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# Final Budget Agreement Keeps Lid on New Spending



The Governor and legislative leaders announced on Tuesday, June 13 that they had reached an agreement on a \$125 billion budget for the 2017–18 fiscal year. The legislative vote on the spend-

ing plan was pending as *Alert* went to print, but details were not expected to change from the broad outlines in the announcement.

Like the Governor's May budget proposal, the final plan continues to add to the state's Rainy Day Fund, bringing the total to \$8.5 billion in 2017–18, which is 66% of the constitutional target.

The budget announcement warns of uncertainty about federal actions that "could send the state budget into turmoil," including defunding health care for millions of Californians and ending deductions for state taxes.

#### Final Budget Highlights

The budget news release describes the highlights as follows:

- Repairing Infrastructure: The budget accelerates \$2.8 billion toward fixing roads, strengthening overpasses and bridges, and building mass transit.
- Increasing School Funding: The allocation for K–14 schools is expected to grow to \$74.5 billion in 2017–18, a 58% increase over six years. An additional \$1.4 billion next year for the Local Control Funding Formula will make implementation of the formula 97% complete.

A total of \$14.5 billion in General Fund monies for higher education

includes additional funds to expand capacity for California students at the state's public institutions, create guided pathways for students to earn degrees and credentials and keep attendance costs low. The University of California is held accountable for implementing needed reforms to its cost structure so the system remains sustainable over the long term.

- Reducing Pension Liabilities: The budget includes supplemental payments to the California Public Employees Retirement System (CalPERS) with a loan from the Surplus Money Investment Fund, part of the state's short-term savings account. The payment is estimated to save the state \$11 billion over the next two decades while continuing to reduce unfunded liabilities and stabilizing state contribution rates.
- Expanded Earned Income Tax Credit: The budget expands California's Earned Income Tax Credit (EITC) to support more working families, including self-employed parents, in line with the federal EITC. It also expands income ranges to help families working up to full-time at the newly increased minimum wage benefit from the program. The expansion makes more than 1 million additional households eligible to claim the credit. For the 2015 tax year, nearly 400,000 households claimed the credit.
- Medi-Cal Funding: California will continue its large investments in the Medi-Cal program, including new revenue from Proposition 56, the tobacco tax increase approved by voters in November 2016, to serve millions of people who rely on the program for health care.

Once enacted, the final budget will be available to view at www.ebudget.ca.gov.

# Senate Panel OKs Ban on Salary History Inquiries



**OPPOSE** 

A California Chamber of Commerceopposed bill that seeks to stop employers from "seeking" salary history information about an applicant passed

the Senate Labor and Industrial Relations Committee this week.

The CalChamber opposes **AB 168** (**Eggman; D-Stockton**) because it could expose all employers to unnecessary litigation, create hurdles in the hiring process and is already addressed by existing law.

#### **Current Law**

Last year, the business community negotiated language on a similar proposal (AB 1676; Campos; D-San Jose; Chapter 856) to ensure that an employer could not base an applicant's or employee's compensation solely on prior salary. AB 1676 was signed and went into effect on January 1, 2017.

CalChamber and the large coalition opposing AB 168 believe the Legislature should allow the new law to have an impact before banning any inquiry into an applicant's salary history.

#### **Legitimate Uses of Salary Data**

There are several legitimate, nondiscriminatory reasons employers seek information about an applicant's prior

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#### Cal/OSHA Corner

# Oil Refineries Focus of New Process Safety Management Regulation



**Mel Davis** Cal/OSHA Adviser

Will the new regulation for oil refineries be in addition to Section 5189, the process safety management regulation adopted in 1992?

The scope and application portion of Section 5189, process safety management (PSM) of acutely hazardous materials, states, in part, that the regulations there "... are intended to eliminate to a substantial degree, the risks to which employees

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Email: alert@calchamber.com. Home page: www.calchamber.com. are exposed in petroleum refineries, chemical plants and other facilities.'

The scope and application portion of newly adopted Section 5189.1, however, clearly states that for petroleum refineries, Section 5189.1 supersedes section 5189.

#### **Background**

On August 6, 2012, the Chevron refinery in Richmond experienced a chemical release and fire. The Governor's Interagency Working Group on Refinery Safety was convened and issued a report that raised concerns and made recommendations relating to the safety of California's oil refineries.

The recommendations were to form an Interagency Refinery Task Force (IRTF) to coordinate revisions to California's PSM and accidental release program, strengthen regulations, and improve emergency preparedness and response procedures.

Following publication of the report in 2014, 26 hearings and meetings were held in 2014 and 2015 to discuss PSM and receive participant input.

#### **Major Elements**

It should be noted that all items within the regulation are to be in writing. Following is a summary of Section 5189.1's major elements as outlined by the IRTF:

 Conduct damage mechanism reviews. There are processes that result in equipment or material degradation, such as

equipment corrosion or mechanical wear.

- Conduct a hierarchy of hazard con-
  - Implement a human factors program.
- Have a plan for organizational
- Use a root cause analysis when investigating incidents.
  - Process hazard analysis.

In all, there are 16 major areas within the regulation, including damage mechanism review, mechanical integrity, contractors, and pre-start-up reviews of new, modified and turnaround work, to name a few.

For a brief summary of the regulation, see the Department of Industrial Relations press release at www.dir.ca.gov/ DIRNews/2017/2017-37.pdf.

For the entire regulation, see www.dir. ca.gov/OSHSB/documents/Process-Safety-Management-for-Petroleum-Refineries-txtbrdconsider.pdf.

This regulation was passed by the Occupational Safety and Health Standards Board on May 18, 2017 and has been submitted to the Office of Administrative Law (OAL) for approval. OAL has 30 days to approve the new rule.

The Labor Law Helpline is a service to California Chamber of Commerce preferred and executive members. For expert explanations of labor laws and Cal/OSHA regulations, not legal counsel for specific situations, call (800) 348-2262 or submit your question at www.hrcalifornia.com.

## CalChamber-Sponsored Seminars/Trade Shows

More at www.calchamber.com/events. Labor Law

HR Boot Camp. CalChamber. August 24, Thousand Oaks; September 6, Beverly Hills. (800) 331-8877.

Leaves of Absence: Making Sense of It All. CalChamber. June 22, Huntington Beach (sold out); August 18, Sacramento. (800) 331-8877.

Meal and Rest Break Rules. CalChamber. September 21, Webinar. (800) 331-8877.

#### International Trade

ExporTech Los Angeles. California Manufacturing Technology Consulting. June 20, Los Angeles. (310) 984-0728.

Logistics and Shipping Documents. San Diego Center for International Trade

Development (CITD). June 21, San Diego. Certified Global Business Professional Training Registration. Far North CITD. June 23–24, Redding.

Jurisdiction and Classification/Export Licensing Workshop. Orange County CITD. June 26, Santa Ana. (714) 564-5415.

5th Annual Pacific Cities Sustainability Initiative. Asia Society. June 29–30, Los Angeles. (213) 788-4700.

10th World Chambers Congress. Sydney Business Chamber, The International Chamber of Commerce, and The International Chamber of Commerce World Chambers Federation. September 19-21, Sydney, Australia.





# Paying for Single-Payer: Put Up or Move On



Loren Kaye

Since the best feature of the Healthy California Act is that all health care will be free, it seems churlish to suggest that someone must pay for something.

Sadly, even after asserting more than \$70 billion in new savings from efficiencies that highly motivated private providers and government regulators have not achieved, and after assuming that federal authorities will hand over about \$150 billion in program funding and tax subsidies for use by state health care officials, the academics hired by program proponents find that revenues still fall short by \$106 billion.

That's in year one. Before health care inflation kicks in and utilization of free health care services metastasizes. An analysis of the measure (SB 562; Lara; D-Bell Gardens) by the author's own staff found that, "Given all the factors that would make utilization management difficult, a 10% utilization increase is likely a conservative assumption." That translates into tens of billions annually in higher health care costs.

#### **Filling Budget Hole**

So how does one resolve an annual \$106 billion hole in the state's health care budget?

- Double the personal income tax? Nope. That will bring in only \$89 billion.
- Quadruple the state sales tax? Nope. That will bring in only \$98 billion.
- OK, increase the corporate tax by eight-fold. Sorry, that's just \$87 billion.

But California already is a tax machine. This can't be that hard.

Actually, it isn't that hard, if you're willing to dive deeply into the dumpster of discarded ideas.

#### **Gross Receipts Tax**

Voilà! That's where you'll find the gross receipts tax, the revenue stream preferred by academics supported by the bill's union sponsors.

A gross receipts tax is levied against

the receipts of a sale by a business of a product or a service. According to the Tax Foundation, "gross receipts taxes are largely a historical novelty to the developed world because it is a singularly unsuitable tax for the modern age." It is economically inefficient, inequitable, and nontransparent.

### Guest Commentary By Loren Kaye

The tax is not based on profits, wealth, measures of income, or any other indicator of consumption power that is the signal feature of most taxes in modern developed economies.

The tax gives a competitive advantage to bigger businesses that can make their own inputs rather than buy them. As taxes get added to the various stages of production, they "pyramid" into the final price, so that the effective tax rate on goods exceeds the tax rates presented to final consumers. Businesses that must pass through this pyramided rate are less competitive than businesses that can integrate value added processes internally.

#### Abandoned Idea

For the most part, the gross receipts tax is an artifact of history, trendy about a century ago, but abandoned by much of the world for a very long time.

A handful of states have retained versions of a gross receipts tax at very low rates, mostly far less than 1% of sales.

But even more states are abandoning this archaic tax. Indiana, New Jersey, Kentucky and Michigan all repealed their gross receipts taxes within the past 15 years. Even progressive Oregon voters swamped a gross receipts tax at the polls last year.

It takes a tax that bad to support the single-payer plan in California.

The putative rate for the California gross receipts tax would be 2.3%, about the same as the 2.5% tax that lost by 19 points in Oregon last year. (Only one state has a gross receipts tax anywhere near this rate, that's on radioactive waste by Washington state.)

#### Additional Sales Tax

But wait, there's more. According to the academics, even a 2.3% gross receipts tax is not enough to close the funding gap for single-payer. (It "only" raises \$92.4 billion.) So sponsors also suggest a new sales tax to top up revenues—not only on goods but on many services. This new tax—also at a 2.3% rate—would raise \$14.3 billion, the equivalent of a 58% increase of the existing state sales tax.

Still ... this may not work.

#### **Uncapped Payroll Tax**

Implicitly acknowledging that their multi-layered sales tax mechanism may be a nonstarter, the academics suggest a payroll tax as a fallback revenue source to replace the gross receipts tax.

While they believe a gross receipts tax is the superior mechanism because it "does not discriminate in its impact between labor-intensive and capital-intensive firms," they nonetheless calculate that a payroll tax paid by both employees and employers at a 3.3% rate would raise sufficient taxes to replace the gross receipts tax and fill the revenue need.

Existing payroll taxes for Social Security, disability insurance and unemployment insurance are capped at certain wage levels. This new payroll tax would not be capped—similar to the payroll tax for Medicare. The Medicare tax is 1.45% of payroll for both employers and employees, so this new payroll tax would be the equivalent of more than doubling the existing Medicare tax—which taxpayers would continue to pay even if Medicare spending is consolidated with the single-payer plan.

To conclude, under the most absurdly favorable circumstances—never-before-achieved cost savings, minimal health care inflation and utilization increases, and enthusiastic cooperation by federal officials—a single-payer plan would require either an untried and economically unsound gross receipts tax, a new sales tax on services, or a record state-level payroll tax.

Yet somehow the single-payer bill is still considered a serious proposal.

Loren Kaye is president of the California Foundation for Commerce and Education, a nonprofit think tank affiliated with the California Chamber of Commerce.



# In Memoriam: Howard P. Marguleas



Howard P. Marguleas, 82, 1988 chair of the California Chamber of Commerce and founder of Sun World International, Inc. passed away on June 1 in Rancho Mirage, California, following complications from cancer.

He served on the CalChamber Board for more than two decades, from January 1974 to December 1996, leading a business delegation to Australia for the World Expo '88, with trade and investment meetings in Brisbane and Sydney.

During his time on the CalChamber Board, he was growing Sun World, formed in 1976, into one of the most innovative and largest privately held produce companies in the United States.

He enjoyed bringing many new fruits and vegetables to U.S. consumers, starting in the 1960s with the first Hawaiian pineapples sold on the mainland, then

branded fruit and nuts under the Sun Giant® brand, and Red Flame Seedless grapes, vine-ripened tomatoes, colored sweet peppers, seedless watermelon, and assorted new grapes and plums under the Sun World® brand, as well as California desert-grown Keitt mangoes.

For his leadership and innovation, various agricultural groups honored him with a number of "man of the year" and other industry awards.

Marguleas was a 1957 graduate of the University of California, Berkeley, with a degree in agricultural economics. Upon graduating, he joined Heggblade-Marguleas Company, a San Francisco agricultural business founded by his father, Joseph Marguleas, and Frank Heggblade in 1935.

Following the sales of the company to Tenneco, Inc., in 1970, Howard Margu-

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# Senate Panel OKs Ban on Salary History Inquiries

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compensation. Employers do not necessarily have accurate wage information on what the current market is for all potential job positions.

In fact, employers in competitive industries do not advertise salaries in order to utilize their pay structure as a way in which to lure talented employees from competing firms. By requesting salary information, employers can adjust any unrealistic expectations or salary ranges to match the current market rate for the advertised job position. This practice has worked to the benefit of the applicant/employee.

Additionally, salary data can be utilized as a reference regarding whether the employee's expectations of compensation far exceed what the employer can realistically offer.

Although AB 168 allows an employee to request a pay scale for the specific position, that mandate raises concerns as well. An employer may assume a pay scale accurately captures the current market for a specific position, yet could be wrong. Disclosing a pay scale could artificially limit an applicant's interest in a position. Employers determine the appropriate wage and salary to pay an applicant based upon various factors, including skill, education and prior expe-

rience, as well as the funding available for the job.

Employers may feel compelled to enlarge the pay scale in order to create sufficient room to adjust that rate depending on the various factors and varied candidates for the job. Such a broad pay scale will not assist an applicant in negotiations.

Disclosure of wage rates or pay scales has not been proven to address gender pay equity. A Sacramento Bee article dated March 28, 2015, detailed findings that, despite disclosing actual compensation of all employees, women staffers in the California Legislature make less than male staff members.

#### **Current Protections**

In addition to last year's **AB 1676**, the Labor Code was amended in 2015 by **SB 358 (Jackson; D-Santa Barbara;** Chapter 546) to mandate an employer provide equal wages for substantially similar work.

The CalChamber supported SB 358 after it was amended to clarify ambiguous standards, balancing the payment of equal wages for substantially similar work with maintaining an employer's ability to control the workforce and pay higher wages for legitimate reasons other than gender.

Moreover, Labor Code Section 232

precludes an employer from preventing an employee from disclosing his or her wages.

The Fair Employment and Housing Act (FEHA) precludes any discrimination in the workplace based upon various protected classifications, including gender.

#### Additional Litigation Avenue

As a part of the Labor Code, AB 168 exposes employers to costly litigation under the Labor Code Private Attorneys General Act (PAGA) even when the employer pays an applicant equal wages as other employees.

For example, under AB 168, if an employer asks an employee about his or her prior salary, yet ultimately pays the applicant a higher salary than any of the applicant's male colleagues, that employer still could be sued under PAGA for penalties and attorney's fees.

#### **Key Vote**

AB 168 passed Senate Labor and Industrial Relations on June 14 on a vote of 4-1:

Ayes: Atkins (D-San Diego), Bradford (D-Gardena), Jackson (D-Santa Barbara), Mitchell (D-Los Angeles).

No: J. Stone (R-Temecula). Staff Contact: Jennifer Barrera



# CalChamber Urges Quick Negotiations to Modernize NAFTA, Keep Trade Strong



A swift and efficient renegotiation of the North American Free Trade Agreement (NAFTA) will serve the interest

of U.S. producers, employees and consumers, the California Chamber of Commerce said this week in a letter to the U.S. Trade Representative.

Given that the economy and businesses have changed considerably in the 25 years since NAFTA was negotiated, the CalChamber agrees with the premise that the United States should seek to support higher-paying jobs here and to grow the U.S. economy by improving U.S. opportunities under NAFTA.

Any renegotiation of NAFTA, however, must recognize the gains achieved and ensure that U.S. trade with Canada and Mexico remains strong and without interruption, the letter asserted.

The provisions of NAFTA have been beneficial for U.S. industries, agricultural enterprises, farmers, ranchers, energy companies and automakers, the Cal-Chamber pointed out.

#### **Support for NAFTA**

The CalChamber actively supported the creation of the NAFTA among the United States, Canada and Mexico, comprising 484.3 million people with combined annual trade with the United States of around \$1.069 trillion in 2016. Goods exports in 2016 exceeded \$496.919 billion while goods imports totaled nearly \$572.217 billion.

Before NAFTA granted the United States, Canada and Mexico "most favored nation" status and eliminated trade barriers over a 15-year period starting in 1994, Mexican tariffs on U.S. imports were 250% higher than U.S. tariffs on Mexican imports. Since 1993, trade among the three NAFTA countries has nearly quadrupled.

#### **Renegotiation Timeline**

On May 18, the Trump administration notified Congress of its intent to renegotiate NAFTA, touching off a 90-day trigger period for negotiations with Canada and Mexico to begin.

The CalChamber urges a quick and efficient process, and one that does not hinder ongoing trade and investment among the three NAFTA members.

Throughout the process, the Trade Promotion Authority with its objectives and procedures should be followed.

#### **Negotiation Points**

The CalChamber encourages re-examination of the provisions agreed upon by the three NAFTA countries during the already-negotiated Trans-Pacific Partnership (TPP), as these may provide a starting point for further discussion.

Other points of consideration include:

- Digital Trade/ E-Commerce: California is a leader in the field of e-commerce, which has a positive impact on all aspects of business and society. We need binding rules among the three nations that address current restrictions on cross-border data flows and forced localization of computing assets. E-commerce was never negotiated in the NAF-TA's original "pre-digital" universe. Since TPP has been shelved, it would be sensible for Canada, the U.S. and Mexico to adapt TPP's e-commerce chapter into the NAFTA context. A modernized NAFTA is the perfect opportunity to set a precedent for an e-commerce trade policy.
- Intellectual Property Rights:
  California is also a leader in innovation and in related intellectual property, and needs more rights and protections for patents, copyrights, and trademarks.
  Although this area was included in the original NAFTA, the entire field needs to be updated and upgraded.
- Regulatory Practices: Regulatory barriers to trade is an area that needs to be revisited. Regulations need to be standards- and science-based.
- State-Owned Enterprises: This subject should be discussed to ensure that state-owned enterprises operate and conduct international transactions within the framework of the agreement.
- Services: As California becomes more of a service-oriented economy, it is important to remember that trade agreements are not just about trade in goods, but also, to a great extent, about services.
  - Customs Procedures: With the

World Trade Organization Facilitation Agreement, this subject has come to the forefront. Customs, trade facilitation and related logistics are an everyday subject for importers and exporters. The NAFTA could improve even further on this important subject. The de minimis levels below which no customs tax is charged should be in alignment with other agreements. Canada and Mexico need to raise their de minimis levels to assist importers. This would be especially helpful to small and medium-sized enterprises. To ensure the reliable and efficient movement of goods and services, customs procedures should be a North American priority.

- Sanitary and Phytosanitary Measures: Especially in agriculture and related areas, sanitary and phytosanitary measures are key to a smooth international transaction. The process included should be based on science and common sense.
- Rules of Origin: Each NAFTA country forgoes tariffs on imported goods "originating" in the other NAFTA countries. Rules of origin enable customs officials to decide which goods qualify for this preferential tariff treatment under NAFTA. Current NAFTA rules of origin are restrictive and complex. A modernized NAFTA should adopt changes to the rules that make it easier to qualify for NAFTA benefits and simplify the related administrative process.
- **Energy:** According to the U.S. Department of Energy, the 1994 implementation of the NAFTA did not apply to Mexico for energy commodities, due to its constitutional provisions. As a result, although the NAFTA promoted U.S. and Canadian energy market integration, it has been less successful in achieving energy market integration between the United States and Mexico. Recent regulatory reforms undertaken by Mexico in both the hydrocarbon and electricity sectors are anticipated to open its energy market to foreign investment, to present an opportunity for increased integration with the broader North American energy system, and to elevate the importance of its energy commodities in trade with the United States and Canada through NAFTA. **Staff Contact: Susanne Stirling**



## California's Growing Skills Gap Focus of Education Committee Meeting



Hans Johnson (left), senior fellow at the Public Policy Institute of California (PPIC) and director of the PPIC Higher Education Center, speaks on California's increasing skills and higher education attainment gap at the CalChamber **Education Committee meeting on May 31.** California's best-educated age group, members of the baby boomer generation, is starting to retire and the state currently ranks 47th out of the 50 states in the share of recent high school graduates that go to a four-year college. Loren Kaye (center), president of the California Foundation for Commerce and Education, spoke next about Linked Learning, which is helping bridge the skills gap. At right is committee Chair Sheila Condon, vice president of enterprise services at IBM Corporation.

# CalChamber Committee Weighs Environmental Justice Concerns



The CalChamber Environmental Policy Committee, co-chaired by Cindy Starrett (left) of Latham & Watkins, hears from Veronica Eady (right), assistant executive officer for environmental justice at the California Air Resources Board, on May 31. Committee members and Eady, appointed to the newly created position on January 26, were able to have a dialogue on policies the air board is looking at and how environmental justice concerns will be integrated into those policies.

hoto by Sara Espinosa



## California District Export Council Representatives Gather at CalChamber



Appointed by the U.S. Secretary of Commerce, the members of the four California District Export Councils (DECs)—NorCal, SoCal, Inland Empire and San Diego—met at the California Chamber of Commerce in Sacramento on May 31 to hear from Robert Brown, Esq., chair of the National DEC, and Tom McGinty, national director of the U.S. Commercial Service of the U.S. Department of Commerce. Current issues facing the trade community and the department were the focus of discussion. Following, the group attended other international trade-related events. Front Row (from left): The Honorable Jerry Levine, Consul General of Barbados/National DEC, Former Chair; Toby Levine, San Francisco Port Advisory; Cary Wanner, City National Bank/Inland Empire DEC, Chair; Don Sovie, Law Offices of Donald E. Sovie/Southern CA DEC, Chair; Robert Brown, Bingham Greenebaum Doll LLP/National DEC, Chair; Susanne Stirling, CalChamber/NorCal DEC and National DEC; Roy Paulson, Paulson Manufacturing Corp/Inland Empire and National DEC, Former Chair; Tom McGinty, National Director, U.S. Commercial Service, U.S. Department of Commerce; Deep SenGupta, DSG Global/NorCal DEC Chair and National DEC. Middle Row (from left): George Tastard, U.S. Department of Commerce; Julie Anne Hennessey, U.S. Department of Commerce; Jeremy Potash, California-Asia Business Council/NorCal DEC; Dean Fealk, DLA Piper/NorCal DEC; Teresa Cox, Techworkers/NorCal DEC; Jamal Qureshi, JQ American Corporation/NorCal DEC; David Fiscus, U.S. Department of Commerce; Rod Hirsch, U.S. Department of Commerce; Greg Johnston, Dolby Laboratories/NorCal DEC; John McPeak, Biomarin/NorCal DEC; Nick Grooters, Super Glue Corp/Inland Empire DEC, Vice Chair; Everett Golden, Otis McAllister/NorCal DEC; Brooks Ohlson, Center for International Trade and Development/NorCal DEC; Sean Randolph, Bay Area Council/NorCal DEC; Jason Sproule, U.S. Department of Commerce; Matt Anderson, U.S. Department of Commerce.

## In Memoriam: Howard P. Marguleas

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leas served as the merged company's president for five years.

He was part of the group that purchased The Irvine Company in July 1977.

He was a member of the California State Board of Agriculture from 1964– 1968, serving under California Governors Edmund G. (Pat) Brown Sr. and Ronald Reagan.

In addition, Marguleas was a longtime philanthropist and champion for educa-

tion, health care, and community organizations, serving as trustee or board member for institutions including the Claremont McKenna College, American Friends of the Hebrew University of Jerusalem, University of California, Davis Graduate School of Management, University of California Agricultural Issues Center Advisory Board and the University of California, Riverside; the Eisenhower Medical Center, the American Cancer Society Foundation for the U.S. (founding

chairman); the Coachella Valley Boys and Girls Club (founding member) and the Boys and Girls Clubs of America.

He is survived by his wife, Ardith (59 years), children David (Robin) of Palm Desert, Dianna (Youval) of Berkeley, Anthony (Sue) of Pacific Palisades, and Brian (Lisa) of Honolulu; nine grandchildren; and sisters Thelma Colvin of San Mateo, Betty Newman of San Francisco, and sister-in-law and brother-in-law Arlene and Jack Garfinkle of Piedmont.

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