Of the companies responding to the CHI-PwC survey it is evident that companies are expanding both inside of and outside California:

— Sixty-one percent currently manufacture products in California; 35 percent do at least some manufacturing in other states; and 39 percent have manufacturing capacities in other countries.
— Fifty-nine percent expanded and 32 percent held steady their in-state manufacturing capacities.
— Sixty-one percent expect manufacturing activity in California to expand and 31 percent expect it to hold steady in the next two years.

Even so, these promising responses are offset by respondents who indicated that they plan to establish or expand their manufacturing capacities outside the Golden State. The survey respondents reported the following:

— Only 61 percent of their manufacturing capacities are located in California.
— Sixty-nine percent expanded and 22 percent held steady their manufacturing outside California.
— Seventy-eight percent expect to expand out-of-state manufacturing in the next two years.

Genentech: A Cautionary Tale?

California does many things right in its quest to support the continued growth of the state's biomedical industry, particularly with its R&D tax credit. After all, when R&D pays off, not only do the results spur additional growth in R&D jobs, but they can also lead to the creation of new manufacturing jobs.

But is the state doing enough to capture those manufacturing jobs?

Anyone concerned about the future of California's biomedical industry should consider one of the industry's leaders and pioneers: South San Francisco-based Genentech. The company continues to grow and expand. However, for the first time in its 32-year history, that expanded construction is taking place outside of California. The company is building a $400 million manufacturing facility in Oregon that will create 250 new manufacturing jobs.

A key reason? "Currently, California bases a company's income tax on its plants, equipment and payroll regardless of that company's revenue and income," says Todd Kaufman, Genentech's director of state government affairs. "This effectively penalizes companies for expanding plants, equipment and payroll in their California operations."

Kaufman goes on to explain a California tax policy by which corporate income is apportioned to the state. "If a company has income in multiple states, every state has to determine what portion of that income is taxable using an apportionment formula that is unique to each state," he says. He also notes that California's apportionment formula effectively creates a penalty for companies that invest in plant expansion, equipment and increased payroll. "When you build in California and when you hire more Californians, a larger proportion of your income is taxable in California, regardless of whether your revenue changes," says Kaufman. The result? "In building our plant in Oregon, our California income tax will actually go down, and it will not change in Oregan. California is 'paying' us to build elsewhere."

And that is a major issue Genentech will consider as it plans future expansion.

"Tax policy is the starting point for deciding where we will locate future manufacturing facilities," says Kaufman. "If a state's tax policy is not right, that state is not even going to make the list."

To capture the inevitable growth in biotech manufacturing, "the state must remove that penalty, for creating new jobs and for investing in plant and equipment in our state," says Kaufman.