



**California Technology Business Exits:
Why They Are Happening and What to Do**

Lee E. Ohanian*

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HOOVER INSTITUTION
434 GALVEZ MALL
STANFORD UNIVERSITY
STANFORD, CA 94305-6010

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The nearly coincident announcements in December 2020 by Silicon Valley giants Hewlett Packard Enterprises, Oracle, and Tesla that they all were relocating their headquarters and future operations to Texas brought international headlines to businesses, particularly high technology businesses, leaving California. This paper documents business and household exits over time and analyzes why they are occurring. I find that economic policies—including tax, regulatory, and housing policies—are the key factors that have led technology firms, as well as other businesses and residents to leave California. These policies drive up business and consumer costs and reduce efficiency. If California is to reverse this dangerous trend, then regulatory and tax policies must change to become competitive with other states.

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* Lee E. Ohanian, Senior Fellow, Hoover Institution and Distinguished Professor of Economics, UCLA.

1. Introduction

The nearly coincident announcements in December 2020 by Silicon Valley giants Hewlett Packard Enterprises, Oracle, and Tesla that they all were relocating their headquarters and/or a large part of their future operations to Texas brought international headlines to businesses, particularly high technology businesses, leaving California. But these exits are not new. Businesses have been departing California for years, reflecting high California taxes, burdensome regulations, and very high living costs, all of which in turn inflate worker compensation, without raising worker productivity.

This paper summarizes California business exits, with a focus on high technology exits, discusses the main difficulties that business face within California, and identifies policy reforms and solutions to improve California's competitiveness within the U.S. and the global business communities.

I find that economic policies - including tax, regulatory, and housing policies – are the key factors that have led technology firms, as well as other businesses and residents to leave California. An important positive factor for California's high technology sector is that venture capital remains plentiful in the state, and VC funding historically has been central for many tech startups.

The challenge to California becomes how to keep these firms in California after they are past the venture stage and are well on their way. An important question mark about the VC process is whether that recent trends of people and businesses leaving San Francisco, including VC firms, will lead to a new VC dynamic in which VC investors no longer feel the need to be near the firms that they are supporting. More time will be needed to draw firmer conclusions about this possible change to the VC process.

2. Business Exits in California

Measuring business exits is challenging because there are no consistent nor official data on this statistic. The data and statistics below are drawn from several sources, including media reports, state compliance reports from large firms, and reports filed with the SEC.

The California Policy Center has been identifying state business exits as those that are discussed within the media. They have been keeping track of these departures since 2014. This list is of course not exhaustive, as it identifies only those businesses that are large enough or sufficiently prominent to gain media attention.

Nevertheless, the business that departed since 2014 are striking, including (in reverse chronological order), Toyota Motor Cars, Kubota Tractor, Jamba Juice, Jacobs Engineering, CKE Restaurants (Carl's Jr. and Hardee's restaurants), Nestle, Rocketdyne, Bechtel Group, Mithrill

Capital Management (Peter Thiel), McKesson, Dole Foods, Mitsubishi, Charles Schwab, the Oakland Raiders, the Daily Wire, Pabst Brewing, CB Richard Ellis Real Estate, the tech firm StitchFix, as well as parts of Tesla, Oracle, and Hewlett-Packard.

These are an extraordinary group of businesses, and more than half of the companies on this list have relocated to Texas. Other destination states for these departing firms include Florida, Nevada, Tennessee, Colorado, Utah, and Alabama. Appendix Table 1 shows the full list compiled from the California Policy Center, as well as the new destinations of the relocating organizations.

Another source of California relocation business activity has been compiled by Spectrum Solutions, a consulting firm that works with relocating businesses. They have compiled *disinvestment* data from public articles, state government compliance records, and SEC filings between 2008-16.

Disinvestment events represent a complete or partial relocation of a company, including relocating entire offices or production/distribution facilities out-of-state, (2) remain in the state but expand elsewhere with facilities that heretofore were built in California, (3) close completely with production moving to competitors out-of-state, (4) shift work to a foreign nation through offshoring, outsourcing or relocation, or (5) cancel a project after it has been announced, and move the project to another state.

Spectrum Solutions identifies 2,183 California disinvestment events during this period. Even more striking is the fact that for the 2017-2019 period, which was a rapid growth period for California, Spectrum counts 660 businesses moving 765 facilities out of the state. The counties suffering the most disinvestments are Los Angeles, Orange, Santa Clara, San Francisco, and San Diego. Thus, our tech hubs are ranked third and fourth in terms of the number of disinvestments.

Spectrum reports that Santa Clara County businesses are having difficulty recruiting workers, given the area's hyper-expensive housing costs. Companies in the digital and social media world are migrating facilities to out-of-California location, including Austin, Phoenix, Portland, Salt Lake City and Seattle. Increasingly, however, such companies are also relocating to Miami, Atlanta, Charlotte, Dallas, Denver, Indianapolis, Pittsburgh, and Reno. A detailed discussion of the reasons firms give for relocation is below.

Because most business disinvestments do not become publicly known, it is broadly agreed within the relocation industry that a reasonable rule of thumb is that *at least* five disinvestment events occur that fail to become public knowledge for every one that does. Using this rule of thumb suggests about 13,000 disinvestment events occurred during the 2008-2016 period.

The lack of small business exit reporting is an important reason why disinvestments are undercounted. For example, California's WARN Act, requires companies with 75 or more

employees to provide state government with notice of a planned furlough. The fact that companies with fewer workers are not required to do this is one key reason why these events are undercounted.

Using disinvestment statistics are important, because they can highlight shifts in economic activity that are not narrowly captured as exits. These disinvestment data shed additional light on the challenges that the California economy faces. Recent disinvestment events include Apple's decision to build a research campus in Austin, Texas, which will be home to 5,000 workers, and its decision to build a similar campus in Raleigh, North Carolina, within the Research Park Triangle, for 2,700 workers. (Source: <https://abc11.com/apple-research-triangle-park-north-carolina/10822063/>), and the Disney Company decision to move about 2,000 jobs from California to central Florida.

Examining California's economic performance more broadly to include population growth also reveals a struggling state for tech and other businesses. California has become one of the slowest growing states within the last 10 years (as measured across the 2010 and 2020 censuses). Due to this slow growth, California recently lost a seat in the House of Representatives (and electoral college), the first time ever this has happened.

California thus joins the ranks of other states losing House seats, such as New York and Illinois, which have been losing House seats for years. To put California's House loss in perspective, note that California gained 40 House seats between 1920 and 1990 as it experienced an unprecedented population and economic boom. Today, the "New Californias", the fastest growing states that are gaining House seats, are Texas, Florida, and Arizona.

It is also instructive to examine statistics that indirectly highlight California's recent losses and economic challenges. San Francisco, our largest tech hub, now has 17 million square feet of vacant office space, which reflects the fact that 63 percent of San Francisco businesses have already downsized or plan to do so. And forty-eight percent of San Francisco businesses plan to bring back 50 percent or less of their workforce. (Source: <https://sfciti.org/sf-tech-exodus/>).

In 2020, U-Haul reported a nine percent increase in departures from San Francisco, and a 31 percent drop in San Francisco arrivals, and it has been estimated that net domestic exits from San Francisco increased by 178 percent. More people left the state than moved into the state for the first time.

Of those moving out of San Francisco, there is some variability in the estimates of those that remain in California versus those who leave the state. These estimates range from 60 percent of those moving from the *city of San Francisco leaving California* (sfciti.org/sf-tech-exodus) to about 20 percent moving from *the county of San Francisco leaving California* (LA Times).

These data and statistics indicate that California's remarkable run of tech dominance is in jeopardy. As Tesla's Elon Musk explained on his announced move, "If a team has been winning for too long, they do tend to get a little complacent, a little entitled and then they don't win the

championship anymore. California has been winning for too long,"" (Source: <https://www.lamag.com/citythinkblog/elon-musk-texas/>)

3. Reasons for Companies and People Leaving California

The location of businesses and workers, at least up to the Covid pandemic, have typically gone hand in hand, which means that challenges facing one of these groups directly, means that the other faces these challenges indirectly, and vice versa.

For workers, which typically present a business's largest single production cost, the most difficult challenge is housing. This is particularly critical for the San Francisco and Silicon Valley tech communities, where median home prices are around \$1.6 million (Source: California Association of Realtors), and where only about 20 percent of households have an income that can support housing at that price point, which comes on top of having a 20 percent down payment (around \$320,000) to obtain a conventional 80 percent loan-to-value mortgage.

To put this in perspective, the San Francisco Chronicle notes that the median software engineer in San Francisco earns about \$140,000 per year, compared to about \$104,000 elsewhere in the country. www.sfciti.org, which has been following San Francisco's tech exodus, reports that the cutoff salary for buying a San Francisco home is \$194,000, after taxes. In contrast, sfciti.org report that the median-salaried tech worker in 90 of the 100 largest metro areas in the U.S. can afford to buy the median-priced home.

The share of households who can purchase a median-priced home, averaged across the four tech areas of San Francisco, Silicon Valley, Los Angeles, and San Diego is about 26 percent. In sharp contrast, this statistic, averaged over Austin, Dallas, and Houston, with Dallas and Houston also becoming tech hubs, is about 62 percent. Including the other growing tech hubs of Atlanta, Miami, Denver and Nashville to this group of Texas cities yields a simple average of 59 percent, which is more than twice as high as those in the aforementioned California tech hubs.

It is perhaps not surprising that many Silicon Valley workers are young (35 years old or younger), single, and childless, what demographers call "untethered" workers, which refers to those who do not have strong ties to the area. This is also a demographic group that has pursued several non-traditional living arrangements, including buying an old van (with a sleeping area), parking it on their employer's parking facilities, and living out of it, as many young Google employees now favor, as they use Google's restroom facilities for personal care and its cafeteria for their meals.

This discussion suggests that Silicon Valley and San Francisco may ultimately be home to the most productive tech firms, such as Apple, Netflix, Google, and Facebook, in which the

latter two firms pay a median salary of around \$250,000 annually. But housing costs are clearly a huge roadblock for hiring workers at startups and younger, less established firms that do not have the ability to pay that level of salary and may mean a future Silicon Valley that is smaller and less vibrant. (Source: (<https://www.bizjournals.com/sanjose/news/2019/05/07/median-pay-tech-companies-goog-fb-netflix-intel.html>))

It is widely agreed that economic policies are the key reason why California housing is so expensive. One key policy is the California Environmental Quality Act (CEQA), which is abused routinely to block or delay development, as interest groups that range from labor unions to community activists to competing businesses, leverage the ability to file or threaten to file a CEQA lawsuit to extract developer concessions, often under the false guise of an environmental group.

The most egregious abuse of CEQA that I am aware of occurred with the Newhall Ranch development, near Valencia. A host of CEQA lawsuits delayed final approval of Newhall Ranch for nearly 25 years, in which the developer agreed to install 20,000 EV charging ports for a city which will have about 20,000 autos. Given that only one percent of California cars are EV, this means that Newhall Ranch will have an excess supply of EV charging ports of about 100-fold. The approval legacy of Newhall Ranch highlights much of what is wrong with building in California.

In terms of exit reasons on the firm side, high taxes, burdensome regulations, and a high cost of doing business, including expensive workers (which partially reflects high housing costs), and expensive office space, are the major reasons given by firms who are leaving California. A representative response for California firm exits was made by Walt Disney Co. very recently, which stated that Florida's "business-friendly climate" was a major factor in expanding their Florida workforce, which already stands at 60,000.

This "business friendly" explanation made by Disney largely dovetails with independent rankings of business climates at the state level, and surveys of CEOs and tech executives about California's business climate.

The American Legislative Exchange Council, which is a research association supported by state governments ranks California 40th in terms of a business-friendly environment, compared to Texas (ranked 1), Florida (ranked 6) and Arizona, (ranked 14). *Chief Executive Magazine*, which ranks states annually based on the cost of doing business, ranks California last, compared to Texas (ranked 1), Florida (ranked 2), and Arizona (ranked 7). This annual survey of CEOs has always ranked California last among all states. A survey of San Francisco tech executives, reported by sfcity.org, finds that 59 percent of these business leaders believe that tax and regulatory policies are driving businesses out of San Francisco. These S.F. tech executives noted that the city of San Francisco has raised business taxes almost every year in the last decade and has some of the most expensive office space in the country.

The statistics cited above, including the widely publicized moves of Hewlett-Packard, Oracle, and Tesla, indicate that Texas is receiving the lion's share of technology businesses that are leaving California. To get a better idea of why this is the case, Table 1 provides an "economic scorecard" that compares the tech hub to of San Francisco to the tech hub of Austin, Texas. The statistics include real and nominal median household income, median housing costs, overall cost-of-living differences, corporate, personal and property taxes, school quality, and regulatory burden, all of which are important factors in the location of individuals and businesses.

The table clearly shows why Austin has become such a rapidly growing technology hub. All of the economic statistics are considerably better in Austin. Austin's median home price is lower by nearly a factor of three compared to San Francisco, and the median Austin apartment rent is lower by about a factor of two. After adjusting for cost-of-living differences, San Francisco's seemingly high median household income of \$112,000 is sharply reduced to \$41,600, reflecting a cost of living that is 169 percent higher than the national average. In contrast, Austin's \$81,000 nominal income is \$68,000 after adjusting for their modestly higher cost of living (19 percent) relative to the rest of the country.

All tax categories are better in Texas, despite a higher property tax *rate* of 2.2 percent, compared to about a 1.15 percent rate in California. Property taxes (measured in dollars paid by homeowners) in Austin are lower because home values are so much lower than in San Francisco. The fact that San Francisco home prices are about three times higher than in Austin means property taxes for the median San Francisco home are about 50 percent higher than for the median Austin home.

Texas has almost no corporate income tax nor does it have a personal income tax, and Texas's overall tax burden ranks 11th in the country, compared to California's overall burden ranking of 49th, which includes the eight highest corporate tax rate in the country.

The regulatory burden, which is commonly measured according to that of pages of regulations, is about 50 percent higher in California than in Texas.

Another important issue, but which is very difficult to measure, is future expectations of policies. California continues to propose more tax increases and regulations, including rescinding California's Proposition 13 tax protection to businesses, and there is an expectation that a 16.4 percent top income tax rate will be proposed soon. Negative expectations of future policies influence business investments now, because once these investments are made, they are very expensive to reverse.

So why aren't more people and businesses leaving California? The old saw about California weather is almost certainly true. The last row in the table shows substantially better weather in California, with an average high temperature of 70 degrees in San Francisco during August, together with a very comfortable humidity level (measured by the dew point). In sharp contrast, Austin's average high temperature in August is 96, with an extremely uncomfortable

dew point of 71 degrees. (The dew point is the temperature at which relative humidity measures 100 percent, and moisture is released from the air).

Table 1 – San Francisco, Ca vs. Austin, Texas Economic Scorecard

Scorecard Statistic	San Francisco	Austin
Median Home Price	\$1.6 million	\$562,000
Median Apartment Rent	\$3040 per mo.	\$1540 per mo. (15% larger unit)
Household Income	\$112,000	\$81,000
Cost-of-Living (US avg = 100)	269	119
Pre-Tax Real Household Income	\$41,600	\$68,000
Median Property Taxes	\$18,600 (1.15% tax rate)	\$12,900 (2.2% tax rate)
School Quality	38 th	30 th
Corp Tax Ranking	42 nd	Tied for 1 st
Overall Tax Burden Ranking	49 th	11 th
Regulatory Burden	396,000 pages	263,000 pages
Ave. August Weather	70 F high, 58 F dew point	96 F high, 71 F dew point

While it is beyond the scope of this paper to analyze why the two states have such different policies, the composition of the state legislatures is very different, and these compositional differences may help explain why policy choices are so different.

Chuck Devore, a former California legislator who moved to Texas, has emphasized that in California’s 2019-20 state senate, 79 percent of the Democrats had no private sector experience. In contrast, 58 percent of the Republicans had no public sector experience, and their background was “exclusively business.” The same story applies in the state assembly, where 73 percent of the Democrats have no private sector experience.

Texas voters, however, elect more business leaders to the legislature regardless of party. He also noted that an inordinate number of California legislators had either worked for government or were attorneys. But Democrats in the Texas legislature are more than twice as likely to claim private-sector experience outside the field of law while 75 percent of Texas Republicans has a previous or concurrent career in business, farming or medicine.

The fact that so few California Democratic legislators have a business background may help account for why California continues to adopt policies that are such hindrances to businesses, raising their costs, reducing their efficiency, and constraining their opportunity to grow and prosper. Without a business background, these legislators may not have a detailed understanding of how a business is run, the slim margins most businesses must try to manage, or the challenges that businesses face.

3. Venture Capital: Will This Still Be the Big Positive for California?

The supply of venture capital, and venture capitalists, in San Francisco and Silicon Valley has been a very important determinant of the health of California's tech industry. WhatsApp, Facebook, Groupon, Google, Twitter, Spotify, Dropbox, Zoom, Airbnb, and Uber are some of the VC-backed, transformational technology businesses within the last 15 years.

However, the San Francisco and Silicon Valley's dominance in VC may be ending. PitchBook, a leading data analysis support firm for the VC industry, notes that Silicon Valley's share of VC has declined each year since 2006, from about 32 percent of venture deals performed in 2006, but has dropped to about 22 percent last year, as some investors are moving to the new tech hubs of Austin, Miami, and Salt Lake City. The share of VC deal value, which is presently around 40 percent, is still strong in Silicon Valley and San Francisco, though this value statistic has also declined.

Moreover, the old business model in which VC was locationally joined at the hip with their startups may be changing. The VC firm 8VC moved to Austin, but still invests 70 percent of their funds in California businesses. PitchBook expresses concern that Covid and the many departures from San Francisco may continue to reduce the importance of California's leadership role in VC. (Data sources: https://files.pitchbook.com/website/files/pdf/Q4_2020_PitchBook_Analyst_Note_2021_Venture_Capital_Outlook.pdf, <https://www.cnbc.com/2021/01/14/silicon-valleys-share-of-venture-capital-may-drop-below-20percent-in-2021.html>).

4. Policy Reforms to Improve California's Business Climate

This discussion highlights the need for significant California policy reforms that affect housing, business costs, and business efficiency. One is that housing costs must be reduced. There are common-sense CEQA reforms that would significantly move this needle, including requiring litigants to disclose their identities, require losing parties to pay court costs, just as is required in other civil lawsuits, prevent duplicative lawsuits, eliminate the stopping of a project unless there is established proof that its continuation will create substantial, irreparable environmental harm, or poses a significant risk to public safety, and enforce the 9-month deadline for finalizing CEQA rulings, meaning that court decisions must fall within this timeline.

A second housing policy reform is eliminating prevailing wage requirements on projects, which requires developers to pay union wages, and which is an implicit subsidy towards hiring union labor. Beacon Economics, a California economics consulting firm, estimates that prevailing wage requirements can raise construction costs by as much as 46 percent.

A third reform is to prevent local governments from permit overcharging. Permit and project impact fees have skyrocketed in some areas of California. In the city of Fremont, these fees total nearly \$160,000 for a median price home of \$850,000 in a 20-home development.

California must also create a much better business climate to be competitive with the states that are the destination of exiting California businesses, including Texas and Florida. Regulatory reform is needed. It is beyond the scope of this paper to analyze this important issue, but a good starting point is teaching policy makers that without such changes, California's economy will continue to suffer these types of losses.

In 2018, several California Chamber of Commerce-supported regulatory reform bills advanced through committee, but ultimately died. All of these bills were commonsense changes that would have required transparency in policy making, the use of cost-benefit analysis in implementing regulatory changes and updating state government IT facilities. Even if just the latter bill had passed, California could have avoided much of the \$32 billion in fraudulent unemployment benefits payouts that occurred during Covid.

Tax reform is also needed. It has long been recognized that California relies too much on personal income taxes and corporate income taxes, and that the income tax base is too narrow and too volatile. However, it is unlikely that such reform is likely, given the political challenges involved in such reform.

5. Conclusions

California's business losses largely reflect economic policies that have driven up housing and business costs, which in turn have made relocation to other states superior choices. While California remains the home of remarkable companies, entrepreneurs, and employees, all face substantial economic challenges that become more severe each year. The losses of Tesla, Oracle, Hewlett-Packard, and other leading companies could have been avoided had policy reforms been implemented to make California more business friendly, more household friendly, and more competitive with other states. The solutions to these problems are straightforward, reflecting commonsense economic thinking founded on the view that creating a more cooperative and productive public sector – private sector partnership is the way forward.

Appendix Table 1, California Exits Since 2014 (Source: California Policy Center)

Person / Business	Month and Year of Announcement	New Location
Becca Tobin, Haylie Duff, and Jamie-Lynn Sigler	June 2021	Texas
Landing	June 2021	Alabama
DARVIS	May 2021	Tennessee
SmartAction	May 2021	Texas
Snowflake	May 2021	Montana
GlobalFoundries	April 2021	New York
Nissei America	April 2021	Texas
PayCertify	April 2021	Nevada
First Foundation	April 2021	Texas
Huckleberry Insurance	March 2021	New York
Educational Media Foundation (EMF)	March 2021	Tennessee
Jim Breyer	March 2021	Texas
Moov Technologies	March 2021	Arizona
NinjaRMM	March 2021	Texas
Wiley X	March 2021	Texas
Gene Simmons	March 2021	Nevada
Logan Paul	February 2021	Puerto Rico
Stitch Fix	February 2021	Multiple States
Viavi Solutions	February 2021	Arizona
ZP Better Together	January 2021	Texas
OPSWAT	January 2021	Florida
Align Technology	January 2021	Arizona
Amazing Magnets	January 2021	Texas
Digital Realty Trust	January 2021	Texas
Lion Real Estate Group	January 2021	Texas
Larry Ellison	December 2020	Hawaii
Oracle Corporation	December 2020	Texas
Elon Musk	December 2020	Texas

Tanium	December 2020	Washington
Hewlett Packard Enterprise	December 2020	Texas
Drew Houston	November 2020	Texas
Keith Rabois	November 2020	Florida
Joe Lonsdale / 8VC	November 2020	Texas
David Blumberg	November 2020	Florida
Jonathan Oringer	October 2020	Florida
Ben Shapiro	October 2020	Florida
Arctic Wolf	October 2020	Minnesota
CBRE Group	October 2020	Texas
Pabst Brewing Company	October 2020	Texas
Titans of CNC	October 2020	Texas
The Daily Wire	September 2020	Tennessee
Incora	September 2020	Texas
O.W. Lee	September 2020	Texas
Ron Suber	September 2020	Colorado
Palantir	August 2020	Colorado
Dasan Zhone Solutions	August 2020	Texas
ShiftPixy	August 2020	Florida
Varo Money	August 2020	Utah
The Joe Rogan Experience / Joe Rogan	July 2020	Texas
ASGN	June 2020	Virginia
Filetrail	June 2020	Texas
KVP International	June 2020	Texas
Finical, Inc.	February 2020	Texas
SignEasy	February 2020	Texas
XOJET	January 2020	Florida
QuestionPro	January 2020	Texas
Norton Lifelock	January 2020	Arizona
Bob Ackerman	2020	Wyoming
The Raiders (NFL Team)	January 2020	Nevada
Charles Schwab	November 2019	Texas
NuZee	November 2019	Texas

Chubbies Shorts	October 2019	Texas
Aeromax	October 2019	Texas
Caring.com	October 2019	North Carolina
Kitsbow	September 2019	North Carolina
Chip 1 Exchange	August 2019	Texas
Mitsubishi Motors N.A.	June 2019	Tennessee
Zoho	April 2019	Texas
Zovio	April 2019	Arizona
Peter Attia	April 2019	Texas
Panoramic Doors	April 2019	Texas
The ICEE Company	March 2019	Tennessee
Dole Food	March 2019	North Carolina
Universal Electronics	February 2019	Arizona
BioIQ	January 2019	Georgia
DJO	December 2018	Texas
Djo Global	December 2018	Texas
McKesson	November 2018	Texas
rfxcel	November 2018	Nevada
Baswood	October 2018	Texas
DealerSocket	October 2018	Texas
Localwise	October 2018	Colorado
Core-Mark	September 2018	Texas
Mithrill Capital Management	September 2018	Texas
Outdoorsy	August 2018	Texas
VF Corp. (North Face)	August 2018	Colorado
C2 Wireless	July 2018	Texas
AJ+	June 2018	District of Columbia
Bechtel Group	June 2018	Virginia
Price Pump Company	May 2018	Idaho
MedeAnalytics	April 2018	Texas
RJR Technologies	March 2018	Arizona
Tim Ferriss	December 2017	Texas

Aerojet-Rocketdyne	April 2017	Alabama
Nestle	February 2017	Virginia
Xero	February 2017	Colorado
CKE Restaurants	January 2017	Tennessee
LoanBeam	January 2017	Texas
United Scientific Group	December 2016	Texas
Jacobs Engineering Group	October 2016	Texas
Jamba Juice	May 2016	Texas
Bare Escentuals	May 2016	New York
C&S Propeller	May 2016	Texas
Calcomp	April 2016	Texas
Kubota Tractor Corporation	May 2015	Texas
Toyota Motors North America	April 2014	Texas

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