Newly ID’d Job Killer Bill Passes Senate Committee

Environmental Uncertainty, Potential Litigation

A Senate policy committee this week passed an environmental standard bill identified by the California Chamber of Commerce as a job killer because of the uncertainty and increased potential litigation the bill would create for California companies.

SB 1 (Atkins; D-San Diego) gives broad and sweeping discretion to state agencies to adopt rules and regulations that they determine are more stringent than federal rules and regulations adopted after January 19, 2017.

The CalChamber labeled SB 1 as a job killer because the uncertainty created by the bill’s vague, ambiguous, and broad language and lack of due process in the rulemaking process would have a negative impact on the growth, employment, and investment decisions of almost every major California business.

Due to costs and anticipated litigation associated with SB 1, companies doing business in the state would be hard pressed to hire more workers or expand California operations.

At the Senate Environmental Quality Committee hearing on SB 1 on March 20, the author, Senate President Pro Tem Toni Atkins, and coauthor Senator Henry, said, “We are delighted to welcome Robert to CalChamber,” said President and CEO Allan Zaremberg. “Robert brings to the advocacy team a sharp understanding of California laws and our regulatory environment that will make him a very effective voice for California employers in the Capitol.”

Robert Moutrie has represented clients on matters such as consumer fraud litigation, civil rights, employment law claims, tort claims, and other business-related issues in federal and state courts.

Moutrie previously served as an associate attorney at the Oakland-based firms of Meyers, Nave, Riback, Silver & Wilson, and at Valdez, Todd & Doyle; and as a junior associate attorney at the Law Offices of Todd Ruggiero in San Francisco. He also served as a legal intern for the San Francisco Public Defender’s Office and the Los Angeles District Attorney’s Office.

Moutrie earned a B.A. in political science from the University of California, Berkeley, and a J.D. with honors from the UC Hastings College of the Law.
Factors to Consider When Calculating ‘Regular Rate’ of Pay

How does the regular rate work? Once I calculate the regular rate, does it change the employee’s hourly rate? Do I have to calculate a regular rate and then go back and pay that rate for all straight-time hours worked as well as overtime hours?

These are common questions that we are asked about this subject. It can be confusing because the basic hourly rate is often referred to as the regular rate. For purpose of paying overtime, the actual regular rate includes additional payments as well.

The payment of overtime is based on remuneration an employee receives such as hourly earnings, nonexempt salary, piecework earnings, nondiscretionary bonuses, and commissions, etc. These amounts make up what is called an employee’s regular rate of pay.

Once the regular rate is determined, it is used as the basis to calculate overtime for nonexempt employees. It does not apply to exempt employees who are not owed overtime.

No, you do not have to change any straight-time wages already paid. The regular rate is used to calculate the overtime owed. Although this discussion is about overtime payment, the regular rate is used in other instances too, such as sick leave.

Not Part of ‘Regular Rate’

Not all additional pay is included in the calculation. The following is a partial explanation of those amounts that are excluded.

The following payments are not included in the regular rate of pay:

- Gifts, such as those received for holidays or birthdays.
- Hours paid but not worked, such as vacation, holidays, sick leave, etc.
- Reimbursement of expenses.
- Discretionary bonuses.
- Profit-sharing plans.
- Employee Retirement Income Security Act (ERISA).
- Overtime premium pay.

State/U.S. Calculation

The California Division of Labor Standards Enforcement (DLSE) states: “In determining what payments are to be included in or excluded from the calculation of the regular rate of pay, California law adheres to the standards adopted by the U.S. Department of Labor (DOL) to the extent that those standards are consistent with California law.”

A more complete list and U.S. DOL references are found in Section 49.1.2.4 in the DLSE Enforcement Policies and Interpretations Manual.

More Information

Review the article on “Calculating Overtime” in the HR Library on HRCalifornia for more information. This article provides an extensive discussion of all considerations surrounding the regular rate. How to calculate the correct rate can be complicated, and depends on the type of compensation being paid, such as commissions, piece rate, etc.

Employers who offer additional pay should consult with legal counsel regarding the effect on overtime pay.

Column based on questions asked by callers on the Labor Law Helpline, 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.

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International Trade


See CalChamber-Sponsored: Page 3
California voters have achieved a new milestone: the distinction of being an early presidential primary state due to the Legislature moving the date up three months from June to March 2020.

The 2020 presidential election is the subject of this week’s episode of the California Chamber of Commerce podcast, The Workplace. Martin R. Wilson, CalChamber executive vice president, public affairs, is joined by Andrew Acosta, Acosta Consulting, and Steve Maviglio, principal of Forza Communications.

Early Primary Impact
The trio discusses how the early presidential primary will have a major impact on the California election cycle, accelerating all the traditional deadlines, such as candidate filings and contribution disclosures, as well as the imperative of building out the necessary infrastructure to wage a successful and expensive race for office.

The 2020 presidential primary in California will be held on Tuesday, March 3, 2020. The primary ballot will include all candidates for office including state, local and federal seats. Absentee ballots will drop in the mail 29 days before the election.

“California voters are eligible to make their choice on the same day that Iowa voters are attending their caucus meetings,” says Wilson.

California has moved up the primary from June to March to potentially have a greater impact on who wins the Democratic Party nomination.

Everyone is familiar with Iowa and New Hampshire primaries, but what impact do those primaries have on California, Wilson asks.

“California voters getting their absentee ballots typically let them sit on their desk for a few weeks,” comments Maviglio.

“Looking at how this is going to break down: the absentee ballots go out as Iowa starts, just trying to figure out who has momentum at that point, going through those states,” says Acosta. “Iowa is looking to change how they do their caucuses; they might have virtual caucuses…and a lot of states are happening. Some of it’s still in flux.”

Maviglio agrees, saying that whatever happens in Iowa and New Hampshire “will still be very significant, but as you know in the past, California has been basically irrelevant because the primary came at the tail end of June.” The earlier primary “really puts us in play,” says Maviglio.

Strategic Voting
With so many candidates, voters are likely to get more strategic about who they support, the trio agrees.

“As more candidates come online, and people learn more about some of these folks, the excitement factor is not going to dissipate, but it could transfer to the flavor-of-the-month candidate, and then we will see who can sustain it,” says Maviglio.

California lives with a very slow vote count, Wilson comments. Ballots have to be postmarked by Election Day, and then there are provisional ballots, Election Day turn-ins, so voters aren’t likely to know which candidate advances for some time.

“There could be some twists and turns,” says Acosta. “I think we’ve all learned not to call projections on election night in California. I think it’s best to wait.”

Maviglio clarified that that vote is broken down by California’s 53 congressional districts, not the popular vote, so it’s likely to be weeks before the outcome is settled: “There will be many other primaries done and tallied before we do.”

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Think Asia, Think Hong Kong. Hong Kong Trade Development Council. September 20, Los Angeles. (213) 622-3194.

CalChamber Calendar
Capitol Summit:
May 22, Sacramento
International Forum:
May 22, Sacramento
Host Breakfast:
May 22–23, Sacramento
Board of Directors:
May 22–23, Sacramento
CalChamber Outlines Subjects for Carbon-Based Sales Tax Study

A California Chamber of Commerce—opposed-unless-amended bill that will increase costs and place regulatory burdens on businesses passed the Senate Environmental Quality Committee this week.

SB 43 (Allen; D-Santa Monica) increases electricity rates and cost of transport by proposing to duplicate existing climate policy with a carbon-based sales tax, and threatens retail and manufacturing jobs by creating a cumbersome and arbitrary regulatory process. The bill proposes to create a new regulatory scheme to measure the “carbon intensity” of every product sold in California.

In testimony to the committee, CalChamber Policy Advocate Leah Silverthorn said that while the CalChamber appreciates the desire to study carbon intensity, sales tax touches almost every part of the state’s economy. Due to the substantial economic impact, the CalChamber believes it is imperative that the study:

• Evaluate mechanisms to ensure that a retail carbon tax avoids a regressive impact on low-income individuals and communities, and whether it is fair to apply a carbon-based tax to retail goods but not other sectors of the economy.
• This bill has a stated intent to “encourage the use of less carbon-intensive products.” This study must evaluate the impact on transportation infrastructure funds that would result from a decrease in fuel usage, and how such deficits would affect California’s transportation system.
• Consider the impact and efficacy of replacing all carbon-based programs, including impacts on the various programs currently funded by cap-and-trade.
• In addition to the changes proposed above, the study also should: evaluate impacts on sales and use tax revenues; expand core purpose of study to include economic impacts to business; consult with all agencies affected by a sales tax to carbon tax swap; consider retail barriers; determine evaluation parameters; and include input from entities subject to a new carbon tax.

Key Vote

SB 43 passed Senate Environmental Quality on March 20, 5-2:
Ayes: Allen (D-Santa Monica), Hill (D-San Mateo), Skinner (D-Berkeley), Stern (D-Canoga Park), Wieckowski (D-Fremont).
Noes: Bates (R-Laguna Niguel), Stone (R-Riverside County).
Staff Contact: Leah B. Silverthorn

CalChamber Board Gets Briefing on Privacy, Data Security Issues

Dominique Shelton Leipzig, partner at Perkins Coie and global co-chair of the firm’s Ad Tech Privacy & Data Management Group, presents to the CalChamber Board of Directors on March 15 suggestions for a strategic approach to privacy and best practices for cyber-preparedness, drawing from her experience representing companies on privacy, global data security compliance, data breaches and investigations.
Multitude of Irish-U.S./California Trade, Investment Ties in Spotlight at Events

The strong trade and investment links between Ireland and the United States, as well as California, were celebrated last week at a California Chamber of Commerce breakfast held in conjunction with CalChamber Board events.

The CalChamber Council for International Trade meeting, sponsored by Frontier Communications, was one of several gatherings in the week leading up to St. Patrick’s Day featuring the release of the US-Ireland Business 2019 report by the American Chamber of Commerce (AmCham) Ireland.

Speaking at the breakfast were the Honorable Simon Harris, Irish minister for health and former minister of state; Carin Bryans, vice president of AmCham Ireland and managing director of JP Morgan Ireland; and Robert O’Driscoll, consul general of Ireland to the Pacific Northwest.

The three highlighted Ireland as a transatlantic hub and gateway to the European Union.

California-Ireland Trade

Bryans noted that the contributions of Irish immigrants to the U.S. economy have evolved from manual labor and domestic services in the 19th century to highly skilled occupations today.

Highlighting California-Irish trade and investment relations, Bryans pointed out that about 140 Irish companies are established on the West Coast of the United States, primarily in California.

In addition, more than 50 California-based companies have Irish founders. California is the top exporting state to Ireland. In 2017, California exported more than $1.5 billion to Ireland—14.4% of total U.S. exports to that country. The top products exported to Ireland in 2017 included chemicals, computers, special classification provisions, and manufactured commodities.

Bryans commented that if the United Kingdom leaves the EU, Ireland will be the only remaining English-speaking nation in the EU, thus becoming critical as a U.S. gateway to Europe.

U.S.-Ireland Trade

Harris gave high points of the history of Irish contributions to California, dating to the late 19th century.

The U.S.-Ireland relationship has been a two-way street, he noted. “Our cultures and our values are very much alike.”

He commented that U.S. companies have found the Irish to be a “productive, flexible workforce.”

The AmCham report shows that 800 Irish companies are active in the U.S. market, employing more than 100,000 people. In addition, 325,000 U.S. jobs are attributable to goods and services bound for Ireland from the United States and $116 billion in U.S. affiliate sales are generated by Ireland’s investment in the United States.

More than 700 U.S. companies do business in Ireland—a $446 billion investment that employs 155,000 employees directly. U.S. companies in Ireland indirectly support 100,000 jobs.

U.S. investment in Ireland makes up 12.6% of U.S. investment in the EU.

Report

The report on the U.S.-Ireland business relationship, including a section focusing on the California-Ireland trade relationship, can be viewed online at the AmCham Ireland website, www.amcham.ie.

For more information, please visit www.calchamber.com/ireland.

Staff Contact: Susanne T. Stirling
Hyperpartisan Housing: A Common Crisis with Very Different Solutions in Hopper

Despite bipartisan recognition of California’s unprecedented housing crisis, legislative solutions being introduced this session remain hyperpartisan. On the Democratic side, with some exceptions, legislation being introduced to address housing has been focused on rent control and curbing alleged landlord gouging and unjust evictions.

On the Republican side, California Environmental Quality Act (CEQA) streamlining and lowering the cost to develop more housing are being introduced.

In other words, it is business as usual in the Capitol.

Governor Gavin Newsom during his gubernatorial campaign pledged to bring 3.5 million new housing units online by 2025. To achieve this, California must quintuple its current rate of production to produce about 500,000 new homes annually.

Only twice since 1954 have developers built more than 300,000 homes in a year. The highest year on record is 1963, when 322,018 home permits were issued.

Targeting Housing Supply

California voters last year rejected a ballot measure, Proposition 10, that would have overturned the Costa Hawkins Rental Housing Act, which prohibits local governments from imposing rent control on apartments built after 1995.

Despite voters overwhelmingly defeating Proposition 10’s effort to impose rent controls, The Sacramento Bee reported last week that a group of Democratic Assembly members propose to do just that.

- AB 36, by Assemblymember Richard Bloom (Santa Monica), allows cities to enact rent control on post-1995 buildings that are more than a decade old and allows cities to limit rent increases on single-family homes and condominiums more than 10 years old.
- AB 1482, by Assemblymember David Chiu (San Francisco), prevents landlords across the state from raising rents by more than an unspecified percentage above inflation each year.
- AB 724, by Assemblymember Buffy Wicks (Oakland), creates a database that annually collects tenant and housing data from landlords and property owners in order to address alleged landlord gouging.
- AB 1481, by Assemblymember Rob Bonta (Oakland), forbids landlords from evicting their tenants without a valid reason.

Instead of making housing construction easier and more cost effective, these Democratic Assembly members are targeting existing supplies.

CEQA Skeptics

Why does California continue year after year to under develop its housing relative to its population and housing demands? If you answered CEQA, do not get your hopes up that any CEQA legislative relief is coming.

The Senate Judiciary and Environmental Quality committees held a joint informational hearing in March to discuss whether CEQA is slowing or impeding housing production across the state.

Titled “Just the Facts: An Evidence-Based Look at CEQA Streamlining and CEQA’s Role in Development,” the hearing was anything but objective. Senator Hannah Beth Jackson (D-Santa Barbara), chair of Senate Judiciary, began the hearing by stating, “We’re here to talk about the mythology that CEQA stops development, and debunk it as far as it can be debunked.”

From there, the panel of pre-selected academics went on to downplay CEQA’s role in raising housing costs in California.

Attempts to Address Crisis

The Legislature cannot fix California’s housing crisis operating “business as usual.” On the other hand, the Legislature might consider these five bills that aim to address the housing crisis and reach across the partisan divide.

- AB 178 (Dahle; R-Bieber): This bill exempts residential construction that is replacing a damaged or destroyed residential structure as a result of a disaster to comply with photovoltaic requirements that were in effect at the time the residential building was originally constructed.
- AB 430 and AB 431 (Gallagher; R-Yuba City): These two bills propose to exempt from the requirements of CEQA residential housing development in Butte County and the Town of Paradise.
- SB 50 (Wiener; D-San Francisco): This bill is sponsored by YIMBY and resurrects California Chamber of Commerce-supported SB 827 (Wiener; D-San Francisco) from last legislative session. SB 50 aims to encourage increased housing production in areas with high-quality transit by exempting these areas from certain restrictive zoning standards.
- SB 621 (Glazer; D-Contra Costa): This bill proposes CEQA judicial streamlining for affordable housing projects.
- AB 1244 (Fong; R-Bakersfield): This bill is similar to SB 1340 (Glazer; D-Contra Costa) from last legislative session, except AB 1244 is being introduced by a Republican Assembly member. AB 1244 prohibits a court from enjoining the development of a housing project that has already been approved by local government during the pendency of CEQA litigation, unless the court finds that the continued development of the project presents an imminent threat to public health and safety.

Staff Contact: Adam Regele
U.S. Growth Pace Slowing, Housing Flat; State Solutions Require Urgency, Patience

U.S. Outlook
Looking back, 2018 was clearly a solid year for the U.S. economy, with vastly more positives than negatives to reflect on. The nation’s economy grew by 2.9% in real terms over the year, a modest uptick from 2017 and 2016, and the best number since 2015. Acceleration in growth occurred almost across the board, but the greatest contributions came from government and business investment. Exports had a good year despite ongoing trade disputes with key partners.

Labor markets also added plenty of jobs last year — and will likely continue to do so in 2019. The job openings rate at the end of the year was 4.7%, significantly higher than the unemployment rate. Household finances look good as well. The consumer savings rate ended the year above 6%, even as the financial obligation ratio (the share of disposable income used for debt and rent payments) fell to a record low. Wages are rising, consumer spending is solid, and with the exception of autos, the debt markets look very clean.

Still, public sentiment has turned remarkably grim as we move further into 2019 and there have been a surprising number of predictions calling for a potential recession in the next two years. Drivers of this pessimism range from the stock market plunge and slow pace of sales in the housing market to fears surrounding the impact of an expanding trade war with China and decelerating global growth. A smattering of recent economic data seems to support such fears, from a dismal showing for retail sales in December to weak employment growth in February.

Unfounded Concerns
Despite all the negative sentiment, Beacon Economics sees little reason (still) to change our near-term outlook for the U.S. economy. Most of the current concerns are unfounded in our view.

China is offsetting U.S. tariffs by depreciating the yuan. The slowing of U.S. exports to China has been made up elsewhere. Corporate fundamentals, including profits and employment, look better now than two years ago. And this stock market decline is the sixth major selloff since the Great Recession came to an end — an unprecedented level of volatility that is more a sign of problems in the stock market, not the economy.

Yes, U.S. economic growth will slow from its pace in 2018, falling to the low 2% range, but this is only because the sugar rush created by the fiscal stimulus tax plan of 2017 is wearing off — as easily anticipated.

And while there have been some weaker-than-normal numbers in certain economic data, these seem to be in line with the normal ebb and flow of economic growth rather than any bellwether of an impending downturn. The difference is best illustrated by the current handwringing over the nation’s residential real estate market (the focal point of this quarter’s national outlook).

Eventually, the current economic expansion the United States is experiencing will come to an end. When it does, that ending will be driven by a large, negative shock to the economy, which in turn will be driven by some major internal imbalance that has formed.

To date, Beacon Economics has yet to see any imbalance develop within the U.S. economy that has the capacity to cause a downturn, much less a recession, in the near term.

Singing The Housing Blues
Housing has always been an important indicator of the U.S. economy for both macro and individual reasons. It has been a leading indicator of economic growth for the majority of business cycles over the past 70 years and, of course, played an outsized role in the “Great Recession.” For most households, housing is the largest expense, and for homeowners, their largest asset. It’s little wonder that public sentiment suffers when negative news about housing begins to dominate the front page. The grim headlines can best be summed up by the closing line of a recent New York Times article: “In other words: Housing is in recession already.” (February 19, 2019)

Strong words — with little basis in reality. There is little doubt the market is flat, but flat is not a downturn. According to data from the U.S. Bureau of Economic Analysis, economic activity in the residential real estate sector has changed very little for two years, either up or down.

When parsing out the components of this data — housing starts, sales, inventories — the same picture emerges. Home prices are still rising, albeit at a slower pace. Housing has shifted to neutral, but it has not moved toward anything resembling a decline.
U.S. Growth Pace Slowing, Housing Flat; Solutions Require Urgency, Patience

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Reasons for Flat Housing Market

Why has the U.S. housing market been flat? There are three major reasons, short-, medium-, and long-term.

• The short-run driver is interest rates, which have been gradually rising over the last few years. Interest rates are still low from any longer-term perspective, but the market still has to adjust to them. This tends to precipitate a short period of slowing as prices (and thus sales) adapt to new fundamentals.

But while sales of existing homes have slowed, so too has the number of units being put on the market, with the available inventory of homes well below 5 months’ supply nationally. This represents a lower level of supply than in 2014.

The good news is that interest rates have stabilized — and will likely remain in their current range for a while. Inflation is cooling and the Fed has stopped tightening. Beacon Economics expects the negative influence of interest rates on the housing market to fade in the spring.

• In the medium-term, U.S. Census data over the last few years have shown a rapid pace of population movement within the United States from the Northeast and Midwest to urban areas in the South and West. Many of these destinations (with California being the poster child) have constrained housing construction markets due to strict zoning, high fees, slow-growth sentiment, and downright NIMBYism.

As a result of these constraints, there has been a greater utilization of existing housing stock rather than a significant increase in building permits, resulting in tighter inventory and higher prices.

• Lastly, there is the long-term issue of slow growth in the U.S. population base, driven by both low childbirth rates and a sharply decelerating pace of immigration. Overall population growth in the nation is currently running about 2 million per year — substantially slower than 20 years ago when it was over 3 million annually.

Working age population growth has slowed even more dramatically, from over 2 million per year to just 1 million. The United States, as a whole, simply doesn’t need as much new housing as it used to.

Add it all up and the fact that housing starts and sales are flat is hardly a surprise. Still, far too many pundits are trying to link what is happening now to what happened back in 2006 when the great housing bubble began to unwind.

Housing Fundamentals

There is no comparison. The fundamentals of today’s housing market — including affordability, vacancy rates, credit quality, household incomes, and debt levels — look better than they have for 20 years.

This stands in complete contrast to 2006 when each one of these indicators was severely unbalanced. Take for example housing starts, which were running well over 2 million in 2005, vastly more than population growth would indicate was appropriate.

The “slow” 1.2 million unit pace of building in the past few years is in step with population growth or possibly even a little low. But a lack of supply should give you more, not less, confidence in the fundamental strength of the market.

Another example is the pace and quality of mortgage lending. In 2006, mortgage debt was expanding by 15% per year. Today it is less than 5%. And the median credit score of a borrower today is above 750 — compared to below 700 in 2006.

The aggregate housing debt to equity ratio is also better today, and that can be seen in household finances. According to the American Community Survey from the U.S. Census Bureau, in 2017, 27% of households with a mortgage used over 30% of their income on housing costs; in 2016 it was 29% and in 2006, 37%.

The current slowness in the U.S. housing market is not a downturn in any broader sense, nor will it turn into one. On the contrary, all the market worry is much ado about nothing and as 2019 advances, market activity will start to pick up again. This canary in the coal mine will soon wake from its short nap and start singing again.

California Outlook

Now Is the Time to Move Wisely into the Future

California’s economy, in the first part of 2019, remains on a steady growth track despite concerns about how long the current expansion will continue.

Like the nation, the state economy benefited from expansionary fiscal policy in the form of tax cuts coupled with increases in government spending that pushed the labor market closer to full employment and fueled solid job gains.

Tech-related sectors made significant contributions to the state’s economic growth, as did a handful of other industries. Still, California faces a huge housing challenge, something that the new governor is addressing head on.

Staying the Course in California and Its Regions

Despite the turbulence created by the Trump administration’s trade wars, the chaos surrounding Brexit, and a slowdown in the global economy, California saw continued economic growth in 2018 and early 2019.
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Through the first three quarters of last year, California’s gross state product grew by 3.5% year-to-date, with nearly all major industries expanding over that period. Significant contributions came from technology, real estate, and manufacturing, while health care, construction, and transportation and warehousing made smaller contributions.

Low Unemployment

The state and many of its metro areas continue to be at or near record lows in terms of unemployment rates, picking up where they left off last year. The statewide rate was 4.2% in January, coasting just a hair above the all-time low of 4.1% for several months running. Indeed, recent increases in California’s labor force have kept the unemployment rate above the 4% threshold.

The state’s labor force growth has been trending up in recent months, increasing by 1.5% in January 2019, up considerably from 0.6% one year earlier.

California added 246,400 jobs in January compared to one year earlier, equivalent to a 1.4% increase. Job gains occurred across nearly all of the state’s industries, led by Health Care with 56,000 jobs added, and followed by Professional, Scientific and Technical Services (+36,400 jobs), Leisure and Hospitality (+33,200 jobs), and Administrative Services (+30,500 jobs).

In percentage terms, Transportation, Warehousing, and Utilities led all industries with a 3.6% yearly increase, followed by Mining and Logging (3.5%), Construction (3.4%), and Professional, Scientific and Technical Services (2.9%). Leisure and Hospitality and Administrative Services both followed with an increase of 2.8%.

Three industries in the state shed jobs in year-to-year terms, for a total of just more than 22,000 positions lost. This includes a loss of 12,600 jobs in Retail Trade, which continues to transform itself in response to the realities of a multi-channel marketplace.

Still, January’s job losses are small relative to California’s 17.3 million wage and salary jobs, accounting for 0.1% of all jobs in the state.

Rising Paychecks

Consistent with an unemployment rate that has been low on a sustained basis, paychecks have been on the rise. Average hourly earnings in California rose 4.8% year-to-year in January 2019, following a 5.5% gain in December. By comparison, hourly wages have risen by just over 4% nationally.

In all, job gains in California continue across a wide array of sectors, including external income-generating industries such as technology, transportation, manufacturing, and tourism, each of which also contribute to the state’s foreign trade picture. These industries have been challenged over the past year by uncertainty surrounding the Trump administration’s trade policies, as well as a strong dollar, and yet, the state’s merchandise exports rose by 3.8% in 2018.

Over the same period, imports were little changed (up 0.1%), fueled by income growth that also has supported increases in local population — serving industries such as health care, education, and food and bar establishments.

In the public sector, Government sector jobs continue to grow in number, with most of the 19,300 positions added in January appearing at the Local Government level. The state added jobs as well, but Federal job counts continue to edge down.

In Sacramento, the state budget is expected to rack up another surplus in fiscal year 2019 as California’s rainy day fund continues to grow.

Looking across the state, every region began the year with increases in wage and salary jobs. In absolute terms and percentage terms, California was led by San Francisco (MD), with a 3.8% year-to-year gain in January 2019, equivalent to 42,600 jobs added. Fresno County (3.2%), Monterey County (2.8%), and Santa Barbara County (2.8%) followed in terms of percentage gains, while large absolute job gains occurred in most Southern California counties, Sacramento, and San Jose.

Housing Requires Both a Sense of Urgency and Patience

Despite sustained growth in the California economy, the housing market struggled in 2018, with weakness carrying into early 2019. Statewide, existing home sales fell by 12.6% from January 2018 to January 2019 while the median home price increased just 2.1% to $539,000, according to the California Association of Realtors.

The sharp drop in sales in January has triggered concern about this year’s housing market outlook, but January’s closed sales figures reflect conditions in the market in November and December when these sales were initiated.

The 30-year fixed mortgage rate hit nearly 5% in mid-November, the highest in years, but has since retreated below 4.5%. Given recent increases in the state’s supply of homes, and assuming rates hold steady in the next few months, the peak season of 2019 could be better than many expect.

Looking beyond the near-term performance of the housing market, California’s
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newly elected governor, Gavin Newsom, and the state Legislature have focused directly on the state’s chronic housing shortage, a problem that has been growing in magnitude for many years.

In broad terms, given recent population growth, California should have been building about 200,000 new housing units each year for several years running. However, just 115,000 units were built last year, and even fewer earlier in the decade.

Land Use Decisions Local

At stake is California’s economic future, which is increasingly jeopardized by the high cost of housing. But while Sacramento is searching for solutions to this stubborn problem, it must also face the reality that land use decisions, such as those related to new housing, have historically been under the purview of local officials and local zoning regulations.

According to state law, local jurisdictions are required to plan for their housing needs over time. The so-called Regional Housing Needs Assessment (RHNA) is a framework for establishing housing needs from the state down to the community. But because there are no enforcement mechanisms behind RHNA, jurisdictions can simply pay lip service to their stated RHNA housing goals or ignore them altogether.

Governor Newsom has taken an aggressive approach to the problem thus far, with a carrot and a stick. On the one hand, he would like to offer incentives to cities to build more housing, while on the other hand, he has threatened to withhold transportation funds from those who do not. He also has sued cities for failing to comply with RHNA requirements.

There is no doubt that California needs more housing—more housing of all types: multi-family as well as single-family, affordable as well as market-rate units. And the urgency to deal with this problem has never been greater. Still, there are good reasons to pursue the situation with both a sense of urgency and a heavy dose of patience.

More than ‘Sticks’ in Ground

A truly comprehensive solution to California’s housing problem involves more than just finding vacant sites and putting “sticks” in the ground. Residents have deeply seated and long-held attitudes about their neighborhoods, and very often do not want anyone changing their corner of the world.

At the same time, local jurisdictions and their elected officials find themselves in a quandary. Many local leaders want their cities to grow, but the structure of state and local taxes discourages residential development, which adds little to government coffers but imposes public service costs on local government.

In California, there often are greater fiscal benefits from other land uses that directly or indirectly generate taxable sales and other revenue streams for a city’s general fund. And, at present, building industry constraints pose yet another complication. With California’s economy at full employment, construction labor is expensive and limited in availability, while other construction inputs like lumber and so on are likewise scarce and costly to acquire.

Examine All Dimensions

It has taken a long time to get to where we are now with the state’s housing shortage, and it won’t be solved over night. State and local officials along with other stakeholders must be willing to examine all the dimensions of the housing problem if they want to craft long-run solutions that work.

This means looking at the tax code, zoning, permitting processes, and even the California Environmental Quality Act (CEQA), while also recognizing that changing residents’ attitudes may be the most difficult nut to crack.

The sooner stakeholders embark on this path—which requires a thoughtful dialogue on the importance of housing to the state, its residents, and its economy—the better for California’s communities.

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 CalChamber Board of Directors. The U.S. outlook for this report was prepared by council chair Christopher Thornberg, Ph.D., founding partner of Beacon Economics, LLC. The California outlook was prepared by Robert Kleinhenz, director of economic research at Beacon Economics.
Stern (D-Canoga Park) acknowledged the concern voiced by the CalChamber and other opponents about the uncertainty the bill creates for the regulated businesses. The senators expressed a willingness to work with CalChamber in good faith to address these concerns in the hope that all opposition could be removed.

Lacks Safeguards

SB 1 seeks to create an expedited administrative procedure not subject to the California Administrative Procedures Act when promulgating emergency rules pursuant to SB 1. Should SB 1 become law, it will likely instigate a wave of new litigation from interested parties wishing to compel a state agency to perform an act required by, or to review a state agency’s action for compliance with, any of the laws subject to SB 1. Businesses would inevitably be forced to intervene in these lawsuits in order to ensure that their interests are adequately represented.

In voicing opposition to the measure, a coalition of 35 business associations has joined CalChamber’s effort to educate policy makers about the negative impacts of the bill.

The coalition’s opposition letter states that “SB 1 is an unprecedented power transfer from the Legislature to the Executive Branch. It is too broadly written, contains ambiguous and undefined standards that will create significant costs, uncertainty and unintended consequences for the regulated community, and raises substantial constitutional concerns regarding a lack of due process and violations to the single-subject rule.”

Moreover, the bill circumvents the Administrative Procedures Act by improperly empowering state agencies with limited legislative oversight, and threatens to undermine wetland regulation efforts currently being pursued by the State Water Resources Control Board, as well as operation of the Central Valley Water Project. The bill will inevitably result in unnecessary litigation against state agencies and regulated entities.

SB 1 is a reintroduced version of last year’s SB 49 (de León; D-Los Angeles)—a job killer bill that was stopped in the Assembly.

Key Vote

SB 1 passed Senate Environmental, 5-2, and will be considered next by the Senate Natural Resources Committee:

Ayes: Allen (D-Santa Monica), Hill (D-San Mateo), Skinner (D-Berkeley), Stern (D-Canoga Park), Wieckowski (D-Fremont).

Noes: Bates (R-Laguna Niguel), J. Stone (R-Riverside County).

2019 Job Killers

SB 1 is the second bill to be tagged a job killer by CalChamber so far this year. On March 4, the CalChamber announced that AB 51 (Gonzalez; D-San Diego), a reintroduced version of a previous bill that was vetoed by Governor Edmund G. Brown Jr. in 2018, had made the list.

Track the status of the job killer bills on www.calchamber.com/jobkillers or follow @CalChamber and @CAJobKillers on Twitter.

Staff Contact: Adam Regele

Anti-Arbitration Job Killer Bill Moves Again in Assembly

As a condition of employment conflicts with U.S. Supreme Court Justice Elena Kagan’s opinion in Kindred Nursing Centers Ltd. Partnership v. Clark that federal law protects and preempts state law regarding both the formation of arbitration agreements as well as the enforcement of arbitration agreements.

Previously Vetoed

AB 51 is virtually identical to 2018 legislation, AB 3080 (Gonzalez), which was vetoed by Governor Edmund G. Brown Jr. because he recognized that the measure plainly violated federal law. The bill also is similar to AB 465 (R. Hernández; D-West Covina), which was vetoed in 2015.

Key Vote

AB 51 passed Assembly Judiciary on March 19, 9-3:

Ayes: Chau (D-Monterey Park), Chiu (D-San Francisco), Gonzalez (D-San Diego), Holden (D-Pasadena), Kalra (D-San Jose), Maienschein (D-San Diego), Petrie-Norris (D-Laguna Beach), Reyes (D-San Bernardino), M. Stone (D-Scotts Valley).

Noes: Gallagher (R-Yuba City), Kiley (R-Granite Bay), Obernolte (R-Big Bear Lake).

The bill goes next to the Assembly Appropriations Committee.

Staff Contact: Jennifer Barrera

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