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# SELECT STATE PROBLEMS & PRIORITIES

## CALIFORNIA

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The California Small Business Problems and Priorities report is based on the responses of 294 NFIB small-business owner/members to a mail survey conducted from mid-January through April 2016. A national sample of 20,000 members was drawn for a response rate of 14 percent with separate samples of 1,500 each drawn for CA, OH and TX to create three state specific rankings. Owners evaluated 75 potential business problems individually and assessed their severity on a scale of “1” for a “Critical Problem” to “7” for “Not a Problem.” A mean (average) was calculated from the responses for each problem. Problems are ranked by mean score.

The ten most burdensome problems for small-business owners in California are: “Cost of Health Insurance,” “Unreasonable Government Regulations,” “Federal Taxes on Business Income,” “State Taxes on Business Income,” “Workers’ Compensation Costs,” “Uncertainty over Economic Conditions,” “Tax Complexity,” “Uncertainty over Government Actions,” “State/Local Paperwork” and “Frequent Changes in Federal Tax Laws and Rules.” California’s top ten generally tracks that of the nation with a few exceptions. “Workers’ Compensation Costs” ranks 5<sup>th</sup> in California and 13<sup>th</sup> overall and “Property Taxes (Real, Inventory or Personal Property)” ranks 12<sup>th</sup> in California and 8<sup>th</sup> overall. Smaller differences between the U.S. and California top ten lists are “State/Local Paperwork” at 9<sup>th</sup> in California and 11<sup>th</sup> overall and “Locating Qualified Employees” at 11<sup>th</sup> in California and 10<sup>th</sup> overall (Table 1).

The severity among many of the survey’s business problems differ substantially between small business owners in California and owners in the rest of the country as shown in (Table 2). The ten largest differences in average mean scores between California and the rest of the country occur in the problems: “Mandatory Family or Sick Leave,” “Competition from Large Businesses,” “Minimum Wage/“Living” Wage,” “Hiring/Firing/Employment Regulations,” “Environmental Regulations,” “Dealing with IRS/State Tax Agencies,” “Health/Safety Regulations,” “Cost of Supplies/Inventories,” “Unemployment Compensation,” “Time Spent Shopping for Health Insurance.”

California small-business owners are less burdened on average than owners in the rest of the country by the following four problems: “Competition from Large Businesses,” “Dealing with IRS/State Tax Agencies,” “Cost of Supplies/Inventories,” and “Time Spent Shopping for Health Insurance.” The remaining six problems are more burdensome.

“Mandatory Family or Sick Leave” holds the largest ranking disparity between California (33<sup>rd</sup>) and the rest of the country (58<sup>th</sup>). Seventeen percent of small business owners in California regard this problem as a critical issue. California’s paid sick leave and family leave requirements are among the most expansive leave programs in the United States. Employers are required to allow employees to take three days of paid sick leave each year, 12 weeks of unpaid family leave, and four additional months of unpaid maternity leave.<sup>1,2</sup> In addition to state-



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<sup>1</sup> National Conference of State Legislatures, “State Family and Medical Leave Laws,” <http://www.ncsl.org/research/labor-and-employment/state-family-and-medical-leave-laws.aspx>.

<sup>2</sup> California Assembly Bill No. 1522, [http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201320140AB1522&search\\_keywords=](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140AB1522&search_keywords=).

level mandates, San Francisco recently passed a law that requires employers with more than 50 employees to supplement payments by California’s family leave insurance program up to full wage replacement. That employee threshold decreases to firms with over 20 employees in 2018.<sup>3</sup> Small business owners find leave mandates particularly burdensome on an administrative level because they are required to keep records of all employee leave to ensure compliance.

“Competition from Large Businesses” has the second largest mean difference between California (#47) and the rest of the country (#31) and the largest difference where California small business owners regard the issue as less of a problem. Thirteen percent of California small business owners regard this as a critical issue while 23 percent do not consider this a problem.

“Minimum Wage/Living Wage” has the third largest ranking difference between California (21<sup>st</sup>) and the rest of the country (36<sup>th</sup>). Twenty percent of California small business owners regard this as a critical issue. Similar to sick and family leave mandates, California’s minimum wage laws are the most expansive in the nation. After Los Angeles and San Francisco announced incremental minimum wage increases to \$15 per hour, California passed a statewide increase to reach \$15 per hour in 2022 with annual adjustments for inflation thereafter.<sup>4</sup> CKE Restaurants CEO Andy Puzder has criticized these increases extensively for their negative effect on young, low-skill workers and has highlighted increases in the use of automation in the fast food industry as a result of rising labor costs.<sup>5</sup>

Continuing with employment related issues, “Hiring/Firing/Employment Regulations” also has a ranking difference of 15 positions between California (25<sup>th</sup>) and the rest of the country (40<sup>th</sup>). Thirteen percent of California small business owners regard this as a critical issue while twelve percent do not consider it to be a problem.

“Environmental Regulations” has the fifth largest ranking difference between small business owners in California (14<sup>th</sup>) and owners in the rest of the country (27<sup>th</sup>). Twenty-six percent of owners in California regard this problem as critical. California is one of the more aggressive states in creating and enforcing environmental regulations. These regulations are often in conflict with the business community, especially in more natural resource intensive type industries such as manufacturing and agriculture. Environmental regulations have also contributed to a weak recovery by the construction sector of the economy, according to a 2015 report by the California Legislative Analyst’s Office.<sup>6</sup>

“Dealing with IRS/State Tax Agencies” also has a difference of 13 places between California (30<sup>th</sup>) and the rest of the country (17<sup>th</sup>), tied for the fifth largest difference in rankings. Fourteen percent of California small-business owners regard this as a critical issue while thirteen percent do not consider it a problem.

“Health/Safety Regulations” has the seventh largest difference in ranking between small business owners in California (16<sup>th</sup>) and owners in the rest of the country (28<sup>th</sup>). Nineteen percent of California small-business owners regard this as a critical issue while 15 percent do not regard this as a problem. Small business owners bear the cost of health and safety regulations in the form of compliance costs and in the cost of defending against lawsuits from state and federal agencies. California is stricter than most states in what it considers to be a “serious violation” of occupational health and safety law.<sup>7</sup> In addition, concerns over health and safety are often manifested in the form of occupational licensing regulations that require




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<sup>3</sup> City and County of San Francisco, “Paid Parental Leave Ordinance,” <http://sfgov.org/olse/paid-parental-leave-ordinance>.

<sup>4</sup> Paul Davidson, “California reaches deal on \$15 minimum wage,” USA Today, March 29, 2016. <http://www.usatoday.com/story/money/2016/03/28/california-raises-minimum-wage-15-hour/82348622/>

<sup>5</sup> Andy Puzder, “Why Restaurant Automation Is on the Menu,” Wall Street Journal, March 24, 2016. [http://www.wsj.com/article\\_email/why-restaurant-automation-is-on-the-menu-1458857730-lMyQjAxMTE2NDI4NT-gYMDUyWj](http://www.wsj.com/article_email/why-restaurant-automation-is-on-the-menu-1458857730-lMyQjAxMTE2NDI4NT-gYMDUyWj).

<sup>6</sup> California Legislative Analyst’s Office, “California’s High Housing Costs: Causes and Consequences,” March 17, 2015. <http://www.lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.aspx>.

<sup>7</sup> California Assembly Bill No. 2774, [ftp://www.leginfo.ca.gov/pub/09-10/bill/asm/ab\\_2751-2800/ab\\_2774\\_bill\\_20100930\\_chaptered.html](ftp://www.leginfo.ca.gov/pub/09-10/bill/asm/ab_2751-2800/ab_2774_bill_20100930_chaptered.html).

a burdensome process for a small-business owner to enter a market. In this survey, California small business owners ranked “Obtaining Licenses, Permits, etc.” higher (32<sup>nd</sup>) than the rest of the country (39<sup>th</sup>). While not all licenses are occupational, the non-profit Institute for Justice ranks California as one of the most onerous states both in the number of occupations that require licensing and the cost of occupational licensing.<sup>8</sup>

“Cost of Supplies/Inventories” also has a difference of 12 places between California (27<sup>th</sup>) and the rest of the country (15<sup>th</sup>), tied for the seventh largest difference in rankings. Eleven percent of California small-business owners regard this as a critical issue while nine percent do not regard this as a problem. California has a very high cost of living when viewed as a whole. A recent Tax Foundation study found that \$100 buys less only in New York, New Jersey, Hawaii, and Washington D.C.<sup>9</sup> The California small business owners who responded to this survey prioritized the policies that have forced supplier businesses to increase the cost of inventories and supplies such as state and federal taxes (4<sup>th</sup> and 3<sup>rd</sup>, respectively), unreasonable government regulations (#2), and the cost of healthcare (1<sup>st</sup>).

“Unemployment Compensation” has the ninth largest difference in averages between small business owners in California (15<sup>th</sup>) and owners in the rest of the country (26<sup>th</sup>). Sixteen percent of California small-business owners regard this as a critical issue while ten percent do not regard this as a problem. California small-business owners view the cost of unemployment compensation as a problem despite a favorable ranking by the Tax Foundation, which ranked California’s unemployment insurance program 13<sup>th</sup> among the 50 states.<sup>10</sup> This ranking is not specific to small business, however; it may reflect a higher average unemployment insurance rate among smaller businesses than larger ones due to higher employee turnover. Larger businesses experience less turnover because they can offer higher wages than small businesses.<sup>11</sup> California has high taxes and mandates non-wage compensation in the form of paid leave, limiting the funds available for small business owners to offer a competitive wage.

“Time Spent Shopping for Health Insurance” also has a difference of 11 positions between California (40<sup>th</sup>) and the rest of the country (29<sup>th</sup>), tied for the ninth largest difference in rankings. Eleven percent of California small-business owners regard this as a critical issue while 16 percent do not regard this as a problem. While the cost of health insurance tops the list of problems that California small-business owners face, time spent shopping for health insurance is considerably less of a concern. It is unclear what factors caused the difference between California small business owners and the rest of the country. Because both the California and U.S. rankings are near the middle of the issues, it is likely that California small-business owners simply found other issues to be more pressing.



<sup>8</sup> Institute for Justice, “License to Work: A National Study of Burdens from Occupational Licensing,” [https://www.ij.org/images/pdf\\_folder/economic\\_liberty/occupational\\_licensing/licensetowork.pdf](https://www.ij.org/images/pdf_folder/economic_liberty/occupational_licensing/licensetowork.pdf).

<sup>9</sup> Tax Foundation, “The Real Value of \$100 in Each State,” <http://taxfoundation.org/blog/real-value-100-each-state-2016>.

<sup>10</sup> Jared Walczak, Scott Drenkard, and Joseph Henchman, *2016 State Business Tax Climate Index*, [http://taxfoundation.org/sites/taxfoundation.org/files/docs/TF\\_2016\\_StateBusinessTaxClimateIndex.pdf](http://taxfoundation.org/sites/taxfoundation.org/files/docs/TF_2016_StateBusinessTaxClimateIndex.pdf).

<sup>11</sup> John Haltiwanger et al., “Business Dynamics Statistics Briefing: Job Creation, Worker Churning, and Wages at Young Businesses,” November 2012, [https://www.census.gov/ces/pdf/BDS\\_StatBrief7\\_Creation\\_Churning\\_Wages.pdf](https://www.census.gov/ces/pdf/BDS_StatBrief7_Creation_Churning_Wages.pdf).



**TABLE 1**  
**MEASURES OF SMALL BUSINESS PROBLEM IMPORTANCE - CALIFORNIA**

Problem	CA Rank	US Rank	Mean	Standard Deviation	Percent "Critical"	Percent "Not a Problem"
Cost of Health Insurance	1	1	2.29	1.77	48.8	7.2
Unreasonable Government Regulations	2	2	2.51	1.82	42.1	7.2
Federal Taxes on Business Income	3	3	2.72	1.65	30.7	4.1
State Taxes on Business Income	4	9	2.82	1.82	30.4	6.7
Workers' Compensation	5	13	2.91	1.92	32.1	9.0
Uncertainty over Economic Conditions	6	4	2.99	1.68	23.3	3.5
Tax Complexity	7	5	3.02	1.88	25.6	7.6
Uncertainty over Government Actions	8	6	3.06	1.87	28.2	7.3
State/Local Paperwork	9	11	3.08	1.86	22.4	7.9
Frequent Changes in Federal Tax Laws and Rules	10	7	3.22	1.82	22.1	7.6
Locating Qualified Employees	11	10	3.31	1.92	22.7	10.7
Property Taxes (real, inventory or personal property)	12	8	3.44	2.01	21.6	12.7
Cost and Availability of Liability Insurance	13	20	3.52	1.95	17.1	12.0
Environmental Regulations	14	27	3.54	2.14	25.8	14.8
Unemployment Compensation	15	26	3.56	1.91	16.3	10.4
Health/Safety Regulations	16	28	3.57	2.06	19.2	15.4
Federal Paperwork	17	12	3.59	1.97	17.9	12.1
Electricity Costs (rates)	18	19	3.62	1.92	15.6	11.1
Projecting Future Sales Changes	19	18	3.66	1.73	10.0	9.0
Finding and Keeping Skilled Employees	20	14	3.67	2.03	17.9	14.5
Minimum Wage/"Living" Wage	21	36	3.67	2.14	20.3	17.2
Fixed Costs Too High	22	22	3.70	1.81	13.9	9.4
Poor Earnings (Profits)	23	16	3.71	1.99	18.1	10.4
Finding Out about Regulatory Requirements	24	23	3.74	1.96	15.2	14.1
Hiring/Firing/Employment Regulations	25	40	3.81	1.94	13.4	12.3
Cash Flow	26	25	3.82	1.93	15.8	11.0
Cost of Supplies/Inventories	27	15	3.83	1.70	10.5	8.7
Highly Variable Earnings (profits)	28	24	3.86	1.84	12.2	11.1
FICA (Social Security Taxes)	29	21	3.87	1.83	10.4	12.8
Dealing with IRS/State Tax Agencies	30	17	3.88	1.97	13.9	12.8
Cost of Government Required Equipment/Procedures	31	30	3.95	2.16	18.8	17.8
Obtaining Licenses, Permits, etc.	32	39	3.97	2.01	13.1	16.6
Mandatory Family or Sick Leave	33	58	4.03	2.09	16.5	18.2
Cost of Outside Business Services, e.g., Accountants, Lawyers, Consultants	34	32	4.04	1.87	9.9	14.4
Physical Facilities Costs, such as Rent/Mortgage/Maintenance	35	43	4.05	1.87	8.9	14.1
Controlling My Own Time	36	35	4.06	1.95	11.8	16.3
Cost of Natural Gas, Propane, Gasoline, Diesel, Fuel Oil	37	34	4.08	1.98	12.1	15.9
Telephone Costs and Service	38	33	4.12	1.77	7.9	11.4
Training Employees	39	42	4.12	1.83	8.6	16.2
Time Spent Shopping for Health Insurance	40	29	4.18	1.91	10.5	16.4
Locating Business Help When Needed	41	37	4.27	1.90	9.3	16.8
Poor Sales	42	45	4.31	2.01	11.4	19.0



**TABLE 1 CONTINUED**  
**MEASURES OF SMALL BUSINESS PROBLEM IMPORTANCE - CALIFORNIA**

<b>Problem</b>	<b>CA Rank</b>	<b>US Rank</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Percent "Critical"</b>	<b>Percent "Not a Problem"</b>
Pricing My Goods/Services	43	44	4.34	1.80	5.8	15.8
Keeping Up on Business and Market Developments	44	41	4.37	1.69	6.2	12.5
Ability to Cost-Effectively Advertise	45	46	4.38	1.89	7.3	19.7
Credit Card Payment Processing Costs	46	38	4.40	2.16	11.4	27.6
Competition from Large Businesses	47	31	4.42	2.10	12.8	23.3
Reducing Energy Use in a Cost-Effective Manner	48	53	4.48	1.73	5.2	16.0
Rules on Retirement Plans	49	50	4.51	1.99	9.3	23.1
Using Computer(s), the Internet or New Technology Effectively	50	48	4.54	1.86	5.5	21.2
Cyber Crime (viruses, hacking, etc.)	51	51	4.54	1.92	8.7	19.1
Real Estate Values	52	47	4.57	2.02	9.0	26.0
Traffic, Highways, Roads, Bridges	53	52	4.59	2.10	11.8	28.6
Handling Business Growth	54	55	4.60	1.82	5.6	22.9
Estate Tax	55	49	4.62	2.33	17.6	35.3
Crime, including Identity Theft, Shoplifting, etc.	56	60	4.69	1.92	8.3	22.4
Delinquent Accounts/Late Payments	57	54	4.77	1.96	8.2	25.8
Zoning/Land Use Regulations	58	57	4.86	2.06	8.0	34.0
Protecting Intellectual Property	59	62	4.86	2.00	8.0	31.6
Employee Turnover	60	59	4.95	1.96	8.1	30.2
Competition from Internet Businesses	61	63	5.01	2.05	7.9	37.9
Interest Rates	62	56	5.02	1.80	4.5	26.8
Costs and Frequency of Lawsuits/Threatened Lawsuits	63	68	5.05	2.02	7.9	34.4
Using Social Media to Promote Business (facebook, twitter, etc.)	64	64	5.08	1.84	3.5	35.7
Competition from Imported Products	65	65	5.09	2.12	9.7	41.5
Obtaining Short-Term (less than 12 months or revolving) Business Loans	66	70	5.12	2.00	8.0	36.4
Anti-Competitive Practices, e.g., Price Fixing	67	61	5.16	1.86	5.9	32.5
Undocumented Workers	68	73	5.18	2.13	11.1	42.6
Obtaining Long-Term (5 years or more) Business Loans	69	69	5.24	1.93	7.1	38.5
Access to High-Speed Internet	70	66	5.30	2.01	6.9	43.9
Credit Rating/Record Errors	71	71	5.33	1.79	4.9	36.2
Bad Debts (not delinquencies) and/or Bankruptcies	72	67	5.37	1.65	3.4	32.1
Winning Contracts from Federal/State/Local Governments	73	72	5.37	1.88	5.2	45.1
Out-of-State Sales Tax	74	74	5.79	1.74	3.1	55.4
Exporting My Products/Services	75	75	5.94	1.58	1.4	58.5



TABLE 2  
LARGEST DIFFERENCES IN PROBLEM RANKING BETWEEN CA AND US

More Difficult in California	CA Rank	US Rank	Rank Difference
Mandatory Family or Sick Leave	33	58	25
Minimum Wage/"Living" Wage	21	36	15
Hiring/Firing/Employment Regulations	25	40	15
Environmental Regulations	14	27	13
Health/Safety Regulations	16	28	12
Unemployment Compensation	15	26	11
Workers' Compensation	5	13	8
Physical Facilities Costs, such as Rent/Mortgage/Maintenance	35	43	8
Obtaining Licenses, Permits, etc.	32	39	7
Cost and Availability of Liability Insurance	13	20	7
Less Difficult in California			
Competition from Large Businesses	47	31	-16
Dealing with IRS/State Tax Agencies	30	17	-13
Cost of Supplies/Inventories	27	15	-12
Time Spent Shopping for Health Insurance	40	29	-11
FICA (Social Security Taxes)	29	21	-8
Credit Card Payment Processing Costs	46	38	-8
Poor Earnings (Profits)	23	16	-7
Interest Rates	62	56	-6
Finding and Keeping Skilled Employees	20	14	-6
Anti-Competitive Practices, e.g., Price Fixing	67	61	-6



## The Sponsor

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The **NFIB Research Foundation** is a small-business-oriented research and information organization affiliated with the National Federation of Independent Business, the nation's largest small and independent business advocacy organization. Located in Washington, DC, the Foundation's primary purpose is to explore the policy related problems small business owners encounter. Its periodic reports include *Small Business Economic Trends*, *Small Business Problems and Priorities*, and now the *National Small Business Poll*. The Foundation also publishes ad hoc reports on issues of concern to small business owners. Included are analyses of selected proposed regulations using its Regulatory Impact Model (RIM).





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