RECOVERY STRATEGIES IS NECESSARY

The state's role is to invest in critical economic infrastructure working with regions and support regional economic strategies through an ongoing state-regional partnership. The state should focus on the basics: investing in education, transportation and water systems and creating a pro-investment tax and regulatory environment while allowing regions to develop and implement their own regional economic strategies designed to meet their unique needs. This will require an innovative state-regional partnership based on the principles of distributed governance.

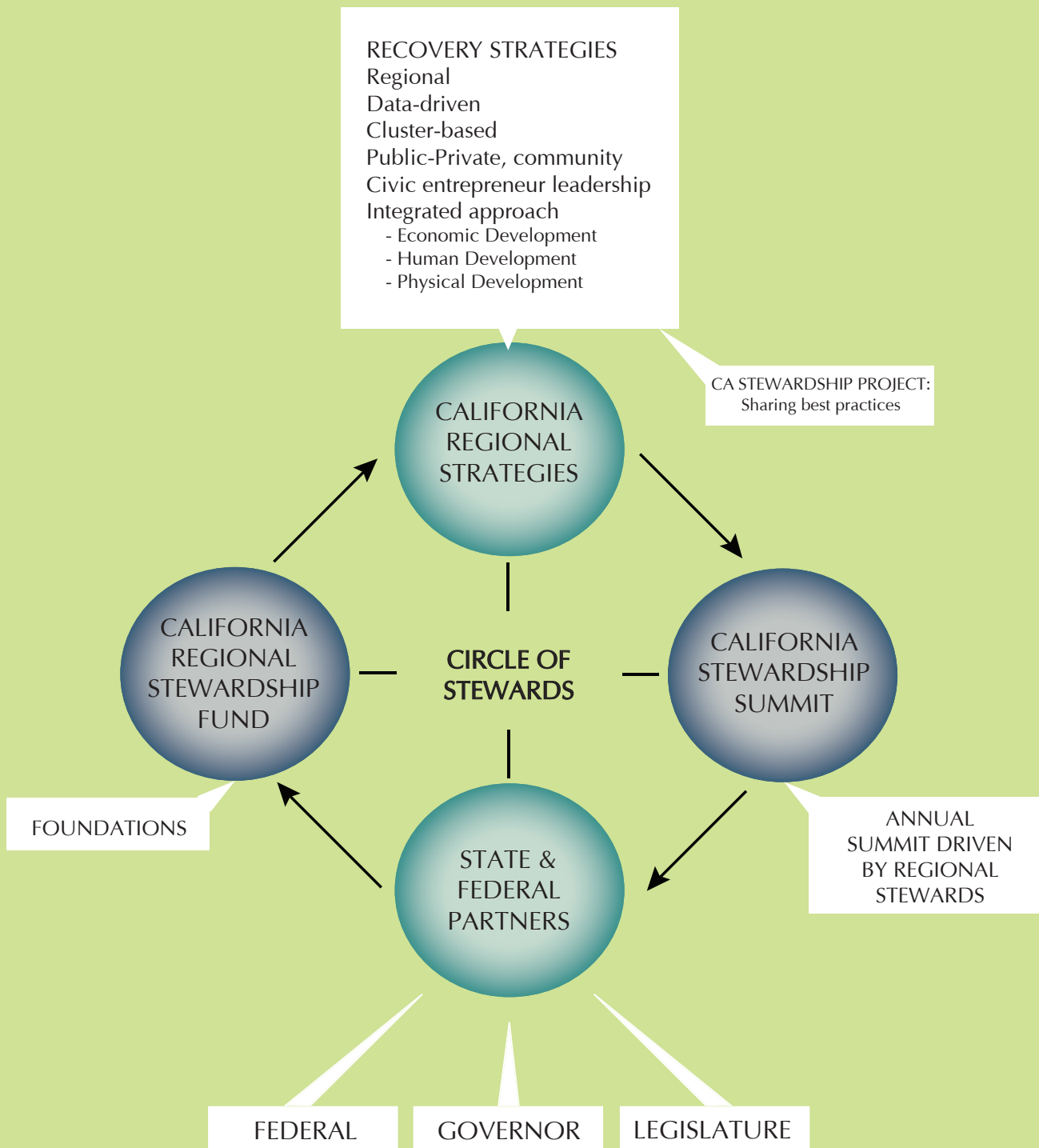


In today's global economy, economic regions are the key source of competitive advantage and the place where public and private leaders can work together at a scale to make a difference in promoting economic vitality and quality of life as part of an essential vital cycle.

HOW WE CAN MAKE IT HAPPEN

We need to take advantage of the economic reset and move beyond gridlock toward more distributed governance, to place regional stewards in position to develop regional economic strategies and then join together in an annual economic summit process to identify common issues. The regions could work with state and federal partners to address their issues through a Circle of Stewards.

- **A network of regional partnerships** would develop recovery strategies based on shared principles to meet their regional needs.
- **A California economic summit** would provide forum for regional partnership to share best practices and identify state wide issues. The summit would be designed based on the successful experience of the Oregon Business Plan summits that have taken place annually since 2001. Business, government and civic leaders come together to develop specific plans for adoption by the Governor and the state legislature (www.oregonbusinessplan.org).
- **The Circle of Stewards** would be supported by a combination of regional, State and foundation funds. There could be a California Regional Stewardship Fund with investment from California foundations to help sustain this regional effort. This Fund would have a governing board composed on regional private and public leaders.
- **The Circle of Stewards** would work with state and federal partners. The Governor and the Legislature would designate representatives as partners. A federal interagency group would designate federal partners.



This figure illustrates how the elements of a Circle of Stewards would work. It would be driven by economic regions as they develop economic strategies and create a forum for regions through the annual summit to collaborate on with each other and state leaders on an ongoing basis. It would be resourced from regional, state and foundation funds at a level that could sustain its operation over time.

To be successful, the level of financial and human resources committed to this effort by the public and private sectors at both regional and state level would need to be significant enough for regional economic strategies to be developed and integrated. Too often, in the past, regional efforts have been underfunded and not sustained.

In the absence of such a commitment, it has been difficult for regional stewards to do the very hard work of designing and implementing sustained regional development strategies. And the good efforts that have been made by non-governmental organizations to help regions share best practices has suffered from what is broadly perceived as disinterest from the state.

A more strategic and sustained approach based on the stewardship principles and our shared agenda outlined above is now required. Specifically, we need to do the following:

1. **The Governor and the legislature must identify the development of globally competitive regional economies** as the overarching economic development strategy for the State of California. Having this commitment from only one of the two branches will leave us where we are today, sub-optimizing our economic performance because of an unaligned strategic direction.
2. **The Governor and the legislature must identify partners from state government** that regions can look to for policy direction on the achievement of globally competitive regional economies. We do not offer a specific recommendation as to whether this entity should be an agency, a commission, or some other structure, but do suggest that it have direct access to the Governor and legislative leadership. We suggest a number of design features.
 - Be seen as the chief policy advisor to both branches of government on all issues pertaining to economic development in the State of California, including the development of state economic strategy.
 - Be charged with the responsibility of overseeing the state's role in connection with the goal of developing globally competitive regional economies.
 - Act as the state's partner with the Circle of Stewards described below.
 - Act as the state's agent on all issues related to business development and private sector investment.
 - Act as the state's inter-agency coordinator on all other economic development matters, avoiding duplication of the roles that many agencies in state government already play in economic development.
 - Be resourced to provide support to the Circle of Stewards and the regional partnerships described below.
 - Maintain a lean staff, consistent with the objectives described above.
3. **We need to create a Circle of Stewards that links stewards at the regional and state levels** to create and sustain strategies for regional competitiveness. The recovery and sustained growth of California's regional economies will require close coordination among public and private sector leaders. At the regional level, leaders in the business, government, nonprofit and civic sectors will need to work closely together to develop the assets, and conditions that attract private capital investment that is needed to generate quality jobs. State government needs an efficient and responsive mechanism to support the development of these regional collaborative efforts and align state-level policies to the needs of the regional economies.

TIME TO ACT

Our Moment is Now

Regional stewards need to act to help our regions and our State thrive again. Our regions are already leading the way with successful economic strategies and can demonstrate to the entire state how to rebuild our economy based on our stewardship values and recovery principles. Our state economy can recover one region at a time as we collaborate to compete in a global economy based on innovation and strategic investments.

Critical investments were essential at each stage of California's economic progress. First, there were investments in railroad construction and then in water systems for agriculture in the Central Valley and aqueducts for Southern California. Next there were investments in the defense and aerospace industries that fueled the early developments in the microelectronics, computers and software industries. For example, the Internet evolved from a defense-funded project, and our leadership in biotechnology has been stimulated by NIH investments. Finally, California invested in the Master Plan for Higher Education, which provided the world's best public system of research and learning that has helped to develop and draw top talent to our State to support our technology leadership.

As Richard Florida points out, our current reset will require rethinking how we invest in economic infrastructure essential for the future. Our governance crisis has created major challenges for continuing to invest in our strategic infrastructure, especially in the critical area of education, water and transportation. Our people want to support investment these economic foundations. For example, a March 2010 Field Poll found that majorities of California voters oppose reducing state spending for schools (79%), higher education (70%), water storage and supplies (61%), and highway building and repair (53%).

Can California continue to be an innovative economy in the future and achieve our shared vision in the face of the global competition and new technologies? The answer, as has always been the case in California's history, will be found in the interplay between entrepreneurship and critical investment in the foundations for an innovative economy. Civic entrepreneurs and regional stewards who help connect our economic opportunities to critical investment in economic infrastructure will play a major role in creating a prosperous future.

Given California's current travails, this may be a frightening proposition to some, but it need not be. California's current problems are largely self-inflicted and, therefore, correctable. Our state has huge natural resources, the best system of higher education in the world, the most innovative people on the planet, access to ports serving the fastest growing markets in the world, and we remain one of the largest and most affluent markets in the world. What we must do to restore our golden luster is unleash the productive potential of our regional economies.

Glossary of Terms

CIVIC ENTREPRENEURS are business, government, community leaders who exhibit the same level of entrepreneurial spirit on behalf of their regional community as a business entrepreneur does on behalf of a firm.

ECONOMIC REGIONS are self-defined contiguous geographic areas that share concentrations of economic activity (i.e. industry clusters); share physical realities, such as air basins and watersheds; have historical political alignments such as transportation or land use authorities; and can tackle issues on a geographic scale that matches the geographic magnitude of the challenge.

INDUSTRY CLUSTERS are concentrations of interdependent firms and their talent base that create competitive advantage for regions.

REGIONAL PARTNERSHIPS are self-organizing groups of private and public sector civic leaders who come together to design and implement strategies for improved regional outcomes and operate on the basis of values built around stewardship of place. It's important to note that we do not see these partnerships as political entities. Partnerships, as the name implies, are intended to bring about effective collaboration, not to create another tier of government between cities and counties and state government.

STEWARDSHIP is feeling connected to one's community and taking personal responsibility for the future of that community.

Appendix

Defining the California Business Climate

California like many other states appears to have at least two competing definitions of a good business climate:

- Traditional (negative) definition-- In this view, a good business climate is defined as the absence of high taxes, excessive regulations, high labor cost and high utility rates. Businesses are assumed to be cost driven and thus locate and grow in environments that provide the lowest prices inputs (land, labor, capital) and the least interference of government
- Alternative (positive) definition—In this view, a good business climate is defined as what is added to the environment for firms. This includes a skilled workforce, accessible technology (often from a state university), capital markets, quality infrastructure and a network of suppliers. Government has an important role to play in helping to create this type of business climate.

The appropriate type of business climate depends in large measure on the characteristics and specific needs of individual firms. A traditional manufacturing firm with heavy capital requirements with relatively low wage workforce and a need to produce commodity projects at low cost in order to compete will be more interested in the first type of business climate. On the other hand, a high value firm that needs a skilled, technical workforce and a high quality of life to attract and retain its workers will be interested in the second type of business climate.¹

A good business climate for California requires both critical investments that add to productivity as well as policy reforms that will reduce the cost of doing business. California will have to continue to compete on innovation as well cost to maintain its high standard of living based on rising productivity.²

According to the Public Policy Institute of California:

The “business climate debate” understates California’s strengths. California consistently ranks poorly in business climate rankings. These rankings, however, focus, primarily on tax and regulatory costs, which are only part of the business climate. The business climate instead should be defined to include all costs and benefits that businesses face from locating in California. The business climate should take into account the skill level of the workforce, the availability of capital and support for new business and the amenities that make California an attractive place to live.³

References

¹Douglas Henton and Steven Waldhorn, “Inventing the Future Through Investment and Innovation” in *The New Economic Role of American States: Strategies for a Competitive Economy*, edited by Scott Fosler Oxford University Press 1988 page 227-228

²*Collaborative Economics, Innovation, Productivity and California’s Productivity* A monograph prepared by the California Regional Economies Project September 2004

³Jed Kolko *Planning for a Better Future: California 2025: Economy* Public Policy Institute of California 2009

Our growing network of regional stewardship teams - others will be added as we expand across the state

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