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Rival states hope California's economic woes will send businesses their way

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California's budget crisis is turning into a worldwide spectacle that could harm the state's business climate – and chase companies away.

Rival states are revving up their economic-development efforts as global news outlets fixate on the \$26.3 billion deficit and the IOUs the state is expected to issue today.

California companies are making inquiries to out-of-state groups like the Economic Development Authority of Northern Nevada. Besides asking about tax rates and other expenses, many are worried about California's "general overall chaos, that uncertainty," authority marketing director Julie Ardito said from her office in Reno.

The recession is freezing many companies in place. But as the economy begins to stir, CEOs are starting to compare the costs of doing business in California vs. going elsewhere. Ardito said the volume of calls to her organization – from California and other states – has jumped 40 percent from a year ago.

Jack Boyd of the Boyd Co., a relocation consultant in New Jersey, predicted "a new wave of companies ... leaving California." Many other firms looking to reach California consumers will do so from locations just outside the state, he said.

Boyd said Sacramento's budget problems are feeding the perception that California is a high-cost, overregulated, out-of-control place to do business.

"The California business climate has always been difficult," he said. "This is a whole new overlay to that."

The media aren't helping California's cause. On Wednesday, former Gov. Gray Davis was interviewed on CNBC over a headline that said, "The IOU State." London's Financial Times ran a lengthy piece on the IOUs, while a Washington Post column was headlined, "California: A Dream Decimated." An Associated Press story said that because California is so big, its economic woes could delay the national recovery.

And assorted California pundits were fielding calls from the world's media.

"Even the BBC is calling me," said Chris Thornberg, head of Beacon Economics consulting in Los Angeles.

Thornberg, for one, said the image issue is overblown, especially with other states facing big economic and political problems, too. Four other states have unemployment rates higher than California's 11.5 percent.

"I don't think we're worse off than anybody else," he said.

Asked at a news conference Wednesday if he was embarrassed for California, Gov. Arnold Schwarzenegger said, "I'm proud of California, even though we have our crisis. No one can point fingers, because as you can see, there are 30 states right now that have their fiscal year starting today that also don't have a budget, so, I mean, let's not get carried away and just look at California as (if) we are the only state that cannot manage the budget."

A 2007 study by the Public Policy Institute of California dismissed the notion of a mass business exodus. The study said California's share of the national job market, just under 11 percent, has held steady over the years.

For all its recruitment, the Reno-Sparks area just across the Nevada line has lured only 35 companies and 1,200 jobs from California the past six years, Ardito said.

And there seem to be companies still interested in moving to California. Barbara Hayes, head of the Sacramento Area Commerce and Trade Organization, said the "pipeline" of companies inquiring about Sacramento hasn't waned.

Yet others say California's image is causing it real economic headaches. Even if other states have problems, they're considered less scary than California's.

California "is the big gorilla in the room," said Boyd, the relocation consultant in New Jersey. "Turning around the California business climate, getting the fiscal house in order, is like turning the Queen Mary around."

The budget is only part of the story. Recruitment consultants say businesses are frightened by a possible 24 percent hike in workers' compensation premiums, as recommended by a key advisory panel. Workers' comp expenses are a huge issue for many businesses. Insurance Commissioner Steve Poizner is to decide on the increase next week.

Meanwhile, other states are using workers' comp and other issues to cash in on California's problems.

The Metro Denver Economic Development Corp. just persuaded a medical-device maker from El Segundo in Southern California to relocate its headquarters. The Denver organization is planning an in-person blitz in California in August or September. Earlier this year, the organization sent Valentine's cards to 500 California CEOs.

The Nevada Development Authority, which serves the Las Vegas area, just hosted a visit by a Los Angeles-area manufacturing executive who has vowed to leave California because of the costs.

"That's the kind of calls we're getting, without any advertising by us at all," said Somer Hollingsworth, the authority's chief executive.

For good measure, his group plans to launch an ad campaign targeting California later this month.

Tina Sumner, the city of Clovis' economic-development director, got a firsthand glimpse of California's problem while attending a trade show in Las Vegas recently and meeting an economic-development official from Phoenix.

"One of the things that struck me was how enthusiastic he was about how easy the pickings were, for taking businesses from California and bringing them over to Arizona," Sumner said. "He was kind of almost giddy."