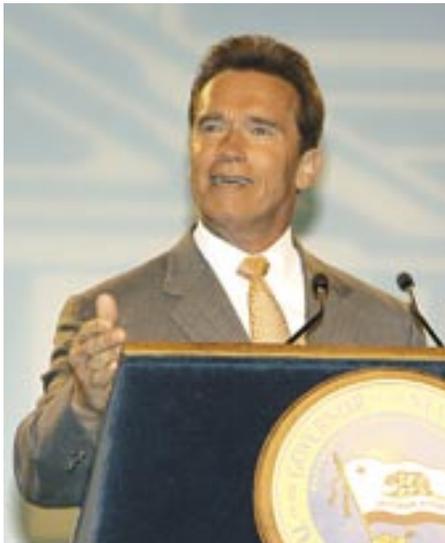


ALERT



Governor Highlights Need for 'Year of Reform' Agenda

Chamber Chair Promotes Positive Jobs Climate



Governor Arnold Schwarzenegger

Governor Arnold Schwarzenegger highlighted the need for a vibrant economy and stronger jobs climate this week at the 79th annual Golden State Breakfast, a prelude to the California Chamber's annual Business Legislative Summit.

"To give you the state of the state: jobs are up, the economy is up, revenue is up," said Governor Schwarzenegger. "Last year I was here telling you how great it was that we didn't have to raise taxes and we could balance the budget — and today I am back again saying to you how great it is that we didn't have to raise taxes and we balanced the budget."

Reforms Needed

Further progress, however, will require government reforms, the Governor told the 2,000 breakfast attendees, who come from business, industry, agriculture, the military and other segments of California's economy.

The Governor is calling for reforming the budget system, the education system, the pension system and the method used to redraw political district lines.

"To rebuild California, we must first reform California," Schwarzenegger said. "We must create reform . . . but these are big battles. It is impossible to move the agenda forward with the legislators . . . This is why it is difficult to create change. This is not Democrats versus Republicans; this is status quo versus change."

Business Climate Important

Chamber Chair Eugene J. Voiland, president and chief executive officer of Aera Energy, LLC, commended the Governor for his efforts to strengthen

See Governor: Page 8

Bipartisan Doubts Stop 'Job Killer' Housing Bill



California Chamber-opposed legislation that would have slowed development of affordable housing in the state fell short of the votes needed to pass the Assembly last week.

AB 802 (Wolk; D-Davis) would have slowed the local planning process and increased the opportunity for unnecessary litigation by forcing local government to include a number of new mandates in the local planning process.

The bill failed on a vote of 36-33, less than the majority needed to pass, with Democrats joining Republicans in either voting against or abstaining on the proposal.

Higher Costs

"California needs to streamline the planning process to help meet the demand for affordable housing," said Charles Bacchi, Chamber legislative advocate. "Unfortunately, AB 802 would have made the general plan process more expensive, litigious and cumbersome by cluttering it with new requirements."

AB 802 sought to mandate that the conservation element of the general plan include numerous considerations of flood management even though general plans

See Bipartisan: Page 7

Inside

Economic Advisory Council Report: Pages 13-15



California Chamber Chair Eugene J. Voiland

Labor Law Corner

Equipment Failure Not Usually Cause to Permit Partial Pay of Employees



Gary Hermann
Labor Law Advisor

If we send employees home early because of equipment failure, must we pay them for the entire shift? They were sent home about one hour early.

The provisions of the Industrial Welfare Commission (IWC) reporting time pay provisions are designed to compensate employees for at least a portion of

the time they make themselves available to the employer.

The requirement is that on each day the employee reports for work and is not put to work or is furnished less than half of his/her usual or scheduled day's work, he/she should be paid for half of his/her usual or scheduled day's work at no less than two hours and no more than four hours.

Because four hours is the maximum pay required by the reporting time requirements, where an employee has worked more than four hours before the work stoppage, absent the requirement of a second reporting, the provisions of the section would no longer apply.

Were it a matter of employees reporting for work and being sent home because of equipment failure, you would look at the reporting time pay provisions of the IWC Orders.

Outside Employer's Control

The language of subdivision 5(c)(3) of the IWC Orders provides an exemption to the section's reporting time pay requirements if the interruption of work is caused by an act of God or other cause not within the employer's control.

Obviously, a loss of power may or may not be an act of God as that term is usually used. The question then becomes what is meant by "other cause not within the employer's control."

The term "act of God" is defined by

Webster's New Collegiate Dictionary as "An inevitable accident. Such an interruption of the usual course of events that no experience, foresight or care which might reasonably be expected could have foreseen or guarded against it."

The IWC did not intend to require a determination if the interruption was "reasonably" within the employer's control, for it could easily have said so. It must therefore be concluded that what was intended was that the interruption was not even remotely within the employer's control. An equipment failure is obviously subject to someone's control, and the employer would appear to be the obvious choice.

Find answers to labor law questions at hrcalifornia.com

California Chamber Officers

Eugene J. Voiland
Chair

Donna F. Tuttle
First Vice Chair

Russell Gould
Second Vice Chair

To be elected
Third Vice Chair

John W. Koeberer
Immediate Past Chair

Allan Zarembeg
President

Alert (ISSN 0882-0929) is published weekly during legislative session with exceptions by California Chamber of Commerce, 1215 K Street, Suite 1400, Sacramento, CA 95814-3918. Subscription price is \$199 paid through membership dues. Periodicals Postage Paid at Sacramento, CA.

POSTMASTER: Send address changes to *Alert*, 1215 K Street, Suite 1400, Sacramento, CA 95814-3918. Publisher: Allan Zarembeg. Executive Editor: Ann Amioka. Associate: Danielle Kando-Kaiser. Art Director: Andrew Larsen. Graphics Assistant: Jason Untalan. Capitol Correspondent: Kearsten Shepherd.

Permission granted to reprint articles if credit is given to the California Chamber of Commerce *Alert*, and reprint is mailed to *Alert* at address above.

E-mail: alert@calchamber.com.
Home page: www.calchamber.com.

Reporting Time Pay

It should be noted that reporting time pay is not required when "the interruption of work [requiring the second reporting time] is caused by an act of God or other cause not within the employer's control."

The Division of Labor Standards Enforcement has recently concluded that rain or other inclement weather which makes it impossible or unsafe to work falls into the category of "an act of God or other cause not within the employer's control."

This means that if workers are sent home (either immediately upon reporting to work or during the workday) because of rain or other inclement weather, there is no obligation to pay reporting time pay.

Seminars

For more information on the seminars listed below, visit www.calchamber.com/events.

Business Resources

Society for Human Resource Management Annual Conference. Society for Human Resource Management. June 19-22, San Diego. (800) 283-7476.

Labor Law

Employee Discipline and Termination Web Seminar. California Chamber of Commerce. June 8. www.calchamberstore.com/Store/Products/edt.

**Next Alert:
June 10**



Chamber Honors Business Leaders as Small Business Advocates of Year

The California Chamber of Commerce this week honored six small business advocates from around the state with the 2005 Small Business Advocate of the Year Award.

The award recognizes the business leaders for their advocacy efforts on behalf of small businesses.

Presented their awards at a luncheon before more than 800 attendees at the Chamber's Business Legislative Summit in Sacramento were:

- Mike Fox Jr. president, M.E. Fox & Company, San Jose;
- Susan Graham, vice president of human resources, Buenaventura Medical Group, Ventura;
- Matt Kinley, partner, Tredway, Lumsdaine & Doyle, LLP, Long Beach;
- John Parsons, agent, Horrell Realtors, Redondo Beach;
- Terry Ramus, owner, Diablo Analytical, Antioch; and
- Jim Theis, real estate/broker associate, Coldwell Banker Endsley & Associates, Turlock.

The honorees were nominated by local chambers of commerce and selected by a task force made up of members of the California Chamber's Small Business



California Chamber Chair Eugene J. Voiland (right) presents the 2005 Small Business Advocate of the Year awards to (from right): Jim Theis of Turlock; Matt Kinley of Long Beach; Susan Graham of Ventura; Mike Fox Jr. of San Jose; John Parsons of Redondo Beach; and Terry Ramus of Antioch.

Committee.

The criteria used in the selection process included involvement in chamber legislative committees, testifying at government hearings, authoring articles, conducting research on issues and serving

in a leadership capacity on local and state ballot measures.

Profiles of each award recipient will appear in future issues of *Alert* and on the California Chamber's website.

Staff Contact: Dave Kilby

Long Beach Area, Napa Chambers Get Advocacy Partner of Year Award



California Chamber President Allan Zarembeg (left) presents the Advocacy Partner of the Year Award to the Long Beach Area Chamber (left photo), represented by (from left) Janet Nguyen, vice president, government and public affairs; Lou Anne Bynum, chairman of the board; and Randy Gordon, president/chief executive officer; and the Napa Chamber (right photo), represented by Kate King, chief executive officer (center), and Connie Anderson of Napa Valley Marketplace Magazine. This is the third year in a row that the Long Beach Area Chamber has received the award.

Central American Trade Agreement Faces Votes in Key Congressional Committees

Chamber Urges Businesses to Ask Congressional Representatives for Support

Key congressional committees are expected to vote in June on the California Chamber of Commerce-supported U.S.-Dominican Republic/Central American Free Trade Agreement (DR-CAFTA).

The U.S. Senate Finance Committee is expected to consider DR-CAFTA the second week in June, with consideration by the U.S. House Ways and Means Committee to follow shortly thereafter.

Benefits of Agreement

The trade agreement was signed on May 28, 2004 in Washington, D.C. On August 5, representatives from the United States and the Dominican Republic signed an agreement formally including the Dominican Republic in the agreement.

When the DR-CAFTA is implemented, more than 80 percent of U.S. exports will be able to enter the DR-CAFTA countries duty-free, with all products having duty-free access in 10 years.

The six nations represented by the

DR-CAFTA (Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) will be the second largest U.S. export market in Latin America, behind Mexico. The United States exported more than \$15 billion in goods to the five Central American countries included in the agreement in 2004, more than U.S. exports to Russia, India and Indonesia combined.

With the Dominican Republic added to this group, total two-way trade with the United States topped \$1 trillion.

The DR-CAFTA is expected to contribute to stronger economies, the rule of law, sustainable development, and more accountable institutions of governance, complementing ongoing domestic, bilateral and multilateral efforts in the region.

A study by the U.S. International Trade Commission has indicated that the DR-CAFTA will increase U.S. exports worldwide by \$1.9 billion upon implementation, more than any other recent free trade agreement.

Action Needed

Six members of the California congressional delegation sit on the U.S. House Ways and Means Committee. Contact these congressional representatives and urge them to **support** DR-CAFTA.

Congressmen Xavier Becerra (D-Los Angeles), Wally Herger (R-Marysville), Devin Nunes (R-Visalia), Fortney "Pete" Stark (D-Fremont), Bill Thomas (R-Bakersfield) — committee chairman, and Mike Thompson (D-St. Helena). For a sample letter, please visit www.calchamber.com.

Staff Contact: Susanne Stirling

Salinas Chamber Is Human Resource Compliance Partner



Beverly Meamber, president/chief executive officer of the Salinas Valley Chamber, accepts the Human Resource Compliance Partner Award from California Chamber President Allan Zaremberg. The award recognizes the local chamber that has gone above and beyond the call of duty in working with the California Chamber to inform its membership about new state and federal laws. The Salinas Valley Chamber more than doubled its sales of California Chamber compliance law products in the last year.

In Memoriam: Gordon K. Van Vleck



Gordon K. Van Vleck

Gordon K. Van Vleck, chair of the California Chamber of Commerce in 1979, passed away on May 19. He was 85.

A third generation cattle rancher, Van Vleck was active for many years

in the industry, serving as president of the California Cattlemen's Association in 1961, being named the California Livestock Man of the Year in 1966 and serving as president of the American National Cattlemen's Association in 1974.

At one time, the family partnership ranch, located in Sacramento, Amador,

El Dorado and Sierra counties, consisted of 15,000 acres of range and pasture land and carried about 1,500 commercial beef cattle.

Van Vleck was a graduate of Sacramento City College. From 1942 to 1946, he served in the U.S. Army in the European Theater, attaining the rank of field artillery captain.

His many industry and community activities included serving as founder and president of the Council of California Growers in 1965 and as a director of the board of Blue Shield of California from 1982 to 1994. President Gerald R. Ford named him to the Advisory Committee on Trade Negotiation in 1975.

Van Vleck served as secretary of the state Resources Agency for Governor George Deukmejian from 1983 to 1991.

Remarks by Eugene J. Voiland

Chamber Promotes Vibrant Business Climate, Well-Educated Workforce to Support Jobs

Following are the remarks presented by California Chamber Chair Eugene J. Voiland at the Golden State Breakfast on May 25. He is president and chief executive officer of Aera Energy LLC, Bakersfield.

I first came to this great state in 1968 for a summer job. What I found was a vibrant environment and a populace with a can-do, will-do attitude. No problem was too great that it couldn't be solved; no dream was too big that it couldn't be realized. That attitude was alluring and contagious.

I grew up in Washington State in a town with 10,000 people. I remember driving into Los Angeles for the first time, on a Sunday afternoon. The closer I got to the city in my 1954 Mercury, the faster the traffic moved — bumper to bumper, even on the weekend. I was amazed by the energy and vitality of the whole scene. I was so taken by the experience that I accepted an offer of full-time employment at the end of the summer — on the

spot. I never even thought about looking anywhere else. I wanted to be part of this great state and I knew it would give me the opportunity to

reach for more than the proverbial "brass ring" — after all, this is the Golden State!

Since that magical summer, I have left and returned to California four times. This has become our home; and to this day I firmly believe that we Californians have something special here. But, I also believe we have threatening storms on our coastal horizon.

Unlike the past, many of our residents, and some in our Legislature, do not seem to understand the vital role that a reasonable and viable business climate plays in



Eugene J. Voiland

the social, economic and environmental well-being of our state and each of its residents. Sometimes, we seem to be

entrepreneurs. The logic for this priority is straightforward — jobs:

- A job is the economic foundation upon which California prosperity is built.
- Business and entrepreneurs provide the jobs.
- A job provides the income that pays the taxes.
- Those taxes fund our infrastructure, education and health care systems; and protect and enhance our environment.

Our jobs are directly responsible for our quality of life. It goes without saying that lacking or losing a job severely stresses that quality of life and, as we have seen too often, it threatens the very fabric of our society.

Our Governor understands this and has exerted enormous energy to prevent the erosion of our business climate. Last year, he vetoed every "job killer" bill that reached his desk because these bills would have increased costs without providing any meaningful value to the state. He was instrumental in

reforming a runaway workers' comp system that, again, was failing to provide sufficient benefits for the costs being expended.

Unfortunately, six common-sense, business-supported bills that

the Chamber sponsored this year were DOA in the Legislature.

One of the Chamber-sponsored bills would have stopped shakedown lawsuits filed under the Americans with Disabilities Act against California employers by requiring a specific notice of intent to sue and brief period of time where a business can repair an ADA access problem.

A legislative committee killed this sensible reform, even after over 50 businesses expressed their support and shared

See Chamber: Page 6

A job is the economic foundation upon which California prosperity is built.

intent on killing the goose that lays the golden eggs.

One of the primary roles of the California Chamber of Commerce is to promote a healthy business climate. While we pay close attention to the individual needs of our 15,000+ members, our focus is on serving as the voice and advocate for the business community in the state as a whole — from large to small; from high tech to manufacturing; from traditional to cutting-edge

Chamber Promotes Vibrant Business Climate, Well-Educated Workforce

From Page 5

examples of the abuse of the system they will endure from certain segments of the legal community.

The Chamber also sponsored legislation that would have given employers and employees flexibility by allowing individual workers to request and their employers to mutually agree to a four-day workweek.

Permitting individual flexibility is one way employers can help workers find some relief from hectic days, long commutes, and conflicting work and personal schedules. But, this reasonable approach was also rejected by the Legislature.

On the flip side there are, unfortunately, over 40 bills this year moving through the Legislature that will significantly stifle job growth and hurt California's economy.

These "job killer" bills include numerous efforts to increase the tax burden on employers and all Californians — which will hamper California's economic growth and ability to create needed jobs throughout our state.

Also included on this year's "job killer" list are a number of bills that would increase the costs of goods movement in our state, which drives up costs for employers and prices for consumers.

And even after last year's very successful reform of California's unique "sue your boss" law, the Legislature is at it again. They have introduced numerous proposals aimed at increasing litigation opportunities against employers, including a bill that would allow new types of "sue your boss" lawsuits against employers.

We also may be very busy on the initiative front this year. I'm sure the Governor will talk about his reform agenda, which the Chamber supports, but we will also have to play defense against many of the anti-jobs measures which are headed for ballots in the near future, including a

proposal to increase property taxes on all California businesses.

Information on key initiatives supported and opposed by the California Chamber is available at the back of the room this morning.

Sadly, California now ranks near the bottom in providing a favorable business climate. This is even more worrisome today because — like it or not — we are in a global economy. We no longer compete only with other states — we compete with other nations.

In this global economy, capital and intellectual skills gravitate to the location of choice with relative ease. In this age of the Internet and international banks, commerce doesn't pay much attention to political borders. Resources go to where the opportunities are. This global competition makes it even more critical for

that advocates applying sound business principles in our state schools. CBEE has one goal: ensure that every student, no matter their race, ethnicity or income level, masters vital skills at every grade level.

While many may doubt that this can be done, this vision is not a myth. With proper curricula, skilled teachers and administrators who are held accountable, and with students who learn and are tested to prove what they know, this vital objective can be achieved.

Where this effort has been undertaken with the full commitment of all involved, student test scores prove it.

There is a free website being used by educators at many high-achieving schools. I urge you to view the "Just for the Kids" California website at www.jftk-ca.org and to pick up information on this program at the back of the room this morning.

If a job is the foundation of our quality of life, then a well-paying job is essential to elevating that quality. But, good jobs depend on a well-educated workforce.

It is critical that each of us, as leaders in California, get directly involved. We must become part of the solution by working

the California Chamber to be clearly and continually focused on assuring that our business climate is inviting to companies and individuals who want to create jobs and improve our quality of life.

If a job is the foundation of our quality of life, then a well-paying job is essential to elevating that quality. But, good jobs depend on a well-educated workforce. Even with a reasonable business climate, a lack of skilled California workers will force companies to import workers or leave the state to go where the skilled workers are. Either of these options is bad for Californians because both result in a greater segment of our population sliding toward the wrong end of the economic ladder.

The California Chamber, along with many of the state's largest businesses, is a member of California Business for Education Excellence (CBEE), a group

closely with our local school districts and by offering our expertise, time and resources. But, in turn, we must demand accountability and not accept substandard education results. We can do this by electing quality school boards; who then hire quality superintendents; who then create governance systems that result in teachers who teach well and students who learn. Again, this must start with committed, local citizens who must invest their time and effort. It isn't going to happen because we simply wish for it!

This is what our Chamber is all about — creating a vibrant business climate that encourages job growth — and working to improve our educational system so that the jobs created will be high paying and will attract the most talented people and companies.

The future of California and its quality of life depend on it.

Bipartisan Doubts Stop 'Job Killer' Bill



From Page 1

are already required to consider flood risk in the safety element of the plan. The result would have been a slowed planning process and the potential for

increased litigation by requiring these flood and water management criteria be coordinated with the land use element of the general plan.

Key Vote

The May 19 Assembly vote on AB 802 was as follows:

Ayes: Arambula (D-Fresno), Baca (D-Rialto), Bass (D-Los Angeles), Berg (D-Eureka), Bermúdez (D-Norwalk), Chan (D-Oakland), Chavez (D-La Puente), Chu (D-Monterey Park), De La Torre (D-South Gate), Dymally (D-Compton), Evans (D-Santa Rosa), Frommer (D-Glendale), Goldberg (D-Los Angeles),

Hancock (D-Berkeley), Jones (D-Sacramento), Karnette (D-Long Beach), Klehs (D-Castro Valley), Koretz (D-West Hollywood), Laird (D-Santa Cruz), Leno (D-San Francisco), Levine (D-Van Nuys), Lieber (D-Mountain View), Montañez (D-San Fernando), Mullin (D-South San Francisco), Nation (D-San Rafael), Nava (D-Santa Barbara), Núñez (D-Los Angeles), Oropeza (D-Long Beach), Pavley (D-Agoura Hills), Ridley-Thomas (D-Los Angeles), Ruskin (D-Palo Alto), Saldaña (D-San Diego), Salinas (D-Salinas), Umberg (D-Santa Ana), Wolk (D-Davis), Yee (D-San Francisco).

Noes: Aghazarian (R-Stockton), Blakeslee (R-San Luis Obispo), Bogh (R-Beaumont), Cogdill (R-Modesto), Daucher (R-Brea), DeVore (R-Irvine), Emmerson (R-Redlands), Harman (R-Huntington Beach), Haynes (R-Murrieta), S. Horton (R-Chula Vista), Houston (R-Livermore), Huff (R-Diamond Bar), Keene (R-Chico), La Malfa (R-Richvale), La Suer (R-La Mesa),

Leslie (R-Tahoe City), Matthews (D-Tracy), Maze (R-Visalia), McCarthy (R-Bakersfield), Mountjoy (R-Monrovia), Nakanishi (R-Lodi), Negrete McLeod (D-Chino), Niello (R-Fair Oaks), Parra (D-Hanford), Plescia (R-La Jolla), Richman (R-Northridge), S. Runner (R-Lancaster), Spitzer (R-Orange), Strickland (R-Thousand Oaks), Tran (R-Garden Grove), Villines (R-Clovis), Walters (R-Laguna Niguel), Wyland (R-Del Mar).

Absent/abstaining/not voting: Benoit (R-Riverside), Calderon (D-Montebello), Canciamilla (D-Pittsburg), Cohn (D-Saratoga), Coto (D-San Jose), Garcia (R-Cathedral City), Gordon (D-El Segundo), J. Horton (D-Inglewood), Liu (D-La Cañada Flintridge), Torrico (D-Newark), Vargas (D-San Diego).

Staff Contact: Charles Bacchi

Bill to Increase Personal Income Taxes Moving



California Chamber of Commerce-opposed legislation to increase personal income tax rates has passed the Assembly Revenue and Taxation and Assembly Appropriations committees.

AB 6 (Chan; D-Oakland), as originally introduced, increased the tax burden on small business by increasing the personal income tax rate to 10 and 11 percent and the alternative tax rate to 8.5 percent.

To move AB 6 out of Assembly Revenue and Taxation, the bill was amended to take out the rate increases. The bill still states the Legislature's intent to increase personal income tax rates; the question now is by how much.

The Chamber will continue to oppose this bill because any increase to the tax rate will be a burden on California businesses.

Many of California's small and me-

dium-sized businesses report their income and pay their tax liability on personal income tax returns. Increasing the maximum rates for personal income is a direct increase in costs to these businesses.

Taxes are 19 percent higher in California than the average taxes in the other western states, according to a survey conducted last year by Bain and Company for the California Business Roundtable.

AB 6 will make it even more expensive to do business here at a time when California's policymakers should focus on economic growth and job creation.

Key Vote

The "intent" form of AB 6 passed Assembly Revenue and Taxation, 4-3:

Ayes: Klehs (D-Castro Valley); Chu (D-Monterey Park); Jones (D-Sacramento); Lieber (D-Mountain View).

Noes: Walters (R-Laguna Niguel); Canciamilla (D-Pittsburg); DeVore (R-Irvine).

Staff Contact: Erika Frank

Chamber Opposes Ballot Measures

The California Chamber Board of Directors voted on May 24 to oppose two potential upcoming ballot measures:

- an initiative to impose billions of dollars in new property taxes on California employers (submitted as the Tax Fairness Act of 2005); and

- a measure that will restrict access to certain prescription drugs and ultimately drive up prices (submitted as Cal Rx Plus).

The Chamber Board previously had taken positions on the following pending ballot measures:

- California Live Within Our Means Act - support;
- Put the Kids First Act - support;
- Excellence in Teaching Act - support; and
- Voter Empowerment Act - support.

Staff Contact: Sara Lee

Legislative Summit Speakers Offer Insights on F



A trio of journalists who regularly cover the State Capitol gives the audience at a general session of the California Chamber Business Legislative Summit examples of what it is like to cover California politics and policy in an atypical year, such as this one. From left are David Drucker, *Inland Valley Daily Bulletin*; John Myers, KQED Public Radio and *The California Report*; and Robert Salladay, *Los Angeles Times*.



Assembly Republican Leader Kevin McCarthy of Bakersfield explains why he considers 2005 a pivotal political year for the future of California and emphasizes the need for reforms to fix the state's "dysfunctional" government structure. "If we stay the course, we will fundamentally change California for the better," McCarthy said.

Governor Highlights Need for 'Year of Reform' Agenda

From Page 1

California's economy and his continued efforts in preventing the erosion of the state's business climate.

"Last year, he vetoed every 'job killer' bill that reached his desk because these bills would have increased costs without providing any meaningful value to the state," said Voiland. "He was instrumental in reforming a runaway workers' comp system that, again, was failing to provide sufficient benefits for the costs being expended."

Voiland also noted that each of the six "common-sense" reforms sponsored

by the Chamber this year were "DOA in the Legislature" and did not make it past their first policy committee review.

"On the flip side, there are, unfortunately, over 40 bills this year moving through the Legislature that will significantly stifle job growth and hurt California's economy," continued Voiland. "These 'job killer' bills include numerous efforts to increase the tax burden on employers and all Californians ... a number of bills which would increase the costs of goods movement in our state ... [and] proposals aimed at increasing litigation opportunities against employers."

Both the Governor and Voiland spoke about the importance of California's continued economic recovery.

Governor Schwarzenegger attributed increased revenue estimates in his May budget proposal to the state's improving economy and business climate.

Voiland emphasized, "A job is the economic foundation upon which California prosperity is built. Business and entrepreneurs provide the jobs. A job provides the income that pays the taxes. Those taxes fund our infrastructure, education and health care systems, and protect and enhance our environment."

Political Process, Top Issues for Jobs Climate



California Chamber efforts to simplify and improve workplace practices in California are the focus of a Business Legislative Summit breakout session with speakers (from left) Assemblyman Mark Wyland (R-Del Mar); Julianne Broyles, Chamber director of employee relations and small business; Victoria Bradshaw, secretary of the California Labor and Workforce Development Agency; and Assemblyman John J. Benoit (R-Riverside). Wyland is the author of the Chamber-sponsored bill to put workplace posters and regulations in plain language. Benoit is the author of the Chamber-sponsored bill to permit California employers to modernize pay practices and use paycheck cards like other states do.



Legislative efforts to curb frivolous lawsuits filed under the Americans with Disabilities Act is the focus of a breakout session at the California Chamber's Business Legislative Summit featuring (from left) Assemblyman Tim Leslie (R-Tahoe City), David Warren Peters, chief executive officer and general counsel, Lawyers Against Lawsuit Abuse, APC; and Senator Charles Poochigian (R-Fresno). Leslie and Poochigian are the authors of Chamber-sponsored legislation to prevent ADA lawsuit abuse.



Discussing the need to update the state's infrastructure at a California Chamber Business Legislative Summit breakout session are (from left) Sunne Wright McPeak, secretary of the California Business, Transportation and Housing Agency; Tim Schott, partner, Schott & Lites Advocates; and Bev Hansen, legislative advocate for the Air Transport Association of California.



Health care reform proposals being considered at the state and federal levels are the focus of a California Chamber Business Legislative Summit breakout session headed by (from left) Wendy Lazarus, founder and co-president of Children's Partnership; Jill M. Yegian, Ph.D., director of health insurance for the California Healthcare Foundation; session moderator Dominic DiMare, Chamber vice president of government relations; and Assemblyman Keith Richman (R-Northridge), author of a package of reform bills supported by the Chamber in concept.

2005 Legislative Summit Opinion Poll

Attendees Say Business Conditions Better; Legislators, Health Care Costs Top Concerns

1. **From a business perspective do you believe things in California are going in the right direction or are on the wrong track?**
52% Right direction
39% Wrong track
9% Don't know
2. **How are business conditions in California compared to 18 months ago?**
64% Better
27% Same
9% Worse
3. **During the next six months, do you believe the state's economy will:**
48% Stay about the same
41% Improve
11% Worsen
4. **Of the following issues, which is MOST IMPORTANT to you and your business?**
28% Legislators who understand business
17% Health care costs
12% Transportation, infrastructure issues
12% Workers' comp costs
7% Complying with regulatory requirements
6% Housing costs
5% Finding skilled workers
4% State labor laws
3% Energy costs
3% Taxes
3% Legal liability/tort reform
1% Unemployment insurance
5. **And from the same list which is your second choice?**
19% Health care costs
13% Legislators who understand business
12% Workers' comp costs
10% Transportation, infrastructure issues
10% Legal liability/tort reform
8% State labor laws
7% Finding skilled workers
6% Housing costs
6% Complying with regulatory requirements
5% Taxes
3% Energy costs
1% Unemployment insurance
6. **Which of the following best describes what has happened to your workers' compensation insurance costs over the past year?**
23% Decreased 1-9%
12% Decreased 10-25%
1% Decreased more than 25%
23% Stayed the same
18% Increased 1-9%
16% Increased 10-25%
7% Increased more than 25%
7. **Has your company been involved in an ADA lawsuit?**
92% No
8% Yes
8. **Should the Legislature take action to allow a business owner to fix a problem before an ADA lawsuit is filed?**
98% Yes
2% No
9. **Are you aware that the Legislature is considering a number of bills that total approximately \$2 billion in new fees and taxes?**
56% Yes
44% No
10. **What impact do you think this will have on jobs and the California economy?**
71% Significant impact
27% Some impact
3% No impact
11. **What are your company's workforce plans for the next six months?**
33% Plan to expand our workforce, hire new employees in California
2% Plan to expand our workforce, but hire new employees outside California
60% No changes anticipated, will remain the same
5% Employee layoffs or cutbacks anticipated

*2006 California Business Legislative Summit
April 24-25, 2006*

Chamber Board Agenda Encompasses Elections, Politics, Telecom, Oil

Comments from Secretary of State, Senate Leader, PUC Member, Industry CEOs



Secretary of State Bruce McPherson outlines at the dinner gathering of the California Chamber Board of Directors the logistics of preparing for a potential special election this year. He also provided a recap of the office's success in providing business services online.



Senate President Pro Tem Don Perata (D-Oakland) presents his perspective on State Capitol politics and policy debates at the May 24 meeting of the California Chamber Board of Directors.



Susan Kennedy, a member of the California Public Utilities Commission (PUC), explains why the PUC approach to regulating the telecommunications industry is in need of modernization.



Listening to comments on a presentation about the history and future of the oil industry in California at the meeting of the California Chamber Board are (from left) Chamber Chair Eugene J. Voiland of Aera Energy LLC; Chamber Second Vice Chair Russell Gould of Wachovia Bank; Shariq Yosufzai of Chevron Corporation; and Thomas A. Markin of BP. The industry panelists were Voiland, discussing production; Markin, presenting an overview of the state of the oil industry; and Yosufzai, commenting on refining, marketing and distribution.

National Study Highlights Need for Funding to Get California Roadways Back in Shape

State Home to Five of 10 Metropolitan Roadways in Worst Condition

Governor Arnold Schwarzenegger's decision to fully fund Proposition 42 for next year and allocate more than \$1.3 billion to transportation projects comes just in time to aid California's streets and roads.

A national study just released by The Road Information Program (TRIP) confirms what every driver already knows — that the condition of roads and highways in the state's major metropolitan areas is getting worse and that California drivers are paying more each year to maintain their cars and trucks.

Five of 10 Worst

Nationwide, more than one out of four major metropolitan roads are in substandard condition. California is home to five of the 10 worst regions with San Jose ranked second at 67 percent substandard roads.

The other four regions with substandard roads include Los Angeles (64 percent); San Francisco/Oakland (61 percent); San Diego (58 percent); and Sacramento (49 percent).

Kansas City is the worst region in the country, having 71 percent of its roads in poor condition.

Cost to Motorists

On a national average, the TRIP study concludes that each motorist pays about \$401 annually in additional vehicle maintenance costs due to poor roads, but in California the cost is higher. Each motorist here pays additional costs, ranging from a high of \$689 in San Jose to a low of \$593 in Sacramento.

TRIP also points out that the high rate of deterioration on metropolitan roads is due in large part to significant increases in large truck traffic and other large vehicles. Since California's ports make the state the gateway to the Pacific region, increased goods movement and shipping by truck will continue to place stress on the road and highway systems in Los Angeles/Long Beach, San Diego and Oakland.

TRIP points out that when Congress finally approves a new federal surface

transportation act, it will provide less to the states than is necessary to maintain current road and bridge conditions or to make significant improvements.

California voters already addressed this situation head-on by approving Proposition 42 three years ago to dedicate the state sales tax on gasoline for transportation, and approving last November several new or extensions of local sales taxes that are dedicated to transportation. In total, these actions could generate more than \$60 billion for transportation improvements over the next 20 years.

Reactivating Projects

The Governor's decision to restore full funding for Proposition 42 will allow cities and counties to immediately begin construction on local streets and roads and allow the Department of Transportation to put dozens of projects out to bid that have been "sitting on the shelf" due to lack of funding.

Staff Contact: Dave Ackerman

ChamberPAC Recognizes Support from Local Chambers of Commerce



Representatives of local chambers of commerce that have supported ChamberPAC, the California Chamber of Commerce candidate political action committee, so far this year are (from left) David Neary, Long Beach Area Chamber; Cathy Kennerson, El Centro Chamber and Visitors Bureau; Rex Oliver, Murrieta Chamber; Debbie Moreno, Greater Bakersfield Chamber; Tom Grochow, Orange Chamber; Nicole Nicholas Gilles, Brawley Chamber; Benjamin Scott, Oakland Metropolitan Chamber; Elissa Giambastiani, San Rafael Chamber; Lou Monville, Greater Riverside Chambers; Zoe Taylor, Ventura Chamber; Merrietta Fong, Torrance Chamber; and Alice Sullivan, Temecula Chamber. Joining in the ChamberPAC recognition of the local chamber support is Michele Zschau (right), California Chamber vice president of public affairs. The Santa Fe Springs Chamber (not pictured) also is among ChamberPAC supporters to date.



Economic Fundamentals Remain Strong, But Inflation Appears to Be Picking Up

National Economy

At first, 2005 first quarter economic data made people nervous. Slightly higher core inflation, the Fed's claim of being mildly concerned about inflation, plus higher oil prices (essentially an oil tax), evidence of slower growth in some parts of the globe, plus a recent slowing in the nation's gross domestic product (GDP) raised the stagflationary specter.

Indeed, U.S. real GDP growth slowed to a 3.1 percent growth rate in the first quarter, down from 3.8 percent in the fourth quarter. That "slowing" (which may still be revised up) was caused by softer equipment and software growth, bigger imports and slower consumer spending growth.

Minus an inventory built up to \$80.2 billion from \$47.2 billion in the fourth quarter, real final sales of domestic product rose only a "spooky" 1.9 percent in the first quarter of 2005, apparently the second coming of the "soft patch" seen earlier last year.

Meanwhile, inflation appeared to be picking up as energy prices advanced sharply in March. As a result, consumer prices rose 4.4 percent during the first quarter, but this is overstating things.

Even the core consumer price index (CPI) rate of 3.3 percent, which was somewhat worrisome, may be overstated due to special circumstances and the "real" rate of core inflation appears more like 2.6 percent over the last six months. Still, this is higher than the core inflation of 1.5 percent in the first half of 2003.

Although one might find it soothing that a significant portion of the acceleration in core CPI inflation is the

pass-through of the industrial commodity cycle, hopefully a temporary event, the unemployment rate for family men with spouse present is getting tighter, signaling a possible upward trend in hourly compensations and average hourly earnings. In other words, labor markets may get tighter.

bond guys/gals et al., could have a Borg experience: Resistance may be futile. Recent labor market numbers of strong expectations exceeding April non-farm job growth (274,000) could put the bond markets a little bit on the defensive, while at least in one respect the perma-bears could prove to be wrong: no "stag" in the "flation."

Foreign Sector

The foreign sector weakened somewhat, weighed down by its oil dependency. Europe's growth rate is weakening and Germany may slip into a temporary recessionary mode. The United Kingdom is experiencing apparently a soft landing, particularly also in its housing market, where prices declined in a gentle way.

Australia managed to do this also and both managed to curb the "bubble" without declines in job growth. Apparently, it can be done.

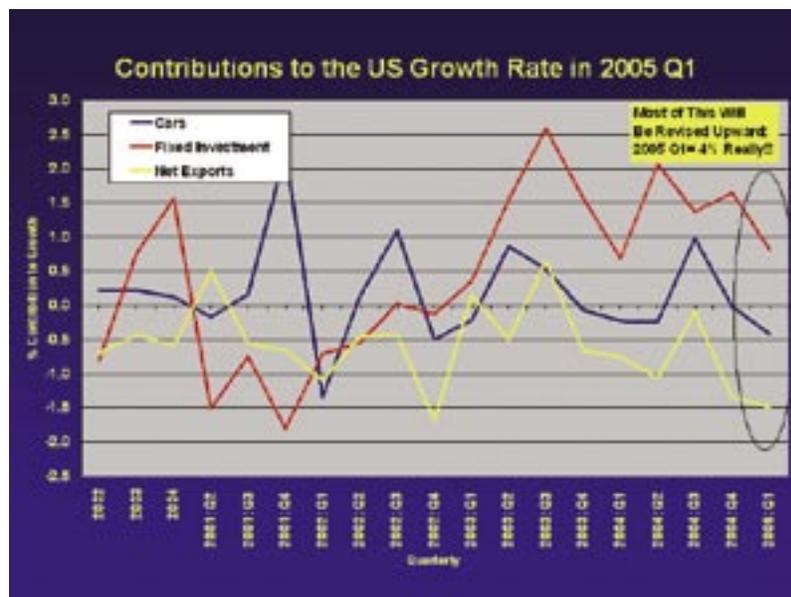
Japan was in recessionary territory during the last half of 2004 and experienced mild deflation again.

It is probably growing again, but only very weakly.

China, meanwhile, continues to grow fast — 9.5 percent in the first quarter of 2005. It may still be overheated, despite attempts by the government to slow things down. However, export-oriented firms in the coastal areas have developed a taste for short-term foreign capital, a potential danger, especially if the Chinese currency gets "liberated."

The dollar, meanwhile, has been getting a little bit stronger and more strength may be coming, especially relative to the Euro. So far at least, the weaker dollar has helped California exports, which were still up 7.5 percent cumulatively for

See Next Page



All of this does seem to suggest that core inflation will continue to move up gradually — but not enough to get overly pessimistic and the conundrum of the bond markets' unresponsiveness to Greenspan's tightening could reflect a disagreement about the dangers of future inflationary pressures.

Of course the bond markets' inflationary "optimism," for which a flat yield curve signals "inflation being under control," may be getting help from the "kindness of strangers" (the Chinese and others), who have no interest in rising longer-term U.S. treasury rates. How the bond market optimism can last depends on the future trend in core inflation itself. In addition, kind strangers, domestic



Economic Fundamentals Remain Strong, But Inflation Picking Up

From Previous Page

the first two months of this year, compared to the same period last year.

The “global” risks are a resurgence of American protectionism, particularly with respect to China, although action against it via tariffs is only going to help other countries with cheap labor. Another risk is that strangers were extra kind and they may be done with their extra activity of boosting their dollar reserves.

California

Officially, California non-farm payrolls gained 17,600 jobs in March this year. This followed a gain of 27,700 jobs in February.

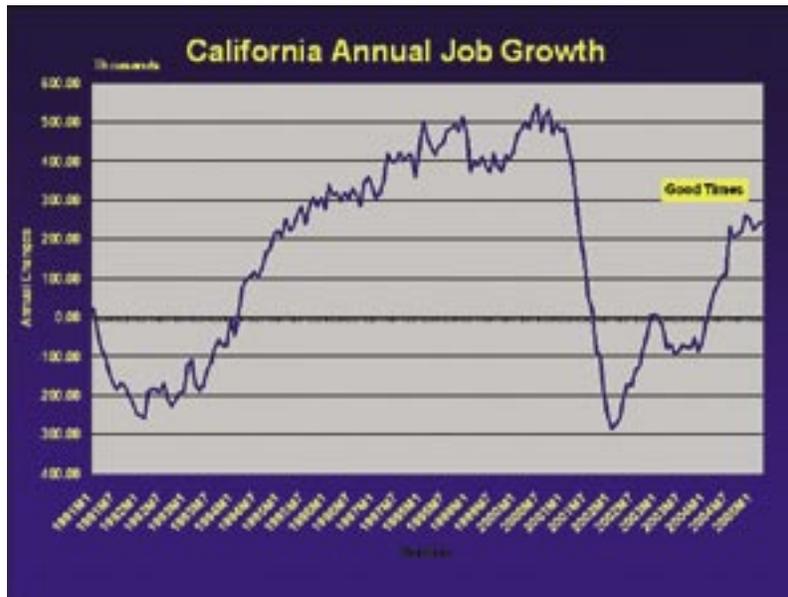
On a year-over-year basis, California job growth was 244,100, not bad, especially since the information sector has finally joined the industries that are growing.

Reflecting stronger economic fundamentals, personal income growth also was improving in the fourth quarter of 2004, thanks also to dividend paid by Microsoft. Tax withholdings continued to be strong in the first quarter of 2005, with an increase of 7.2 percent over the year before, a little slower, though, than the 8.4 percent growth rate in 2004.

Reflecting more good economic news, housing permits continued to run above 200,000 in the fourth quarter of 2004. Concerns continue to exist about interest rate increases, although there is no strong momentum in inflationary pressures.

Nevertheless, California is more prone to interest rate risks than other states, mainly because of its high housing cost and the large share of shorter-term mortgage instruments to finance those high prices.

For example, almost 50 percent of all California home transactions are five-year interest-only loans, which are likely to become less attractive if rates rise, thanks to diminishing returns from amortization



savings when rates go up.

Banking

Bank lending continues to provide welcome support to the economy. Despite a rise in short-term interest rates, bank lending goes on in most areas. Business loans are growing nicely, although rates have been rising a bit.

Real estate remains strong with homeowner equity lending and lines of credit being partially responsible for increases. Net interest margins, however, are beginning to shrink somewhat, thanks to the rise of rates on the short end and a flatter yield curve. Credit quality still is not an issue and stays at current cycle lows. Consumer delinquencies are staying under control.

Real Estate

The California commercial real estate sector continued to improve in the first quarter of this year with Southern California doing very well and Northern California stabilizing. Overall, the business community appears to be feeling better about the economic outlook as indicated by positive net office and industrial absorption, particularly in Southern California.

Orange County is getting better also and industrial vacancy rates remained quite tight throughout the southern por-

tion of the state.

Residential real estate was experiencing somewhat of a recovery after a weaker second half of 2004, when sales declined and price increases flattened out, thanks to a sharp rise in listings. Listings have dropped stridently through May this year, while sales volumes were mixed, with some markets stronger than others. Pricing frenzies occurred again in some markets and multiple offers were on the rise again.

Creative financing and continued low mortgage rates (despite Greenspan's “tightening”) continued to generate strong

housing demand through the spring. Rising short-term rates are beginning to cut into margins of mortgage bankers, which are compensating by creating more volume with more favorable financing. A changed interest rate environment will make this strategy harder to maintain.

Tourism

The tourism industry is cautiously optimistic. The weaker dollar is helping and there is more interest from European tourists, to which anybody who hangs around the Farmers Market on Fairfax and Third in Los Angeles can attest.

Also, Mother Nature has been generous to California mountain resorts. The lodging business reports improved business in the 3 percent to 6 percent range.

Advanced bookings at some Southern California attractions have been growing strongly. The upcoming King Tut show in Los Angeles at the County Museum of Art and the 50th Birthday of Disneyland will give a boost to the Southern California economy.

Agriculture

Last year was a good one for agriculture and the industry expects good profitability in 2005 with good prices and healthy crop volumes.

See Next Page



Economic Fundamentals Remain Strong, But Inflation Picking Up

From Previous Page

Dairies' profitability is being sustained by higher prices for milk, which have been caused by good demand and poor production conditions in the Midwest.

The grape industry expects strong price trends to continue this year because weather conditions and high sales of lower priced wines have sharply reduced the surplus of wine, grape concentrate and raisins.

Producers of tree fruit are hoping for better fruit quality and more favorable weather conditions than the last few years. The markets for nuts, almonds, pistachios and walnuts are strong because of high export demand.

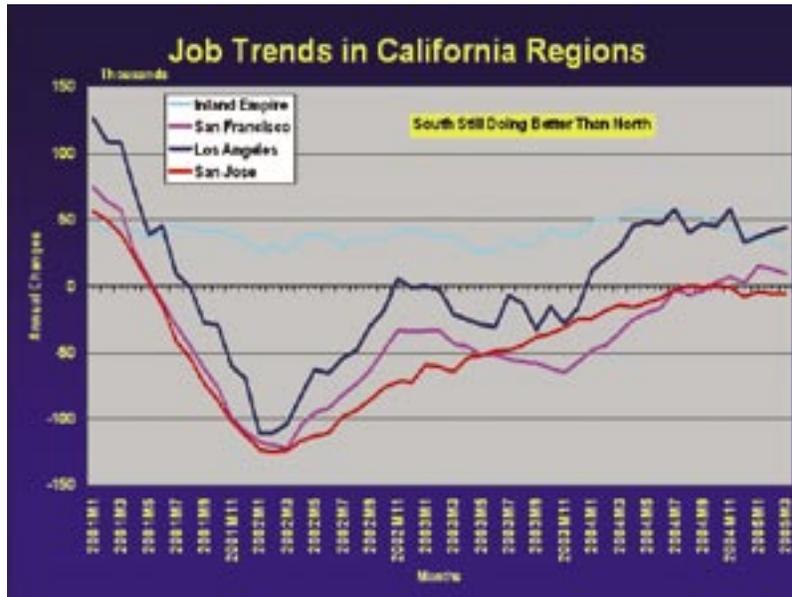
Weather conditions have improved the water outlook for 2005, and most water saved from last year will be available for use this spring. However, the cooler weather and occasional rains are making cotton planting difficult.

Southern California

International trade remains a bright spot for Southern California. The biggest concern in this regard is congestion and the fragile rail infrastructure. An added concern now is that environmentalists are beginning to "get after" international trade.

Entertainment activity continued to be good so far this year. Pilot activity has been strong and production days are up 2.1 percent in the first quarter of 2005 over the first quarter of 2004.

Overall, Southern California has been experiencing good growth in 2004 and so far this year. Orange County and San Diego have experienced good growth in manufacturing. Los Angeles County, in contrast, was disappointing in this regard with no recovery in manufacturing visible yet. Regional managers of the Economic Development Corporation of Los Angeles are reporting more expansion projects.



Meanwhile, aerospace continues to be on the rebound with Boeing getting its act together and fighting back at Airbus. However, Department of Defense cutbacks may jeopardize Los Angeles Air Force Base, and with it 112,000 jobs would be at risk statewide. This could mean a revenue loss for the state of \$350 million.

The targeting of the Los Angeles Air Force Base may be politically driven as the Base Realignment and Closure (BRAC) process appears to be dominated by a Colorado congressman. Many local organizations are considering filing lawsuits if BRAC attempts to close the Los Angeles Air Force Base.

Resources

Water, obviously, has improved after virtually record precipitation in the state. Water reservoirs are 150 percent above normal. The situation concerning the Colorado River is also much better with normal runoffs, the first in six years.

Electricity looks less happy with snow packs in the Pacific Northwest not very significant. Southern California appears at risk of blackouts this summer, again mainly because of transmission issues. San Diego may have a bigger problem than other Southern California metros. The longer-term problems of electricity

in California have not gone away.

Risks

A risk for Southern California continues to be that the defense budget could be trimmed and that some weapons programs with California content might be cut back. The base realignment and closure process could also put a damper on California's economic prospects. Interest rate risks are more severe in California than in other states because of its dependence on residential real estate.

Staff Contact: Dave Kilby



The California Chamber of Commerce Economic Advisory Council, made up of leading economists from the private and public sectors, presents a report each quarter to the Chamber Board of Directors. The council is

chaired by G.U. Krueger, vice president of market research for Institutional Housing Partners. The vice chair is Sheldon Engler, Ph.D., vice president of international research for Charles Schwab Investment Management. The Board liaison is E. Jane Arnault, Ph.D., president and chief executive officer of JurEcon, Inc.

Publication of this report is a project of the California Foundation for Commerce and Education.



The **Employee Discipline and Termination Web Seminar** includes information and practical guidance regarding employee discipline and termination laws. Learn what you must do to conduct a reasonable investigation of employee misconduct and steps to take that effectively discipline an employee or terminate one who fails to meet behavior or performance standards.



CALIFORNIA
CHAMBER of
COMMERCESM

**Employee Discipline
and Termination Webinar**
June 8, 2005 – 10 a.m. PST



\$150 (Non-Members)
\$120 (Executive and Preferred Members)

To register or for more information, visit www.calchamberstore.com.

ADDRESS SERVICE REQUESTED

Helping California Business Do BusinessSM

P.O. BOX 1736 SACRAMENTO, CA 95812-1736
(916) 444-6670 FACSIMILE (916) 444-6685
www.calchamber.com



CALIFORNIA CHAMBER OF COMMERCE

ALERT

Periodicals
Postage
PAID
Sacramento, CA