

ALERT

98th Annual Host Breakfast

Governor Outlines Priorities, Calls for More Housing



California Governor Gavin Newsom outlined some of his priorities in addressing the state's biggest challenges at the 98th annual Sacramento Host Breakfast on May 9.

The annual event, attended by close to 1,000 civic and business leaders from throughout the state, offers decision-makers in California business, finance, government, education, and agriculture the opportunity to exchange views, establish and renew friendships, and create statewide atmospheres of good will and understanding at a common table.

The breakfast is sponsored by the Sacramento Host Committee, made up of

30 Sacramento area business leaders, and the California Chamber of Commerce.

CalChamber Chair Janet Liang

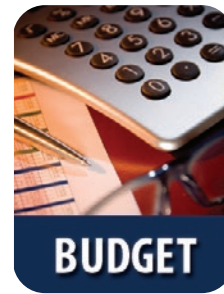
After opening remarks by Kevin Ramos, Host Committee chair and chief investment officer of Buzz Oates, the Governor was introduced by Janet A. Liang, CalChamber chair and executive vice president, group president and COO care delivery, Kaiser Foundation Health Plan, Inc. and Hospitals.

Liang took the stage and spoke about the role hospitals serve as economic engines for the communities that surround them.

She also thanked the CalChamber for its efforts in fighting for California's businesses.

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Analysis: May Budget Revision Released



Governor Newsom announced his strategy to address an estimated \$27.6 billion deficit for the upcoming budget year, and a \$28.4 billion projected deficit for 2025–26.

The Administration normally updates its revenue estimates and spending plan in May to reflect final income tax payments and new economic data. One of the reasons for the large budget deficit was the lack of access to this data last year because federal and state income tax deadlines were postponed to accommodate taxpayers affected by natural disasters.

Strategy Mix

The Governor's strategy comprises a mix of spending reductions and delays, the elimination of frequently used tax credits, fund shifts and dipping into rainy day reserves. Recognizing the multi-year dimension of the budget shortfalls, he tagged many of his proposed revenue increases and spending reductions to solve for two or more years of anticipated budget deficits.

The Governor's major proposed solutions to eliminate budget deficits include:

- Withdrawing about \$13.1 billion from various budget reserve accounts, and another \$8.4 billion from the public schools reserve account.
- Potentially increasing revenues by

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Governor Gavin Newsom



CalChamber Chair Janet A. Liang

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*Cal/OSHA Corner***New Fit Testing Protocols for Respiratory Protection Equipment**

Mel Davis
Workplace Safety
Expert

Is Cal/OSHA going to update fit testing procedures for respiratory protection equipment to match federal standards?

Yes. On March 21, 2024, the Occupational Safety and Health Standards Board adopted as new Appendix A of Section 5144 quantitative fit testing protocols for inclusion in the Respiratory Protection Standard.

The Board adopted the rulemaking action in keeping with Labor Code

Section 142.3, which mandates the Board to adopt regulations at least as effective as federal regulations addressing occupational safety and health issues.

Federal Action

The U.S. Department of Labor, Occupational Safety and Health Administration (Federal OSHA) promulgated regulations addressing additional ambient aerosol condensation nuclei counter (CNC) quantitative fit testing protocols effective on September 26, 2019, as 29 Code of Federal Regulations (CFR), Part 1910, Section 1910.134, Appendix A.

The Cal/OSHA Board is relying on the explanation of the federal regulations as the justification for its rulemaking action. The explanation was published in the *Federal Register*, Volume 84, No. 187, pages 50739–50756, September 26, 2019.

The Board has adopted a regulation which is the same as the federal regulation except for editorial and format differences.

Added Fit Testing Protocols

Federal OSHA has approved two additional quantitative fit testing protocols for inclusion in Appendix A of the Respiratory Protection Standard. The protocols are:

- the modified ambient aerosol CNC quantitative fit testing protocol for full-facepiece and half mask elastomeric respirators; and
- the modified ambient aerosol CNC quantitative fit testing protocol for filtering facepiece respirators.

The protocols apply to employers in general industry, shipyard employment and the construction industry.

Both protocols are abbreviated variations of the original Federal OSHA-approved ambient aerosol CNC quantitative fit testing protocol (often referred to as the PortaCount® protocol), but differ from the test by the exercise sets, exercise duration and sampling sequence.

These protocols will serve as alternatives to the four existing quantitative fit testing protocols already listed in Appendix A of the Respiratory Protection Standard and will maintain safety and health protections for workers while providing additional flexibility and reducing compliance burdens.

In its explanation about adopting the new Appendix A fit testing protocols, the Cal/OSHA Board noted that California Labor Code Section 142.3(a)(3) exempts the Board from providing a comment period when an adopted regulation is substantially the same as federal standards. The Board still provided a comment period and convened a public hearing specifically to seek input on whether there was any compelling reason for California to deviate from the federal standards.

To see the complete rulemaking file, visit the [Cal/OSHA Standards Board page](#).

The proposed text is available [here](#).

Column based on questions asked by callers on the Labor Law Helpline, a service to California Chamber of Commerce preferred members and above. For expert explanations of labor laws and Cal/OSHA regulations, not legal counsel for specific situations, call (800) 348-2262 or

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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 \$50 paid through membership dues.

Send email address changes to alert@calchamber.com. Publisher: Jennifer Barrera. Executive Editor: Ann Amioka. Art Director: Neil Ishikawa. Capitol Correspondent: Sara Proffitt.

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CalChamber-Sponsored Seminars/Trade Shows

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Labor and Employment

Leaves of Absence. CalChamber. May 30–31, August 8–9, Online. (800) 331-8877.

HR Boot Camp. CalChamber. August 22–23, Online. (800) 331-8877.

International Trade

Export Documentation & Logistics Webinar Series. U.S. Department of Commerce. May 21–23, May 28, Online. Indo-Pacific Business Forum. U.S.

Trade and Development Agency and Government of the Philippines. May 20, Livestream and Manila, Philippines. (703) 875-4357.

10th Annual Orange County World Trade Week Forum: Pathways to Progress: The Road Ahead for International Trade. District Export Council, Southern California and U.S. Commercial Service. May 23, Irvine. harvinder.mudhar@technologist.com.

EXIM 2024 Annual Conference.

See CalChamber-Sponsored: Page 15

12 Local Chambers Receive 2024 President's Circle Award



The California Chamber of Commerce has named 12 local chambers of commerce as recipients of the 2024 President's Circle Award.

The award celebrates top local chamber partners from across California. Established in 2009, this accolade highlights chambers' exceptional efforts in business advocacy and helping their members comply with complex California employment laws.

Representatives of the President's Circle chambers were honored May 8 during the CalChamber Capitol Summit in Sacramento.

Three of the chambers have received the award all 16 years it has been presented.

The 2024 recipients of the President's Circle Award are as follows. An * marks the chambers that have received the award all 16 years:

- **Greater Bakersfield Chamber of Commerce:** Janelle Capra, president/CEO;
- **Carlsbad Chamber of Commerce:** Bret Schanzenbach, president/CEO;
- **Greater Conejo Valley Chamber of Commerce*:** Danielle Borja, president/CEO;
- **Corona Chamber of Commerce:** Bobby Spiegel, president/CEO;
- **Greater High Desert Chamber of Commerce:** Mark Creffield, president/CEO;
- **Lake Elsinore Valley Chamber of Commerce:** Kim Cousins, president/CEO;
- **Long Beach Area Chamber of Commerce*:** Jeremy Harris, president/CEO;

- **Greater Riverside Chambers of Commerce*:** Nick Adcock, president/CEO;

- **Santa Maria Valley Chamber of Commerce:** Glenn Morris, president/CEO;

- **Simi Valley Chamber of Commerce:** Kathi Van Etten, president/CEO;

- **Tulare Chamber of Commerce:** Donnette Silva Carter, president/CEO; and

- **West Ventura County Business Alliance:** Nancy Lindholm, president/CEO.

President's Circle Award recipients published vote records of their state legislators on key business issues, joined coalition efforts to let state elected officials know about community sentiment on issues of interest to members, voiced the local chamber's position at legislative policy committee hearings, and participated in the CalChamber compliance product resale program at an exemplary level.

Staff Contact: Nick Ortiz

Local Chamber Advocacy, HR Help Receive Recognition at Summit

Working together, the California Chamber of Commerce and local chambers of commerce are a solid force as advocates for business-friendly policies and helping California businesses comply with complex laws and regulations.

On May 8, the CalChamber recognized 13 local chambers as Advocacy Champions and nine as HR Champions.

Advocacy Champions

This is the second year the Advocacy Champion Award has been given to recognize chambers for excellence in business advocacy. The 2024 awardees are incredible advocates for business-friendly policies and are leaders in driving impactful change in their region.

Recipients of the 2024 award are as follows:

- Chino Valley Chamber of Commerce;
- Fremont Chamber of Commerce;
- Laguna Niguel Chamber of Commerce;

- Lodi District Chamber of Commerce;
- Murrieta/Wildomar Chamber of Commerce;
- Orange County Business Council;
- Roseville Area Chamber of Commerce;
- San Jose Chamber of Commerce;
- San Luis Obispo Chamber of Commerce;
- Greater Stockton Chamber of Commerce;
- Torrance Area Chamber of Commerce;
- Walnut Creek Chamber of Commerce & Visitors' Center; and
- Valley Industry & Commerce Association.

Advocacy Champions published vote records of their state legislators on key business issues, joined coalition efforts to let state elected officials know about community sentiment on issues of interest to members, voiced the local chamber's position at legislative policy

committee hearings and met with state elected officials on important policy issues.

HR Champions

The HR Champion Award was created in 2023 to recognize chambers who excelled in helping their members comply with California employment laws. The 2024 recipients of the award are as follows:

- Fresno Chamber of Commerce;
- Gilroy Chamber of Commerce;
- Imperial Valley Regional Chamber of Commerce;
- Oakdale Chamber of Commerce;
- Paso Robles Chamber of Commerce;
- Porterville Chamber of Commerce;
- Rohnert Park Chamber of Commerce;
- Santa Fe Springs Chamber of Commerce; and
- Whittier Area Chamber of Commerce.

Staff Contact: Nick Ortiz

Governor Outlines State's Priorities, Urges More Housing Construction

From Page 1

"When business is strong, it supports the public's welfare for our common good," she said. [View video.](#)

Governor Newsom

Following Liang's remarks, CalChamber President and CEO Jennifer Barrera was joined by Governor Newsom to discuss California's strengths, challenges and priorities in the coming years.

Governor Newsom highlighted some of California's strengths, remarking that the state dominates in key areas such as wealth creation, entrepreneurship, agriculture, bioscience, quantum computing, and many others.

Homelessness, Housing

When asked about the homelessness crisis, the Governor pointed out that prior to his administration, there had not been a plan to address homelessness in California.

He expressed that encampments should be cleaned up and communities should be given the flexibility to address homelessness in their areas.

Even though he's put forth a number of reforms, it has been hard to get local counties and communities on board to build more housing and affordable housing units, he said. With the help of state legislators, new tools are being created and reforms are underway in key areas such as zoning, land use and the California Environmental Quality Act (CEQA).

One segment of the population greatly affected by homelessness is people with mental health conditions.

In 1959, California had more than 37,000 beds in hospitals for people with mental health care needs, Newsom said. Now, the state only has about 5,500 beds for those with mental health care needs and has double the population it had in the 1950s.

This is why Proposition 1 was so important, he stressed.

Additionally, the state will be zeroing in on accountability, he said, to ensure that local cities and counties comply with state laws. In fact, he will be making an announcement soon on accountability measures, he said.

Affordability is "the issue of our times," and California needs to build more housing, the Governor stressed.

There are some communities that thumb their nose at that, but they will be held accountable, he said.

Budget

The Governor briefly touched on the budget deficit, noting that after the record-breaking surplus of the last few years, a downturn was expected.

His priority, he said, is to solve the deficit for this year and the coming years without "old tax-and-spend policies" and general tax increases.

PAGA, Retail Theft

When asked about the Private Attorneys General Act (PAGA), Newsom

replied that "no one wants frivolous lawsuits," recounting the time his business was sued by someone residing in Hawaii for an Americans with Disabilities Act (ADA) violation. The person did not want to fix the issue; he just wanted to settle.

Newsom said the experience was a "wake up call" for him.

In partnership with the state Legislature, a package of bills is being crafted to address different facets of retail crimes, such as dealing with serial offenders, flash mobs, funding for police departments and the California Highway Patrol (CHP), and holding third-party platforms accountable for knowingly allowing the sale of stolen property.

Priorities

In closing his talk with Barrera, Newsom reiterated his support for business, free enterprise, capitalism and people taking risks.

His priorities in the next three years will center around implementation, accountability and follow through.

"Program passing is not problem solving," he said. "...In terms of homelessness, in terms of housing...there are not many new laws that we need to pass in a lot of these spaces. It's now just about driving accountability at the local level."

[View the video of Governor Newsom's breakfast chat with CalChamber President and CEO Barrera.](#)

Photo by bryanpatrickphoto.com



Janet A. Liang, 2024 CalChamber chair and executive vice president, group president and COO care delivery, Kaiser Foundation Health Plan, Inc. and Hospitals, speaks at the 98th annual Sacramento Host Breakfast on May 9, 2024.



Governor Gavin Newsom sits down with CalChamber President and CEO Jennifer Barrera for a fireside chat at the 98th annual Sacramento Host Breakfast on May 9, 2024.

Speakers Highlight US-Taiwan Ties, US Economy, Federal Trade Initiatives



Nearly 200 attendees gathered last week for the California Chamber of Commerce International Trade Forum, which featured presentations on U.S.-Taiwan ties, the U.S. economy and federal trade initiatives.

The May 8 event brought together representatives from the business community, CalChamber Board members, representatives of the California consular corps and foreign economic partners, plus representatives of foreign, state, local and federal governments.

This year's forum speakers were:

- James Golsen, Deputy Director General, U.S. Foreign and Commercial Service, U.S. Department of Commerce;
- Laura Rosenberger, Chair, American Institute in Taiwan (AIT); and
- Christopher F. Thornberg, Ph.D., Founding Partner, Beacon Economics.

During the forum, Golsen presented President and CEO of JQ American Corporation Jamal Qureshi with the prestigious U.S. Commercial Service Export Achievement Certificate for his export sale to the Sultanate of Oman. In attendance was the Commercial Attaché Ali Khadra from the Embassy of the Sultanate of Oman in Washington, D.C.

James Golsen

After a welcome by CalChamber Vice President of International Affairs Susanne T. Stirling, James Golsen gave attendees an overview of the U.S. Department of Commerce (DOC) and highlighted the department's key global trade initiatives.

The DOC currently has 95 embassies and consulates globally, covering 95% of world gross domestic product

(GDP), Golsen said. The department offers commercial officers and commercial specialists to help solve problems for U.S. companies, and to work with companies around the world to invest in the United States.

Some DOC initiatives currently underway include:

- **Indo-Pacific Region:** With 60% of the world's population, this region is projected to be the biggest contributor to global economic growth, Golsen said.

commercial office in Guyana. This year, the U.S. has been leading high-level trade delegations to Colombia, Costa Rica and Panama; the visits are designed specifically to meet the exporting needs of U.S. small- and medium-sized businesses.

- **Middle East and Africa:** Golsen said that while there are many challenges in the Middle East, there also are many opportunities. DOC staff is working on the ground there to access those opportunities for U.S. companies in the region.

In Africa, the U.S. invested recently in opening two new offices, one in Nabi Shan, and one in Lusaka, Zambia.

"The U.S.-Africa partnership is a crucial aspect of amplifying the continent's transformation across several sectors — clean technologies, health care, climate, smart agriculture, and the creative industries," he said.

- **Europe and Eurasia:** The DOC is tackling the next

generation's challenges through the US-EU Trade and Technology Council, which is working to align transatlantic approaches across issues, including export controls, secure supply chains, and artificial intelligence.

Throughout Europe and Eurasia, the DOC is working with U.S. allies in solidarity with Ukraine to help prepare for the reconstruction of that country following the cessation of hostilities. The DOC office in San Francisco is organizing a rebuild Ukraine business event aimed at demystifying conducting business in Ukraine. The June 5 event will highlight the current needs of the country and opportunities for U.S. business through multilateral development banks.

Laura Rosenberger

The forum's second speaker was Laura Rosenberger, who spoke on how

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From left: James Golsen, U.S. Foreign and Commercial Service; Susanne T. Stirling, CalChamber; Sima Patel, Chair, CalChamber Council for International Trade and CEO, Ridgmont Hospitality; Laura Rosenberger, American Institute in Taiwan; Christopher F. Thornberg, Beacon Economics.

DOC offices in the Indo-Pacific region expand trade opportunities for U.S. companies throughout California and the United States.

- **China:** China is the third largest export market for the United States, directly supporting an estimated 750,000 U.S. jobs. Golsen said the U.S. has a strong U.S. Commercial Service team on the ground, working for consulates, as well as the Embassy in Beijing. The team works to promote trade and investment in targeted sectors, such as consumer goods, environmental technology, pollution control, and health care.

- **Western Hemisphere:** The United States is the top trading partner for more than two-thirds of the Western Hemisphere. Golsen said the U.S. is not complacent with that relationship and wants to continue to challenge and engage with its partners throughout the region. Last summer, the U.S. opened a new

Speakers Highlight US-Taiwan Ties, US Economy, Trade Initiatives

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U.S.-Taiwan economic ties contribute to the prosperity and resilience of the United States and Taiwan.

A copy of her remarks can be found [here](#).

From the foundations of Silicon Valley to today's cutting-edge industries and research, California and Taiwan continue to lead the way in business and tech, Rosenberger said.

About 90,000 U.S. jobs supported by the trade and investment of Taiwan-affiliated companies are in California, one-third of the nationwide total. California has the second highest value of exports to Taiwan among U.S. states, and Taiwan is the 11th largest source of foreign direct investment (FDI) in California through foreign-owned enterprises.

With a highly educated population of about 23.5 million, Taiwan is an outsized contributor to the global economy. It is home to more than half of the global foundry business, and famously produces more than 60% of the world's semiconductors, and about 92% of advanced chips. It is the eighth largest economy in Asia and 20th largest in the world by purchasing power parity.

Last June, AIT and the Taipei Economic and Cultural Representative Office (TECRO) signed the first trade agreement under the U.S.-Taiwan Initiative on 21st Century Trade, Rosenberger said. The agreement deals with issues important to U.S. business, including reducing red tape and streamlining customs procedures, and facilitating investment and economic opportunities in both markets. Another negotiation round in Taipei earlier this month worked toward a second trade agreement in the areas of agriculture, labor and the environment.

AIT's office in Taipei has a Foreign Commercial Service team from the U.S. Department of Commerce that helps American companies export to Taiwan and Taiwan companies find investment opportunities in the United States, she said. On the export side, they cover a variety of industry sectors but are strategically focused on exporting cybersecurity and energy solutions, semiconductors, next-generation telecommunication technologies, and drones.

In connection with the CHIPS Act (the 2022 law creating incentives to boost U.S. semiconductor production), the United States is welcoming leading-edge semiconductor manufacturers from Taiwan to manufacture in the U.S. Through the CHIPS Act, Rosenberger said, billions of dollars of private sector semiconductor investment is helping to create approximately 6,000 direct manufacturing jobs, and tens of thousands more in construction and other indirect jobs.



James Golsen, Deputy Director General, U.S. Foreign and Commercial Service



Laura Rosenberger, Chair, American Institute in Taiwan



Christopher F. Thornberg, Ph.D., Founding Partner, Beacon Economics

"This investment and trade with Taiwan is not only a force for prosperity, but a force for peace and stability, too. Through our expansive economic partnership, we are advancing our shared vision for a more resilient and interconnected Taiwan economy. As more international, national, local, and industry-level actors increase their engagement with Taiwan, their investment, trade, innovation, and people-to-people ties form a strong network of actors who have a stake in Taiwan and Taiwan's continued success," she said.

"This is not an effort that governments can achieve alone," she emphasized. "This focus brings with it business opportunities in key sectors, such as in energy infrastructure, communications, and information technology sectors that need to be strengthened, hardened, and generally rendered more resilient against shocks. There's a natural synergy here: Taiwan has goals for resilience, and the private sector can help achieve them."

Christopher Thornberg

The forum's final speaker was Christopher Thornberg, who discussed how social narratives and the reality shown by data can differ.

"This disconnect of our political policy narratives from fundamental economic realities," he said, "is creating the inability to compromise over basic

legislative needs."

Thornberg's PowerPoint presentation is available [here](#).

As an example, Thornberg pointed to headlines a year-and-a-half ago that predicted a recession was imminent. There was no recession, he noted. The inflation and rising interest rates being cited by recession worriers were symptoms of an "overheating economy" caused by excessive stimulus in response to the pandemic.

Lost GDP from the pandemic closures was \$1.2 trillion, he said, but the federal fiscal stimulus totaled \$6 trillion, roughly \$50,000 in stimulus per household.

Compared to the rest of the world, U.S. inflation over the last five years — about 3% annually — is not a big number, Thornberg said. And while surveys showed respondents were

concerned about the impact of inflation on their day-to-day lives and said they were spending less, such as at restaurants, the data showed that spending at restaurants increased 40%, he pointed out.

For California, Thornberg said, a fundamental issue remains a lack of housing. Housing and rental vacancy rates are relatively steady, but the number of California households has been rising since the pandemic, while the number of persons per household has declined, a sign that people are spreading out.

For both the nation and California, he said, a big problem is a lack of workers. U.S. population growth has been slowing due to declining birth rates and there are 1.4 job openings for every job seeker.

Facing domestic labor shortages, companies are turning to "nearshoring" with Mexico. Thornberg said the data shows a huge amount of foreign direct investment (FDI) going into the Mexican economy, even from Chinese manufacturers. Mexico is the largest exporter to the United States.

Thornberg closed with the comment that the success of humans as a species depends on the ability to be "champion cooperators" and that the unifying element is "narratives that bind us together."

Staff Contact: Susanne T. Stirling

Reception at Historic Governor’s Mansion Gives Consular Corps, International Trade Partners Chance to Meet Governor, State Officials



A California Chamber of Commerce-hosted evening reception on May 8 at the Historic Governor’s Mansion provides members of the California consular corps and international trade partners, representing about 50 countries, the opportunity to meet with Governor Gavin Newsom and other state officials. Here, Governor Newsom addresses reception attendees. Looking on are Dee Dee Myers (left), director of the Governor’s Office of Business and Economic Development (GO-Biz), and CalChamber President and CEO Jennifer Barrera.



Attendees at the CalChamber-hosted reception for the California consular corps and foreign economic partners.

Photos by bryanpatrickphoto.com



Japanese Consul General Yo Osumi greets Governor Newsom. Looking on is Mathias Hausherr, chair, Swiss-American Chamber of Commerce.



Kai Westerwell, chair of the German Business Association, with Governor Newsom.



Romania Consul General Lucia Sava and Governor Newsom.



Five California District Export Councils Gather at CalChamber

See photos and more information at

advocacy.calchamber.com/international/resources/district-export-council/

CalChamber Capitol Summit Highlights Small Business Issues



Photo by bryanpatrickphoto.com

CalChamber President and CEO Jennifer Barrera opens the Capitol Summit on May 8 by calling attention to the important role of local chambers of commerce and small businesses in advocacy. Two seats on the CalChamber Board are reserved for local chamber CEOs. The CalChamber also has established a Small Business Policy Council and Small Business Policy Center and works regularly with the Big City Chamber Coalition on issues of mutual concern.

Panelists Underscore Ways to Empower Small Businesses



Photos by bryanpatrickphoto.com

A focus on small business as the “heartbeat of California’s economy” is the theme for a Capitol Summit panel on May 8 with Tara Lynn Gray, director of the California Office of the Small Business Advocate (CalOSBA); Assemblymember Cottie Petrie-Norris (D-Irvine); Maria Salinas, president and CEO of the Los Angeles Area Chamber of Commerce; and moderator Nick Ortiz, CalChamber vice president of small business advocacy. Points raised include the role of the CalOSBA in helping small business owners find sources of capital and “connect the dots” about available resources; technical assistance available from the LA Area Chamber on dealing with contracts and other matters; and making certain the voice of small business is heard in the halls of the State Capitol.

Multiple Efforts to Tackle Retail Theft Get Attention at Capitol Summit



Photos by bryanpatrickphoto.com

Speakers with many years of experience working on public safety and curbing retail theft come together at a CalChamber Capitol Summit session on May 8 to comment on the problem and potential solutions. Moderator Jonathan Feldman, partner, Arc Strategies, poses questions to panelists Assemblymember Juan Alanis (R-Modesto), Senator Tom Umberg (D-Santa Ana), Assemblymember Rick Chavez Zbur (D-Hollywood) and Rachel Michelin, president, California Retailers Association. The discussion ranged from local enforcement and prosecutors to helpful provisions in pending legislation co-authored by Zbur and Assembly Speaker Robert Rivas (D-Salinas) and an initiative sponsored by district attorneys that may qualify for the statewide ballot this year. Examples of successful partnerships that make a difference include a San Joaquin County app that enables local law enforcement and businesses to share information to protect assets and the California Organized Retail Crime Association (Cal-ORCA) through which law enforcement and loss prevention professionals share best practices and training to fight organized retail crime.



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Save Now!



Industry in Transition Still Adapting to Keep News Stories Flowing



Photos by bryanpatrickphoto.com

The closing panel discussion at the CalChamber Capitol Summit on May 8 takes listeners behind the headlines to explain how the changing finances of a news industry in transition is affecting coverage of California politics and issues. Weighing in with answers to questions posed by moderator Cassandra Pye, president, Lucas Public Affairs, are reporters Melanie Mason of Politico (an entirely digital news source), Taryn Luna of the Los Angeles Times (offering both print and digital coverage) and Eytan Wallace, a multimedia journalist who covers state politics for nine news stations affiliated with NexStar Media. The reporters describe the challenges of balancing the push to get stories quickly with being the first to get the story right; adapting to social media; and choosing the subjects to follow when time and available news staff are limited.

Economist: Good Policy Starts with Right Narrative



Photo by bryanpatrickphoto.com

Economist Christopher Thornberg, Ph.D., founding partner of Beacon Economics, urges listeners at the CalChamber Capitol Summit on May 8 to look beyond the headlines to data and to help define the social narrative that affects policy development. False narratives, he declares, lead to bad policies and the inability of differing parties to compromise, and crisis management modes that prevent the pursuit of good policies. In the space where social narratives and economic reality overlap comes the opportunity to effect policy change, he says.

Resources Agency Secretary Recaps Administration Water Priorities



Wade Crowfoot, secretary of the California Natural Resources Agency, gives the CalChamber Board of Directors a quick overview of the Administration's water priorities on May 9. To ensure water reliability and build water resiliency, he explains, the Administration is focused on infrastructure and water management. Priority projects are modernizing water conveyance through the Sacramento-San Joaquin Delta and the Sites Reservoir, an offstream storage project in the Sacramento Valley. Streamlining the permitting process for the projects will enable the state to do a better job of capturing water from wet times, such as the last two winters, and distribute it when needed during dry periods, he says.

CalChamber Board Hears Update on Commercial Real Estate Market



CalChamber Board member Seth Oster (left), chief corporate affairs officer at The Wonderful Company, moderates a review of the status of the commercial real estate market at the CalChamber Board meeting on May 9 by Damian Albrycht, senior vice president, real estate strategies and transactions for Ernst & Young LLP, and Alan Todd (appearing virtually), head of U.S. Commercial Mortgage Backed Securities Research at Bank of America. In discussing topics like the conversion of commercial buildings to multifamily units and where interest rates may head, the real estate specialists agree that the next 5–10 years are a pivotal time when architects, urban planners and developers will come together to figure out what the future looks like.

Data Show Positive Economic Trends; Housing, Labor Supply Shortfalls Continue

Despite the Narratives, California Is Doing OK

The U.S. economy entered 2024 at a good pace. Consumer spending continues to hum along, inflation has cooled, asset markets have surged to record high levels, and the pain felt in the banking and real estate sectors due to interest rates has been offset by surprisingly solid trends in construction.

All of this suggests that the current economic expansion will not end anytime soon. And as goes the U.S. economy, so goes California's. As big an economy as California is from a global perspective (fifth or sixth, depending on how you count it), the state still accounts for less than 15% of total U.S. output. As such, good economic conditions at the national level will keep California's economy moving as well. The key question revolves around the quality of that growth.

Regardless of the economic reality, popular narratives will undoubtedly be negative, especially because this year we're in the midst of a highly contentious presidential election. Both political parties will busily try to assert their particular narrative of the economy in their campaign messages — and blame each other for any and all ills.

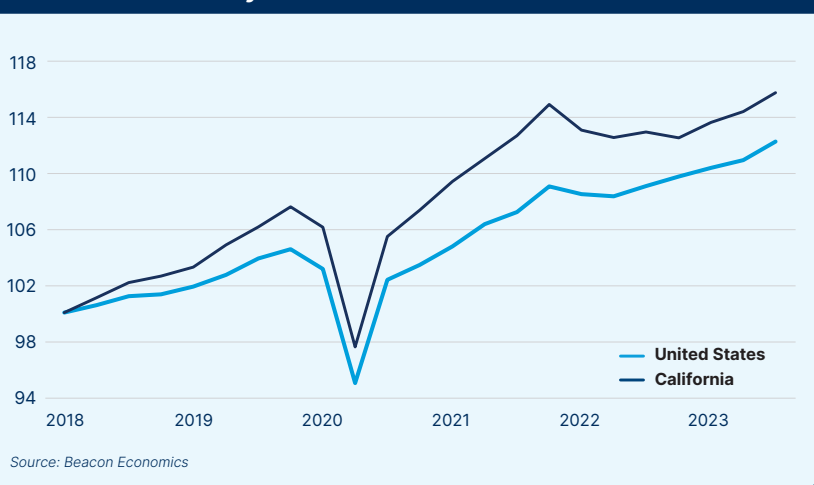
As much as the right likes to use California as their favorite example of what is wrong with the left, the left goes out of their way to paint California as an example of everything that is wrong with the right. In the left's narrative, out-of-control capitalism is to blame for rising inequality, homelessness, falling living standards, and a degraded environment.

Beacon Economics' opinion is significantly less grim than either. California is far from becoming the failed state that is so often depicted in headlines. Even a cursory look at the data illustrates how off base that doom and gloom narrative is. The state's economy certainly has its

share of problems, but the problems are fairly mundane rather than having any pointed political edge to them; and they are things that can be solved with some pragmatic tweaks to state policy.

Unfortunately, both sides' priorities are far from what the state and its economy really need. This means that improving California's course depends critically on fixing these broken narratives.

California Economy: Index of Real GDP



Social Narratives vs. Economic Realities

The narratives from both the left and right agree that California has big problems. According to a recent poll by the *Los Angeles Times*, over half the nation seems to think that the state is “in decline.” And who can blame them given proliferating headlines about budget deficits, population declines, rampant crime, the high cost of housing, one of the highest poverty rates in the nation, and the increasing number of homeless residents.

The difference between the right and left narratives is the source of the state's problems. The right blames big government for turning California into a “socialist hellhole” where high taxes and heavy-handed regulations are driving people and business out of the state. The left blames the avarice of big business for turning California into a “capitalist hellhole” defined by inequality, housing insecurity, and rampant exploitation of workers.

The question is which one is the real culprit? Unfettered capitalism, or unfettered government? They can't both be right!

The answer is that neither are accurate because the initial premise is wrong. Let's start with the statistics.

The annual benchmark revision from the Employment Development Department revised California's 2023 jobs

growth sharply downward. It now appears that payroll jobs in the state have grown only by 2.1% over the past four years (just prior to the pandemic) compared to 3.7% in the nation as a whole.

On the other hand, California's real private sector output grew by 10% over the same period, compared to just 8% in the nation overall. This means less growth on the extensive margin and more on the intensive, through greater worker productivity.

Income data certainly supports this finding. California's median household income grew by 9.2% from 2019 to 2022, compared to just 8% growth in the nation overall. Median incomes in the state are now 14.3% higher than in the nation as a whole — the largest gap ever in this data.

The U.S. Bureau of Labor Statistics (BLS) Quarterly Census of Employment and Wages (QCEW) data shows that average weekly earnings in California are 20% higher than in the nation overall and have grown 23% in the last four years.

However, none of this should imply that the state is doing great, or even well, from a historical standpoint. California has historically grown much faster than the nation overall, so just keeping up with the nation is definitely a downshift in trend.

We think it's fair to say that California's ability to expand its payroll employment by 2% over the last four years is actually impressive. That's because during the same period the labor force

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contracted by 2%. Having more jobs with fewer working people is a nifty trick.

There is always a gap between payroll and household employment, driven by the self-employed who don't show up in traditional payroll records along with some other subtle differences in how the two sets of data are gathered. This gap has been shrinking rapidly in recent years, a sign that fewer workers are self-employed, and more hold formal payroll positions.

California, particularly the coastal economies, saw a dramatic decline in labor force during the pandemic, driven primarily by an enormous wave of retirements. Growth has been slow since that time; over the last year the labor force in the state has increased by just 0.6%. As with income, the interior parts of the state have seen better overall trends, but even there, in recent years, the numbers have been sluggish.

The reason the labor force is not growing is the key issue, and that simply boils down to the low number of housing permits issued in California. A workforce cannot grow if there is nowhere for workers to live.

California Inequality

The narrative from the left will posit that the positive income and output numbers, and the contextually decent jobs growth numbers, don't account for California's widening inequality, inflation, high housing costs, and record levels of poverty.

The picture often painted by ideologically driven university labor centers and other advocates is downright Dickensian. In their narrative, unfettered capitalism is to blame for California's woes, with helpless tenants subject to the wanton abuses of landlords and workers beset by wage theft and inadequate pay. The homeless are painted as refugees of this dystopian economy. Any overall economic gains are always at the expense of the bottom 50%.

But again, a bit of context changes the story... a lot. It seems almost self-ev-

ident that worker earnings in the state have not kept up with inflation given how often that claim is made by researchers and political leaders and reported by the media. The problem is it isn't true.

The official BLS data on consumer prices in the state show a 20% increase from the end of 2019 to the end of 2023. As noted above, data from the Bureau's QCEW payroll records show that average weekly earnings for California workers rose 23% over the same period; real incomes have actually increased in California over the past four years, as well as over the past 14 years.

poverty rate in California was 12%, lower than the national average and the lowest level ever seen in the state. This is all good news, even though there is still serious work to be done to decrease inequality.

Yet, instead of heralding such positive news, advocates on the left simply move the goal posts, ensuring their "miserabilist" narrative remains intact.

One example is the use of the new supplemental poverty rate as opposed to the official poverty rate. The supplemental rate accounts for benefits received and also certain local conditions, such as the cost of housing.

U.S. Census data shows that California's official poverty rate is 11.4%, whereas its supplemental rate is 13.2%.

Using the new supplemental metric, California has the highest poverty rate in the United States, which sounds ominous. In actuality, it's not that much higher than the official rate; the real shift is how this new supplemental poverty rate goes down in other states, increasing California's ranking. Moreover, by either metric, California's

poverty rate is at a record low.

None of this should suggest that there aren't struggling families and stubborn pockets of poverty across California — there are and always will be. But the trends are moving in a positive direction, something you'd never guess given the shrieking negative headlines.

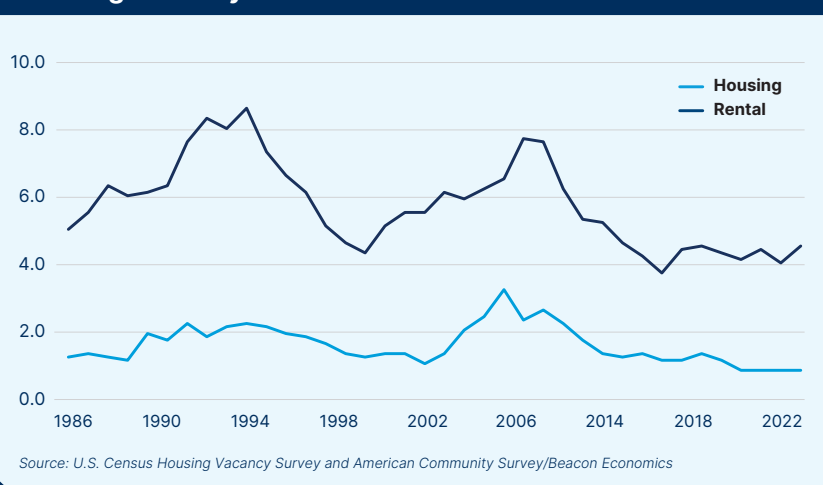
Singing the Housing Supply Blues

California has long been infamous for its high housing costs, and homelessness in the state is constantly used as evidence of a housing crisis. Yet, even on this issue, a closer look at the data presents a more nuanced picture.

Start with rental housing. While it's true that in 2022 the median rent-to-income ratio in California was the fourth highest in the nation at 32.7%, this isn't quite as bad as it sounds. That ratio is actually slightly lower than it was in 2017 when it was 33.2%, despite the 32% increase in asking rents for vacant apart-

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Housing Vacancy Rate



More importantly, data from the U.S. Census American Community Survey shows that earnings growth has been greatest among lower-skilled workers in California over the past six years.

In other words, lower-skilled workers are seeing a higher pace of earnings increase. This isn't purely a function of the state's higher minimum wage; on this front, California's trends mimic national ones. Income inequality is still high, too high, but it is finally falling in both the state and the nation overall.

We can see this across California. Some of the households that are enjoying the most rapidly growing median income are in lower-income regions of the Central Valley, including Madera, Tulare, Merced, Fresno and Kern counties. Indeed, the inland parts of the state are also seeing some of the sharpest increases in local spending at restaurants and hotels, according to taxable sales records.

We can also see these trends elsewhere. From 2019 to 2022, the average

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ments. This trick was achieved because paid rents don't rise as fast as asking rents, and because of the increase in income discussed above.

And as for California's fourth place ranking, Texas, as a point of comparison, is middle of the pack with a rent-to-income ratio of 29.2%, just 3.5 percentage points less than California (that's not much). And although rents in Texas are cheaper, incomes are lower as well. The median California renter earned \$65,000 in 2022, whereas the median Texas renter earned \$50,000. This implies that after paying rent, the median Californian renter was still \$8,000 ahead of the median Texan renter.

As for home prices — for once, a U.S. housing bubble doesn't seem to be a predominantly California issue. The Dallas and Houston metros have seen their median home prices rise by half again the rate of California's metropolitan areas over the past five years.

This then begs the question — if housing affordability isn't that bad, how do we explain the exodus of people from the state and the lack of labor supply?

In 2020, California's population peaked at 39.5 million and over the next three years it declined to slightly over 39 million, a drop of roughly one-third of one percent per year — not a big falloff; but back in 2000, the state expected to have 50 million residents by 2020. Since those heady days, population growth has continuously slowed, and ultimately the state didn't even hit 40 million before the modest declines began.

The slowing of growth has been driven both by more out-migration and by a decline in the pace of natural increase, which is propelled by falling birth rates and the aging of the California population.

But overall, the recent population decline has been driven largely by an uptick in out-migration of state residents, described by many as "fleeing" the state in some sort of mass exodus.

While the number of people living in California has fallen slightly, the number of households in the state has actually

increased, and overall housing vacancy rates are at an all-time low level, according to the U.S. Census Housing Vacancy Survey and American Community Survey, and according to data on listings and apartment vacancies.

What is actually happening is that the state has seen a sharp decline in people per household over the last five years, falling 6% from 2.96 to 2.77 persons-per-household. Given that housing supply doesn't expand that rapidly, by definition, a portion of the population must be pushed out. By pushed, we mean that the price of housing will rise to the point that some residents will choose to move out of the state.

Dealing with the Budget Blues

The most immediate issue facing California is its budget deficit, which is running somewhere between \$35 billion and \$70 billion, depending on who you ask. And this is occurring less than two years after the state was bragging about its \$100 billion surplus.

The surplus was driven by California's high marginal tax rate on high-income earners.

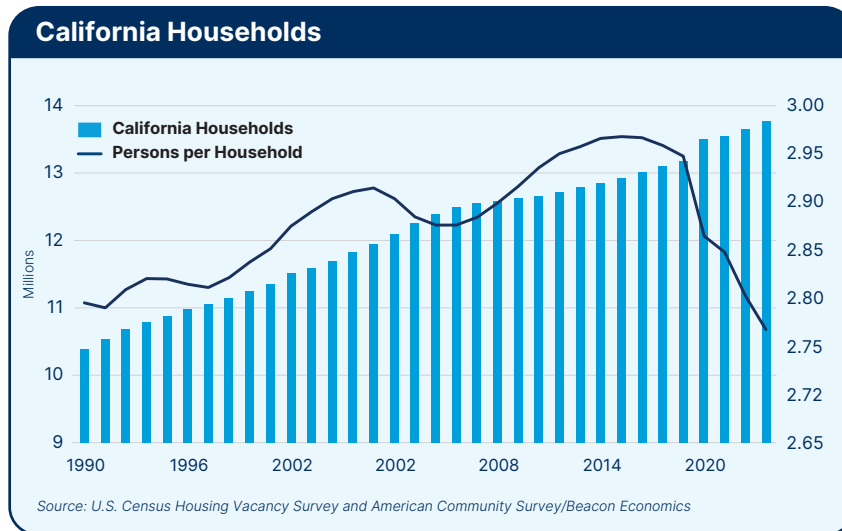
In an average year, income taxes make up 25% of California's revenues. In fiscal year 2022–23, when the state supposedly had a massive surplus, they constituted a full two-thirds, with capital gains realizations reaching twice the level of the previous two bubbles.

The good news is that the economy is healthy, implying that revenues from other sources are still strong and thus helping the problem. And unlike the last two bubbles, this time asset prices have not collapsed, but instead appear to have plateaued for now. This circumstance will keep some portion of capital gains coming in.

Conclusion

The budget deficit notwithstanding, California's economy is doing fine today and will continue to grow in the near future. But the inability to genuinely tackle the state's housing supply issue is slowly halting the mighty California economic machine. Instead of leaning into this one entrenched and tremendously consequential issue, state regulators and policymakers continue to veer off on quixotic missions to fix problems that exist in artificial narratives, not in reality. In doing this, they create new problems that will inevitably slow the economy even more. To fix the economy, we must first fix the narrative. Sadly, in today's environment, accomplishing that feels like a distant dream.

This economic outlook report is adapted from the special report presented to the CalChamber Board of Directors by Christopher Thornberg, Ph.D., founding partner of Beacon Economics.



What explains the decline in people per household? Many things. Families with children are more price sensitive to housing costs than those without children. Families with kids are moving out, those without are moving in. Also, a significant fraction of the overall population decline in the state is among people under the age of 24.

Still another part of the issue is rising incomes, which encourage people to spread out, living with fewer roommates, or even living alone. Typically rising rents encourage trends in the other direction — but it isn't working this time.

Regardless of the cause, the only way to deal with the state's population decline is to sharply expand the pace of new housing supply. But despite all efforts, the number of new building permits remains at the same tepid rate of 120,000 per year it has been at for the last decade. This is far fewer than what the state used to build.

Analysis: May Budget Revision Released

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\$5.5 billion by suspending net operating loss (NOL) deductions and limiting tax credits that businesses currently rely upon to manage costs. The change would affect tax years 2025, 2026 and 2027, unless revenues are sufficient without the suspension.

- Tens of billions in additional program reductions and delays, such as cutting \$510 million for the middle class scholarship program, \$500 million for preschool and kindergarten facilities, \$80 billion from correctional facilities by closing housing units, reducing health care workforce programs by \$846 million over the next five years, and delaying child care program expansions, totaling \$1.3 billion over two years, and \$60 million from the extension of the California Competes grant program for next year.

- An across-the-board reduction in state operations of about 8%, affecting nearly all departments.

- Shifting billions in General Fund obligations to special funds.

Proposed Suspension of Important NOL Tax Credit

The Governor resisted proposing general tax increases to address the multi-year budget shortfalls, but resurrected a temporary, targeted tax strategy affecting businesses.

Similar to a proposal adopted by the Legislature for the pandemic-stricken budget in 2020, the Governor has proposed suspending the carryover of net operating loss tax deductions for businesses with California income greater than \$1 million, and limiting business credit usage to \$5 million in tax years 2025, 2026 and 2027.

A “trigger” would be included to restore these tax strategies if sufficient revenues are available next year. The carryover periods for NOLs and credits would be extended by three years, and the credit limitation would not apply to the Low-Income Housing and Pass-through Entity elective tax credits.

After these tax incentive suspensions were enacted in 2020, the anticipated budget shortfalls did not materialize. As a result, the Legislature and Governor terminated the suspensions one year early.

Addressing Revenue Volatility

Buoyed by the success of the Rainy Day Reserve, approved by voters as Proposition 2 in 2012, the Governor will be proposing amendments to allow even more excess revenues be added to the reserve during years with windfall capital gains tax revenues, which are notoriously volatile. Receipts from capital gains taxes that soared to \$349 billion in 2021–22 dropped to \$137 billion in 2023–24.

This would both provide a cushion for state spending when revenues decline, and prevent the Legislature from spending those excess revenues in the first place.

What’s Next?

The next move is the Legislature’s, which will negotiate an overall compromise to meet the June 15 deadline to approve a budget. The Governor must give his final approval before July 1, the beginning of the fiscal year. Further action on many of these budget items will doubtlessly transpire throughout the summer.

Contact: Loren Kaye

CalChamber-Sponsored Seminars/Trade Shows

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Export-Import Bank of the United States. June 6–7, Washington, D.C. registrar@cmpinc.net.

Farnborough International Air Show:

California Pavilion. Governor’s Office of Business and Economic Development (GO-Biz). July 18–22, Farnborough, United Kingdom. patricia.utterback@gobiz.ca.gov.

Rebuild Ukraine 2024: Business in Ukraine and Poland. GO-Biz. November 12–15, Warsaw, Poland. patricia.utterback@gobiz.ca.gov.



Leaves



of Absence

Join us for a two half-day virtual seminar

May 30 - 31, 2024



Part 1: 9 a.m. to 12:30 p.m. PT

Part 2: 9 a.m. to 12:30 p.m. PT

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